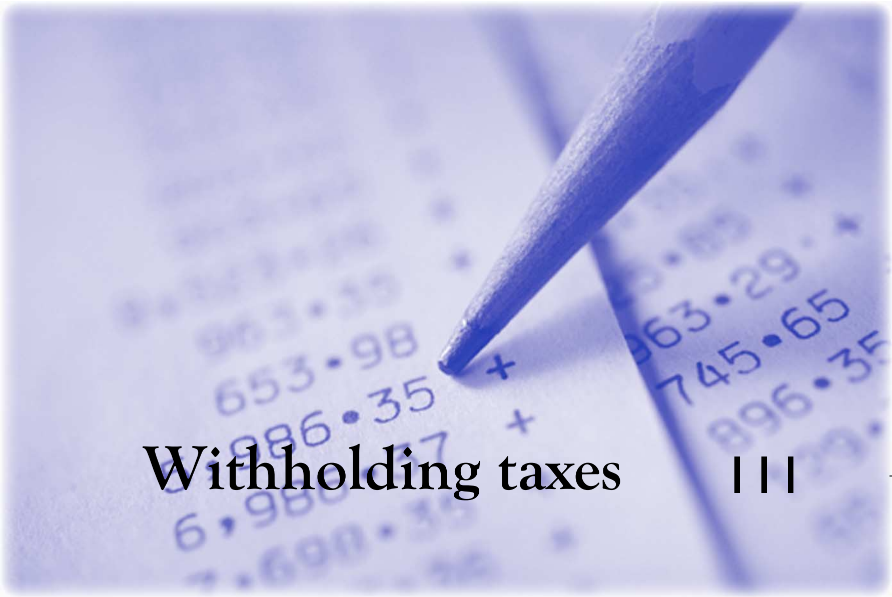


Withholding taxes

Withholding taxes

Withholding tax is tax that is deducted on income at its source. It includes withholding tax on interest, unfranked dividends and royalty payments made to non-residents.

Australia's withholding system is designed to ensure tax collection and to minimise administrative burdens to both taxpayers and the ATO. Withholding systems are effective tax collection mechanisms because they collect tax at the point income is earned and promote voluntary compliance through third party reporting.

Within the ATO, withholding taxes are administered by the small business (SB) line. This business line is responsible for administering the income tax system for small business taxpayers, and managing the collection and reporting systems focused on the business community.

The small business line collects revenue from the following withholding systems:

- pay-as-you-earn;
- the prescribed payments system;
- wool tax;
- non-resident interest, dividend and royalty withholding taxes (subject to flat rate withholding tax);
- tax file number amounts deducted; and
- mining withholding tax.

This chapter presents data on collections of non-resident interest withholding tax, non-resident dividend withholding tax, non-resident royalty withholding tax, tax file number amounts deducted and mining withholding tax for the 1999–2000 financial year. Data on general withholding collections, pay-as-you-earn, prescribed payments and sales tax are presented in the next three chapters.

Revenue raised

In 1999–2000, a total of $1428 million in withholding tax was collected. This was an increase from $1220 million the previous year.

Interest withholding tax accounted for 39% of all withholding tax. A further 25% came from royalty withholding tax and 22% came from dividend withholding tax.

Definitions

Withholding tax is imposed in a number of forms:

Non-resident interest withholding tax: is imposed at a flat rate of 10% on the gross interest paid to non-residents from an Australian payer. Where the non-resident taxpayer carries on a business in Australia through a permanent establishment, withholding tax does not apply and the interest is assessable under the normal assessment process. The major exemption from this tax relates to interest on certain public or widely spread debenture issues offered by corporate Australian borrowers. Collections of this tax are sensitive to interest rate changes. This tax was introduced on 1 January 1968.

Non-resident dividend withholding tax: is imposed at a rate of 30% (generally reduced to 15% for residents of countries that have double taxation agreements with Australia) on unfranked dividends paid to non-residents by Australian companies. Collections of this tax are dependent on dividend payments. This tax was introduced in 1959.

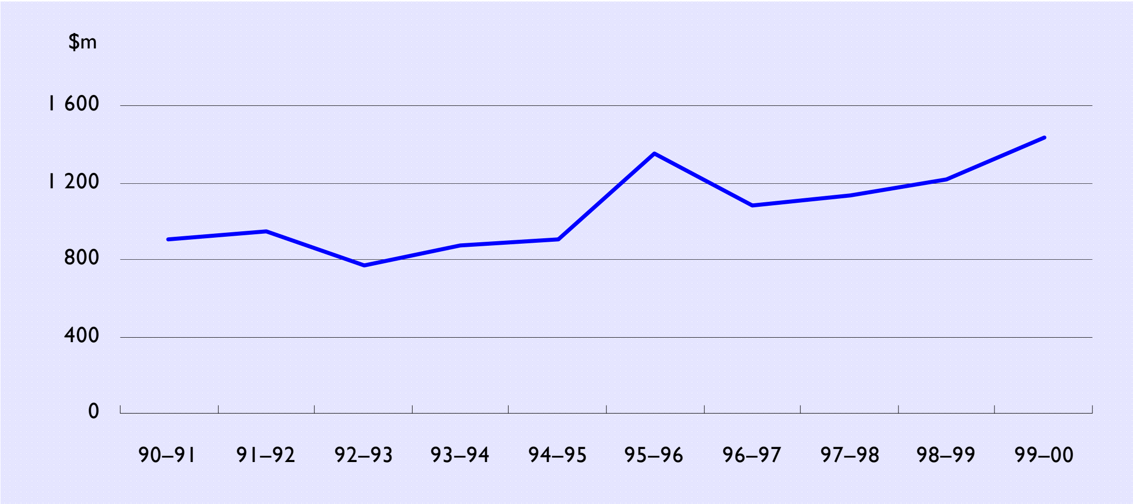
Non-resident royalty withholding tax: the government introduced a final withholding tax of 30% (generally reduced to 10% for residents of countries that have double taxation agreements with Australia) on gross royalty payments to non-residents from the start of the recipient's 1993–94 year of income. This replaced the previous assessment method of taxation where those payments (other than film and videotape royalties) were taxed at the rate of tax applicable to a non-resident's taxable Australian source income after deduction of allowable expenses.

Tax file number amounts deducted: if a taxpayer does not supply an investment body with a tax file number, or advise of an exemption when making an investment, the investment body is required to withhold tax on any payments made in relation to the investment. The withheld amount is then forwarded to the ATO. Tax is withheld at the maximum marginal tax rate for individuals plus the Medicare levy. Interest is the main type of payment from which tax is withheld. Non-resident investors are exempt from quoting a tax file number, but are subject to non-resident withholding tax rules. This system was introduced on 1 July 1991.

Mining withholding tax: is the amount withheld from mining payments to certain Aboriginal groups for the use of Aboriginal land for mineral exploration and mining. The rate of this withholding tax is 4%. The mining payments to which the withholding system applies include:

- certain amounts payable out of the Aboriginals Benefit Reserve;
- certain payments made to Aboriginal organisations such as land councils; and
- payments in relation to Aboriginal land for the issue of a miner's right or mining interest, for permission to enter or remain on the land to mine or explore, and payments of mining royalties in relation to Aboriginal land.

Figure 14.1: Withholding tax collections[1]



1. Refers to collections for tax file number amounts deducted, non-resident interest withholding tax, non-resident dividend withholding tax, non-resident royalty withholding tax and mining withholding tax.

The majority of withholding tax (68%) was collected in Victoria and Tasmania. This was followed by 31% collected in New South Wales (including the Australian Capital Territory).

Non-resident interest withholding tax

In 1999–2000, a total of $552.3 million in interest withholding tax was collected. Companies remitted the largest proportion (38%). This was followed by nominee companies (21%) and banks (12%).

There was a large difference between the type of organisation and the proportion of the interest withholding tax they paid. For example, banks accounted for less than 1% of all organisations paying such tax, but paid 12% of the total of this tax. Similarly, nominee companies accounted for only 3% of all organisations, but paid 21% of all interest withholding tax. In contrast, trusts accounted for 19% of all organisations, but paid only 8% of all such tax.

Non-resident dividend withholding tax

In 1999–2000, a total of $313.5 million in dividend withholding tax was collected (this included $1.5 million in mining withholding tax). Companies (excluding nominee companies) paid the largest proportion of the total dividend withholding tax payable (45%) yet only made up one third of all organisations paying the tax.

Table 14.1: Interest withholding tax paid by organisation

Type of organisation	Number		Amount	
	no.	%	$'000	%
Nominee companies[1]	262	2.8	116 696	21.1
Trusts	1 762	18.9	46 773	8.5
Banks	74	0.8	64 571	11.7
Other financial institutions[2]	281	3.0	54 189	9.8
Funds	125	1.3	2 187	0.4
Companies	3 167	33.9	211 229	38.2
Government institutions	12	0.1	6 651	1.2
Other[3]	3 646	39.1	50 003	9.1
Total	**9 329**	**100.0**	**552 300**	**100.0**

1. Refers to bodies corporate that are controlled solely by securities dealers and operated for the sole purpose of facilitating settlement of security transactions.
2. Includes building societies and credit unions.
3. Includes custodians.

Table 14.2: Dividend withholding tax[1] paid by organisation

Category	Number		Amount	
	no.	%	$'000	%
Nominee companies[1]	69	4.2	81 371	26.0
Trusts	368	22.4	3 724	1.2
Banks	8	0.5	2 281	0.7
Other financial institutions[2]	18	1.1	669	0.2
Funds	71	4.3	208	0.1
Companies	534	32.5	137 310	43.8
Other[3]	585	35.6	87 939	28.1
Total[4]	**1 645**	**100.0**	**313 500**	**100.0**

1. Includes mining withholding tax.
2. Includes building societies and credit unions.
3. Includes government institutions and custodians.
4. Due to privacy concerns, 'Number' figures with values of 1 to 4 have been rounded to 5. As a result, components may not add up to total.

Nominee companies paid a further 26%, yet made up only 4% of organisations.

Non-resident royalty withholding tax

In 1999–2000, a total of $350.8 million in royalty withholding tax was collected. Most of this (92%) was paid by companies, which accounted for 82% of all organisations paying this type of tax.

Tax file number amounts deducted

In 1999–2000, a total of $211.5 million was collected for tax file number amounts deducted. As expected, banks paid the largest proportion of this type of tax (58%), yet they only made up 4% of all organisations paying the tax. This is due to the large number of investors they represent. Companies paid a further 21% of all resident withholding tax for tax file number amounts deducted, and they accounted for one quarter (25%) of all organisations paying the tax.

Reforms affecting non-residents

As part of the new tax system, the government introduced the pay as you go (PAYG) collection system. PAYG consolidates and simplifies the collection of income tax—bringing income tax instalments and withholding obligations together in one system. From 1 July 2000, the PAYG system replaces withholding on dividend, interest and royalty payments and natural resource payments to non-residents.

Table 14.3: Non-resident royalty withholding tax

Type of organisation	Number		Amount[1]	
	no.	%	$'000	%
Trusts	81	3.5	4 150	1.2
Companies	1 892	82.0	321 193	91.6
Nominee companies	6	0.3	94	0.0
Banks	9	0.4	459	0.1
Other financial institutions[2]	5	0.2	29	0.0
Other[3]	315	13.6	24 871	7.1
Total	**2 308**	**100.0**	**350 800**	**100.0**

1. A proportion of 0.0% indicates a proportion of less than 0.05%.
2. Includes building societies and credit unions.
3. Includes government institutions and funds.

Table 14.4: Tax file number amounts deducted, by organisation

Type of organisation	Number		Amount	
	no.	%	$'000	%
Nominee companies	23	2.2	661	0.3
Trusts	259	24.6	15 194	7.2
Banks	41	3.9	123 102	58.2
Other financial institutions[1]	230	21.9	8 545	4.0
Funds	134	12.7	11 801	5.6
Companies	265	25.2	44 363	21.0
Government institutions	10	1.0	829	0.4
Other[2]	91	8.7	7 005	3.3
Total[3]	**1 052**	**100.0**	**211 500**	**100.0**

1. Includes building societies and credit unions.

2. Includes custodians.

3. Due to privacy concerns, 'Number' figures with values of 1 to 4 have been rounded to 5. As a result, components may not add up to total.

Detailed tables

The following detailed tables on non-resident withholding tax can be found on the CD-ROM attached to this publication.

Table 1: Royalties by collections and grade of annual remittance

Table 2: Interest by type of organisation and grade of annual remittance

Table 3: Dividends by type of organisation and grade of annual remittance

Table 4: Tax file number amounts deducted by type of organisation and grade of annual remittance