

HR & Tax Alert



Quality In Everything We Do

Australia – Impacts on Global Mobility of the 2005 Australian Federal Budget

June 2005

Executive Summary

The 2005/06 Federal Budget contained significant proposals affecting non-Australian individuals on assignment in Australia. The most notable measures impacting company Global Mobility programs concern tax cuts for individuals and a renewal of commitment to previously announced reform initiatives.

Key measures announced

Foreign income exemption for temporary residents

Currently most inbound assignees intending to reside in Australia for greater than six months are taxed on worldwide income. For tax years beginning 1 July 2006, legislation will provide a tax exemption on foreign source income and capital gains for up to four years, as well as the removal of interest withholding tax obligations for temporary residents.

Business impacts:

- Increased ability for Australian companies to cost-effectively attract key personnel from outside of Australia;
- Generally, it will be easier and less expensive for multinational employers to assign employees to Australia in cases where the employees are tax equalised to their home country;

- Employers will be encouraged to bring more foreign nationals to Australia to take advantage of this change, combined with the existing tax concessions such as the concessions for living away from home allowance; and
- Multinational organisations will be encouraged to establish regional hubs in Australia.

Income tax rate changes

The Budget also included a proposal to change income tax rates to ensure Australia is globally competitive from an income tax perspective, thus increasing savings opportunities and providing more incentive for individuals to spend and invest in Australia.

Business impacts:

- Increased appeal to send inbounds to Australia (especially under tax equalisation);
- More expensive for Australian companies to send employees on assignment overseas (where tax equalisation is in place).

Elimination of the superannuation surcharge

Under current superannuation regulations contributions to Australian superannuation funds can attract a surcharge (payable by the superannuation fund from the funds attributable to the employee contained within the fund). The imposition of the surcharge is dependent on the adjusted taxable income of the taxpayer and will be reduced to 0% with effect from 1 July 2005.

Business impact:

- Employers that recoup the superannuation benefits from their tax equalised inbound employees should benefit as the net amount recouped is likely to increase.

Removal of foreign loss and foreign tax credit quarantining

Currently where expenses exceed income for a particular class of foreign income, tax law prevents the loss from being deducted against income of other classes or from domestic assessable income. Going forward, foreign loss quarantining will be removed and therefore the taxpayer will be able to offset foreign losses against domestic income.

In regard to claims for a credit for foreign tax paid, the credit is currently limited to the Australian tax payable on the net foreign income (i.e. the foreign income less deductions that relate to that income). For this purpose, the Australian tax payable is calculated

separately for each class of foreign income. Any excess credit in respect of a particular class of foreign income may be carried forward for use in a subsequent year. The amendment will remove this quarantining.

Business impacts:

- Assignment costs that likely decrease as a result of reduced Australian tax liabilities. It is worthwhile noting the impact of this change is substantially reduced due to the introduction of the foreign income exemption for temporary residents (see above);
- The scope and impact of the removal of quarantining of foreign tax credits is not clear from the announcement and further clarification will be required. However, as overall Australian tax liabilities are likely to be reduced for some inbound assignees, assignment costs will reduce as well if the assignees are tax equalised.

Action required

Employers should consider the impact of these new rules on their global mobility programs and the individual employees who are impacted when:

- Budgeting assignment costing (for inbound and outbound assignees, especially if tax equalised); and
- Reviewing tax equalisation policies.

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