

1977

# Australia

Touche Ross International

Follow this and additional works at: [https://egrove.olemiss.edu/dl\\_tr](https://egrove.olemiss.edu/dl_tr)

 Part of the [Accounting Commons](#), and the [Taxation Commons](#)

---

## Recommended Citation

Touche Ross International, "Australia" (1977). *Touche Ross Publications*. 730.  
[https://egrove.olemiss.edu/dl\\_tr/730](https://egrove.olemiss.edu/dl_tr/730)

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Touche Ross Publications by an authorized administrator of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

business study  
**australia**

*Touche Ross International*



business study

# australia

1977 edition

## Contents

- I. AUSTRALIA IN BRIEF
- II. INVESTMENT FACTORS
- III. FINANCIAL INSTITUTIONS AND  
BUSINESS REGULATIONS
- IV. LABOUR CONDITIONS
- V. BUSINESS PRACTICES  
AND INFORMATION
- VI. FORMS OF BUSINESS ENTITIES
- VII. ACCOUNTING AND AUDITING
- VIII. TAXATION IN AUSTRALIA

---

*Touche Ross International*



## Preface to Second Edition

This study is one of a series of Business Studies designed for the use of Touche Ross professional staff in all countries and for interested clients. Users of the study should ascertain whether the information given here has been superseded by later developments. Specific business questions or problems may have legal or tax ramifications that are beyond the scope of this Business Study and the assistance of professional advisers is recommended. Suggestions for revisions should be sent to the Touche Ross International Executive Office.

Since this study was first published in 1972, legislative changes and more restrictive business practices have significantly affected Australia's economy. This revised edition covers these developments and in particular reflects the changes effected in the investment and taxation areas.

Amounts quoted in this Business Study are in Australian dollars, and where the \$ symbol is employed alone, reference is to the Australian dollar. At the time of writing, the approximate dollar exchange rates with other currencies were:

US \$	1.10
£ sterling	0.65
Deutsche marks	2.64
French francs	5.48
Swiss francs	2.76
Japanese yen	310.26

Readers should check in the financial press for subsequent variations in these rates.

March 1977





## Introduction

The last five years have witnessed many new developments and some shocks in the Australian political, economic and business scene. These developments include greater regulation of business, new initiatives on the control of foreign investment and takeovers, amendments to Companies Acts and Securities legislation, changes in taxation, devaluation of the Australian dollar, and new monetary policy measures. This revised edition of the Australian Business Study was thus prompted not only by the need for statistical updating but more importantly by the need to cover these new developments.

Australia has a free-enterprise economy. Although it was once a primary producer, manufacturing has grown rapidly and now contributes over 29% of the gross national product and about 24% of export earnings. Gross national product has been increasing at between 3% and 4% in recent years. The high capital inflow of the early 1970's has not been maintained, however, and one of the side benefits of the recent devaluation could be an incentive for foreign investment to move back to Australia. The government's action in devaluing the Australian dollar would doubtless have other benefits, such as to slow down imports, provide an incentive to industrial expansion and bring about an export-led recovery.

Historically, the United Kingdom has been the largest source of foreign investment, although it has now been overshadowed by the United States' contribution and the sizeable investment made by Japanese interests in recent years. The type of industry that has attracted most foreign investment has undergone a change. Industries that are likely to continue to attract foreign investment are minerals and mining, whose export income now forms a large proportion of Australia's total export income.

Before World War II, Australia mainly produced farm products for export to Britain, and Britain provided manufactures and capital. Decreasing markets for farm products and shortages experienced during the second World War led Australia to build a wide industrial base and to make a sustained effort to attract immigrants to help build that base. Population expansion, in turn, spurred development of natural resources, and introduced the economies of larger-scale production for the larger markets. The income derived from the

export of minerals and mineral products is now considerable, despite which Australia's historical dependence on wool and other farm products for most overseas income continues.

Although the present state of Australia's economy can no longer be described in such glowing terms as those used in 1972, the setbacks that the country is experiencing at present must be viewed in terms of the 1974/75 global recession and the problems it has faced in trying to maintain its previous fast pace of development. Thus, the long-term outlook is one of cautious optimism in the country's strength and ability to revert to its once-impressive rate of growth.

The nine offices of Touche Ross & Co. in Australia provided the detailed information contained in this Business Study.

Linda S. Avelar  
Director of International Publications  
March 1977



# Table of Contents

---

## CHAPTER I AUSTRALIA IN BRIEF

- 1 The Country**
- 1 Area
- 1 Distances from other countries
- 2 Terrain
- 2 Climate
- 2 Seasons
- 3 Principal cities
- 3 Natural Resources**
- 3 Fisheries
- 3 Forests
- 3 Minerals
- 4 Water
- 5 The People**
- 5 Population
- 5 Labour force
- 5 Language
- 6 Education
- 6 Religion
- 6 History
- 7 Life in Australia
- 7 The Government**
- 7 Executive powers
- 8 Legislative powers
- 8 Judicial powers
- 8 Introduction of proposed laws
- 9 State governments
- 9 Local governments
- 9 Political parties
- 9 Method of voting
- 9 The Economy**
- 9 Government ownership
- 10 Balance of payments
- 10 Economic statistics
- 10 Imports and exports
- 11 Direction of trade
- 11 Composition of trade
- 12 Membership in International Organizations**
- 12 General Agreement on Tariffs and Trade (GATT)
- 13 Asian development organizations
- 13 Other affiliations

## **CHAPTER II INVESTMENT FACTORS**

### **15 Foreign Investment**

- 15 Attitude toward foreign investment
- 15 Foreign investment guidelines
- 17 The extent of foreign investment

### **19 Investment Incentives**

- 19 Tax incentives
- 19 Research and development grants
- 20 Export market development grants scheme
- 21 Tariff protection
- 21 Subsidies and bounties
- 21 State decentralization incentives
- 21 Takeovers and mergers

### **22 Controls Over Foreign Exchange**

- 22 Exchange controls
- 23 Monetary controls
- 23 Controls over current transactions
- 23 Controls over royalty payments
- 23 Controls over overseas borrowings
- 24 Acquisition of shares or assets of Australian companies
- 24 Controls over export proceeds
- 25 Controls over securities transactions
- 25 Overseas investments by Australians

### **25 Foreign Trade Regulations**

- 26 Import tariff
- 26 Tariff protection
- 26 Temporary assistance
- 26 Bylaw admissions
- 27 Dumping duties
- 27 Basis for duty assessment
- 27 Customs surcharges
- 27 Sales tax on imported goods
- 28 Excise duties
- 28 Free ports
- 28 Duty drawbacks
- 28 New Zealand-Australia Free Trade Agreement

## **CHAPTER III FINANCIAL INSTITUTIONS AND BUSINESS REGULATIONS**

### **29 Financial and Credit Institutions**

- 29 The Reserve Bank of Australia
- 29 Protection of depositors

- 30 Term Loan Fund
- 30 Farm Development Loan Fund
- 30 Australian Banks Export Re-Finance Corporation Limited
- 30 Australian Resources Development Bank Limited
- 30 Australian Industry Development Corporation (AIDC)
- 30 Commonwealth Development Bank
- 31 The trading banks
- 31 State banks
- 32 Non-bank financial intermediaries
  - 32 Short-term money dealers
  - 32 Merchant banks
  - 32 Life insurance companies
  - 32 Finance companies
- 33 Other
- 33 Foreign banks
- 33 Australian Associated Stock Exchanges**
- 34 Pros and cons of stock exchange listing
- 34 Methods for obtaining a listing
- 35 Regulation of Business**
- 35 Trade practices
- 36 The Prices Justification Tribunal
- 37 Environmental controls
- 37 Patents, Industrial Designs, Trademarks and Copyrights**
- 38 Patents
- 38 Industrial designs
- 39 Trademarks
- 39 Copyrights

#### **CHAPTER IV LABOUR CONDITIONS**

- 41 Labour Force**
- 41 Employment level
- 42 Labour mobility and turnover rates
- 42 Employment opportunities
- 42 Immigration
- 44 Employment of Foreigners**
- 44 Labour-Management Relations**
- 45 System of arbitration
- 46 Awards
- 47 Terms and Conditions of Employment**
- 47 Minimum wages

- 47 Overtime pay
- 48 Working hours
- 48 Meal allowances
- 48 Sick leave
- 48 Equal pay for women
- 48 Annual leave (vacation)
- 48 Long service leave
- 49 Termination of employment
- 49 Workers' compensation

**49 Fringe Benefits**

- 50 Superannuation schemes

**51 Social Security System**

- 51 Health insurance

**CHAPTER V BUSINESS PRACTICES AND INFORMATION**

**53 Practices and Customs**

**53 Travel and Communications**

- 53 Best travel months
- 53 Immunization and travel documents
- 54 Getting to Australia
- 54 Transportation within Australia
- 54 Time factors
- 54 Communications

**55 Business Hours and Holidays**

- 55 Government and office hours
- 55 Banking hours
- 55 Retail stores
- 56 Business holidays

**56 Currency**

**57 General Information**

- 57 Language
- 57 Cost of living
- 57 Entertainment
- 57 Hotels and restaurants
- 58 Tipping
- 58 Business cards
- 58 Dates
- 58 Weights and measures
- 58 Temperature
- 58 Electric current

## **CHAPTER VI FORMS OF BUSINESS ENTITIES**

### **59 Principal Business Entities**

#### **59 Sole Proprietorship**

#### **59 Partnerships**

#### **60 Corporations**

61 Foreign companies

62 Types of companies

63 Organizing a company

65 Contents of the prospectus

65 Cost of incorporation

66 Corporation operating through divisions

#### **66 Financial Structure**

66 Ordinary shares

66 Preference shares

67 Other types of shares

67 Issue of shares

68 Liabilities of shareholders

69 Rights of shareholders

70 Financing through debentures or unsecured notes

#### **70 Management of a Company**

70 Board of directors

71 Annual financial statements

71 Legal reserves

71 Dividends

72 Audit requirements

#### **72 Dissolution of a Company**

72 Compulsory liquidation

72 Voluntary liquidation

72 Deregistration

#### **72 Branch of a Foreign Corporation**

72 Cost of organizing a branch

73 Other considerations in establishing a branch

#### **73 Other Entities**

73 Agency

73 Joint ventures

73 Cooperative society

74 Licensing agreements

## **CHAPTER VII ACCOUNTING AND AUDITING**

### **75 Organization of the Accounting Profession**

75 The Institute of Chartered Accountants

76	Educational standards of chartered accountants
76	The professional year
76	Professional qualifications of auditors
77	Professional rules and ethics and their enforcement
<b>77</b>	<b>Legal Requirements Imposed on Companies</b>
79	Required journals and ledgers
79	Legal requirements relating to appointment of auditors
<b>80</b>	<b>Accounting Principles and Practices</b>
81	Current cost accounting
82	Inventory valuation
82	Fixed assets and depreciation
83	Investments in subsidiaries
83	Accounting for income tax
83	Consolidation practices
83	Payment to directors
<b>84</b>	<b>Auditing Standards</b>
84	The auditor's report
<b>85</b>	<b>Financial Statement Presentation</b>

## **CHAPTER VIII TAXATION IN AUSTRALIA**

<b>97</b>	<b>Background</b>
97	Income tax legislation
98	International tax treaties
98	Tax havens
99	Outline of income taxation
<b>100</b>	<b>Company Income Taxation</b>
<b>100</b>	<b>Assessable Income</b>
100	Resident and nonresident companies
100	Deeming provisions relating to Australian sources
101	Foreign income of resident companies
101	Foreign income of nonresident companies
102	Capital gains
102	Inventory valuation
103	Dividend income of companies
103	Holding companies
104	Cash grant income
<b>104</b>	<b>Allowable Deductions</b>
104	General rules for deductions
104	Amortization



104	Depreciable assets
105	Rates of depreciation
106	Sales of depreciable assets
106	Legal fees
106	Repairs and replacements
107	Bad debts
107	Gifts and donations
107	Taxes
107	Long service leave
107	Staff retirement and pension funds
108	Interest expense
108	Borrowing expenses
108	Losses of prior years
<b>109</b>	<b>Tax Incentives</b>
109	Investment allowance
109	Scientific research incentives
<b>110</b>	<b>Special Tax Treatment of Particular Businesses</b>
110	Australian businesses controlled abroad
110	Motion picture business controlled abroad
110	Nonresident insurers
111	Nonprofit and mutual companies
111	Cooperatives
112	Superannuation funds and life insurance companies
112	Nonresident shipowners
112	Mining operations
114	Timber operations
114	Primary producers
115	Farm land development
115	Company income tax rates
<b>115</b>	<b>Public and Private Companies Distinguished</b>
115	Taxation of public companies
116	Taxation of private companies
117	Changes in public or private tax status
117	Branches of public and private companies
118	Taxation of Australian branches of foreign companies
118	Tax status of subsidiary companies
<b>118</b>	<b>Taxation of Other Types of Entities</b>
118	Partnership taxation
118	Taxation of trusts
119	Taxation of companies in liquidation

<b>119</b>	<b>Withholding Taxes on Payments to Nonresident Companies and Individuals</b>
119	Withholding on dividends and interest
120	Exemptions from withholding on dividends and interest
121	Withholding taxes on royalties
122	Definition of royalty
123	Taxed royalties
<b>123</b>	<b>Individual Income Taxation</b>
<b>123</b>	<b>Assessable Income</b>
123	Resident and nonresident individuals
124	Income of nonresident individuals
124	Business income of individuals
124	Dividend income
124	Taxation of foreign income
125	Taxation of foreign dividends
125	Temporary residence allowance
<b>125</b>	<b>Allowable Deductions to Individuals</b>
126	Individual income tax rates
127	Income averaging
<b>128</b>	<b>Tax Returns — Filing, Payment and Objection Procedures</b>
129	Tax years
129	Filing of tax returns
129	Tax return information requirements
129	Groups of companies
130	Assessment of tax due
130	Payment of taxes
130	Tax clearance on departure
131	Tax disputes
<b>131</b>	<b>Miscellaneous Taxes</b>
131	Stamp duties
132	Land taxes
132	Sales tax
133	Exemptions
133	Payroll tax
134	Collection of payroll tax
134	Death duties
134	Federal estate duty
135	State probate and succession duties
135	Gift duties



# CHAPTER I Australia in Brief

- THE COUNTRY
- NATURAL RESOURCES
- THE PEOPLE

- THE GOVERNMENT
- THE ECONOMY
- MEMBERSHIP IN  
INTERNATIONAL ORGANIZATIONS

## THE COUNTRY

Australia consists of six states, one of which, Tasmania, is separated from the mainland by the Bass Strait, and two internal territories, the Northern Territory and the Australian Capital Territory (ACT). In addition, Australia is responsible for administering seven external territories: Norfolk Island, the Ashmore and Cartier Islands, the Cocos (Keeling) Islands, Christmas Island, the Coral Sea Islands, Heard and McDonald Islands, and the Australian Antarctic Territory.

### Area

Australia's area of 7,682,300 square kilometres (2,967,909 square miles) makes it the world's largest island, smallest continent, and the only continent occupied by a single nation. Although Australia is almost as large as the continental United States (9,363,000 sq. kms. or 3,026,789 sq. mi.) and about 32 times the size of the United Kingdom, it must be remembered that large sections are practically uninhabited.

The areas of states and territories are:

	Square Kilometres	Square Miles
Western Australia	2,525,500	975,920
Queensland	1,727,200	667,000
Northern Territory	1,346,200	520,280
South Australia	984,000	380,070
New South Wales	801,600	309,433
Victoria	227,600	87,884
Tasmania	67,800	26,383
Australian Capital Territory	2,400	939

### Distances From Other Countries

Because maps show Australia as a large land mass, with only the Pacific Ocean between it and other land areas, distances between Australia and other countries may seem deceptively small. For example, Sydney is 7,517 air miles from San Francisco and 10,590 from London. New Zealand seems next to Sydney, but Wellington is 1,233 air miles away. The west coast city of Perth is 9,500 air miles from London and 4,500 from Cape Town.

# Australia in Brief

---

## Terrain

Australia's coastline of 20,125 kilometres (12,500 miles) shows remarkably few indentations, which indicates a geologically old land. Despite several mountain ranges, Australia's average elevation of under 300 metres (1,000 feet) makes it the flattest continent. The Great West Plateau, covering more than half of Australia, is the dominant structural division; a sizeable portion of this plateau, however, is practically barren or desert land. On the east coast, the Great Barrier Reef extends for some 2,000 kilometres (1,250 miles). This is the world's most extensive coral reef. It consists of many separate sections, which contain interesting islands and a wide variety of marine life.

## Climate

Australia covers more than 30 parallels of latitude and, consequently, its climate varies. In general, however, the climate is not subject to extremes. The mean variation in temperature for the different seasons is about 7°C (20°F). In the coastal areas where most of the population lives, the climate is temperate, with clear skies and light to moderate winds. No capital city gets less than a daily average of 5½ hours of sun.

## Seasons

Christmas and the New Year are celebrated in the summer as the Australian seasons are the reverse of those in the Northern Hemisphere:

Spring	September to November
Summer	December to February
Autumn	March to May
Winter	June to August

The following statistics indicate the climatic variations of Australia's major cities:

	Average Temperatures								Annual Average Rainfall	
	Summer				Winter					
	Max.		Min.		Max.		Min.		mm	inches
	°C	°F	°C	°F	°C	°F	°C	°F		
Canberra	27	81	13	56	11	52	9	34	635	25
Sydney	26	79	18	65	17	62	8	46	1,143	45
Melbourne	26	79	14	58	13	56	6	43	660	26
Brisbane	29	85	21	69	21	69	10	50	1,016	40
Adelaide	30	86	17	62	16	60	7	45	533	21
Perth	29	85	17	64	17	63	9	48	914	36
Hobart	22	71	12	54	12	53	5	41	635	25
Darwin	32	90	25	77	31	87	20	68	1,499	59

## Principal Cities

As of June 1976, the estimated population of Australia's larger cities was (in thousands):

Sydney	2,923	Perth	787
Melbourne	2,661	Canberra	191
Brisbane	959	Hobart	164
Adelaide	899	Darwin	32

Nearly two-thirds of the population live in these coastal cities, which enables Australia to claim the world's largest percentage of urban dwellers in relation to population.

## NATURAL RESOURCES

Australia produces all of its food and, until recently, derived the major portions of its foreign earnings from exports of wool, wheat, meat, sugar, and dairy products. The extensive use of artificial fertilizers and the control of the wild rabbit have added large areas to the supply of viable farm land, and farm production has risen substantially over the years, despite the steady decline in the farm population.

### Fisheries

Australia's surrounding waters abound in fish and fish exports are growing. The major catches are salmon, shark, mullet, and tuna.

### Forests

Australia's land suitable for timber is small in comparison with its size, and it is a net importer of timber, pulp and paper products.

### Minerals

The boom in exploration during the 60's led to the discovery and development of many new mineral deposits. Income derived from the export of minerals and mineral products now constitutes a large proportion of Australia's total export income. The world's richest lead and zinc mine is in Australia. Major discoveries of iron ore and bauxite are contributing to exports. Coal is found in all states. Gold, silver, tin, nickel, and copper mines have been developed and more reserves are being found each year. Natural gas is still being uncovered in large quantities and oil exploration is continuing. The following table gives the estimated 1975-76 output of the more important mineral products (in tonnes except where indicated otherwise):

# Australia in Brief

---

<b>Mineral Production</b>	<b>1975-76</b>
Copper	217,604
Lead	390,947
Zinc	467,586
Tin	9,096
Nickel Concentrate	81,031
Bauxite ('000 tonnes)	21,084
Iron ore and concentrate ('000 tonnes)	92,672
Manganese Ore ('000 tonnes)	1,861
Tungsten concentrates	2,338
Gold ('000 grams)	17,479
Silver ('000 grams)	738,373
Ilmenite	939,619
Rutile	351,161
Zircon	369,929
Black Coal ('000 tonnes)	69,344
Brown Coal ('000 tonnes)	29,210
Crude oil ('000 cu.m.)	23,891
Natural gas (million cu.m.)	5,388

In 1975-76, the value of Australia's sales to Japan accounted for 82% of coal exports, 79% of iron ore exports, and 43% of zinc concentrate exports. In millions of dollars, the value of mineral production has increased as follows:

1950	184
1955	330
1965	542
1970	1,425
1974	2,462

The large financial and technological resources required for such rapid expansion have come, in the main, from foreign investors.

## **Water**

Australia is the driest continent. Most coastal areas enjoy adequate rainfall, but large interior areas are semi-arid. Annual rainfall for Australia as a whole is 419 mm. (16.5 inches), which compares with the world's land average of 660 mm. (26 inches).

Steps have been taken to improve the water supply. An example is the Snowy Mountains Project that sends water from melting snowfields through diversion tunnels to rivers that flow inland instead of to the ocean — all of this combined with the generation of electric power. Nevertheless, because of inadequate rainfall, 34% of the land cannot be used for agriculture and another 42% is usable only for raising cattle.

## THE PEOPLE

### Population

The population of Australia, as of June 1976, was estimated at 13.5 million. It is distributed in the states and territories indicated as follows:

New South Wales	4,789,600
Victoria	3,673,400
Queensland	1,997,200
South Australia	1,234,100
Western Australia	1,122,600
Tasmania	406,100
Australian Capital Territory (ACT)	191,900
Northern Territory	87,600
	<u>13,502,500</u>

Since 1945, the population has increased by more than six million, or 81%. The increase is partly due to natural causes and partly to an extensive immigration program.

Population density is 1.8 persons per square kilometre. This light density reflects the large interior areas unsuitable for settlement due to inadequate rainfall. Most Australians live in the coastal areas, which have adequate water. Australia is almost as large as the United States, but has less than 6% of its population.

Australia was a predominantly male country until recently. The number of men (6.78 million) and women (6.73 million) is now about equal.

The 1971 census showed an Aboriginal population of 106,000. More recent population figures are difficult to obtain.

### Labour Force

The estimated labour force of 6 million, as of August 1976, constituted about 44% of the population. (See Chapter 4 for the composition of the work force.) The labour force has increased more rapidly than the population, mostly due to the influx of married women. The percentage of married women who are working has increased from 25% in 1966 to about 34% in 1976.

### Language

English is Australia's common and official language. In spelling and certain usages, Australian English is closer to that of the United Kingdom than that of the United States.

# Australia in Brief

---

## Education

Illiteracy is negligible. School attendance is compulsory to age 14 in most states and up to 16 in other states. Education is free through secondary and university levels and at technical schools. Private schools, usually denominational, are available and must meet state requirements for inspection, curriculum and teaching. The regular school year runs from early February to mid-December, and the long summer vacation is between December and February.

## Religion

There is no state church. The 1971 census reported that 10.9 out of 12.8 million persons described themselves as belonging to one of the Christian denominations.

## History

Australia was first inhabited by the Aborigines who are thought to have arrived in the country at least 30,000 years ago. For many centuries they lived in comparative isolation. They were semi-nomadic and lived very close to their natural environment, wore little clothing, were satisfied with a minimum of essentials, and were able to survive in the most arid regions.

The coming of Europeans upset the Aborigines' delicate coexistence with nature, and their treatment was not unlike that of the Indians in the United States.

The first European explorers to arrive in the country were the Dutch and the Portuguese who landed there in the 17th century. In 1770, Captain Cook explored the east coast and claimed the island for Great Britain. It was initially referred to as New Holland or New South Wales, and a Captain Flinders is believed to have been the first to use the name "Australia," which means "Southland."

In 1788, the first European settlement of Australia took place when Sydney was established as a penal settlement by the British. In the initial years, the major forms of economic activity were whaling and sealing, raising sheep for wool and other basic agricultural activities. The gold discoveries of the 1850's resulted in a substantial influx of population and an increase in export income; these in turn had radical effects on Australia's development, leading to an expansion of farming, improvement of transportation facilities and growth of the manufacturing industry.

The six colonies, now the six states of Australia, were all founded between 1823 and 1859; and on January 1, 1901, Australia became a nation, as declared in a proclamation issued by Queen Victoria on September 17, 1900.



Present-day Australians are predominantly of British origin, although there have been many immigrants from Continental Europe, particularly since World War II. The remaining of the original Aboriginal population is now well treated and, although their traditional life is rapidly receding, interest in the Aboriginal heritage is increasing.

## Life in Australia

Australians are a friendly and hospitable people who enjoy the high standard of living characteristic of developed countries. The climate is conducive to participation in a wide variety of sports and other outdoor activities and these play a large role in the lives of most Australians.

The 1974 Statistical Year Book of the United Nations includes the following interesting comparisons of living standards.

	Australia	USA	UK	Japan
Gross domestic product per capita in US\$ (1972)	3,730	5,563	2,471	2,786
Telephones per 1000 inhabitants	355	657	340	357
Television per 1000 inhabitants (1972)	227	474	305	225

## THE GOVERNMENT

Australia, an independent member of the British Commonwealth of Nations, is governed under a federal system introduced in 1901. Its Constitution is broadly patterned after that of the USA in its division of powers between the Federal and State Governments, and it follows the British system in its blending of executive and legislative powers.

### Executive Powers

The Queen of England's representative, the Governor General, holds formal executive power; in practice, however, the Prime Minister and his Cabinet carry out executive functions. The Prime Minister and every member of his Cabinet must be appointed from the Federal Parliament — either the Senate or the House of Representatives (the Lower House), but it is customary for the Prime Minister to be a member of the Lower House. The Cabinet must resign whenever it loses the majority support of the Lower House.

On November 11, 1975, the Prime Minister was removed from office by the Governor General when he dissolved both Houses of Parliament. The Governor General took this action in order to resolve a situation where the

# Australia in Brief

---

Senate (the opposition holding a majority) had deferred the passing of the Supply (money) Bills, thereby denying the Government the funds necessary for it to continue to govern.

## Legislative Powers

The Senate, which is the Upper House, consists of 63 Senators (ten from each state, two from the ACT and one from the Northern Territory). Senators are elected for six-year terms, with the terms of half of them expiring every three years.

The House of Representatives must, constitutionally, be as close to twice the size of the Senate as practicable. The present membership is 126 persons. New elections for the House must be held every three years, unless the House is dissolved earlier. The ACT elects two members and the Northern Territory elects one member of the House who have full voting rights. The states' representation in the House is based on population, and presently consists of:

New South Wales - 45	Victoria - 34	Queensland - 18
South Australia - 12	Western Australia - 9	Tasmania - 5

Only the federal government can legislate on defence, foreign affairs, trade with other countries and between the states, customs and excise duties, currency, banking, insurance, income taxes, and other such matters.

## Judicial Powers

The Constitution established the High Court of Australia as the court of last resort with general jurisdiction over all other federal and state courts. Only in special cases may an appeal be taken to the Privy Council in England. The Federal Court of Australia has recently been established and has replaced the Australian Industrial Court and the Federal Court of Bankruptcy. Its jurisdiction is in the fields of bankruptcy, industrial law, trade practices, and administrative appeals. All other matters are dealt with in a series of courts in each state that culminate in a State Supreme Court.

## Introduction of Proposed Laws

To become law, a proposal must obtain a majority vote in both Houses of Parliament. Proposed laws may be introduced in either house, except tax laws and revenue laws which must be introduced in the House of Representatives.

## **State Governments**

Each state has its own parliament, which can legislate in all matters not constitutionally reserved for the federal government. State governments control education, police, agriculture, harbours and waterways, company laws, regulation of mining and other internal natural resources, tourism, and other matters.

## **Local Governments**

Each state has its own system by which local elected authorities are granted their powers by state legislatures and are subject to general supervision by a competent state authority. More than 900 local government authorities handle town planning, local roads and streets, and other local matters. Outside of the larger cities, many local authorities also supply and distribute electricity and water, and are responsible for sewerage and drainage.

## **Political Parties**

Three main political parties are represented in the Federal Parliament: Liberal, Labour and National Country. All support parliamentary democracy. Between 1950 and 1972, Australia was governed by a coalition of the Liberal and National Country Parties. The 1972 elections put Labour in office. The Labour Party was reelected in May 1974, but the Coalition Government was returned with a considerable majority in December 1975.

## **Method of Voting**

Voting is compulsory for all federal and state parliamentary elections. An eligible voter (18 or over) is fined if he fails to appear at a polling booth without a compelling reason for his absence.

Preference voting is used to assure that the candidate elected is the choice of the majority of voters.

## **THE ECONOMY**

Australia has a free-enterprise economy. Although Australia was once a primary producer, manufacturing has grown rapidly and now contributes over 29% of the gross national product and about 24% of exports. Gross national product has been increasing at between 3% and 5% (at constant prices) in recent years.

## **Government Ownership**

Federal and state governments own and operate most public utilities, a category that includes generation and distribution of electricity, telegraph

# Australia in Brief

---

and telephone, water supply, postal service, and urban public transportation. Railroads have been traditionally owned by the states, although the federal government is in the process of taking over the South Australian railway. In the past, each state used different track sizes, a problem now being corrected. Qantas Airline, which provides international air service, is owned by the federal government, as is a large drug laboratory, some radio and television stations, and TAA, one of the two main domestic airlines. Several states own insurance companies and both state and federal governments have some participation in banking. In most other sectors, business and industry are privately owned and operate with perhaps fewer governmental restraints than in other free enterprise countries. With the recent introduction of more restrictive legislation, however, this freedom of operation has decreased in some areas.

## Balance of Payments

Australia's balance of trade in recent years has been favourable; however, when invisible items are taken into account, the balance on current account has been in a deficit position for several years (except for 1972-73, when a surplus of \$758 million was recorded). The high capital inflow of the early 1970's has not been maintained, dropping from a peak of \$1,779 million in 1971-72 to a net outflow of \$180 million in 1975-76.

## Economic Statistics

The following statistics indicate the size and trends of the Australian economy:

	1972-73	1973-74	1974-75	1975-76
Consumer Price Index (1966-67 = 100)	130.00	147.00	171.00	193.30
Gross Domestic Product (1966-67 = 100) (\$ billions)	30.61	32.36	32.44	32.87
Population (millions)	13.13	13.34	13.50	13.64 (est.)

## Imports and Exports

The Export Payments Insurance Corporation was established by the government in 1956 to insure Australian exporters against nonpayment. Both commercial and political risks are insurable to a maximum of 90% (95% for political risks in the post-shipment period).

The following are statistics of Australian exports and imports in recent years.

	<b>\$ Millions</b>	
	<b>Exports (FOB)</b>	<b>Imports (FOB)</b>
1970-71	4,376	4,150
1971-72	4,893	4,008
1972-73	6,214	4,121
1973-74	6,914	6,085
1974-75	8,673	8,080
1975-76 (est.)	9,556	8,240

## Direction of Trade

Australia's great reliance on trade with Great Britain no longer exists, and her trading partners are now widely distributed around the world. For 1974-75, the Commonwealth Statistician provided the following trade classifications in dollars (millions):

	<b>Exports (FOB)</b>	<b>Imports (FOB)</b>
OECD*		
USA	781	1,568
Canada	288	204
United Kingdom	428	1,144
Other EEC countries	834	1,097
Japan	2,398	1,396
New Zealand	513	175
Other OECD	169	430
Papua New Guinea	183	31
Sino-Soviet area	602	124
Other countries	<u>2,238</u>	<u>1,493</u>
Total	<u>8,434</u>	<u>7,662</u>

\*Organization for Economic Cooperation and Development

## Composition of Trade

The composition of exports and imports in two recent years shows some of the trends occurring in Australia's maturing economy. All statistics are in dollars (millions):

# Australia in Brief

---

	Exports (FOB)	
	1973-74	1974-75
Food, live animals, beverages and tobacco	2,197	2,990
Crude materials, inedible except fuels		
- Wool and sheep skins	1,249	816
- Iron ore and concentrates	499	707
- Other	473	625
Mineral fuels, lubricants and related materials	457	835
Animal and vegetable oils and fats	45	56
Chemicals	348	479
Manufactured materials	851	1,151
Machinery and transport equipment	447	565
Miscellaneous manufactured articles	102	125
Other commodities	90	140
Nonmerchandise	156	184

	Imports (FOB)	
	1973-74	1974-75
Food, live animals, beverages and tobacco	302	378
Crude materials, inedible except fuels	415	390
Mineral fuels, lubricants and related materials	377	724
Animal and vegetable oils and fats	28	43
Chemicals	580	786
Manufactured materials	1,404	1,497
Machinery and transport equipment	2,091	3,062
Miscellaneous manufactured articles	721	961
Other commodities	109	123
Nonmerchandise	58	119

## MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS

Australia is a member of the British Commonwealth of Nations and a charter member of the United Nations.

## General Agreement on Tariffs and Trade (GATT)

As a member state, Australia has consented to a number of tariff reductions and has also agreed not to increase the margin of preference accorded to Great Britain.

## **Asian Development Organizations**

Australia participates in Asian development through the following:

1. Economic and Social Commission for Asia and the Pacific.
2. The Colombo Plan for Cooperative Economic Development in South and Southeast Asia.
3. South Pacific Aid Program
4. The Asian Development Bank.

## **Other Affiliations**

Australia is allied with the USA and New Zealand through the treaty organizations of SEATO and ANZUS, and is a member of many world bodies with specific interests such as the World Health Organization.



# Investment Factors

- FOREIGN INVESTMENT
- INVESTMENT INCENTIVES
- CONTROLS OVER FOREIGN EXCHANGE
- FOREIGN TRADE REGULATIONS

## FOREIGN INVESTMENT

### Attitude Toward Foreign Investment

Australia's general policy is to welcome foreign investment, particularly investment that assists the balanced development of Australia's resources. Generally, foreign investment combined with Australian participation in ownership and management is favoured, and the offer of equity participation to Australians is regarded as both desirable and important; in some designated areas, it is a specific objective. Foreign investment is controlled by federal legislation and, in addition, the various state Companies Acts and the Trade Practices Act contain provisions relating to takeovers, mergers or acquisitions, whether they be by Australian or foreign-owned companies.

### Foreign Investment Guidelines

The Treasurer announced in April 1976 the present government's foreign investment policy. The administrative framework for the policy is provided by the Foreign Takeovers Act 1975, the power available to the government under exchange control legislation and under export control powers. In the administration of its policy, the government is advised by the Foreign Investment Review Board, which comprises one executive and two full-time members.

Foreign investment in the civil aviation, banking, radio, television, and newspaper industries is restricted under the appropriate legislation. Other proposals by foreign interests for investment in Australia may be examinable under the government's screening process. Those which are not may be proceeded with automatically subject to normal exchange control requirements. Examinable proposals comprise:

1. Proposals falling within the scope of the Foreign Takeovers Act 1975 (see below).
2. Proposals involving the establishment of new non-bank financial institutions and insurance companies.
3. Proposals to establish other new business, or to undertake a new mining or natural resource project, where the amount of investment is \$1 million or more.



# Investment Factors

---

4. Certain proposals to acquire Australian real estate.

A foreign interest is defined as:

1. A natural person not ordinarily a resident in Australia.
2. A foreign-controlled corporation (or business); or any corporation (or business) in which there is a single or associated beneficial foreign interest of 15% or more or in which there is an aggregate beneficial foreign interest of 40% or more, regardless of whether or not the corporation (or business) is foreign-controlled.

Foreign investment is defined generally as investment in fixed assets whether owned or leased, financed from equity or loan funds, or financed from any source within Australia or overseas.

In determining whether a proposal is in the national interest, regard will be made to whether in view of existing circumstances within the industry, proposals would lead, directly or indirectly, to net economic benefits in such matters as production, prices, quality and range of products and services, efficiency, technological change, and new export market opportunities that would sufficiently justify the increased foreign control of the particular industry. If, on this basis, the proposed takeover is judged not to be against the national interest, the following additional criteria would be taken into account:

1. Whether the proposed investment could be expected to coincide with Australian interest in such matters as local processing, research and development, industrial relations, employee protection, and Australian board representation.
2. Whether the proposed investment would affect adversely the government's objectives for defence, environment protection, or regional development.
3. The extent to which Australian participation in ownership and management had been sought.
4. In key areas, the proposed level of Australian ownership and control.
5. Taxation considerations.
6. The interest of Australian shareholders, creditors and policy holders likely to be affected by the proposal.

In the key areas of production and development (both on and offshore) of oil, natural gas and minerals, agricultural, pastoral, forestry and fishing projects, the government has laid down rules with respect to Australian equity participation.

No uranium mining venture will be allowed to proceed unless it has a minimum of 75% Australian equity and is Australian controlled. In the other key areas, a new business or project involving investment by foreign interests of \$1 million or more must be in the national interest, according to the criteria set out above, and have a minimum Australian equity of 50%, with at least 50% of the voting strength on the board held by Australians.

In other areas, there are no specific requirements for Australian ownership, and proposals are examined on a case by case basis.

The Foreign Takeovers Act 1975 came into operation on January 1, 1976. The Act provides for the screening of proposed acquisitions and arrangements which would give foreign interests control of Australian businesses and the prohibition of proposals which are thought to be against the national interest. Also, the Act gives the Treasurer the power to dismantle any arrangements or acquisitions which have been completed without due notice being given to the Treasurer and which the Treasurer has determined to be against the national interest.

## The Extent of Foreign Investment

Foreign investment has played a large role in the Australian economy, but perhaps not as overwhelming a role as some believe. Historically, the UK has been the largest source of foreign investment, although it has now been overshadowed by the USA's contribution. Japanese investment has increased sizably in recent years. The table below indicates the sources of overseas investment in companies in Australia for the years 1968/69 to 1974/75.

**INFLOW OF OVERSEAS INVESTMENT IN COMPANIES IN AUSTRALIA**  
(\$ million)

Year	UK	USA	Canada	Japan	Other Countries	EEC	Total
1968-69	483	320	22		179		1,004
1969-70	349	358	29		269		1,005
1970-71	541	470	55		486		1,552
1971-72	405	564	40		471		1,479
1972-73	106	91	8	52	142	55	455
1973-74	92	189	18	64	-1	90	451
1974-75	123	448	15	65	190	85	926

# Investment Factors

The type of industry that has attracted most foreign investment has changed over the years. The following table shows the industries that attracted the most direct foreign investment in recent years (in millions of dollars):

	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75 (prelim.)
Mostly mining, but including other primary producers	229	200	280	359	63	57	53
Manufacturing	199	232	246	185	78	245	272
Mostly finance, property and commerce, but including others	170	301	379	338	212	276	246
Totals (approx.)	<u>598</u>	<u>733</u>	<u>906</u>	<u>882</u>	<u>353</u>	<u>578</u>	<u>571</u>

The extent of foreign ownership or control of Australian industry is often discussed. In this context, how ownership and control is defined is important, as is which criteria are used to measure the extent of foreign ownership and control; for example, value of production, average employment attributable to, percentage of industry assets, or number of companies.

Over the past few years, the Australian Bureau of Statistics has been publishing statistics on foreign ownership and control in selected industries, and a summary of these statistics is presented below. The criteria used vary according to the industry, e.g., value-added for the mining and manufacturing industries, balances outstanding at December 31, 1973, for the finance industry and premiums for the insurance industry. The largest 200 enterprise groups in the manufacturing industry accounted for 51% of the value-added in that industry during 1972/73.

	Foreign Ownership %	Foreign Control %*
Mining Industry 1972/73	49.6	57.2
Finance Companies 1973	48.0	41.5
General Insurance Business 1972/73	45.7	45.0
Life Insurance Business 1973	36.8	19.4
Manufacturing Industry (largest 200 enterprise groups) 1972/73	n.a.	45.0

\*Based on a qualifying level of 25% of equity.

## **INVESTMENT INCENTIVES**

Australia offers a few incentives of the cash or grant type. But the most important factors which contribute to a favourable investment climate are:

1. Australia's stable and democratic government, which encourages foreign investment in participation with local capital.
2. Major supplies of natural resources (see Chapter 1).
3. A high standard of living.
4. For English-speaking countries, the common language and similar outlook and ideals.
5. Australia's strategic position in the Asia-Pacific area.

The government's specific incentives to attract foreign investment and to channel it into areas considered beneficial are discussed in the following pages.

### **Tax Incentives**

Australia's income tax law provides general tax benefits to primary producers and to other areas considered to need development assistance. These constitute tax incentives that are available to both foreign and domestic investors.

The undistributed profits tax on the income of an Australian branch that is owned by a foreign private company can be avoided by satisfying the distribution requirements from the worldwide income of the owner. This may enable all branch after-tax profits to be utilized for expansion.

Other specific tax benefits that may be considered incentives include the availability of faster-than-usual depreciation of assets used in scientific research, rebates for development of export markets, relief from double taxation, the investment allowance, and the tax benefits available to primary producers (see Chapter 8).

### **Research and Development Grants**

The Industrial Research and Development Grants Act 1967-73 was designed to promote the development of Australian industry by encouraging increased

# Investment Factors

---

industrial research and development. Two types of grants are offered under this legislation:

1. *General Grant.* For eligible expenditure up to \$50,000, a general grant at the rate of 40% of eligible expenditure is payable for the 1975-76 grant year.
2. *Selective Grant.* In general, eligible expenditure in excess of \$50,000 in a grant year is subject to a selective grant of up to 50%, depending upon the extent to which the company's industrial research and development activities appear likely to contribute to the development and use of Australian physical resources, expansion of exports, import saving, and other factors that may aid the Australian economy. The maximum selective grant, in respect of any grant year, that may be paid to a company and its wholly-owned subsidiaries is \$200,000, unless otherwise directed by the Minister who may exempt a particular company or group of companies from this limitation. Broadly, grants may be made to any company which:
  - a. Is incorporated in Australia.
  - b. Is involved in manufacturing or mining operations in Australia in the relevant grant year or in the next succeeding grant year.
  - c. Undertakes industrial research and development, and such work has professional leadership.
  - d. Has incurred certain prescribed expenditure in a grant year.

Expenditure eligible for these grants includes the increase in expenditure on salaries and materials over that of the base year and net plant expenditure during the grant year.

## **Export Market Development Grants Scheme**

The Export Market Development Grants Act 1974 authorizes the payment of grants to eligible persons to encourage the development of Australian exports. The scheme will operate for five years from July 1, 1974, and is administered by the Export Development Grants Board. Any resident of Australia who incurs eligible expenditure in respect of goods, services, industrial property, or know-how for export purposes may qualify. Payments to any claimant are limited to \$100,000, or 10% of export earnings, whichever is the lower, plus an additional amount of up to \$25,000 in respect of eligible expenditure incurred on government-sponsored promotions.

## **Tariff Protection**

The high degree of tariff protection available (see page 26) constitutes an incentive because of the assurance provided in preserving the domestic market for a company's products.

## **Subsidies and Bounties**

The government grants subsidies and bounties to help establish specific industries. The amounts vary and may decrease each year, but they are offered to producers for the domestic market without discrimination as to company ownership. Bounties and subsidies are available for the domestic production of agricultural tractors, phosphate and nitrogenous fertilizers, butter, and cheese.

## **State Decentralization Incentives**

Approximately 70% of the factories in Australia are clustered around the major cities and nearly two-thirds of the population live in the eight largest cities, with Melbourne and Sydney having the greatest concentration of population and industry. All states offer important incentives for locating outside of their major cities, including low-interest loans to buy land, build factories and provide housing for key personnel, as well as subsidies to train employees and to offset increased freight costs. It is likely that decentralization incentives will increase in importance.

Each state maintains an agency whose function is to attract foreign investors, and some states have offices in foreign countries.

States sometimes vie with each other in offering inducements to attract companies. The inducements may range from concessional rates for power, water or sewer systems to aid in obtaining industrial sites to direct financial assistance.

Although decentralization policies are basically the province of the state governments, the Australian government has participated in various schemes and has lent assistance in the form of grants. With the recent change in government, the degree of future participation is likely to be scaled down.

## **Takeovers and Mergers**

Many takeovers and mergers have occurred in recent years. In the usual takeover, an offer of cash and/or shares in the buying company is made to individual shareholders. If the takeover succeeds, the individual shareholders sell their shares to the buying company and, unless subsequent action is taken, there is no change in the corporate existence of the company taken

# Investment Factors

---

over or in ownership and control of its assets. Mergers generally involve the formation of a new company that acquires the shares or, alternatively, the assets of the two companies concerned.

Although takeovers and mergers are not prohibited, exchange control authorities do not permit a foreign company to offer its shares in exchange for those of a local company, except in unusual circumstances where Australia is apt to obtain special benefits.

Takeover offers by companies are subject to state legislation that imposes procedural obligations on both buying and selling companies. These obligations apply to offers to acquire all of the shares (or all shares of a particular class) of another company, or such shares of that other company which, together with those already held by or on behalf of the buyer, constitute 15% or more of the voting power.

The purpose of takeover legislation is to ensure that shareholders of the selling company have adequate time and information to assess a takeover offer. Where the takeover is to be accomplished by an exchange of shares, financial statements and other data of the buying company (similar to those contained in a formal prospectus) must be supplied. When an offerer succeeds in obtaining over 90% of the shares for which an offer has been made, the remaining shares may be compulsorily acquired through court action, provided the appropriate legal action is taken within the time limits specified in the Companies Act.

In addition, the federal government has legislated in this area with the Foreign Takeovers Act 1975 which applies specifically to takeovers by a foreign company, and the Trade Practices Act which is concerned with the effect of a takeover on competition in a particular industry.

## **CONTROLS OVER FOREIGN EXCHANGE**

Those functions of the Australian government that particularly relate to foreign investment include controls over transactions involving foreign exchange, import licensing, tariff policy, and income taxation. State governments are responsible for most of the legal controls over the formation and operation of business entities. On all of these matters, foreign-owned companies (once they have satisfied the government's requirements regarding foreign takeovers and foreign investment measures) operate, for all practical purposes, on an equal footing with locally-owned companies.

### **Exchange Controls**

The Reserve Bank of Australia is designated by the government to carry out its exchange control policies. Some of the important foreign exchange regu-

lations concern monetary controls, controls over export proceeds and controls over security transactions.

## **Monetary Controls**

The Reserve Bank has sole authority to deal in the exchange of Australian and foreign currencies, but it may appoint agents to act on its behalf. In practice, the trading banks in Australia have been designated as agents and are able to deal on-the-spot with almost all personal and commercial payments to nonresidents. In all cases, foreign currency that is made available for a specific purpose may be used only for that purpose.

## **Controls Over Current Transactions**

There are no restrictions on the remittance of amounts properly due to nonresidents for items of a non-capital nature. Some current transactions, however, are subject to scrutiny to ensure that they are not capital transactions.

## **Controls Over Royalty Payments**

Exchange control approval is required for an initial royalty agreement. After the initial agreement has been approved, further approval is required for the remittance of royalties or related items such as fees for technical know-how, but in practice such approvals are almost automatic.

## **Controls Over Overseas Borrowings**

The government has recently announced new controls over overseas borrowings, effective from January 17, 1977. The intention of these controls is to slow down the inflow of overseas funds that has occurred since the devaluation of the Australian dollar. (The original devaluation was 17.5% on November 29, 1976, with subsequent adjustments reducing this to 12.45% at the time of the announcement.)

All borrowings from overseas require Reserve Bank authorization, and borrowings repayable within two years are not permitted. The two-year embargo does not apply to borrowings under \$100,000 per borrower in any period of twelve months.

For borrowings having a maturity of two years or more and exceeding \$100,000 in any twelve months, the borrower will be required to lodge a noninterest bearing deposit with the Reserve Bank, initially equal to 25% of the loan, for a maximum period of three years. On all repayments made before the three-year limit, refunds of the deposit will be made in proportion to the repayments at the time these are made.



# Investment Factors

---

The variable deposit requirement will not apply to borrowings that are made for the purpose of directly financing capital investment in mining and manufacturing industries. These exempt borrowings will only be permitted to be drawn according to an approved schedule.

Borrowings which will be outside these controls are:

1. Borrowings specifically to finance trade transactions on normal trade credit terms.
2. Borrowings for which the draw downs had already received exchange control approval.
3. Deposits and investments in new issues of fixed interest securities by nonresidents (other than government securities) aggregating less than \$10,000 in any twelve-month period.

In addition to the above controls, the Reserve Bank will increase its surveillance over movements in intercompany indebtedness. Where a company's indebtedness to a related company overseas at any time in any month increases or decreases from the level as at December 31, 1976, by more than \$100,000, at the end of that month, the company will be required to submit a statement to the Reserve Bank certifying that the change in indebtedness has not arisen from transactions which would normally be submitted for exchange control approval, particularly:

1. In the case of increases, that the transactions have not breached current borrowing controls.
2. In the case of decreases, that the transactions do not represent capital transactions or other types of transactions not already approved by the Reserve Bank.

## **Acquisition of Shares or Assets of Australian Companies**

Foreign investors taking over an existing Australian company must bring into Australia the full purchase price, as local borrowing for this purpose is not normally permitted.

## **Controls Over Export Proceeds**

Export proceeds are administered, for exchange control purposes, by way of a licensing system, whereby all export documents must be lodged with a bank in Australia which may release them only when the payment arrangements comply with those approved by the Reserve Bank. These arrangements stipulate that payment for goods must be received within six months

from the date of shipment and not earlier than one month before the date of shipment. Any variation from these terms requires Reserve Bank approval.

## **Controls Over Securities Transactions**

Any sale of securities by Australian residents to nonresidents requires exchange control approval. There are usually no limitations on purchases of shares on Australian stock exchanges by nonresidents; however, if certain percentages of ownership are reached, buyers should take note of the Foreign Takeovers Act and stock exchange rules.

Australian stockbrokers have been given authority to buy and sell shares for nonresidents without continual reference to the Reserve Bank. Brokers must ensure that payment is received promptly, and they must send returns of transactions undertaken to the Reserve Bank. There are no restrictions on the remittance abroad of the proceeds of sales.

Because there are restrictions on overseas borrowings by residents, any purchases of fixed interest securities by nonresidents must be approved by the Reserve Bank and are subject to the embargo and variable deposit requirements outlined above.

## **Overseas Investments by Australians**

Proposals for direct overseas investments by Australian residents require the specific approval of the Reserve Bank, and applications must be accompanied by full details of the proposals. The ventures must have significant Australian control and participation in management and/or promote Australian exports.

Foreign portfolio investment by Australians was not permitted before September 1972, but from that date this policy was relaxed to some extent, although exchange control approval is required for each transaction.

## **FOREIGN TRADE REGULATIONS**

As mentioned previously, most exports require a licence. Import licensing has been the subject of several policy changes since 1939. The government maintains a restricted goods list which currently contains 42 items, mostly textile piecegoods. These goods are subject to import control through either import quotas or import licensing. Quotas are distributed to potential importers (usually on the basis of the previous trading figures of the merchants concerned) for a specific value or number of goods concerned, and are dutiable at the rate specified in the tariff. Goods imported without a quota are subject to forfeiture.

# Investment Factors

---

Import licensing operates in a similar way to quotas. Merchants obtain licences to import a specific number of goods, and these goods are again dutiable at the specified rate. If the number of goods imported exceeds that allowed by the licence, penalty rates of duty usually apply.

## **Import Tariff**

Australia uses the Brussels Nomenclature for tariff purposes. A wide range of duties is imposed on imports, with certain consumer goods subject to the higher duties. Most duties are ad valorem, but some are specific and some are a combination.

Imports may be subject to a general tariff or a lower preferential tariff. The latter, which applies to countries that formed part of the British Commonwealth and to New Guinea, is in the process of being phased out as the Industries Assistance Commission (IAC) reports are processed by the government (see below).

Free entry for specific handicraft products and preferences for most manufactured goods have been granted to developing countries.

## **Tariff Protection**

The level of tariff protection is determined by the government upon advice of the IAC. This commission replaced its predecessor, the Tariff Board, in January 1974. The commission uses the criteria "economic and efficient" to determine the level of protection that should be accorded industries in all sectors, and is gradually reviewing the whole tariff structure. Both Australian and foreign-owned companies may request tariff protection. The IAC holds public inquiries at which any interested party may furnish evidence. The IAC reports to the government which may accept, reject or change the recommendations contained therein.

## **Temporary Assistance**

Temporary protection, by way of tariff or quota, may be given to an industry that may suffer serious damage before new tariff legislation can be passed. A request for temporary protection is investigated by the Temporary Assistance Authority, located within the IAC, which must report its findings to the Minister for Business and Consumer Affairs within a time limit specified in the reference.

## **Bylaw Admissions**

An important provision allows customs authorities to admit goods free of duty or at concessional rates if local sources cannot meet the demand for goods or supply equivalent goods. Especially in importing machinery, companies

have saved considerable amounts by demonstrating that equivalent machinery is not obtainable in Australia.

Under bylaw admissions, imports from countries entitled to the preferential tariff may be free of duty, and the special rate of 7.5% may be applied to imports from countries subject to the general tariff. Goods not available in either Australia or the UK may be imported free of duty from all countries. Applications for bylaw admissions must be made by the importer.

## **Dumping Duties**

The Minister for Business and Consumer Affairs may impose dumping duties on goods sold to an Australian importer at a cost that is less than the fair market value in the country of origin. Dumping duties may be imposed only on goods whose sale is considered detrimental to Australian industry, and only if the goods are of a kind manufactured or produced in Australia. The matter may be referred to the IAC at the minister's discretion.

## **Basis for Duty Assessment**

Duties are imposed in various ways, ranging from ad valorem to fixed duties to combinations. Currently, imports are valued at free on board selling prices or, if higher, the domestic selling price of the goods in the country of export. The government has recently opted to introduce the Brussels Definition of Value, whereby goods are valued on the price they would fetch in the open market between independent buyers and sellers.

The dutiable weight is normally the actual weight of the merchandise, without taking the weight of wrapping materials into account.

## **Customs Surcharges**

No specific surcharges are in effect. However, certain primage duties introduced in 1930 for revenue purposes, and gradually being removed, are still in effect. Where applicable, primage duties are generally 5% or 10% ad valorem, before customs duty. The regular tariff is imposed on goods ex-primage. All imports are subject to the usual harbour, wharfage and handling charges.

## **Sales Tax on Imported Goods**

Sales tax is collected on imported goods not exempt from tax by the Department of Customs. The basis on which sales tax is levied is the value of the goods in Australian currency, plus customs duty including any primage, increased by 20% of the total. For rates of sales tax, see Chapter 8.

# Investment Factors

---

## **Excise Duties**

No excise duties are imposed on imports. Excises are imposed on a small number of domestically-produced items such as tobacco, alcohol, playing cards, T.V. picture tubes, matches, coal, etc.

## **Free Ports**

Australia has no free ports. However, goods may enter Australia for trans-shipment if appropriate procedures are followed. By permit, goods may be repacked for reshipment on the wharf. Goods stored in warehouses may be reexported without payment of duties. A bonding system is available for importers who wish to defer payment of duty until the goods are required.

## **Duty Drawbacks**

When imports have been cleared by customs and a later decision is made to reexport the goods, it is possible to obtain refunds of the duties paid, by compliance with strict conditions. It is also possible to obtain duty drawbacks (refunds) on imports used in the manufacture of products that are exported.

## **New Zealand–Australia Free Trade Agreement**

This 1965 agreement provides for a phasing out of tariff duties on a range of products covered in the agreement. From time to time this range of products is reviewed and items may be added to the list. In certain cases, manufacturing and assembly operations have been set up in New Zealand to take advantage of New Zealand's tariff where lower than Australia's, and some of the finished products have been exported to Australia under the terms of this trade agreement. In some cases, these arrangements have effectively reduced the landed cost of goods in Australia.



# Financial Institutions and Business Regulations

■ FINANCIAL AND CREDIT INSTITUTIONS  
■ AUSTRALIAN ASSOCIATED STOCK  
EXCHANGES

■ REGULATION OF BUSINESS  
■ PATENTS, INDUSTRIAL DESIGNS,  
TRADEMARKS AND COPYRIGHTS

## FINANCIAL AND CREDIT INSTITUTIONS

Australia's financial and credit system has all of the attributes normally found in developed countries. Its components are discussed in the following pages.

### The Reserve Bank of Australia

The Reserve Bank of Australia is Australia's central bank. It performs the usual functions of a central bank including: regulating the monetary and banking system, issuing currency, performing banking and other services for the government, acting as banker to trading and savings banks, administering exchange control, registering federal bond issues, and maintaining a central reserve pool for Australia's gold and foreign currency holdings.

The major trading banks maintain a certain minimum percentage of deposits in government securities and liquid assets — referred to as LGS assets. In addition, trading banks must lodge in the Reserve Bank a certain percentage of their deposits — referred to as Statutory Reserve Deposits. These required percentages vary with the government's monetary policy, but are not the only means of influencing the supply of credit. Other means available to the Reserve Bank include supervising investment policies of savings banks, control over lending policies of both trading and savings banks, fixing of maximum interest rates at which banks may borrow and lend (in practice, bank interest rates for different classes of borrowers are adjusted within the maximum rate), and open market operations in government bonds to increase or decrease liquidity.

The Financial Corporations Act 1974 extended the Reserve Bank's powers to encompass the activities of non-bank financial institutions. A major objective of the Act is to obtain information about the activities of those corporations subject to the Act so as to enable the authorities to assess the need for regulation of their operations. The Act also provides the framework by which the government may implement controls over financial institutions, similar to those exercised over the banks.

### Protection of Depositors

The Reserve Bank has certain powers which it can use to protect bank depositors. It is authorized to take over and carry on the business of a bank that is unable to meet its obligations or is about to suspend payments. This

# Financial Institutions & Regulations

---

does not afford protection to depositors in businesses not considered banks within the meaning of the Banking Act. No banking failure has occurred in Australia since 1931, when two small banks and one medium-sized bank were forced to cease operations.

## **Term Loan Fund**

As a departure from the usual trading bank practice of lending on an overdraft basis, the Term Loan Fund was created in 1961 to provide loans for fixed periods, usually between three and eight years, for capital expenditure and to finance exports. Such loans are generally repaid in fixed installments. Two-thirds of the funds available for lending have been derived from each trading bank's Statutory Reserve Deposits and one-third from its other assets.

## **Farm Development Loan Fund**

This fund is similar to the Term Loan Fund in origin and the composition of its supply of funds. It was created in 1966 to assist in raising productivity in the rural sector by providing medium to long-term loans to primary producers.

## **Australian Banks Export Re-Finance Corporation Limited**

This corporation was established in 1964 by the major trading banks with the support of the Reserve Bank. It assists individual banks in handling large or extended credit export transactions without unduly straining their resources.

## **Australian Resources Development Bank Limited**

This company was set up in 1967, mainly by the major trading banks in cooperation with the Reserve Bank. The Resources Bank supplies funds either directly to enterprises or by refinancing loans made by trading banks. Its purposes are to assist in the large-scale development of natural resources, to accelerate economic development and to retain Australian ownership of natural resources. Its funds are obtained from trading and other banks and the Reserve Bank as well as from borrowings in Australia and overseas.

## **Australian Industry Development Corporation (AIDC)**

The AIDC is a federally-owned corporation set up in 1970 to help develop and expand the Australian mining industry and other industries based on natural resources. The AIDC may obtain its funds from both Australian and overseas sources. It can lend money or provide a mixture of loan and equity investment funds.

## **Commonwealth Development Bank**

This bank was established by the Commonwealth government in 1959, principally to provide funds for selected small companies that cannot obtain

loans at reasonable terms and conditions. The Commonwealth Development Bank is the only one of its type in Australia. Its enabling legislation requires the bank to give more weight in making loans to the prospect for success than to the security furnished by the borrower. It provides loans for important new developments and not, ordinarily, to finance changes in the ownership of existing assets or operations.

## **The Trading Banks**

Australia's major commercial banks are referred to as trading banks and are subject to the Banking Act. These trading banks are privately owned, except for the Commonwealth Trading Bank of Australia, which is owned by the Australian government. The six largest trading banks hold well over 90% of all funds deposited in trading banks. All provide the full range of banking services, including foreign exchange and local and overseas transfers, and full cheque account facilities. Since trading banks are not restricted in opening branches even across state lines, all of these banks operate on a national basis, with a total of over 4,500 branches and over 1,000 agencies. One small trading bank and two overseas banks that have maintained offices in Australia for many years complete the roster of trading banks, along with the state trading banks. Licences for additional banks are not expected to be issued in the foreseeable future.

Trading banks are the chief source of short-term finance, usually in the form of allowable overdraft on current account. Based on the usual bank's criteria for loans and the security furnished by the borrower, the bank agrees to honour overdrafts up to an agreed limit. The interest cost to the borrower is based on the actual day-to-day overdraft, not on the entire overdraft available. Interest is usually payable each six months, and fees are generally charged for the unused portion of overdrafts.

Overdraft financing is a form of short-term financing that provides maximum flexibility to the borrower. The terms of most overdraft agreements are described as repayable on demand, but reasonable notice is given under normal conditions. In some overdraft lending, the overdraft is not maintained in the borrower's account, but is maintained in a separate account which is reduced as payments are made. Other lending techniques are also used where required by specific customers.

Most trading banks have a subsidiary or associated savings bank whose functions resemble those of savings banks elsewhere.

## **State Banks**

Several states have established trading, savings and agricultural banks. These banks function in the usual way, with activities confined to their



# Financial Institutions & Regulations

---

respective states. The state governments supervise the activities of these banks, but the Reserve Bank maintains contact and obtains a high degree of voluntary cooperation with its policies.

## **Non-Bank Financial Intermediaries**

Other financial organizations operate in Australia, some of long standing, whose operations resemble some of the functions performed by banks. There are several hundred such intermediaries, the more important types being the following:

**Short-Term Money Dealers.** An official short-term money market exists for companies with temporary surplus funds. Nine authorized dealers accept such funds, place them in government bonds maturing within three years, with a limited portion going into commercial bills, and pay going rates of interest. The Reserve Bank assures the liquidity of this market by acting as a lender of last resort. An unofficial market also exists, conducted mainly by merchant banks.

**Merchant Banks.** Close to 40 new merchant banks have opened in recent years. These merchant banks, many of which are foreign-owned, perform functions similar to those of investment banks in other countries. Their basic services include:

1. Short-term money market activities referred to above.
2. Underwriting of company debt and equity issues and assisting in company mergers or acquisitions.
3. Managing investment portfolios.
4. Supplying Eurodollars, Eurosterling and Asian dollars.

**Life Insurance Companies.** Life insurance companies are major institutions in the Australian financial structure, and are important sources of long-term funds. Large mortgages and private issues of securities are often placed with insurance companies. They are regulated by the federal government and are required to hold substantial amounts of government securities.

**Finance Companies.** Several large finance companies are owned by overseas banks and many are majority-owned by local trading banks. The number of finance companies has grown considerably. One factor in their growth is that, in the past, finance companies were not subject to Reserve Bank controls.

Finance companies provide credit for consumer purchases of cars and appliances, and offer leasing facilities, personal loans and second mortgages

for both business construction and private homes. They also provide bridging finance and have made available the funds for some large property developments.

**Other.** Building societies, which provide financing to individuals for housing, have grown by 350% over the last decade. Factoring companies that purchase receivables are available. A few rural companies act as wool brokers and also provide financing to farmers and sheep raisers.

## **Foreign Banks**

Only two foreign banks transact a limited business mainly connected with foreign trade: the Bank of New Zealand and the Banque Nationale de Paris. Many USA, UK and other foreign banks have had representative offices in Australia for many years — in Sydney or Melbourne, and some in both cities. These representative offices do not engage in normal banking business. Their functions include safeguarding their parent company's international interests and spotting opportunities for their major clients.

## **AUSTRALIAN ASSOCIATED STOCK EXCHANGES**

Six main stock exchanges function in the six capital cities: Sydney, Melbourne, Adelaide, Perth, Brisbane, and Hobart. The Sydney and Melbourne exchanges are the largest. Each exchange is organized as a private company or association, but all are members of the Australian Associated Stock Exchanges, which has imposed substantial uniformity on its members.

Although Australia does not have a supervisory authority such as the American Securities and Exchange Commission or the British Board of Trade, each state has a Corporate Affairs Commission. In addition, four states — New South Wales, Victoria, Queensland, and Western Australia — are parties to the Interstate Corporate Affairs Agreement. Under this agreement, the Interstate Corporate Affairs Commission has been established with the purpose of securing uniformity in administration and reciprocal arrangements within the participating states with respect to the following matters:

1. Incorporation of companies.
2. Regulation of the securities industry and trading in securities.
3. Registration of prospectuses.
4. Approval of trust deeds and trustees in relation to interest.
5. Requirements relating to accounts and audit.
6. Proclamation of companies as investment companies.
7. Class and individual exemption powers relating to fund raising, etc., and to takeovers.

# Financial Institutions & Regulations

---

In several areas, stock exchange requirements differ from or exceed company law requirements. Consequently, companies being formed that may desire stock exchange listing in the future should take into account the requirements of the Australian Associated Stock Exchanges.

In general, despite increasing levels of activity on the stock exchanges, the percentage of total capital requirements raised by public issues of securities is not large. Very few foreign companies are listed, and most Australian subsidiaries of USA and UK companies are not listed.

## **Pros and Cons of Stock Exchange Listing**

For Australian companies, including subsidiaries of foreign parent companies, the major advantages of listing on the Australian Stock Exchanges may be summarized as follows:

1. Greater access to domestic sources of finance whether in the form of equity or debt.
2. The company may be able to utilize its shares for acquisitions of other companies if sufficient local equity participation is obtained. Gains may have to be weighed against the dilution of the owner's equity.
3. The government encourages foreign-owned companies to introduce Australian participation, and the mass media sometimes portray foreign ownership in an unfavourable light. On the other hand, the publicity obtained by including local participation generates a favourable image and may benefit the sale of the company's products.

Aside from the income tax consequences of becoming a publicly-held company, which consists of both advantages and disadvantages, the major disadvantages of a stock exchange listing are:

1. Much more financial and other disclosure is required of a listed company.
2. Listed companies incur various costs such as stock exchange listing fees, higher directors' fees and share registry costs.
3. Prior to listing, it may be necessary to arrange three to five-year contracts with key executives so that potential share buyers will have confidence in the company's continuity of management.

## **Methods for Obtaining a Listing**

A public issue of securities, underwritten in compliance with the requirements of the stock exchange, is only one possible method of obtaining a stock

exchange listing. Other methods are sometimes used that offer time and cost advantages.

*Back-Door Listing.* This refers to acquiring a “shell” public company. A moribund-listed company in the hands of a liquidator (or receiver/manager) is acquired by arrangement with the liquidator and shareholders, and used as the vehicle for operations and trading on the exchange.

*Reverse Takeover.* A reverse takeover is one in which effective management and control passes to the acquired company rather than the purchasing company, which is the publicly-listed company. A reverse takeover is feasible only when the purchasing company’s financial position is well documented and when the combination of the two companies generates more potential than merely the sum of their two separate values.

*Private Placement of Shares.* A company may sell its shares privately and subsequently apply for listing on the stock exchange.

All of these listing methods have advantages and disadvantages, which may vary according to the specific circumstances in each case.

## **REGULATION OF BUSINESS**

The degree of regulation of business in Australia has increased significantly over the last few years, particularly in the federal sphere, where we have seen the introduction of a considerably strengthened Trade Practices Act, the Prices Justification Tribunal and the Environment Protection (Impact of Proposals) Act.

### **Trade Practices**

In 1974, very significant changes were made to the laws concerning restrictive trade practices. The Trade Practices Act 1974 fundamentally changed Australian trade practices law by repealing and replacing the existing trade practices legislation, and introducing for the first time Australia-wide consumer protection provisions. In concept, the Australian Act follows the United States trade practices legislation. Previously, the Trade Practices Tribunal determined whether in its opinion each agreement or practice was contrary to the public interest. The 1974 Act (which is about to be amended in some respects) actually defines the prohibited trade practices as follows:

- Anti-competitive contracts, arrangements or understandings in restraint of trade or commerce monopolization.
- Anti-competitive exclusive dealing.

# Financial Institutions & Regulations

---

- Resale price maintenance.
- Anti-competitive price discrimination (to be repealed if amending Act is passed).
- Anti-competitive mergers.

The Trade Practices Commission was established with wide powers to administer and enforce the Act. It may grant authorizations or clearances for certain restrictive trade practices, namely: exclusive dealing; mergers; and contracts, arrangements or understandings in restraint of trade. No authorization or clearance can be granted for the practice of monopolization, price discrimination or resale price maintenance. The purpose of an authorization is to enable a practice to be engaged in, even though it falls into a prohibited class; whereas the purpose of a clearance is to remove uncertainty as to whether the prohibitions of the Trade Practices Act apply.

The Act also deals with two aspects of consumer protection, namely, unfair practices and conditions and warranties in consumer transactions.

Penalties for non-compliance with the Act can be as high as \$250,000 in the case of a corporation and \$50,000 in the case of a person, for infringement of the restrictive trade practices provisions. Penalties of up to \$50,000 in the case of corporations and up to \$10,000 in the case of individuals are imposed for offences against the consumer protection sections. There is also an important right of civil action for damages.

## **The Prices Justification Tribunal**

The Prices Justification Tribunal was established by the federal government in 1973 as an addition to the range of policy instruments available to it in its attempts to combat inflation.

Under the Act, all companies with sales revenue greater than \$20 million are required to submit any proposed price increases and/or proposed prices of new products and to justify these proposals. In addition, the tribunal may hold enquiries into the pricing policies of other companies, either at its own initiative or that of the Minister.

After the inquiry, which may be public, the tribunal will recommend a price increase to the company and this increase will not necessarily be as high as the one originally proposed.

As the federal government does not have the power to control prices, the tribunal must rely on the weight of public opinion to persuade the companies

involved to accept its decisions. To date, no company has disregarded a decision made by the tribunal.

Several amendments to the Act will be passed by Parliament during 1977. The major amendments will increase the notification benchmark from \$20 million to \$30 million; require the Prices Justification Tribunal to have due regard to the need for companies to maintain adequate levels of investment and employment; and further require the Prices Justification Tribunal to consider whether a company is in a monopolistic position when deciding whether or not to grant an exemption from the notification procedures.

## **Environmental Controls**

Increasing attention is being paid to the effect on the environment of existing industries and proposed developments. This is largely a state-controlled function, although the Australian government does have some powers in this area.

The New South Wales government has passed legislation regarding air and water pollution, and has established the State Pollution Control Commission which has the responsibility of ensuring that all practical measures are taken to control pollution, to dispose of waste and to protect the environment from harmful substances. For all proposals which are likely to have a significant effect on the environment, the potential developer must submit a detailed Environmental Impact Statement to the government authority with primary responsibility for determining whether the development should proceed. Other states have passed similar legislation.

The Australian government introduced the Environment Protection (Impact of Proposals) Act in 1974. The Act requires an Environmental Impact Statement to be prepared on any proposal with which the government is involved and which is likely to have a significant effect on the environment. This requirement covers proposals to which Australian government funds are specifically directed and proposals which involve the constitutional powers of the government. For example, as the government has the power to control exports, it effectively has the power to control any developments, such as mining, which will involve production for export.

## **PATENTS, INDUSTRIAL DESIGNS, TRADEMARKS AND COPYRIGHTS**

Patent, industrial design, trademark, and copyright protection are controlled by federal legislation. The Patents, Trademarks and Designs Office issues a list of registered patent attorneys whose services foreigners may use to obtain protection in Australia. In general, legislation is patterned after the UK,

# Financial Institutions & Regulations

---

and many of the decisions of UK courts have relevance in Australia. Australia is a signatory of the International Convention for the Protection of Industrial Property, and foreign applications for patents, trademarks and designs may be entitled to the priority afforded under that convention. Instances have occurred where Australians have used foreign trademarks and corporation names not yet registered in Australia. In some cases, these have been useful to their Australian owners in bargaining with the foreign owners of the name.

## Patents

Patent applications may be filed by the inventor or his assignee, legal representative, agent, attorney, or others specified in the law, but not by a person merely importing an invention from abroad.

An amending Act, which came into force in 1970, introduced a system under which patent applications are no longer examined as a matter of routine, but means are provided for obtaining an early grant where an applicant considers this to be necessary. A patent application may be filed under the International Convention if it contains the same specifications as a patent granted in the USA or UK. Such an applicant may request the Australian examiner to undertake a "modified" examination of the application, whereby the examiner accepts the findings of the USA or British examiner instead of making a full examination in the usual way.

Notice of the acceptance of a patent application is advertised in the Official Journal, and any opposition must be lodged within three months.

Patents need not be used to maintain their validity. However, compulsory licensing may be granted after three years if applied for by an intended licensee. The holder of the patent may oppose the application for a licence.

Patents are valid for 16 years from the date complete specifications are filed, with extensions granted only in rare cases. Patents of addition are valid only for the unexpired term of the main patent. Annual renewal fees are payable after the fourth year.

## Industrial Designs

A new or original design not previously published in Australia and used for ornamentation, pattern, shape, or configuration of an article, may be registrable. Designs qualifying for registration are registered for five years with two extensions obtainable, each of five years. Unlike the UK, an Australian design registration is made in a particular class that is selected on the basis of the material used in manufacturing the article pursuant to the design or the material to which the design is applied.

## **Trademarks**

If the Registrar of Trademarks accepts a trademark for registration, it may be registered in Parts A, B, C, or D of the Register, depending on the type of trademark. For example, marks registered in Part A are those which are “inherently distinctive”, such as the signature of the applicant or an invented word, whereas those registered in Part C are marks certifying that the goods which bear them are of a particular standard in respect of their quality, the material from which they are made, their accuracy, or their method of manufacture.

Registration of a trademark may be refused if it is confusingly similar to a mark already registered for the same goods. Acceptances of trademark applications are published in the Official Journal, and any opposition must be lodged within three months.

Trademarks are initially registered for seven years, and an indefinite number of renewals of 14 years may be obtained. The Trademarks Act provides for the removal of a mark from the register if it has not been used for a continuous period of three years.

If a licensee is authorized to use the trademark, it is generally desirable from the point of view of the trademark’s owner to formally list the licensee as a registered user in the Trademarks Register.

## **Copyrights**

Australia became a party to the Universal Copyright Convention on May 1, 1970, and grants protection to literary, dramatic, musical, and artistic works. No formal marking of copyright works is required, and there are no registration requirements.





## CHAPTER IV Labour Conditions

- LABOUR FORCE
- EMPLOYMENT OF FOREIGNERS
- LABOUR-MANAGEMENT RELATIONS

- TERMS AND CONDITIONS OF EMPLOYMENT
- FRINGE BENEFITS
- SOCIAL SECURITY SYSTEM

### LABOUR FORCE

Australia's labour force is drawn from a population of approximately 13.5 million, which has been increasing at about 1.7% annually since 1970. The August 1976 work force of approximately 6 million represents 61% of the civilian population aged 15 and over. Women constitute 34% (approximately 1.9 million) of the work force and this percentage is tending to stabilize.

The industrial distribution of the labour force at July 1976, excluding employees in agriculture and private domestic service, is shown in the following table (in thousands):

Industry	Number	%
Manufacturing	1,190	25
Construction	365	8
Transport and storage	251	5
Finance, insurance, real estate, and business services	379	8
Wholesale and retail trade	964	20
Public administration, etc.	245	5
Community services	761	16
Entertainment, recreation, etc.	267	6
Other	295	7
	<u>4,717</u>	<u>100</u>

### Employment Level

Unemployment in Australia, as of August 1976, was 4.4% and it has been increasing over the last few years. This trend has been shared by most other advanced countries. There is little indication that this level will be reduced in the near future even though it is an objective of the present government.

The Australian Bureau of Statistics has issued details of unemployment by industry and by occupation as of the end of August 1976.

# Labour Conditions

---

Industry	Unemployment	
	Rate	%
Agriculture	2.7	
Manufacture	4.8	
food, beverages, tobacco	5.8	
metal products	4.2	
other manufacture	4.7	
Construction	5.9	
Wholesale & retail trade	4.6	
Transport & storage	2.7	
Finance, insurance & business services	2.3	
Community services	2.2	
Entertainment, hotels & personal services	5.6	
Other		
mining, electricity, gas,		
public administration	2.3	

Occupation	Unemployment	
	Rate	%
Professional & technical	2.0	
Clerical	2.6	
Sales	5.2	
Farmers, fishermen	3.0	
Transport & communication	4.0	
Tradesmen, production & process workers, labourers	5.3	
Service, sport & recreation	4.7	

## Labour Mobility and Turnover Rates

The two main problems that affect labour mobility are the large distances between capital cities and the lack of retraining facilities. There have been some positive developments in the latter area by way of government assistance for adult retraining and higher education.

## Employment Opportunities

The Australian government operates employment offices in all capital cities and in many suburbs and regional towns. These offices are responsible for finding employment for all persons who register with them as being unemployed. If the office fails to find the applicant work, unemployment benefits are paid. There are also commercial employment agencies throughout the country as well as newspaper classified sections.

## Immigration

Immigration has played a major role in Australia's development throughout its history; during the last few years, however, the government's program has been scaled down. At present, priority is given to family reunions, although

other people will be considered if, because of their occupational skills or other factors, they are classified within the categories being sought for national needs.

The criteria for selection of immigrants include the following:

- Skills and qualifications.
- Character, willingness and ability to become integrated into Australian society.
- Health.
- Sponsorship.
- Employment opportunities.

Immigrants approved for assisted passage need only contribute \$300 per family unit (\$200 for a single person) toward the cost of passage to Australia, if travelling on transport arranged by the government. If assisted immigrants arrange for their transport privately, they receive a subsidy of up to \$360 per person. Immigrants who have not been able to arrange private accommodations will be provided with government subsidized accommodations on arrival.

Immigration policy is set out in several laws that regulate entry. Passports are required, except for New Zealand citizens arriving directly from New Zealand. For others, prior authority to travel is required — usually a visa in the form of a passport endorsement. There is no discrimination on grounds of race, nationality, sex, politics, or creed in regard to immigrants. Sympathetic consideration is given to people who face danger to life and liberty upon return to their country of origin.

The intake of settlers since 1971 has been:

<b>Year</b>	<b>Number</b>
1971	155,525
1972	112,468
1973	105,003
1974	121,324
1975	54,117

Between 1947 and June 1973, approximately two million persons immigrated to Australia under assisted immigration schemes. The largest groups of permanent assisted settlers came from the following countries:

United Kingdom	1,069,260
Italy	63,096
Germany/Austria	118,130
Netherlands	81,856
Greece	72,478

# Labour Conditions

---

Visas are normally issued for a period not in excess of twelve months, and are easily renewable in normal circumstances. No visitor or immigrant to Australia is required to become an Australian citizen.

## EMPLOYMENT OF FOREIGNERS

Foreigners coming to Australia for a short period of employment must obtain an Australian visa before leaving their country of origin. Two types of visas may be applied for:

1. A business visitor's visa is necessary for persons who are, for instance, transferred by a foreign company to work in an Australian subsidiary for up to two years. This type of visa can be extended under normal circumstances.
2. A temporary resident's visa for a shorter working stay of up to twelve months.

The ordinary tourist visa does not entitle the holder to obtain paid employment while in Australia. When applying to an Australian consulate or embassy for a visa, full disclosure will help in obtaining the appropriate visa. Visitors must bring with them a current International Certificate of Vaccination against smallpox.

It is necessary for the visitor to apply for a visa in his own country of origin at the same time as an application is made in Australia by his prospective employer. Student visas for 18 months can also be arranged.

## LABOUR – MANAGEMENT RELATIONS

About 55% of the work force belongs to trade unions or associations. Trade unionism in Australia started in the 1850's, and trade unions were instrumental in forming the Australian Labour Party in 1891. Both trade unions and employers' organizations are recognized and encouraged by federal and state legislation. Australian trade unions may be organized on a craft, industry, white collar, or combination basis, and it is not unusual to find several unions in the same industry or factory. The Australian Bureau of Statistics has compiled statistics that show the trade unions in existence at December 31, 1974. The following summary is adapted from those statistics.

Number of separate unions	286
Number of members (in thousands)	2,774

The main national trade union is the Australian Council of Trade Unions (ACTU) comprising affiliated unions and trade and labour councils. The unions affiliated with the ACTU have a membership of approximately 1.5 million composed mainly of blue collar and industrial workers. An independent organization which has close links with the ACTU is the Australian Council of Salaried and Professional Associations; it is made up of "white collar" unions. Although workers are not legally compelled to belong to a union, in some industries unionists are given preference in employment.

Four leading employers' associations are combined at the national level in the National Employers' Association, a loosely-knit organization that attempts to coordinate employer policy in industrial relations, especially in national arbitration cases. Employer membership is not compulsory, but most manufacturing companies belong to one of the employers' associations. The National Employers' Association is not as influential as the ACTU.

## **System of Arbitration**

Australia's system for settling industrial disputes is known as "compulsory arbitration," despite the fact that strikes do occur. Arbitration is handled by six state and one federal system and a number of special tribunals. The federal system handles disputes that extend beyond any one state, and is easily the most important, while the special tribunals handle specific national industries. These various systems and tribunals are fairly similar in operation although they have different names; for example, Wage Board in Victoria, Industrial Commission in New South Wales and Conciliation and Arbitration Commission in the federal sphere.

Under these systems, parties to industrial disputes are under legal compulsion to reach a settlement by:

1. Voluntary agreement between the parties. Essentially this is collective bargaining, and there is a growing trend towards this in Australia. If voluntary agreement fails, or if the employer or union does not wish to engage in direct negotiations with or without the assistance of a conciliator, the next step is —
2. Compulsory arbitration before the judge or judges of the arbitration system or special tribunal. The decision of these judges is final and there is no appeal.

Any voluntary agreement reached under step one is registered with the Industrial Registrar, a branch of the Conciliation and Arbitration Commission, and is known as an "award." Similarly, a decision reached under step two by

# Labour Conditions

---

judges becomes an “award.” In both cases, the awards are legally binding on all parties concerned.

## Awards

As four out of every five persons in the work force are covered by awards, the concept behind “awards” merits some discussion.

At the beginning of this century, the idea of a fundamental basic wage took hold and was embodied in legislation in the following words: a wage sufficient to meet the “normal needs of the average employee and his family regarded as human beings living in a civilized community.” An award at the present time usually retains the concept of a fundamental basic wage, plus various additions (margins) for such factors as skill, dirt, heat, and other factors of employment. Currently, awards also take into account such matters as general economic conditions, productivity gains and the public interest. The award is the minimum that may be paid, but employers must often pay over-award wages to attract employees with particular skills. Over-award payments are common in private industry but not in government employment. In private industry, over-award payments usually average about 10% of the award, but can be higher. The following is a list of some awards in Sydney, the highest-cost city in Australia.

### Awards in Effect June 30, 1975 for Adult Males in Sydney

Industry	Occupation	Weekly Pay
Aircraft	Fitter	\$113.20
	Toolmaker	117.70
Engineering	Sheet metal worker	110.70
Motor vehicle	Mechanic	125.00
	Assembly worker	108.00
Food and drink	General hand	101.70
Printing	Machine compositor	121.60
Building	Bricklayer	157.88
	Painter	156.64
	Plumber	161.40
Road and air transport	Airline clerk	142.00
	Truck driver	130.00
Wholesale and retail	Butcher	112.20
	Salesman, commercial	131.10
	Shop assistant	113.60

During 1975, a policy of wage indexation, which involves the linking of wage rises to increases in the Consumer Price Index, was adopted. Despite gov-

ernment opposition, the most recent rise of 2.2% for the September quarter of 1976 was granted by the Arbitration Commission.

Strikes are not uncommon despite the well-organized arbitration system. For the half year ended June 1976, there was a total of 1,089 disputes involving over 679,000 workers, and 1,373,000 working days were lost.

The following table shows the industry figures for strikes during this period:

<b>Industry</b>	<b>Strikes</b>
Mining	182
Manufacturing	419
Electric, Gas, Water	17
Construction	156
Wholesale, Retail	41
Transport, Storage, Communications	205
Entertainment, Restaurants, Hotels	15
Other	<u>56</u>
	<u>1,089</u>

## **TERMS AND CONDITIONS OF EMPLOYMENT**

The terms and conditions of employment in Australia are a product of both statutory and common law and of the awards described previously. How these affect the terms and conditions of employment are summarized below.

### **Minimum Wages**

The concept of a minimum basic wage has been discussed. In legal theory, an award does not constitute a minimum wage, but in practice, awards become the lowest wage that is paid to the least skilled worker in an occupation or industry. Awards include margins for skill, adverse working conditions and other factors, and employers often compensate employees at levels higher than those contained in the awards. Minimum overtime rates of pay may also be contained in the awards. The present minimum wage is approximately \$93.00 per week.

### **Overtime Pay**

Overtime must be paid for all hours worked in excess of normal hours as set out in the particular industrial award (usually eight per day). The usual overtime rates are 150% of regular pay for the first two hours and 200% for subsequent hours. Work on weekends and holidays is usually compensated

# Labour Conditions

---

at 200% for all hours worked. It is common practice in many industries for the usual working hours to include some overtime hours that must be compensated at overtime rates. Consequently, Australian statistics of “average weekly earnings” are likely to include both overtime pay and regular pay.

## **Working Hours**

The normal working hours are eight per day and 40 per week. Awards may contain provisions for night shift and weekend work where needed to maintain continuous availability of essential services. In such cases, the award will contain an extra payment for hours worked outside of normal working hours, usually 10% additional. A paid 10-minute break is often included in awards as well as ten to twelve paid public holidays a year. As in other countries, unions are attempting to obtain a 35-hour week.

## **Meal Allowances**

Employees required to work overtime receive \$2.00 for tea money (dinner). If they continue to work late at night they receive an extra \$1.50 for supper money. These meal allowances are paid in addition to overtime pay.

## **Sick Leave**

Employees receive a minimum of five working days sick leave at full pay each year. In some awards, unused sick leave may be accumulated up to a maximum of ten weeks. Employers may require a medical certificate or other evidence to support sick leave of more than one day.

## **Equal Pay for Women**

Throughout the country it is now the practice to give equal pay for equal work.

## **Annual Leave (Vacation)**

Every employee is entitled to a minimum vacation each year of four weeks (20 working days) at regular rates of pay, plus a 17.5% loading (bonus) calculated on award rates. Employees may take their vacation in not more than two or three separate periods. When an employee is dismissed, employers may provide pay in lieu of earned vacation.

## **Long Service Leave**

Substantially similar state laws provide for long service leave after 15 years of continuous employment with one employer. Long service leave consists of 8 weeks at regular pay and is in addition to the annual leave. For each 10 years thereafter the leave is 3 months.

Most companies accrue long service leave to reflect the liability, but for tax purposes, long service leave is deductible in the year paid. In the acquisition



of a company or portion of its operations, the same employees may continue to work for the new entity or new owner. For purposes of entitlement to long service leave, continuity of employment may be deemed to exist. Each state's long service leave act contains details of this matter.

## **Termination of Employment**

Employers have the right to freely hire and fire within reasonable limits. However, in some industries union members are given hiring preference, and in some occupations union membership is a prerequisite for employment.

The law requires the party terminating employment to give, usually, seven days notice to the other party. Alternatively, a week's pay may be given in lieu of such notice. No indemnities or severance payments are legally required except for pro rata payments for annual and long service leave, but some employers provide severance pay to employees discharged because of retrenchment or other reasons.

## **Workers' Compensation**

The Common Law imposes a moral duty on employers to safeguard employees from injury to the extent possible. Statutory law contains specific requirements such as the guarding of dangerous machinery. A breach of these duties may expose an employer to a fine, and a resulting injury may bring a lawsuit by the union or injured employee.

Employers must insure themselves for injury to employees arising from employment, and this includes injuries while travelling directly between the place of employment and the employee's home. The term injury is defined broadly to include diseases contracted in the course of employment or to which the employment was a contributing factor.

Workers' compensation insurance carried by employers must be adequate to cover all medical and hospital expenses arising out of an injury. The employer's cost varies widely with the industry and other factors. The extremes in cost range from 32% of wages of clerical workers to 118% in the case of demolition workers. The cost of workers' compensation insurance for women is the same as that for men.

## **FRINGE BENEFITS**

Fringe benefits in Australia tend to increase with advances in the status of employees, although most companies provide some benefits for all employees. In general, the cost of a typical fringe benefit package is relatively

# Labour Conditions

---

low, and varies widely between companies and industries. The following are among the types of fringe benefits that companies may offer: superannuation schemes, contributions towards the cost of training courses, regular bonus payments, staff cafeterias, assisted savings programs, profit sharing, health insurance, stock options to a limited extent, entertainment allowances, provision of company cars, or car allowances. In some cases, fringe benefits are included in an award, and thus become a necessary condition of employment.

## Superannuation Schemes

Superannuation schemes are fairly common in Australia. The term “superannuation” refers to retirement benefits paid to employees, and may consist of periodic pension payments, a lump sum payment, or both. Superannuation funds are considered to be trusts and are governed by the law on trusts and their own trust deeds.

Most awards do not include provisions for superannuation benefits, but many companies provide a superannuation scheme for at least some of their employees after a qualifying period. The content of these schemes varies widely, in the following ways:

1. Employees may or may not contribute to the scheme.
2. Retirement may be at the normal age (65 for men and 60 for women) or earlier.
3. The scheme normally contains a schedule of benefits for the employee’s beneficiaries in the event of his death prior to retirement age.
4. All schemes provide a minimum payment to employees in case of termination of employment prior to retirement (usually, his own contributions plus, sometimes, a stated rate of interest).
5. The funds may be administered by a life insurance company, a fund manager or elected or appointed trustees.
6. The scheme may contain various vesting provisions.

Within certain limits, the contributions of employers and employees are deductible for tax purposes. Employees paid a lump sum on retirement or earlier termination of employment must include 5% of the payment in taxable income.

## **SOCIAL SECURITY SYSTEM**

Australia provides an extensive range of social security benefits, but a lower level of benefits than some other developed countries. Australia does not tax employers or employees directly for social security purposes. These benefits are paid out of the government's consolidated revenues. Consequently, Australia's high level of individual income taxation would be somewhat lower if social security were paid for as a separate tax.

The range of benefits provided includes the following:

Maternity allowance	Widows' pensions
Child endowment	Old age pensions
Unemployment	Invalid pensions
Sickness	Funeral benefits

As an example, old age pensions paid to men over 65, and women over 60, are \$38.75 weekly for single persons and \$32 each for couples. A "means test" applies to people between the ages of 60 or 65 and 70, which means that persons whose annual income is above a certain level will not receive these benefits, or the level of benefits they receive will be reduced.

### **Health Insurance**

The provision of health care has been a controversial subject for the last four years, and there have been several changes during this period. Under the present scheme, everyone must be covered for basic medical and hospital care, either through the payment of a 2.5% levy on taxable income or by payments to a private health insurance fund. This entitles the individual to free hospital care in a public ward and a refund of a percentage of doctor's fees. In order to be covered for private and intermediate ward hospital accommodation and paramedical services, anyone may purchase additional insurance from medical insurance schemes.



## CHAPTER V

# Business Practices and Information

- PRACTICES AND CUSTOMS
- TRAVEL AND COMMUNICATIONS
- BUSINESS HOURS AND HOLIDAYS

- CURRENCY
- GENERAL INFORMATION

### PRACTICES AND CUSTOMS

Business practices and customs in Australia are much the same as those in the United Kingdom, United States and Canada. The Australian businessman is urbane, relaxed in manner, but keenly aware of the business and political worlds. His outlook has become progressively more international as his business has carried him further into the global arena.

Leisure and outdoor activities play a more important role in Australian life than is the case in other countries. Sports have avid followers and participants. The main spectator sports are football (played to four codes), cricket, tennis, car and horse racing, although other sports also have their followers. Golf and squash are the sports most popular with executives.

### TRAVEL AND COMMUNICATIONS

#### Best Travel Months

Almost any time is suitable for business travel except between Christmas, December 25th, and the middle of January, as many businesses close at that time for summer vacations.

#### Immunization and Travel Documents

Visitors to Australia require a valid passport and either:

1. A business visitor's visa if the visit is for business negotiations and discussions only, or
2. A temporary resident's visa if the visitor wishes to work during his stay.

In both cases, additional medical and character details are required if the stay is for more than 12 months. The visa must be obtained at an Australian Consulate in the visitor's home country, usually 4 to 8 weeks before starting the trip.

A smallpox vaccination certificate and other immunizations may be required of visitors from infected areas.

# Business Practices and Information

---

## Getting to Australia

Australia is 15 to 17 hours by air from the west coast of the United States, and a little more than 24 hours from Europe and Britain. International air service is furnished by 18 scheduled airlines. Overseas visitors are permitted to bring in duty-free 1 litre (1.7 pints) of liquor and 200 cigarettes or 250 grammes (approximately ½ pound) of cigars or tobacco products.

## Transportation Within Australia

A comprehensive network of interstate flights is provided by two domestic airlines, Trans-Australian Airways and Ansett Airlines of Australia, which is supplemented by feeder airlines operating within states. Although travel by air is customary for business purposes, an adequate railroad system exists and rental cars are often used for shorter trips. Car rentals cost between \$17.50 and \$32 daily (about 100 kilometres or 60 miles travel a day) depending on the type of car.

Trains, buses and taxis are all available within cities. Traffic moves on the left side of the road and is subject to a stringent right-hand rule, which means that vehicles on the right always have the right of way.

Traffic is moderately heavy within cities. Automobile travel between cities is not popular because most interstate roads are not good (there are few multi-lane expressways outside city areas), and the distance between cities is relatively great. Sydney to Melbourne is 728 kilometres (425 miles) by air and over 960 kilometres (600 miles) by road, Sydney to Brisbane is 723 kilometres (480 miles) by air and about 1,030 kilometres (640 miles) by road. Airports are close to major cities and good bus or taxi service is available between airports and the inner cities.

## Time Factors

New South Wales, Victoria, and Queensland are 15 hours ahead of New York City, 10 hours ahead of London, 9 hours ahead of Geneva, and 1 hour ahead of Tokyo. When New South Wales, Victoria and Tasmania or, alternatively, other countries are on Daylight Saving Time (DST), these differentials are altered. The months affected by DST in Australia are October to February.

## Communications

Mail is delivered daily, excluding weekends. Airmail service is good. The following are examples:

<b>Destination</b>	<b>Cost (10 gr. or ½ oz.)</b>	<b>Time (days)</b>
Japan	35 cents	7 - 10
UK and Europe	45	7 - 10
USA	40	7 - 10

Surface mail to most parts of the world should be avoided as delivery takes six to seven weeks. International cables can be sent from any post office or private telephone.

Telephone service is dependable and quick. Local calls cost 10 cents. A three-minute person-to-person call to New York, Geneva or Tokyo costs \$10.80 and to the UK \$9.00. Allow a minimum of 15 minutes waiting time for overseas calls during busy periods. ISD (International Subscriber Dialling) has been introduced recently and allows direct dialling to 13 countries, including the UK, USA, Japan, Singapore, Switzerland, and West Germany. STD (Subscribers Trunk Dialling) allows direct calls to be made anywhere in Australia.

## **BUSINESS HOURS AND HOLIDAYS**

Minor differences in the business hours noted below occur in different states.

### **Government and Office Hours**

Most offices are open during the week from 9:00 a.m. to 5:00 p.m., except for the lunch hour — usually between 1:00 p.m. and 2:00 p.m. Very few offices are open on Saturday.

### **Banking Hours**

Trading banks are open for business from 10:00 a.m. to 3:00 p.m. Monday to Thursday and 10:00 a.m. to 5:00 p.m. on Fridays. Banks are closed on Saturdays.

### **Retail Stores**

Most retail stores are open from 9:00 a.m. to 5:30 p.m. Monday to Friday. Some are open for late night shopping until 9:00 p.m. on one night each week (usually Thursday or Friday). On Saturdays, stores are usually open from 8:30 a.m. to 12:00 noon. With the exception of small food shops, stores are closed on Saturday afternoons and Sundays.

# Business Practices and Information

---

## Business Holidays

The following public holidays are observed in all states of Australia. Holidays falling on a weekend are observed on the following working day.

New Year's Day	January 1
Australia Day	January (the Monday following January 26)
Good Friday	March/April
Easter Monday	March/April
Anzac Day	April 25
Queen's Birthday	June (generally, on the second Monday)
Christmas Day	December 25
Boxing Day	December 26

Several states have additional holidays. Labour Day is proclaimed in March for Victoria, Tasmania and Western Australia, in October for New South Wales and South Australia, and in May for Queensland.

## CURRENCY

Australia's currency has been on the decimal system since 1966, with each dollar being made up of 100 cents. The official dollar symbol is the same as that used in the United States (\$), cents are written as \$0.07 or with a small 'c' (7c). Australian currency is issued in the following denominations:

Dollar Notes	Cent Coins
\$ 1.00	1
2.00	2
5.00	5
10.00	10
20.00	20
50.00	50

The exchange rate is no longer pegged and the government has adopted a flexibly administered rate. At the time of writing, the Australian dollar was worth:

US \$	1.10
£ sterling	0.65
Deutsche marks	2.64
French francs	5.48
Swiss francs	2.76
Japanese yen	310.26

Any amount of foreign currency or travellers cheques may be brought into Australia, provided it is declared through customs. Any funds brought in may be taken out, in any currency, and including up to \$100 in Australian dollar notes. If the visitor has funds in Australia or obtains funds while in Australia, taking them out requires the approval of the Reserve Bank.

Australians travelling abroad can take up to \$4,000 per year in travellers cheques or foreign currency, including up to \$250 in dollar notes. Higher amounts require a special application.

The use of credit cards, especially American Express, Diners Club and Carte Blanche, is growing. These are accepted at all major hotels, restaurants and retail stores. Travellers cheques are readily accepted by banks.

## **GENERAL INFORMATION**

### **Language**

English is spoken universally in Australia. However, visitors from the United States in particular will be unfamiliar with some words commonly used.

### **Cost of Living**

The cost of living in Australia is a little less than in the United States and a little more than in the United Kingdom. Food is somewhat cheaper, but consumer appliances are more expensive. In Sydney, rent for a newer-style unfurnished apartment in a good area starts at approximately \$400 per month. A medium-size popular family car costs approximately \$6,000 and is smaller than cars of comparable price in the United States. Although Sydney is considered the highest-cost city, cost of living indices show that other cities are only about 5% below Sydney.

### **Entertainment**

The visitor from overseas will find the usual forms of entertainment, except for the large role played by private clubs. Entry to these clubs is restricted to members, but these may bring guests. A common feature of many clubs in New South Wales is the abundance of coin-operated poker machines, one of the forms of gambling enjoyed by many Australians.

### **Hotels and Restaurants**

Adequate hotel accommodations are available from \$20 to \$40 a day, excluding meals. At clubs, restaurants and hotels food is up to western standards, with continental cuisine very much in evidence. Many private



# Business Practices and Information

---

clubs provide interesting and varied menus. Visiting businessmen will be invited to clubs or, perhaps, to a private home, but entertainment in private homes is not the common practice. A token gift for the hostess is not usually expected, but will be appreciated.

## **Tipping**

Tipping in Australia is not as common as in other countries. Tips are regarded as a compliment for personal service rather than a necessary or formal practice. In some better restaurants and hotels, a 10% to 15% tip may be given to the waiter waitress or added to the bill. Tipping is not customary in private clubs. Tips are not normally expected by taxi drivers, cloakroom attendants, maids, bellboys, bartenders, barbers, or hairdressers. However, some persons customarily offer small gratuities (10 or 20 cents) for special private services.

## **Business Cards**

The use of business cards is increasing. Although not a necessity, the offering of a card is usually appreciated.

## **Dates**

It is easy to misinterpret written dates since the sequence in Australia is day-month-year. The inscription 6/8/77 is read as August 6, 1977, not June 8, 1977.

## **Weights and Measures**

Australia formerly used the British system of weights and measures, but is now almost fully converted to the metric system approved by the General Conference of Weights and Measures in 1960. It is known as the International System of Units or by the abbreviation SI.

## **Temperature**

Temperature is measured on the Centigrade scale, having been recently converted from Fahrenheit. To convert Centigrade to Fahrenheit, multiply by 9/5 and add 32.

## **Electric Current**

Standard current throughout Australia is 240 volts — 50 cycles A.C. Gas is used in many places, usually for cooking, hot water and home heating. Few major hotels and motels provide for 110 volt electric razors. The 240 volt power point requires a three-pronged electric plug.



# Forms of Business Entities

- PRINCIPAL BUSINESS ENTITIES
- SOLE PROPRIETORSHIP
- PARTNERSHIPS
- CORPORATIONS
- FINANCIAL STRUCTURE

- MANAGEMENT OF A COMPANY
- DISSOLUTION OF A COMPANY
- BRANCH OF A FOREIGN CORPORATION
- OTHER ENTITIES

## PRINCIPAL BUSINESS ENTITIES

The principal business entities used in Australia are:

Sole proprietorship

Partnerships

Corporation incorporated under the Australian Companies Acts

Branch of a foreign corporation

Other: Agency

Joint venture

Cooperative society

The most common form for a foreign entity commencing business in Australia is the corporation, usually referred to as company. The choice of a particular form of business entity involves tax and other considerations, and foreign investors normally require professional service and advice in this matter.

## SOLE PROPRIETORSHIP

A sole proprietorship merely refers to the ownership of a business by one person. Such an entity may be formed without legal formalities unless a business name other than one's own is used. In this case, separate registration of the name with the Corporate Affairs Commission in each state in which business is to be carried on is required by the Business Names Acts of the various states and territories.

Sole proprietorships cannot hold real property in the business name, only in the name of the individual owner. The sole proprietorship is normally unattractive to foreign investors because of the difficulty of raising capital, its unlimited legal liability, and the high individual income tax rates.

## PARTNERSHIPS

The formation and operation of partnerships are regulated by Partnership Acts, which are virtually identical in all states. These Acts provide for certain rights and duties of the partners among or between themselves,

# Forms of Business Entities

---

which are deemed to exist unless contrary provisions are expressed or implied in the partnership agreement. Thus, it is desirable that the partnership agreement, which may be written or oral, cover such matters as the capital to be contributed, the authority of partners, the division of profits, salaries, interest on capital, advances and drawings, retirement, death or bankruptcy of a partner, the method of valuing goodwill, and any special restraints on partners.

A firm name that does not include the names of all partners must be registered under the Business Name Act of each state or territory in which business is to be carried on. Since a partnership has no legal existence separate from its members, it cannot hold real property in the firm name. In practice, the names of all partners would be listed as the owners of real property. Partners are jointly and severally liable for all partnership liabilities so far as third parties are concerned, but the partners may agree to apportion liability within the partnership.

Each general partner acting within the apparent scope of the partnership has implied authority to represent and bind the partnership. A partner's authority to act for the partnership may be restricted, but such restriction is not legally effective unless third parties have received notice.

The Companies Acts in the various states and territories restrict the maximum number of partners to 20. However, professions or callings may have up to 50 partners and accounting firms may have up to 100 partners. A corporation may form a partnership with other corporations or persons.

*Limited Partnership.* Only a few states permit limited partnerships in which the liability of some of the partners is limited to the amount of capital contributed. All limited partnerships must have at least one general partner whose liability is unlimited.

## **CORPORATIONS**

Based on the Australian Constitution, the formation, management and dissolution of corporations are regulated by each state's Companies Act and the Companies Ordinances in the Australian Capital Territory and the Northern Territory. These acts and ordinances are substantially identical and are administered by the state's Commissioner for Corporate Affairs or, in some states, the Registrar of Companies. The legal requirements discussed in this chapter apply broadly in all states and territories.

Four of the five most populous states, New South Wales, Victoria, Queensland, and Western Australia, have agreed to recognize each other's corporations, subject only to the desired corporate name being available, and

to the lodgement after “recognition” of copies of security creation/satisfaction documents.

As in the UK, the term “company” is used more frequently than “corporation.” A company may be formed for almost any purpose and once formed has an unlimited life. The Companies Acts and Ordinances do not restrict capital ownership by foreigners; the restrictions on such ownership exist by virtue of the regulations administered by the Reserve Bank of Australia and the Foreign Investment Review Board.

A company may select its state or territory of incorporation and is then regulated by the applicable companies act or ordinance. However, if it carries on business in another state or territory which has not agreed to recognize companies incorporated in the selected state of incorporation, then the company must register there as a “foreign company.” Similarly, an existing overseas corporation wishing to carry on business in any Australian state or territory must register separately in each such jurisdiction. As a step toward simplification of these procedures, the four states referred to earlier as having agreed to recognize each other’s corporations have agreed in principle to extend recognized company status in the three other participating states to any corporation incorporated outside the four states but having registered as a foreign company in any one participating state. This extension of the notion of “recognizing” companies has not commenced operating at the time of writing, but should become operative sometime during 1977.

## **Foreign Companies**

Subject to the extension of the process of recognizing companies, the Companies Act of each state or territory requires that a company or other entity incorporated outside that state or territory (whether in Australia or overseas), but having a place of business or carrying on business in that state or territory, must register as a foreign company. The determination of whether a company has established a place of business or is carrying on business is not precisely defined in the Companies Acts. Certain isolated actions such as operating a bank account, investing funds, and effecting a sale through an independent agent do not constitute the carrying on of business. On the other hand, establishing a warehouse for deliveries to customers of orders accepted within that state does constitute carrying on a business.

Within one month of establishing a place of business or commencing to carry on business in another state, a foreign company must register the following documents with the state’s Commissioner for Corporate Affairs:

1. A certified copy of its certificate of incorporation or registration in its place of incorporation or origin, or a document of similar effect.

# Forms of Business Entities

---

2. A certified copy of its memorandum and articles, charter, or equivalent instrument constituting its constitution.
3. A list of its directors with particulars of names, addresses, occupations, etc.
4. A binding memorandum of appointment of a local agent authorized to accept service of process and notices.
5. The address of its local registered office. (If requested by resident shareholders, it must maintain a branch register of shareholders at that office.)
6. A statutory declaration by the company's agent (a person resident in, or a company incorporated in the jurisdiction) swearing to his/its appointment as agent, to the place of incorporation of the company, the address of the registered office in the place of incorporation, and the authorized capital of the company.

Registration fees of foreign companies are half of those payable by locally incorporated companies (see later in this chapter under *Cost of Incorporation*).

Once registered, a foreign company must promptly advise changes to its directorate, constitution and bylaws, by notices in prescribed form lodged at the Corporate Affairs Commission. In addition, once a year, at intervals not exceeding 15 months, the company must file a copy of its annual accounts and reports thereon, in the form required by the law applicable in the place of incorporation. Where the law of the place of incorporation does not require the preparation of annual accounts (e.g. Delaware, USA), the foreign company must have prepared and must lodge at the Corporate Affairs Commission accounts and reports thereon in such form as though the company were an Australian public company. The accounts must cover the whole of the company's activities, not just the Australian operations, and must be audited.

## Types of Companies

In general, companies are either public companies (in which case their names must end with the word *Limited* or *Ltd.*) or private companies (whose names must end with the words *Proprietary Limited* or *Pty. Ltd.*). In essence, a public company is one in which the public owns or may own shares. A proprietary company must restrict the rights of its members to transfer shares, must limit the number of members (shareholders) to fifty (not including employees), and cannot invite the public to subscribe for its securities or to deposit funds.

Another form of proprietary company is the exempt proprietary company. An exempt proprietary company is basically a proprietary company that prohibits public companies, foreign companies which have not themselves been declared to be similar sorts of companies, and up to three levels of subsidiaries, from owning its shares. Such an exempt proprietary company enjoys statutory concessions dealing with the appointment of auditors and the filing of annual financial statements within the state.

Companies that are not proprietary companies, or exempt proprietary companies, are public companies. A public company's shares may be traded on the stock exchanges if the listing requirements are met.

The proprietary company is the entity commonly formed by foreign investors (normally exempt proprietary status is not applicable to subsidiaries of foreign corporations). In most cases, such a company is a proprietary company only for the purposes of the Companies Act and is a public company for tax purposes, depending on the spread of ownership of shares in the holding company.

## **Organizing a Company**

Before a company is formed, one or more promoters may engage in preliminary negotiations and even sign contracts, but any contracts signed in the pre-incorporation stage are not binding on the new company unless ratified by the company.

A minimum of five persons, each of whom must subscribe to at least one share of stock, are required to form a public company. There is no upper limit to the number of members of a public company, but the number may never drop below five. At least two subscribers are required in the case of a proprietary company. Subscribers need not be citizens or residents of Australia, and may be nominees of other persons or companies.

A public company is usually formed by converting an existing proprietary company, or purchasing a public company shell, as this is quicker than incorporating a fresh entity.

A company is incorporated by filing the following documents with the state's Commissioner of Corporate Affairs (or Registrar of Companies), and obtaining a certificate of incorporation.

1. Application for reservation of the company's name. Certain names will not be approved, including one similar to another name registered in that state or a name considered undesirable or deceptive. An approved name must appear on the company's seal and important documents and at all

# Forms of Business Entities

---

places of business. It is common practice for large companies to undertake Australia-wide registration, because company names cannot be protected in any state or territory in which the company is not registered. Although the local authorities will initially refuse a desired name which conflicts with an existing name, proof of substantial overseas use may lead to the desired name being allowed.

2. The memorandum of association. This is the fundamental constitution under which the company is granted incorporation. The memorandum of association contains the objects of the company (generally, in broad terms); the share capital; a statement of the liability of its shareholders; the full names, addresses, and occupations of subscribers and the number of shares subscribed for. The signatures of subscribers must be witnessed.
3. The articles of association. These are the rules that regulate the company's internal operations. A company may prepare its own articles of association within limits, or may adopt model articles contained in the Companies Acts. Any portion of the model article of association that are not superseded or modified by the company's articles are deemed to apply.
4. Written consents to act by directors. These are written statements by the persons named as directors consenting to act as directors.
5. Lists of persons who have consented to be directors, certified by one of the subscribers.
6. Other documents such as a copy of the prospectus and contracts in special cases.

When the above documents have been filed and the appropriate fees paid, if the Commissioner for Corporate Affairs is satisfied, he will issue a certificate of incorporation.

At this point, a proprietary company is legally formed and may commence operations. However, a public company (with a share capital), although it has been given a certificate of incorporation, may not commence operations nor exercise borrowing power until it fulfills other requirements designed to protect persons dealing with the company before it is able to fulfill its obligations. The main additional requirement is that the company issue either a prospectus inviting the public to subscribe for its shares, or a statement in lieu of prospectus.

## Contents of the Prospectus

The Companies Acts contain numerous provisions to ensure that purchasers of shares (or debentures and other interests) obtain prescribed accurate information from the prospectus. The prospectus must include information on the number of founders, management or deferred shares; directors' share qualifications; names and addresses of directors; classes of shares; options to buy securities; payments to promoters; any property or business proposed to be acquired; opening date of the subscription list; and the minimum amount to be raised. It must also include a report from a registered company auditor on assets and liabilities along with profit and losses of the company and its subsidiaries. Reports of experts, such as geologists, also have to be included, with the expert's consent to the use of the report in the particular context. The company secretary or a director must file a declaration that all these formalities have been completed and the Commissioner (or Registrar) then issues a "Certificate that Company is Entitled to Commence Business and Exercise Borrowing Powers" which enables the company to commence operating.

In addition to these requirements, the Australian Associated Stock Exchanges have certain rules governing prospectuses. These rules relate to the disclosure of information on such matters as guarantees, valuation of assets, contracts between the company and any of its directors, and requirements relating to directors' and experts' reports.

## Cost of Incorporation

Incorporation costs in New South Wales include:

1. Legal fees, which vary with the amount of work required. The minimum is about \$400, plus printing of the memorandum and articles; larger and more complex operations would entail higher legal fees. It is difficult to estimate legal fees for a prospective overseas investor, as an investor's first actions in Australia normally cover a wide scope.
2. A registration fee payable to the Commissioner for Corporate Affairs, and based on nominal share capital as follows:

Where the share capital does not exceed \$10,000	\$160.00
On each additional \$1,000 up to a total of \$200,000	2.50
On each additional \$1,000 between \$200,000 and \$1,000,000	1.50
On each additional \$1,000 over \$1,000,000	0.50

Thus, for example, a company with a nominal capital of \$500,000 would pay a fee of \$1,085.



# Forms of Business Entities

---

3. Filing fees for required documents range from \$10 to \$30, and other minor expenses may be involved.

## **Corporation Operating Through Divisions**

A company qualified to do business in any state or territory (whether through incorporation there, or as a foreign company or as a recognized company) may own a number of registered business names, and carry on business through those names. Business name registrations cost \$20 per three-year registration, and are subject to the same rules in relation to availability as are company names. The company name must appear on all business letters, invoices, etc., but may be printed thereon unobtrusively, while prominence is given the particular business name.

Common law rights in corporate and business names do not accrue simply through registration in a particular jurisdiction. Such rights only accrue by using a name through time in a particular geographical area in relation to a specific class of goods or services.

## **FINANCIAL STRUCTURE**

Australian company laws do not contain minimum issued capital requirements. All shares must have a par (or face) value. Common law and the Companies Acts both sustain the general principle that a company's share capital must not be easily reduced unless it be an unlimited company. The Acts provide that the share capital of limited companies may only be reduced if authorized by the articles of association approved by not less than 75% of shareholders entitled to vote and confirmed by the Supreme Court.

The type and classes of shares and the rights of their holders must be specified in the memorandum or articles of association. The Companies Acts do not define the types of shares and allow considerable leeway.

## **Ordinary Shares**

Ordinary (common) shares generally form the bulk of a company's capital. These may be divided into classes with varying rights to dividends, voting and capital repayment.

## **Preference Shares**

Preference (preferred) shares give their holders preferential rights to fixed dividends before common shareholders, to repayment of capital, or both. They may be issued with or without voting rights, or with voting rights conditional upon certain events. They may or may not be cumulative with respect to unpaid dividends, and may provide for additional participation in

profits. Redeemable preference shares may be issued but, following the general principle of maintaining share capital, only fully-paid shares can be redeemed, and only from profits otherwise available for dividends or from the proceeds of a new issue. In the former case, a “capital redemption reserve” of equal amount must be created and maintained as if it were paid-up share capital.

The Companies Acts specify that no preference shares may be issued unless the memorandum or articles set out the rights of holders in the above matters.

## **Other Types of Shares**

Other types of shares are used infrequently, and may include employees’ shares, and:

1. Deferred (or management or founders’) shares that are not entitled to dividends until all other classes of shares have received dividends.
2. Governor’s shares, sometimes used by a private company to assure control of the company by a governing or life director.
3. Employees’ (or workers’) shares may be issued to bona fide employees.

## **Issue of Shares**

The power to issue shares is usually vested in the company’s directors by the articles of association; approval by the shareholders in general meeting is not usually required. Shares may be issued for cash or other consideration, and may be offered at par, at a premium or at a discount. For shares issued at a premium, the Companies Acts provide that the premium must be transferred to a “share premium account,” to which the provisions regarding reduction of share capital apply.

This share premium account may be used only: for the issue of bonus shares, to pay any unpaid balance on previously issued shares, to pay dividends by way of share issues, to write off preliminary or share issue expenses, or to provide for the premium payable on redemption of debentures or preference shares. Thus it may not be used for cash dividends.

Shares may be issued at a discount only if approval of the shareholders in general meeting is obtained and confirmed by the Court. To issue shares to the public a prospectus must be issued after registration by the Commissioner for Corporate Affairs (or Registrar of Companies), and cannot be older than six months. These shares may not be allotted unless the minimum subscription (which must be specified in the prospectus) has been received

# Forms of Business Entities

---

within four months of the issue of the prospectus. Even if a public issue of shares is not contemplated, no shares may be allotted by a public company until a statement in lieu of prospectus is filed, which must contain information and reports similar to those required in a prospectus. Shares need not be fully paid; but if issued to the public at least 5% of the nominal amount must be paid on subscription.

Within one month of allotment, a company (public and private) must supply details of the allotment to the Commissioner (or Registrar).

All shares must be registered; bearer shares may not be issued.

The Companies Acts forbid a company from purchasing its own shares or lending money on its own shares or those of its parent company, or providing any financial assistance or security for the purchase of its shares. A limited exception to this rule includes the right to lend money to employees to enable them to purchase fully-paid shares. Options to purchase shares may be given for consideration to any person; in the case of a public company, the option may not be exercisable after five years.

## Liabilities of Shareholders

In most cases, shareholders in both public and private companies are liable only for their actual investment plus any amounts unpaid on their shares. Such liability is identical with the liability of corporate shareholders in other countries, but the Australian term designating such limited liability is *Limited by Shares*. Other main types of shareholder liability are:

**No Liability.** Shareholders in a no-liability company are not liable for amounts unpaid on their shares. The only no-liability company that may be incorporated is a public company formed to engage in mining operations. Such a company must use *No Liability* or *N.L.* as the last words in its name.

**Unlimited (Full) Liability.** Shareholders in an unlimited company have unlimited liability. Such a company is little more than an incorporated partnership and is used mainly by mutual funds. An unlimited company may be either public or private, and its name may not contain the word Limited. An unlimited company may decrease its share capital without court permission. Where it is desired to use this form of company, limited liability for shareholders may be achieved by the shareholders owning their shares through a proprietary limited company.

Other types of liability are less common. For example, an incorporated club may require its subscribers to be liable for a nominal sum if the club is unable to meet its debts. Such a club is considered a public company limited by

guarantee, i.e., each shareholder guarantees to contribute (say) \$1 to a liquidation. Incorporated non-profit associations are normally structured in this manner, and may enjoy special tax advantages.

## **Rights of Shareholders**

The rights of the holders of specific types and classes of shares established in the memorandum or articles of association cannot be easily changed. Rights contained in the memorandum can be altered only if the memorandum itself provides for such alteration. Rights contained in the articles can be altered only by special resolution. A special resolution requires the approval of 75% of the voters present, in person or by proxy, at a meeting for which 21 days' notice has been given of the special resolution to be introduced. At any meeting, the requirement of 21 days' minimum notice can be dispensed with by approval of shareholders owning 95% of the voting rights.

Shares may be owned by both residents and aliens without restriction insofar as corporate law is concerned, but the Reserve Bank of Australia and the Foreign Investment Review Board have powers to regulate such ownership in accordance with federal government policy as in force from time to time.

Shares in a listed public company are transferable without restriction, again insofar as corporate law is concerned, but the same federal government policies must be complied with. An unlisted public company may restrict transfers, and a proprietary company must restrict them, but the power of restriction (usually vested in directors) must be used in good faith.

Shareholders may be nominees, but a shareholder whose interest in voting shares (thus, including a beneficial owner) whose nominal value is 10% or more of the nominal value of all voting shares is deemed a "substantial shareholder." A substantial shareholder (Australian or overseas) of a public company, whose shares are listed on an Australian Stock Exchange, must disclose his interest to the company, which must maintain a register of substantial shareholders.

Shareholders have the right to inspect the company's register of shareholders, register of directors and other registers required by the Companies Acts.

A general meeting of shareholders must be held each calendar year and not later than 15 months after the previous meeting. The first meeting must be held not later than 18 months after the date of incorporation.

Extraordinary general meetings may be called at any time by the board of directors or on request of the holders of at least 10% of the paid-up capital.

# Forms of Business Entities

---

## **Financing Through Debentures or Unsecured Notes**

The term *debenture* is loosely defined under common law as including any document creating or acknowledging a debt. Australian company law defines debentures as including debenture stock, bonds, notes and any other securities of a corporation, whether constituting a charge on the assets of the corporation or not. Under this definition, a debenture can include securities issued against both secured and unsecured borrowings. In practice, stemming partially from legislative requirements, the term *unsecured notes* is used for unsecured borrowings, and the term *debenture stock* is used for secured borrowings.

Companies may obtain funds through issues of debentures or unsecured notes by offering them to the public (referred to as a public borrowing, issue, or raising) or by a privately-arranged borrowing. As private companies are precluded from public borrowing, that term is used only in connection with public companies. Public issues of debentures and unsecured notes require the issue of a registered prospectus.

Most issues of debentures or unsecured notes are made pursuant to a trust deed entered into by the company and a trustee appointed on behalf of the lenders. Special provisions concerning the trustee and the form of the trust deed are contained in the Companies Acts. The extent to which the provisions apply depends largely on whether the borrowing is of a public or private nature.

Secured issues may take the form of a fixed mortgage or charge over specific assets or, alternatively, may consist of a floating charge. The tendency, particularly where large sums are involved, is for the security to consist of a floating charge. In many cases, the security consists of a fixed mortgage on land and buildings, and a floating charge over the remaining assets. Under the trust deed, the security is vested in the trustee, as is the right of enforcement in the event of a default.

## **MANAGEMENT OF A COMPANY**

The articles of association usually provide that the company shall be managed by directors, whose powers are defined in the articles and whose rights and duties are prescribed by statute and common law.

### **Board of Directors**

The articles may specify the number of directors, subject to a minimum requirement of three directors in a public company and two in a private company. At least two directors in a public company and one in a private company must be natural persons who normally reside in Australia. The

Companies Acts permit a corporation to act as a director, and corporations are sometimes appointed to boards for practical reasons. Directors must file with the Commissioner a written consent to act prior to their appointment. Directors need not be operating executives of the company; however, a director is usually appointed managing director to control day-to-day operations.

The only limit on directors' terms is that a director over 72 must retire each year, and the appointment for a further year is the subject of a special procedure. The articles may provide that the directors' terms all expire in the same year or over a staggered period. Directors may be reelected or removed in accordance with the Articles of Association; in the case of a public company, directors may be removed by resolution of the majority of shareholders.

The board of directors' decisions are by majority vote. Two directors constitute a quorum unless the articles or the board provide otherwise. Meetings need not be held in Australia. Minute books must be kept of all directors' and shareholders' meetings.

Directors' fees are determined by the articles or the shareholders' meeting, and must be disclosed in the annual financial statements. This does not apply to salaries paid to directors employed as operating executives.

## **Annual Financial Statements**

The directors are required to present to the annual shareholders' meeting each year's financial statements and a directors' report. In addition, formal written opinions about the validity of the financial statements must be issued by two directors, the principal accounting officer and the external auditor. The company must also file an annual return with the Commissioner of Corporate Affairs, which includes the annual financial statements. Exempt proprietary companies that have appointed auditors have fewer filing requirements.

## **Legal Reserves**

No reserves are legally required. Reserves may be freely established at the discretion of directors.

## **Dividends**

Dividends may be declared and paid only from profits. Directors are usually authorized by the articles to declare interim dividends. In some companies, directors are also authorized to declare final dividends but, in the usual case, directors recommend final dividends, and the actual decision is made by the general meeting of shareholders.

# Forms of Business Entities

---

## **Audit Requirements**

See Chapter 7.

## **DISSOLUTION OF A COMPANY**

A company may be dissolved in several ways: compulsory liquidation by a court, voluntary at the request of shareholders or creditors, and deregistration by the Commissioner (or Registrar) in the case of a defunct company.

### **Compulsory Liquidation**

A court may order a company to liquidate on several grounds. The common ground is inability to pay creditors. In a court-ordered liquidation, the court appoints a liquidator who takes over the company's assets, terminates operations, makes payments to creditors, distributes any remaining surplus, and applies to the court for final dissolution.

### **Voluntary Liquidation**

The company may wind up its own affairs through a shareholder-appointed liquidator if the directors are in a position to make a declaration of solvency. Otherwise, a creditors' committee will wind up the company's affairs.

### **Deregistration**

A Commissioner (or Registrar) may inquire if the company is still carrying on operations. If the company does not reply within one month, the company is considered defunct and may be deregistered.

## **BRANCH OF A FOREIGN CORPORATION**

A foreign corporation often finds it advantageous to do business in Australia by setting up a branch. Any foreign enterprise that is a legal entity under the laws of its own country can register a branch in Australia. The branch will have the same rights as similar Australian entities and is not required to appoint a local board of directors.

The foreign corporation must then register as a "foreign company" in the states where it operates and satisfy the requirements previously listed.

### **Cost of Organizing a Branch**

A branch must pay a foreign company registration fee based on a sliding scale that is applied to the company's authorized capital in the state or country of incorporation. The registration fee is one half of the normal fee for incorporating a company (see page 00). Since a branch's capital is that of its parent company, foreign companies with large capital sometimes form a subsidiary with a smaller capital, and this subsidiary replaces the branch.

## **Other Considerations in Establishing a Branch**

Many tax factors affect the decision to organize a branch or to form a subsidiary company. The tax factors, which must be reviewed in each case, are discussed on page 118.

The decision about operating as a branch should also take into account such factors as local financing requirements, administrative requirements, tax considerations in the home country, and the like.

## **OTHER ENTITIES**

### **Agency**

Various types of agencies, such as commission or sales agencies, may be established under Australian laws. Sales agents are commonly used for selling a variety of products, including products that require specialized technical knowledge. Branches are often used where an overseas manufacturer has substantial sales in Australia and wishes to control the distribution of its product.

For taxation purposes, the definition of an agent is very wide. The determination of whether an overseas company is liable to Australian taxation on income derived through an agent in Australia is complex; some of the factors involved are discussed in Chapter 8.

### **Joint Ventures**

Joint ventures are not common in Australia, but are sometimes formed for mineral exploration or other major capital investments. The joint venture may be incorporated as a separate company to obtain the advantages of limited liability. Alternatively, a joint venture may be formed by agreement between the parties, in which case it has no separate legal existence. The laws applying to partnerships would normally apply to this latter type of joint venture, if it be a partnership. However, it is possible that the joint venturers will agree to commit certain funds and expertise, but will contract in a form which specifically excludes partnership.

Since joint ventures are formed for a specific venture rather than a continuing business, their tax treatment may vary from that of the usual partnership.

### **Cooperative Society**

Cooperative societies may be formed to promote the economic or social interests of their members. They are regulated by the Cooperation, Commu-



# Forms of Business Entities

---

ity Settlement, and Credit Act in New South Wales and by equivalent acts in other states. Many cooperatives are building societies, formed to assist buyers of homes and land, or rural societies, formed to market agricultural products.

A cooperative must be registered by the Registrar of Cooperative Societies. Registration requires the filing of its rules and lists of directors and members and other documents. A registered society has a legal existence separate from that of its members. It may enter contracts, and do all things necessary to carry out the purpose for which it was formed.

Societies must have at least seven members; membership is obtained by purchasing shares.

The liability of members may be limited to their share investment plus any amount unpaid on their shares, or may have no limit (unlimited). The matter of liability is determined by the rules of the cooperative and is indicated by the word *limited* or *unlimited*, which appears as the last word in its name. The main requirement for the establishment of a new cooperative is that the Registrar of Cooperative Societies must be satisfied that the enterprise is viable.

## Licensing Agreements

If a patent licensing agreement is made with an Australian agent, then establishing a business is not necessary. The Australian licensee must have Reserve Bank approval in regard to royalty remittances, service charges and other payments overseas.



# CHAPTER VII

## Accounting and Auditing

- ORGANIZATION OF THE ACCOUNTING PROFESSION
- LEGAL REQUIREMENTS IMPOSED ON COMPANIES

- ACCOUNTING PRINCIPLES AND PRACTICES
- AUDITING STANDARDS
- FINANCIAL STATEMENT PRESENTATION

### ORGANIZATION OF THE ACCOUNTING PROFESSION

Partly because of Australia's physical size and early difficulties in communications, many accounting organizations existed in early years. Now, there are two principal accounting organizations: The Institute of Chartered Accountants, with approximately 8,500 members, and The Australian Society of Accountants, with approximately 42,000 members.

For a number of years, the Institute and the Society have been investigating the possibility of a merger into one unified professional body of accountants. The majority of the Institute members are in public practice and act as auditors of practically all the companies listed on the stock exchanges. Most members of the Society are engaged in a large variety of commercial accounting occupations, while some in public practice provide accounting, tax, secretarial, and write-up services to small businesses mainly. The Australian Society of Accountants was incorporated in 1952 following the merger of The Commonwealth Institute of Accountants, The Federal Institute of Accountants and The Association of Accountants in Australia. Some of these associations were formed as early as 1886 to meet the needs of persons engaged in public accounting at that time.

### The Institute of Chartered Accountants

This organization was incorporated under that name by Royal Charter in 1928, but its origin dates to 1908 when The Australasian Corporation of Public Accountants was formed. In June 1976, the Institute's membership was engaged in the following pursuits (percentage figures are approximate):

	%
Fellows and Associates (sole practitioners and partners in public practice)	47
Associates-not-in-practice (employees of practitioners and partnerships)	27
Members-not-in-practice (those in commerce, industry, government, education, etc.)	<u>26</u>
	<u>100</u>

# Accounting and Auditing

---

## **Educational Standards of Chartered Accountants**

In 1972, the Institute raised its educational standards. It is now necessary to complete a university course or its equivalent at an accepted tertiary college of advanced education. After graduating, normally around 21, students join a firm of chartered accountants. They are then required to undertake the Institute's "professional year" of study, plus a final examination, and to be employed at least 3 years by a chartered accountant to be eligible for membership in the Institute as a chartered accountant.

## **The Professional Year**

This course of study requires attendance at an approved staff training course arranged either by the Institute or the student's employer, followed by tutorial sessions, some of which are held during the day and others in the evenings. For the tutorial sessions, students complete written assignments which are then discussed. The results of two final examinations (three-hour open-book type) are considered in conjunction with the student's written submissions during the preceding year.

## **Professional Qualifications of Auditors**

The Companies Acts in all states require that all companies appoint an auditor (except private companies in certain circumstances). To serve as an auditor, an individual must register with the Companies Auditors Board as a "Registered Company Auditor" or, in two states, as a "Registered Public Accountant." Such registration is open only to:

1. Members of The Institute of Chartered Accountants in Australia or The Australian Society of Accountants.
2. Persons who hold a degree or diploma from any university in Australia that includes a course of study in accountancy or auditing and in commercial law of at least three years' duration.
3. Persons who hold a certificate in accountancy from a prescribed institute of technology or technical college.
4. Persons who can show that they have a thorough knowledge of accounts and auditing and the provisions of the Act.

Although non-members of The Institute of Chartered Accountants may serve as company auditors, in practice nearly all companies listed on the stock exchanges appoint accounting firms whose partners are all chartered accountants.

The Companies Auditors Boards are governed by the Companies Acts. The Board consists of three or more members, usually including a qualified legal practitioner, a nominee of the State Council of the Institute and a nominee of The Australian Society of Accountants. In addition to controlling the registration of company auditors (and liquidators), the Boards report on the operation of the accounting and auditing sections of the Companies Acts.

## **Professional Rules and Ethics and Their Enforcement**

The Royal Charter granted to the Institute in 1928 prescribed the nomination of a General Council to manage the Institute's affairs. Approval was given for a new Charter and bylaws in 1959, and the fundamental rules governing the conduct and practice of the members are contained in this Charter. These rules regulate the use of a member's name, the sharing of profits, outside employment of members, the use of firm names and corporations for undertaking public accountancy, and business activities considered inconsistent with chartered accountancy. Members are liable to disciplinary action if found guilty by the General Council of violating any of the fundamental rules, or of discreditable acts, willful breaches of the bylaws, or persistence in conduct declared by the Council to be undesirable. The penalties range from a reprimand to exclusion from membership. Supplemental charters are published periodically. Statement B (June 1975) replaces the previous 'B' series of statements on professional conduct and was issued as a guide to practitioners in dealing with practical problems.

## **LEGAL REQUIREMENTS IMPOSED ON COMPANIES**

The legal reporting and audit requirements are governed by the Companies Act in each state which, in the past, have largely been based on UK legislation. The states enacted new legislation in 1972 based on a report of the Eggleston Committee, which was appointed in 1967 to investigate the extent of protection afforded the investing public by the existing provisions of the Companies Acts. The following responsibilities are now placed on company directors:

1. The directors are required to prepare and issue a balance sheet and a profit and loss account for each annual general meeting of the company, which must be held not more than six months after the close of the financial year.
2. Two directors must sign a statement, which must be completed and attached to the accounts before the auditors' report is signed, to the effect that the accounts give a true and fair view of the state of affairs of the company and of the results of the company for the period under review.

# Accounting and Auditing

---

3. In addition, the directors are required to obtain a statement signed by the principal accounting officer of the company stating whether to the best of his knowledge and belief the accounts give a true and fair view of the matters required under the Acts to be dealt with in the accounts.
4. The directors are also required to attach to the financial statements a report made out in accordance with a resolution of the board which must state, among other things —
  - The net amount of the profit or loss of the company for the financial year after provision for income tax.
  - Whether the company's operations have been substantially affected by any item, transaction or event of a material and unusual nature.
  - The amounts of any dividends paid or proposed.
  - The amounts and particulars of material transfers to or from reserves or provisions.
  - The realizable value of current assets if less than shown in the accounts.
  - Any circumstances which would render the values attributable to current assets misleading.
  - Any circumstances not otherwise dealt with in the report or accounts which would render any amount stated in the accounts misleading.
  - Whether there are any contingent liabilities.
5. Within one month of the annual meeting of shareholders, the directors are required to file the financial statements for registration at the office of the Commissioner of Corporate Affairs or Company Registrar's Office where they are available for public inspection, except that private companies that elect to appoint auditors are not required to file financial statements.
6. There are a number of matters on which the auditors are required to satisfy themselves in relation to the keeping of proper books and records. They are obliged to report to the Registrar of Companies any breach or non-observance of the Acts that come to their notice. Severe penalties may be imposed on the directors if it is found that they have not fulfilled the obligations required of them under the legislation.

## **Required Journals and Ledgers**

Every company must keep sufficient books and records in the English language, or readily convertible to English, as are necessary to “correctly record and explain the transactions and financial position of the company in such a manner as will enable true and fair accounts to be prepared from time to time.” In addition to this requirement, the following registers must be maintained in the form required by the Companies Acts, and auditors are required to report on their proper maintenance:

Minutes of General Meetings	Register of Directors’
Minutes of Meetings of Directors	Shareholdings
Register of Members	Register of Substantial Shareholdings
Register of Directors, Managers and Secretaries	Register of Charges
	Register of Debenture Holders
	Register of Interest Holders

All books and records must be retained for at least seven years after the period to which they relate.

## **Legal Requirements Relating to Appointment of Auditors**

The Companies Acts require that all companies appoint an auditor within one month of incorporation, unless the company is an exempt proprietary company. The directors normally make the initial appointment, which expires at the first annual general meeting, whereupon an auditor is nominated permanently by the shareholders. The office of auditor becomes vacant when, with the approval of the Companies Auditors Board or the Court, the auditor resigns or is dismissed by the company or for other reasons becomes disqualified. The auditor is also required to vacate his office when the company becomes a subsidiary of another corporation; however, he is eligible for reappointment.

The shareholders normally authorize the directors in the Articles of Association or at the preceding Annual General Meeting to set the auditor’s remuneration. Legislation provides that auditors receive reasonable fees and adequate compensation for their expenses.

The auditors are required to give their opinion on the financial statements but not on the directors’ report. It is the duty of an auditor of a company to form an opinion on each of the following matters:

1. Whether he has obtained all the information and explanations he requires.

# Accounting and Auditing

---

2. Whether proper accounting records and other records (including registers) have been kept by the company as required by the Acts.
3. Whether the returns received from branch offices of the company are adequate.
4. Whether the procedures and methods used by a holding company or a subsidiary in arriving at the amounts taken into consolidated accounts were appropriate to the circumstances of the consolidation.
5. Where group accounts are prepared other than as one consolidated account for the group, whether he agrees with the reasons for preparing them in the form in which they are prepared as given by the directors in the accounts. The auditor must state in his report the particulars of any deficiency, failure or shortcoming in respect of the above matters.

## ACCOUNTING PRINCIPLES AND PRACTICES

As recently as the late 1960's, the accounting profession in Australia tended to follow accounting practices and principles of the United Kingdom and reporting standards generally conformed with the minimum legal requirements prescribed by Australian legislation. In the last 10 years, the influence of the United States in both accounting and auditing standards has been very marked as USA and other international accounting firms have become associated with nearly all of the major Australian auditing firms.

To facilitate research and development of sound accounting principles for the guidance of corporate management and practicing accountants, the Accountancy Research Foundation was established in 1968 under the sponsorship of the two principal accounting bodies.

Despite the issue by the professional bodies of various recommendations over a number of years, improvements in financial reporting have been slow, mainly due to the lack of legal compulsion and the length of time taken to amend legislation.

However, amendments to the Companies Acts effective from 1972, and the issue of Statement K1/300 by the Institute and the Society requiring compliance by members with standards issued by the accounting bodies or disclosure of departures therefrom, and the cooperation and support from the Corporate Affairs Commission have added considerable weight to statements by the profession. These factors combined with an increasingly

progressive attitude by the profession and the business community have led to the issue of statements of accounting standards on the following topics prepared on an historical cost basis:

- Profit and loss statements
- Valuation and presentation of inventories
- Accounting for company income tax
- Depreciation of non-current assets
- Materiality in financial statements
- Disclosure of accounting methods used in preparing financial statements
- Accounting for extractive industries

and exposure drafts on the following:

- Translation of foreign currencies
- Equity accounting

## **Current Cost Accounting**

The Australian accounting bodies have been active in researching methods of accounting for inflation. In 1974, an exposure draft on "Accounting for the Changing Purchasing Power of Money" was issued for discussion, followed in 1975 by an exposure draft on "A Method of Current-Value Accounting." After lengthy debate within the profession and in open forums involving all the interested parties, a statement of provisional accounting standards, "Current Cost Accounting," was issued in October 1976. The provisional statement requires the use of current cost accounting in the preparation of financial statements of all financial entities commencing on or after July 1, 1977. The current cost amounts are to be included in the books of account and represent the replacement of traditional historical cost accounting. To enable the transition to current cost accounting to be made as smoothly as possible, a long introduction period is being allowed, together with an intensive education programme and creation of "steering" committees for technical guidance.

Following adoption of current cost accounting, new standards will be required to replace those which currently apply to accounts prepared on the historical cost basis.

The following are the main areas in which the present accounting principles incorporated in Australian financial statements which have been prepared on an historical cost basis differ from those used in other countries.



# Accounting and Auditing

---

## Inventory Valuation

The Companies Acts require disclosure in the financial statements of the basis of inventory valuation. The most recent statement (DS2 Valuation and Presentation of Inventories in the context of the Historical Cost System) issued by the Institute in February 1976 states that inventories must be valued at the lower of cost or net realizable value. Cost may be determined by the specific identification, FIFO, standard, or weighted average methods. Use of the LIFO and base stock methods is considered unacceptable.

## Fixed Assets and Depreciation

Land, buildings, equipment, and machinery are carried in the financial statements at either historical cost or on the basis of revaluations by the company's directors based on expert appraisals. Such asset revaluations are accepted and occur frequently because:

1. Many public companies are comparatively small and their owners fear takeovers at unrealistically low prices if assets are carried significantly below their current values. In some cases, the value of land and buildings may be more important in assessing a company's value than its past earnings.
2. Asset revaluations accompanied by issues of bonus shares are used to give the investor the benefits of increases in property values. The absence of a capital gains tax normally enables the recipient to sell these shares without incurring tax liability.
3. The view that the balance sheet is more useful when it reflects current values is widely held, as is the view that not recognizing the comparatively large increases in property value that have occurred represents a concealment of assets and an overstatement of return on investment.

Asset revaluations are usually described in a footnote in the year of revaluation, and the financial statements for that year and subsequent ones must distinguish the revalued assets and the year of revaluation from those assets carried at historical cost.

Gains arising from the revaluation of fixed assets may not be brought into account when determining profit or loss.

The Australian accounting bodies' statement of accounting standards on depreciation requires that buildings be depreciated on a systematic basis over their estimated useful lives. However, as most building depreciation is not an allowable deduction for income tax purposes, there has been some reticence by directors to follow these standards.

## **Investments in Subsidiaries**

Revaluation of investments in subsidiaries is often made in the parent company's accounts to reflect the interest in the underlying assets of the subsidiary.

## **Accounting for Income Tax**

The Companies Acts require that income tax attributable to the financial year be disclosed in the financial statements. The Australian accounting bodies have issued a statement of accounting standards which requires tax-effect accounting to be adopted, whereby the amount of income tax charged in the Profit and Loss Account (whether or not currently payable) should be related to the pre-tax accounting profit shown in that account adjusted by permanent differences, and be titled "Income Tax Expense." The statement requires the use of the liability method of tax-effect accounting.

Any item which creates a difference between taxable income and pre-tax accounting profit, but is not of a permanently allowable/disallowable nature, will be recorded at current rates as either an asset, Future Income Tax Benefit, or a liability, Provision for Deferred Income Tax. Future Income Tax Benefits, including tax losses, may be carried forward where realization is assured beyond any reasonable doubt. Where a company incurs a loss, the Future Income Tax Benefit will normally not be carried forward unless its realization is virtually certain.

## **Consolidation Practices**

Annual reports to shareholders must contain either:

1. Separate financial statements of the parent company together with consolidated financial statements that include all subsidiaries, or
2. Financial statements of the parent company and of each subsidiary. (Where consolidated accounts are not prepared, the reasons must be set out by the directors.)

Accounting for acquisitions and takeovers on the basis of pooling of interests is not followed.

## **Payment to Directors**

Fees paid to directors, including certain emoluments defined in the Companies Acts, must be disclosed in the profit and loss statement. This does not include salaries paid to directors in full-time employment.

# Accounting and Auditing

---

## AUDITING STANDARDS

Auditing standards tend to vary considerably between larger and smaller firms. The standards of those firms associated with international accounting firms have been influenced by overseas standards and procedures and they have adopted modern auditing techniques. Smaller firms have tended to adhere to the more conventional auditing procedures and rely less heavily on the study and evaluation of the system of internal controls in favor of a more detailed continuous audit throughout the period. Generally speaking, the larger accounting firms in Australia have adopted auditing standards very similar to those in the United States. The Australian Institute issued a "Statement on General Principles of Professional Auditing Practice" in 1951 which set out in general terms the nature of the auditors' responsibilities and general principles governing an audit. This was replaced by the "Statement of Auditing Standards" issued in 1974 by the Institute containing performance and reporting standards to be maintained by members. The general concepts of auditing in Australia include the confirmation of accounts receivable and observation of physical inventories, but certain auditing procedures reflect Australian business customs. For example, banks customarily do not, except by specific arrangement, return paid checks to clients.

## The Auditor's Report

The auditors are required to report to shareholders on the financial statements examined by them and on every balance sheet and profit and loss statement laid before the company during their term of office. The report must state whether in the auditor's opinion the balance sheet and profit and loss account have been properly drawn up in accordance with the Companies Acts and so as to give a true and fair view of the company's affairs and results of its business.

The Companies Acts require the auditor to include certain specific matters in his report. The Institute of Chartered Accountants has issued recommendations for the guidance of its members in relation to qualified reports and the reporting on group accounts. Because the wording of auditors' reports has tended to follow the precise wording set out in the Companies Acts, auditors' reports do not make reference to "generally accepted auditing standards" and do not refer to "generally accepted accounting principles" or to the consistency of their application. However, the Institute recommended that "a true and fair view" also implies the consistent application of "generally accepted accounting principles."

The following form is used in reporting on the examination of the financial statements of a single company:

In our opinion:

- (a) the attached balance sheet and profit and loss account are properly drawn up in accordance with the provisions of the Companies Act/Ordinance ..... and so as to give a true and fair view of:
  - (i) the state of affairs of the company at ..... and of the results of the company for the year ended on that date; and
  - (ii) the other matters required by section 162 of the Act to be dealt with in the accounts;
- (b) the accounting records and other records, and the registers required by the Act to be kept by the company have been properly kept in accordance with the provisions of the Act.

**FINANCIAL STATEMENT PRESENTATION**

The annual accounts presented to shareholders must show a true and fair view of the state of affairs of the company and the results of its operations, but there is no statutory or other requirement as to the form of financial statements and considerable variation exists. In some cases the balance sheet is prepared in the conventional two-sided form but with the assets on the right and liabilities and shareholders' funds on the left. In the majority of cases, the financial statements are presented in vertical form. The income statement is generally called the statement of profit and loss and includes amounts appropriated from both current profits and undistributed earnings brought forward from previous years.

The following financial statements are in a standard format that incorporates the minimum requirements of the Companies Acts and the most recent statements of the Australian accounting bodies. The Associated Stock Exchanges in Australia require listed companies to provide information additional to these minimum requirements, including details of turnover, earnings per share, funds statements, etc.

**BALANCE SHEET AS AT .....**

*(Left column of balance sheet)*

	Authorized Capital	Paid-up Capital	Comparatives (Previous Year)
--	-----------------------	--------------------	---------------------------------

**SHARE CAPITAL AND RESERVES:**

(No.)    % Cumulative Redeemable  
 Preference Shares of \$1  
 each liable to be redeemed at a  
 premium of        per share between  
 (date) and (date)  
 (Note 7)

# Accounting and Auditing

---

## BALANCE SHEET AS AT .....(continued)

(Left column of balance sheet)

**Authorized  
Capital**

**Paid-up  
Capital**

**Comparatives  
(Previous Year)**

### SHARE CAPITAL AND RESERVES:

(No.) % Cumulative Preference  
Shares of \$1 each  
(Note 7)

(No.) Ordinary Shares of \$1 each

### RESERVES:

Capital Redemption  
Share Premium Account  
Assets Revaluation  
General

Retained Profits

Less: Accumulated Losses

Less: Calls in Arrears:  
(State class of shares)

### CURRENT LIABILITIES:

Trade Creditors  
Bills Payable  
% Debenture Stock  
Subsidiaries  
Holding Company  
Other Related Corporations  
Other Persons  
Amounts Owing to Related  
Companies  
Subsidiaries  
Holding Company  
Other Related Corporations  
Bank Loans (Note 8)  
Bank Overdrafts (Note 8)  
Short Term Loans  
Interest Accrued on Debentures  
and Long Term Liabilities  
Dividends — Preference  
Proposed Final  
Ordinary  
Provision for Income Tax  
Provisions for Long Service Leave

Other Liabilities (Noting nature thereof)

## BALANCE SHEET AS AT .....(continued)

*(Left column of balance sheet)*

<b>Authorized Capital</b>	<b>Paid-up Capital</b>	<b>Comparatives (Previous Year)</b>
-------------------------------	----------------------------	---

**LONG TERM LIABILITIES:**

- % Debenture Stock — Repayable (Date)
  - Subsidiaries
  - Holding Company
  - Other Related Corporations
  - Other Persons

- Loan on Mortgage of Freehold Property
- Bank Loans (Note 8)
- Trade Creditors
- Bills Payable
- Provision for Deferred Income Tax
- Amounts Owing to Related Companies
  - Subsidiaries
  - Holding Company
  - Other Related Corporations

*(Right column of balance sheet)*

**Comparatives  
(Previous Year)**

**CURRENT ASSETS:**

- Raw Materials and Finished Goods —
  - at Lower of Cost and  
Net Realizable Value

- Work in Progress —
  - at Lower of Cost and  
Net Realizable Value

- Trade Debtors and Bills Receivable

- Less: Provision for Doubtful Debts (Note 11)

- Other Debtors (Note 11)

- Amounts Owing by Related Companies
  - Holding Company
  - Subsidiaries
  - Other Related Corporations

- Cash at Bank and in Hand

**FIXED ASSETS: (Note 9)**

# Accounting and Auditing

---

## BALANCE SHEET AS AT .....(continued)

(Right column of balance sheet)

**Comparatives  
(Previous Year)**

### INVESTMENTS:

Government and Municipal Debentures,  
Stocks or Bonds at Cost  
(Market Value \$                    )

Shares in Companies dealt in on a  
prescribed Stock Exchange at Cost  
(Market Value \$                    )

Debentures in Companies dealt in on a  
prescribed Stock Exchange at Cost  
(Market Value \$                    )

Shares or Debentures in Other Companies  
at Independent (or Officer's)  
Valuation (date)

### LOANS TO DIRECTORS:

### FUTURE INCOME TAX BENEFITS:

### RELATED COMPANIES:

Shares — at Cost (noting M.V. for each  
category if quoted)  
Holding Company  
Subsidiaries  
Other Related Corporations

Debentures — at Cost (noting M.V. for each  
category if quoted)  
Holding Company  
Subsidiaries  
Other Related Corporations

Amounts Owning by Related Companies (long term)  
Holding Company  
Subsidiaries  
Other Related Corporations

### INTANGIBLES — At Cost Less Amounts

Written off:  
Goodwill, Patents, Trademarks  
Preliminary Expenses  
Development Expenses

### GOODWILL ON CONSOLIDATION:

**(FULL NAME OF COMPANY)  
PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED (Date)**

**Comparatives  
(Previous Year)**

Operating Profit (Loss) before Income Tax  
after charging:

- Depreciation of Fixed Assets
- Amortization of Leasehold Property
- Amount Charged or Set Aside for Renewal  
or Replacement of Fixed Assets
- Bad Debts Written Off (Note 11)
- Provision for Doubtful Debts (Note 11)
- Any Other Provisions
- Emoluments —Full Time Directors  
—Other Directors
- Auditors' Remuneration (including benefits in kind)  
—Audit Fees  
—Other Services
- Interest Paid (and/or Payable on Debentures,  
Deposits, Loans or Advances, or Otherwise) to:
  - Holding Company
  - Subsidiaries
  - Other Related Corporations
  - Other Persons

and Crediting:

- Dividends Received (and/or Receivable) from:
  - Related Corporations (Separate Amounts  
for each Related Corporation)
  - Other Corporations
- Interest Received (and/or Receivable on Debentures,  
Deposits, Loans, Advances) from:
  - Holding Company
  - Subsidiaries
  - Other Related Corporations
- Profits Arising from —Sale of Assets (Note 10)  
—Revaluation of Assets (Note 10)
- Losses Arising from —Sale of Assets (Note 10)  
—Revaluation of Assets (Note 10)
- Less: Income Tax Expense applicable thereto

Operating Profit (Loss) after Income Tax before Extraordinary Items

Add (Deduct): Extraordinary Items } (Note 3)  
Income Tax Applicable Thereto }

Net Operating Profit (Loss) and Extraordinary Items

Add (Deduct): Retained Profits (Accumulated Losses)  
Brought Forward from Previous Year



# Accounting and Auditing

---

**(FULL NAME OF COMPANY)  
PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED (Date)**

*(continued)*

**Comparatives  
(Previous Year)**

Profit (Loss) Available for Appropriation  
Add: Transfer from Reserve (specified)

Less: Transfer to Reserve (specify and state origin)  
Amount Set Aside for Capital or Loan Redemption

Less: Dividends (list different classes showing rate per cent  
or per share)

(a) Declared and Paid during Year (other than shown  
as proposed in previous year)

(b) Proposed

Other Appropriations (Full details required)

Retained Profits (Accumulated Losses) carried forward to next year

**(FULL NAME OF COMPANY)  
NOTES FORMING PART OF THE ACCOUNTS  
FOR THE YEAR ENDED (Date)**

The following information must be disclosed if applicable.

## **1. Summary of Significant Accounting Policies**

Where the particular accounting method adopted is of significance in interpretation of the financial statements, it should be disclosed. Where changes in accounting methods have occurred, the nature of, reason for and effect of the change should be disclosed.

## **2. Abnormal Items**

The nature and amount of any abnormal items should be stated (and the income tax expense applicable thereto) as forming part of the operating profit (loss).

## **3. Extraordinary Items**

The nature and amount of each extraordinary item should be clearly stated. Extraordinary items should each be shown net of applicable income tax expense, with the amount of such expense being stated for each item.

## **4. Capital Expenditure Contracted For**

The aggregate amount, or estimated aggregate amount, and particulars of capital expenditure contracted for, so far as the amount has not been provided for.

## 5. Contingent Liabilities

A statement as to the general nature thereof and, so far as practicable, the maximum amount, or an estimate of the maximum amount, for which the company or the company and its subsidiaries could become liable in respect thereof. (Refer also to Note 8).

## 6. Currencies

All amounts shown in the accounts or group accounts shall be expressed in Australian currency, and where any conversion has been made otherwise than on the basis of the rate of exchange current at the end of the financial year of the company or holding company, an explanation of the methods used in calculating the conversion shall be given.

## 7. Capital

- (a) The amount of arrears of dividends on each class of preference shares.
- (b) Show whether preference shares are cumulative, non-cumulative, participating or non-participating and whether they are to be redeemed or redeemable at option of company.
- (c) The amount of capital which is not capable of being called up except in the event of, and for the purposes of, the winding up of the company.
- (d) The amount of capital upon which interest has been paid out of capital during the financial year (and the rate of interest so paid).
- (e) Where the company is a no-liability company
  - (i) The number of shares forfeited and remaining unsold
  - (ii) The number of shares forfeited during the financial year, showing the number of shares forfeited in respect of each call and the amount of each such call.

## 8. Secured Liabilities

In respect of each liability or contingent liability shown in the accounts or group accounts being a liability the payment of which is secured by a charge on assets of the company or of the company and its subsidiaries, whether registered or unregistered, there shall be shown a statement that it is so secured and the extent to which it is secured, and each such liability or contingent liability shall be distinguished from any other liabilities or contingent liabilities the payment of which is not so secured.

# Accounting and Auditing

---

## 9. Fixed Assets

(a)

				Comparatives (Note 2) Previous Year		
	Cost (or Valua- tion)	Accumu- lated Depre- ciation and Amorti- zation	Net Book Value	Cost (or Valua- tion)	Accumu- lated Depre- ciation and Amorti- zation	Net Book Value
Freehold Land						
(See (d) below)						
At Independent						
(or Officer's						
Valuation (date)						
At Cost — since (date)						
Freehold Buildings						
At Independent						
(or Officer's						
Valuation (date)						
At Cost — since (date)						
Leasehold Improvements						
Plant, Machinery and						
Equipment						
Less: Principal owing under						
Hire Purchase Contracts						
	\$	\$	\$	\$	\$	\$

- (b) (i) The method of arriving at the amount in the balance sheet and, when more than one method is used, a separate total in respect of each of the methods used must be shown.
- (ii) The net amount at which any assets stood in the company's records at the date of the commencement of the new provisions, after deduction of the amounts previously provided or written off for depreciation, diminution in value or amortization, shall, if the figures relating to the period before that date cannot be obtained without unreasonable expense or delay, be treated, until a valuation is made, as if it were the amount of a valuation of those assets made on that date, and where any of those assets are sold, that net amount, less the net amount at which

the assets sold stood in the records as at that date, or if no separate amount is available, their estimated value as at that date, shall be treated as if it were the amount of a valuation of the remaining assets made on that date.

- (iii) Where a valuation is made by an independent person after the date of the commencement of the new provisions, it is necessary to state the name and qualifications of the valuer in the first accounts in which reference is made to the valuation.
- (c) Where the replacement of such assets is dealt with wholly or partly —
- (i) by making any provision for renewal or replacement and charging the cost of renewal or replacement against that provision; or
  - (ii) by charging the cost of renewal or replacement directly against revenue

there shall be stated —

- (iii) the method by which their renewal is dealt with and
  - (iv) the aggregate amount of the provisions (if any) made for renewal or replacement and not used.
- (d) To the extent not written off land held for sale or resale there shall be stated —
- (i) the total cost of acquisition (exclusive of any costs of surveys, roads and drainage and other development expenses)
  - (ii) the total of any development expenses capitalized; and
  - (iii) the total amount of rates, taxes or interest and any other amounts capitalized.

## **10. Sale and Revaluation of Assets (Other Than Current Assets)**

If the profit or loss on the sale or revaluation of assets (other than current assets) has not been brought into account in determining the net amount of the profit or loss of the company or of the company and its subsidiaries, a statement of those profits or losses must be included as a note to the accounts.

# Accounting and Auditing

---

In accordance with recommended accounting practice, a gain from a revaluation of non-current assets should be ignored when determining the amount of net profit or loss.

## 11. Provision for Doubtful Debts

In respect of each class of debtors' accounts shown separately in the accounts or group accounts show —

- (i) The amount of bad debts written off against any provision, reserve or other account, stating the name of the provision, reserve or account and the amount written off against it.
- (ii) The amount set aside to any provision for doubtful debts
- (iii) Balance Sheet — the provision for doubtful debts deducted therefrom.

## 12. Income Tax

Where in accounts of a company or in group accounts the amount set aside for the payment of income tax attributable to the financial year differs, or but for compensatory items would differ, by more than fifteen per cent from the amount of income tax that would be payable by the company or by the company and its subsidiaries if its taxable income for that year were equal to the amount shown in or ascertainable from the accounts or group accounts as being the amount of the net profit or loss before provision is made for the payment of income tax attributable to that year, there shall be set out an explanation of the difference, including a statement of the major items responsible for the difference and the amount, or estimated amount, of those items.

The statement of accounting standards on tax-effect accounting requires disclosure of material permanent differences.

## 13. Other Information

Where the accounts or group accounts could be misleading by reason of a failure to explain the method used in dealing with, or calculating the amount of, any item or information included in or excluded from the accounts or group accounts, there shall be stated (whether by way of note or otherwise) the method used to deal with, or calculate the amount of, the item or information.

## 14. Unearned Income

A short statement of the method by which the amount of unearned income has been calculated.

**15. Group Accounts**

Group accounts of a holding company shall state (whether by way of note or otherwise) —

- (a) the name and place of incorporation of each subsidiary and, if any business of the subsidiary is carried on in a country other than Australia, the name of that country;
- (b) the amount of the holding company's investment in each class of the share capital of each subsidiary;
- (c) the percentage of each class of the shares in each subsidiary held by the holding company; and
- (d) where the financial year of a subsidiary does not coincide with the financial year of the holding company, the date on which the financial year of the subsidiary ends.

**16. Ultimate Holding Company**

Where, at the end of its financial year, a company is a subsidiary of another corporation the name of the ultimate holding company and its country of incorporation must be stated.

**17. Borrowing Corporation or Guarantor Corporation**

A schedule setting out, separately, estimates of the amounts payable by, and the debts payable to, the company —

- (a) not later than 2 years
- (b) later than 2 years but not later than 5 years
- (c) later than 5 years

after the end of the financial year.



- BACKGROUND
- COMPANY INCOME TAXATION
- ASSESSABLE INCOME
- ALLOWABLE DEDUCTIONS
- TAX INCENTIVES
- SPECIAL TAX TREATMENT OF PARTICULAR BUSINESSES
- PUBLIC AND PRIVATE COMPANIES DISTINGUISHED
- TAXATION OF OTHER TYPES OF ENTITIES
- WITHHOLDING TAXES ON PAYMENTS TO NONRESIDENT COMPANIES AND INDIVIDUALS
- INDIVIDUAL INCOME TAXATION
- ASSESSABLE INCOME
- ALLOWABLE DEDUCTIONS TO INDIVIDUALS
- TAX RETURNS — FILING, PAYMENT AND OBJECTION PROCEDURES
- MISCELLANEOUS TAXES

## **BACKGROUND**

Australia has three levels of government, each of which imposes its own taxes. The major taxing authority is the federal government, which has sole authority to levy income, customs and excise, and sales taxes. Both the federal and state governments levy gift and death duties. The territories are not completely self-governing, and to varying degrees the federal government provides them with the services normally furnished by state governments. Accordingly, the federal government levies taxes in those territories similar to those levied by the states.

The six state governments obtain most of their revenues from a range of stamp duties, land and payroll taxes, and gift, probate and death duties. State revenues are used for education, water and power supply, major highway construction, rail transport, etc.

At the municipal level, annual charges known as rates are levied on the owners of real estate. The revenues are used for essential services such as garbage disposal, street maintenance, recreation facilities, and the like.

### **Income Tax Legislation**

The liability to pay income tax and the principles determining the income upon which tax is payable are defined in the Income Tax Assessment Act (referred to as the *Act*). Tax rates are fixed by the annual Income Tax Act. These are federal statutes, the states have not levied income taxes since 1941.

The Act was introduced in 1936 and has been extensively and frequently amended since that time. Consequently, it is a large and complex document.

Australian income tax law substantially follows that of the UK, and English case law is still widely used as precedent in determining tax disputes. Since 1936, amendments to the Act have progressively reduced the common

# Taxation in Australia

---

ground with the UK, and with the cessation of appeals to the English Privy Council from the High Court of Australia, this trend is likely to continue. Several reviews of the whole income tax structure have been carried out for the federal government, and some revision of the Act has resulted.

Many principles of income taxation apply to both individuals and companies. There is, however, a fundamental difference in tax rates: individuals are subject to progressive rates based upon income, while with a few exceptions, companies are taxed at flat rates. Certain types of businesses enjoy special tax benefits. These are discussed later in this chapter.

In broad terms, taxable income is assessable income less allowable deductions. This formula applies regardless of whether the taxpayers are individuals or companies.

## International Tax Treaties

Australia has concluded tax treaties with the following countries —

- Canada
- Federal Republic of Germany
- France
- Japan
- Netherlands
- New Zealand
- Singapore
- United Kingdom
- United States

and with Italy concerning international air transport. Where the treaties conflict with the Act, the treaties predominate, but they do not substantially alter the basis of Australian income tax. They contain important modifications concerning residence, which country can tax certain income, reduced dividend withholding tax, and a limitation of 10% of gross royalty on tax payable on royalty income remitted to the UK, Japan and Singapore.

## Tax Havens

Tax havens have not been used by Australian residents to the extent they are used in some other countries. One of the reasons has been the remoteness of Australia from the traditional tax havens of Europe and the West Indies; another is the lack of facilities and communications available in suitable Pacific Islands that are geographically close to Australia. Norfolk Island was regarded as Australia's own tax haven for many years, until 1973, when legislation was passed to remove these advantages. The New Hebrides were



being promoted as a successor to Norfolk Island, but development has been slow following the introduction of exchange control regulations designed to stop the use of tax havens.

## Outline of Income Taxation

A concise description of the basic elements of income taxation in Australia follows:

1. Residents are taxed on income from all sources, and nonresidents are taxed on income from Australian sources. Except for certain classes of income, the Act does not define "source." Where there is no statutory guidance, the question of source is one of fact and must be determined in accordance with general principles.
2. Taxable income consists of gross revenues, less allowable deductions, and exempt income.
3. Taxpayers are divided into three basic categories for tax purposes:
  - a. Individuals—taxed at progressive rates.
  - b. Private companies—taxed at 42.5% and required to distribute a proportion of after-tax profits or pay an additional tax on profits not distributed.
  - c. Public companies—taxed at 42.5% and not required to distribute profits.
4. Withholding taxes are imposed on interest and dividends paid or credited to nonresidents. Withholding tax also applies to royalties (see page 121). Other types of income earned by nonresidents, including branch profits (see pages 117 - 118 and 124), are not subject to withholding taxes.
5. Capital gains are not taxed. However, certain sales that are considered in other countries as giving rise to capital gain income are treated by the Act as ordinary income subject to tax. Specifically, profit from the sale of any assets (property, securities) acquired for the purpose of resale at a profit is taxable at the same rates as ordinary income. If the same assets were acquired for the main purpose of receiving periodic investment income, their later sale would not give rise to a taxable gain (see *Depreciation*, page 106). However, all property purchased since August 1973, and sold within 12 months of date of purchase, is subject to tax at individual or company rates.
6. A husband's and wife's incomes are not combined for tax purposes. Each must file a separate tax return and each is separately assessed.

# Taxation in Australia

---

## COMPANY INCOME TAXATION

Income tax is levied on the taxable income of all companies and unincorporated bodies such as clubs and associations. Taxable income is gross assessable revenue less allowable deductions. Such taxable income rarely agrees with book profit. The usual presentation to tax authorities starts with book profit and lists the adjustments required for tax purposes.

## ASSESSABLE INCOME

Assessable income for tax purposes depends on whether the company is a resident or nonresident taxpayer.

### Resident and Nonresident Companies

A company is a resident of Australia if —

1. It is incorporated in Australia, or
2. It is not incorporated in Australia, but carries on business in Australia and has either:
  - a. Its central management and control in Australia, or
  - b. Its voting power is controlled by shareholders who are residents of Australia.

Companies which cannot satisfy these tests are nonresidents.

The distinction between residents and nonresidents gives rise to the following tax consequences:

1. Resident taxpayers are taxed on worldwide income while nonresident taxpayers are taxed only on Australian-source income.
2. Only residents (individuals and companies) are entitled to tax rebates and credit for taxes paid in foreign countries.
3. Nonresident insurance companies pay a special tax on gross premiums derived from Australian sources (see page 110).

### Deeming Provisions Relating to Australian Sources

The general concept of source is qualified in three areas by particular definitions in the Act which have important consequences for nonresidents.

1. *Royalties.* Royalties paid to nonresidents are deemed to have an Australian source where the payment is made by —
  - a. A resident, and does not arise from carrying on a business in a country outside Australia through a permanent establishment in that country.
  - b. A nonresident to another nonresident where the payment arises from carrying on business in Australia through a permanent establishment.
2. *Interest.* Interest paid on a loan that is secured by a mortgage on any property in Australia is deemed to have an Australian source, with one exception. The exception is interest paid outside Australia to a nonresident on debentures issued outside Australia by a company.
3. *Dividends.* Any dividends paid to nonresidents by any company to the extent they are paid from profits derived from sources in Australia are deemed to have an Australian source.

## **Foreign Income of Resident Companies**

Foreign-source income is normally referred to as “ex-Australian” income. All ex-Australian income received by Australian residents is exempt from tax, provided that it has been taxed in the country of source and is not —

1. Dividend income.
2. Interest or royalty income from the UK, Japan, Singapore, New Zealand, and the Federal Republic of Germany, which is subject to a limited tax under one of the appropriate double-tax agreements.

Foreign tax credits are available to resident taxpayers who receive the classes of income referred to above. The credit allowed is the lesser of:

1. The foreign tax imposed.
2. The Australian tax payable on the gross dividend, interest or royalty.

## **Foreign Income of Nonresident Companies**

The ex-Australian income of nonresident companies is exempt from Australian tax even if it is received in Australia. The special deeming provisions relating to source are important to nonresident companies, as these expose the classes of income mentioned to Australian tax.

Foreign tax credits are not available to nonresident companies.

# Taxation in Australia

---

## Capital Gains

Capital gains are not taxed in Australia. If any profits are made on the disposal of capital assets, no income tax is payable on those gains. There are some circumstances however where gains arising from what would seem to be transactions in capital assets are taxable because they are regarded as income gains and not capital gains. These circumstances arise when a taxpayer acquires capital assets with the intention of reselling them at a profit instead of for business use. The main tax criterion is the intended purpose at acquisition.

## Inventory Valuation

The expression “trading stock” is normally used in Australia when referring to inventories and is the term used in tax laws dealing with these assets.

All inventory on hand at the end of the tax year must be valued for tax purposes. Any difference between the value of inventory at the end of the prior and current tax year must either be added to or deducted from gross income. The taxpayer may adopt any of the following bases for valuing inventory:

1. Cost, on the first-in first-out method (FIFO).
2. Market selling value.
3. Replacement price.

Other methods may be authorized by the Commissioner in special circumstances, and farmers and wine makers may utilize special provisions that apply only to them.

The same valuation method need not be used for the entire inventory. One method may be used for one portion of the inventory and another for a second portion. An item of inventory need not be valued in the same manner at the beginning and at the end of the same year. However, the inventory value for tax purposes at the end of one year must be carried over to the beginning of the next year.

Practical reasons may induce changes on the basis of valuation. For example, a company may have tax losses that are about to expire. By valuing closing inventory on a higher basis, taxable income may be increased in order to utilize tax losses. In subsequent years when real profits are available the company may switch to a lower basis of valuation.

Provisions for declines in inventory value and reserves for obsolescence are not deductible for tax purposes. Following, however, recommendations from

an appointed Committee of Enquiry on problems confronting businesses caused by inflation, the government has announced that from the 1977 income year, a deduction will be allowed against opening inventory values of 50% of the rate of inflation based on an official index.

## **Dividend Income of Companies**

Dividends received from Australian resident companies by nonresident companies which have no permanent establishment in Australia are subject only to dividend withholding tax (see page 119). A nonresident company that is carrying on a business in Australia through a permanent establishment will be subject to income tax on an annual assessment basis.

Dividends received by resident companies are taxable, except for special cases such as dividends paid by some mining companies. However, to avoid a multiple tax burden a special rebate is granted to resident companies (known as a "Section 46" rebate). The rebate is calculated by multiplying the amount of dividends included in taxable income by the corporate tax rate. The rebate allowed is limited to the amount of tax payable on the income before calculating the rebate.

The rebate applies to all dividends received from public companies, but only to 50% of the dividends received from private companies. However, the Commissioner has authority to allow the rebate on 100% of private-company dividends, provided certain conditions to deter tax avoidance schemes are met. In practice, the full rebate is readily granted in most cases.

The practical effect of the rebate is that dividends received by resident companies are free of tax. Thus, dividends can flow from subsidiaries to parent companies without incurring tax as they pass through interposed companies. However, the retention allowance provisions that apply to private companies (see page 117) prevent the accumulation of tax-free funds from dividend income.

A private company that receives dividends from a public company is entitled to a full Section 46 rebate, but the retention allowance on such dividends is only 10%. A private company that receives dividends from another private company can also obtain a full Section 46 rebate if certain rules are followed, and the retention allowance does not apply to such income.

## **Holding Companies**

Australia does not impose special tax treatment on holding companies. As dividends usually constitute a substantial portion of a holding company's income, the Section 46 rebate allows them to pay little or no tax.

# Taxation in Australia

---

## Cash Grant Income

The Australian government pursues a policy of stimulating certain economic activities by the payment of grants or subsidies. The tax treatment of the grants normally follows the tax treatment of the expenditure incurred to qualify for these grants. For example, industrial research grants arise from prior expenditures to establish entitlement to the grant. As these prior expenses are tax deductible, the grant must be included in taxable income.

## ALLOWABLE DEDUCTIONS

### General Rules for Deductions

The general rule is that all expenses incurred to produce taxable income are allowable deductions. Expenditures of a private or capital nature, or those incurred to produce exempt income, are not allowable deductions.

Deductions are allowed in the year that expenses are legally due and payable, or a binding contract is concluded. Expenses arising from the creation of provisions are not deductible until they have been actually incurred or paid.

*Example:* Provisions for holiday, sick pay or long service leave may be created in one year but paid in the following year; they are deductible in the year paid.

### Amortization

No deductions are allowed for the amortization of wasting assets, goodwill, premiums paid to acquire leases, and leasehold improvements. Amortization of leasehold improvements was allowed prior to 1964, and any amortization established prior to 1964 is still allowed until the full amortization has occurred. These general provisions do not apply to the mining industry, which receives special treatment (see page 112).

### Depreciable Assets

Most assets are depreciable for tax purposes, but not all. Under most Australian property law, fixtures permanently attached to land or buildings by a tenant become the owner's property. Consequently, depreciation cannot be claimed for non-removable equipment attached to rented premises. The usual types of equipment installed in rented premises that are non-depreciable include toilet facilities, electrical wiring and plumbing. This position is different in the State of Victoria because of its landlord and tenant laws.

Buildings are not depreciable for tax purposes unless the building is an integral part of the manufacturing equipment. In such case, only the portion of

the building's cost attributable to the special feature or design necessary for the manufacturing purpose is depreciable. An example is a textile dyehouse built with an inner lining to cope with the heavy condensation of moisture generated in the dyeing process. The inner lining is depreciable but the outer walls and roof, being a common feature of all buildings, are not depreciable. See page 109 for special rules applicable to buildings used exclusively for scientific research.

Depreciation is not allowed on intangible assets such as preliminary and formation costs of incorporating a company, or the cost of share capital issues, nor are they allowable deductions.

Depreciation can only be claimed by the owner of an asset. Thus, only the owner of leased assets, not the user, can deduct depreciation. Assets subject to hire-purchase contracts (a form of terms purchase) are legally owned by the financier but are considered to be owned by the hirer for tax purposes, and the hirer can deduct depreciation on the cash price equivalent. The interest and service charges on hire-purchase contracts are deductible as normal business expenses.

### Rates of Depreciation

Standard depreciation rates are set by the Commissioner. The taxpayer can elect either the prime cost (straight line) or the diminishing value method. Each method has separate annual rates, with the rates for the diminishing value method being 50% higher. The following are typical rates for standard working hours.

	<b>Prime Cost</b>	<b>Diminishing Value</b>
	%	%
Motor vehicles	15	22.5
Office furniture	5	7.5
Engineering plant	5	7.5
Oil-refining plant	10	15.0
Sewing machines	10	15.0
Earth-moving equipment	15	22.5

A taxpayer can change his basis of depreciation by filing a notice of election, but such change can be exercised only once, and the new method chosen must be used for all subsequent acquisitions of depreciable assets.

Taxpayers who have special reasons may request the Commissioner to authorize higher rates of depreciation.

# Taxation in Australia

---

The full cost of an asset is depreciable. Cost includes purchase price, delivery charges, import duty, and all costs of erecting, installing, and putting a machine into normal operation. Labour costs involved in putting a machine into operation may be capitalized but, in such case, the current year's deduction for labour costs is reduced correspondingly. No allowance for estimated salvage value is required.

## Sales of Depreciable Assets

When a depreciable asset is sold, destroyed, or otherwise disposed of, the consideration received in excess of the depreciated value of the asset is treated as follows:

1. The portion that represents past depreciation is included in assessable income in the year of sale.
2. Any amount in excess of original cost is a capital gain and is not taxable.

If the consideration received is less than the depreciated value of the asset, the loss is deductible in the year of sale.

The taxpayer may elect not to include the recovery of past depreciation (Item 1) in taxable income. A written request may be added to the tax return to deduct the recovered depreciation from the cost basis of the asset purchased to replace the asset sold. If no replacement asset was purchased, the recovered depreciation may be deducted from any assets purchased that year and, finally, from the depreciated value of assets purchased in prior years. In effect, a taxpayer making this election is exchanging lower future deductions for a current year's tax saving.

## Legal Fees

Whether legal fees paid to an independent lawyer are deductible depends on the legal services rendered. Legal fees for the recovery of debts, preparation of business forms, defending claims for faulty merchandise, appearing at wage tribunals, and similar operating matters are fully deductible. However, legal fees for the formation of companies, preparation of partnership agreements, registration of mortgages and other services associated with transfers of real estate, and defending criminal or civil actions arising from non-business activities are not deductible. Legal expenses incurred in acquiring depreciable assets may be capitalized as part of the prime cost of asset (see also *Borrowing Expenses* on page 108).

## Repairs and Replacements

Repairs of equipment and buildings are fully deductible, as long as the repair is a genuine repair and not in the nature of a capital improvement. Costs



incurred to place newly-acquired assets in working condition must be capitalized. Alterations and modifications not caused by normal business use must also be capitalized.

## **Bad Debts**

Only specific bad debts actually written off during the year are deductible. It is also required that the debt has been created from assessable income previously reported by the taxpayer. General or estimated provisions for doubtful accounts are not deductible for tax purposes.

In the past, some taxpayers used bad debt write-offs as a means of bypassing legislation directed at trafficking in tax loss companies. In order to stop this practice, the rules for deducting bad debts have been amended so that they are now the same as those for deducting past losses.

Normally, these rules do not affect bona fide transactions but caution should be exercised if there are to be significant changes of shareholdings in a company. The rules do not apply to individuals or partnerships.

## **Gifts and Donations**

These are deductible if made to charities approved by the Commissioner. Contributions in excess of taxable income are not generally eligible for loss carryforward.

## **Taxes**

Property taxes paid by a company are fully deductible if the premises are held or used for income producing purposes. Previous concessional deductions for property losses on a taxpayer's own residence have been discontinued.

Customs duties are deductible if the goods to which they are applied are deductible. For example, customs duties on raw materials or inventory are fully allowable, but customs duties on capital equipment are part of the total cost to be recovered through annual depreciation.

## **Long Service Leave**

Annual provisions for long service leave (see *Labour Conditions*) are not deductible, but actual payments for such leave are deductible in the year made.

## **Staff Retirement and Pension Funds**

Payments to an approved employee's retirement or pension fund are deductible to a maximum per employee of \$400, or 5% of gross salary, whichever is

# Taxation in Australia

---

greater. Where higher payments can be justified by size of salary, length of service or other factors, approval is normally obtained to deduct these higher amounts.

## **Interest Expense**

Interest expense on funds used in a business is deductible without limitation. No distinction is drawn between funds used as working capital or to purchase assets that are not deductible.

The deductibility of interest on convertible notes (similar to convertible bonds in the USA) was withdrawn in 1960 and reinstated in 1970. However, the reinstatement of deductibility was on a limited basis that has not encouraged their use by those major companies that might offer such securities to the general public.

## **Borrowing Expenses**

Non-interest costs of borrowing money used to produce taxable income are regarded as capital expenses and are not deductible in the year incurred. Borrowing expenses include such related costs as brokerage, underwriting, advertising, stamp duties, legal fees, and security registration costs. These capital expenses may be written off over five years or the period of the loan, whichever is less, except that borrowing expenses of less than \$100 in any one year may be written off in full in that year. Any additional costs incurred when loans are repaid are fully deductible in that year. The above provisions apply to any borrowing by usual types of companies.

Capital expenses associated with share issues are not deductible under these or any other provisions of Australian tax laws.

## **Losses of Prior Years**

Losses incurred in any business activity can be carried forward and deducted from future income for seven years, except that losses of primary producers can be carried forward indefinitely. Losses cannot be carried back.

In the past, many "tax loss" companies were sold to buyers who could utilize their tax losses. However, changes in tax laws and their interpretation by the courts are making this increasingly difficult.

A company's losses can be carried forward only if it meets a "continuity of business" test or a "percentage of shareholdings" test. Briefly stated, these tests are:

1. The company continues the same business and does not derive income from a type of business not previously carried on, or

2. More than 50% of the ordinary capital, voting power and dividend rights is beneficially owned by the same shareholders in the year of loss and the year that the loss is deducted from assessable income.

In the case of a subsidiary, the provisions about the identity of “more than 50%” of the shareholders carry through to the shareholders of the parent company. Only one of the tests need be satisfied for the company to deduct past losses.

The anti-avoidance rules associated with carry-forward losses are complicated and can produce harsh injustice. Extreme care should be exercised and competent advice obtained when dealing with companies which have incurred tax losses in past years.

The anti-avoidance rules only apply to losses incurred by companies.

## **TAX INCENTIVES**

### **Investment Allowance**

A special allowance of 20% of the cost of new manufacturing equipment and farm machinery was introduced in 1962. The allowance is in addition to normal depreciation (bringing the total writeoff to 120%) and no adjustment is required on disposal of the asset. This investment allowance was withdrawn in February 1971, but was reinstated in February 1972, for new manufacturing equipment, in order to stimulate the economy. It was again withdrawn on August 21, 1973, and re-introduced on January 1, 1976, on a more generous basis. From 1976 to 1978, the deduction allowed is 40%, and from 1979 to 1983, it is 20%. Transitional provisions for equipment in the course of acquisition permit 12 months' grace at 1978 and 1983.

The allowance now applies generally to any depreciable asset but private type cars, some fixtures and fittings in buildings and items costing less than \$500 are excluded. “Shading-in” rates apply between \$500 and \$1,000.

Leased equipment is eligible for the allowance if the lease is for at least four years duration. The deduction can be claimed either by the leasing company (which must be a finance company) or the lessee, providing the aggregate of both claims is no more than 40% of the cost of the equipment.

### **Scientific Research Incentives**

Operating expenditures for scientific research related to a taxpayer's business are fully deductible in the year incurred. The research may be carried

# Taxation in Australia

---

out by the taxpayer or by a research institute. As an incentive to spur research, capital expenditures on equipment and buildings used exclusively for scientific research may be depreciated in full over three years. If such equipment or buildings are sold after being fully depreciated, the proceeds must be included in taxable income in the year of receipt.

Research carried out overseas is deductible as long as the research is related to the taxpayer's business. However, if the taxpayer's business is carried on both within Australia and in foreign countries, the deduction for research in foreign countries is limited to the same proportion of research expenditures as sales in Australia bear to world sales. (See also Chapter 2.)

## **SPECIAL TAX TREATMENT OF PARTICULAR BUSINESSES**

Certain taxpayers receive special tax treatment. Most general tax rules apply to these businesses, but special tax treatment has been superimposed in the following cases.

### **Australian Businesses Controlled Abroad**

Any business or company in Australia controlled directly or indirectly by nonresidents is required to file the usual tax return and pay income tax on an equitable portion of the profit generated in Australia. If such a business produces no taxable income, or less than might be reasonably expected, the Commissioner has power to estimate taxable income based on a reasonable proportion of total receipts. The Commissioner was given this special authority to deal with situations in which the taxable profit of an Australian branch or subsidiary is reduced by means of inflated home office charges or high transfer prices on goods.

### **Motion Picture Business Controlled Abroad**

If the foreign-controlled business involves the distribution of motion pictures, taxable income is calculated at 10% of the gross income after deducting customs duties and sales tax on the imported films or copies thereof.

### **Nonresident Insurers**

Nonresident insurers who do not conduct business in Australia through a permanent establishment are taxed at the rate of 10% of gross premiums on insured Australian property. The tax is collected through the insurer's Australian agent who is jointly and severally liable with the insurer for the tax. If no agent is involved because the taxpayer deals directly with the overseas

insurer, the insured taxpayer is liable for the tax in the same manner as if it were a withholding tax. If these provisions are not observed, the insured cannot deduct the premiums, and is exposed to liability for the tax payable by the nonresident insurer.

These provisions are particularly important to large international groups whose assets are insured through an overseas office, which recovers the insurance cost through charges to an Australian subsidiary. Such transactions are liable to Australian tax more because they affect Australian property than because premiums were paid directly from Australia.

Liability for the 10% tax on gross premiums arises when the premiums are paid or credited to the insurers.

## **Nonprofit and Mutual Companies**

These companies are exempt from income tax, primarily on the basis that a taxpayer cannot be taxed on income paid to self. The nonprofit category includes clubs, associations, and trade organizations whose income is principally derived from subscriptions, membership levies, or goods sold to members. Income from non-member sources is subject to tax, but in most cases the permissible allocation of expenses eliminates the liability for tax.

## **Cooperatives**

Cooperative companies are widely used in Australia, particularly in the areas of produce marketing and furnishing supplies to primary producers. The object of these cooperatives is to achieve optimum profits for their members. Although the income of cooperative companies is not exempt from tax, unique features of the tax laws enable them to escape any significant tax liability. These features are that provided 90% of the value of goods sold, manufactured, or purchased are obtained from or supplied to members, deductions are allowed for:

1. Dividends paid on shares
2. Interest rebates or bonuses to members.
3. Repayments of loans obtained from a government agency.

Mutual assistance groups are a form of cooperative company. Such groups are found mainly in the housing finance and consumer credit fields, and have been increasing in recent years. To be tax exempt, the constitution must conform with the restrictive provisions imposed on this type of company and 90% of the total value of loans must be held by their shareholders.

# Taxation in Australia

---

## **Superannuation Funds and Life Insurance Companies**

The attitude of the Australian government towards premiums on life insurance policies and contributions to superannuation funds has always been to exclude such revenue from assessable income. Life insurance companies, whether organized on the mutual principle or otherwise, must comply with a prescribed formula for investing their funds in government securities to qualify for the revenue exclusion. The formula is known as the 30/20 ratio. It requires that a minimum of 30% of total cost of the company's assets be invested in government securities, and at least two-thirds of this investment must be in securities of the Commonwealth government. These tax concessions do not apply to premiums on non-life insurance or to investment income, and general expenses must be apportioned between the company's taxable and nontaxable revenues. A further tax concession is a special deduction from taxable income for provisions for unexpired risks.

Superannuation funds are also subject to the 30/20 ratio and are penalized if they include shares in private companies without approval of the Commissioner. These funds must satisfy the Commissioner that the rights of members are adequately protected, and that the employees are aware of their rights. If these conditions are satisfied, all income of a superannuation fund is tax exempt, regardless of its source, except that dividends received from private companies may be taxed if the Commissioner finds that the purpose of the share ownership is to secure excessive tax advantages.

## **Nonresident Shipowners**

Subject to the provisions of international treaties, the taxable income of a nonresident shipowner or operator is 5% of the gross freight or fares for goods or passengers loaded at an Australian port. Masters and agents are both liable for the tax. Payment is usually made in conjunction with customs formalities for clearing the ship's departure.

## **Mining Operations**

The taxation of mining enterprises is so complex that a category of specialists in mining taxation has arisen. This discussion, consequently, is intended as a concise summary since professional advice is necessary in dealing with specific situations. The following main tax features apply to the mining industry and are superimposed on the general income tax law:

1. Certain income is exempt from tax.
2. Certain deductions are available that are not allowed in other industries.

Where a mining property is principally worked for gold its income is exempt. Where it obtains gold and copper, the income is exempt provided the value of

gold is at least 40% of the property's output. Income from the mining and treatment of uranium is exempt provided the taxpayer is a resident and the Commissioner is satisfied that the uranium is or will become Australian property or is disposed of to a person approved by the Australian government.

The types of deductions available to mining enterprises can be divided into three broad categories:

1. *Exploration and Prospecting Expenditure.* Expenditure incurred by a taxpayer on exploration or prospecting on any mining leases in Australia is an allowable deduction in the year in which it is incurred.
2. *Plant and Mine Development.* This includes all capital expenditures on extractive and treatment plant, buildings, earthwork, and associated work at the mine site. Not included are ships, rolling stock, and port facilities even when installed specifically for a single enterprise. A taxpayer has four options for deducting such capital expenditures:
  - a. Over the life of the mine.
  - b. Over 25 years.
  - c. At rates applicable to "plant" under the general income tax provisions.
  - d. In full in the year incurred.

As noted, expenditures on transport facilities beyond the mine site are not deductible under these provisions. They are deductible under other provisions which provide that cost, less any subsidy, can be written off over twenty years or alternatively, over 10 years at the taxpayer's election. The option must be exercised at the time of the first claim.

3. *Housing and Welfare.* The cost of providing housing for employees at or near the mine site, as well as water and power supply and other community facilities may be deducted either over the life of the mine or five years at the taxpayer's option.

**Other Provisions.** The prescribed and other minerals that are wholly or partially under the exempt income provisions are in no way denied the benefits of the special deductions that have been mentioned.

Mining for petroleum is excluded from these provisions and is separately treated. In general, the tax treatment of petroleum mining is that all income is tax-free until such time as the costs of exploration, mining, and treatment facilities have been fully recovered. In addition, income from activities as-

# Taxation in Australia

---

sociated with petroleum exploration and exploitation together with general mining on the Continental Shelf of Australia is deemed to be derived from a source in Australia and is therefore subject to Australian income tax.

## Timber Operations

Logging operations are taxed in the normal way, but enjoy additional deductions similar to those available to the mining industry. The costs of mill buildings, employee housing and access roads may be deducted over the lesser of 25 years or the life of the stand of timber.

## Primary Producers

A primary producer is a taxpayer who is engaged in the cultivation of land, the sale of animals or their products, or forestry or fishing operations. These do not have to constitute a main source of income for classification as a primary producer for tax purposes. Any business interest in a primary producing enterprise, provided it is not a hobby, qualifies a taxpayer as a primary producer, and enables him to utilize the income averaging provisions (see page 127), which are available only to individuals who are primary producers.

The special needs of primary producers are recognized in the Act. For example, the procedure for valuing livestock acquired through natural increase allows a herd of substantial value to be obtained and not taxed until the animals are sold. The method of calculating the value of a herd is termed "average cost." Under this method, all animals acquired during a year are averaged at their total cost. Included in total cost are natural increases at a minimum nominal value of 40 cents each for sheep, 50 cents each for pigs and \$2.00 each for cattle and horses.

### Example:

	<b>Number</b>	<b>Value</b>
Cattle at June 30, 1975	500	\$25,000
Purchased during year	50	5,000
Natural increase at \$2.00 each	<u>500</u>	<u>1,000</u>
Cattle at June 30, 1976	<u>1,050</u>	<u>\$31,000</u>

Average cost is  $\frac{\$31,000}{1,050} = \$29.50$  each (approximately)

Thus, the cattle on hand at June 30, 1976, regardless of age or type, are valued at \$29.50 per head. There is no requirement to increase the average cost assigned to each head obtained by natural increase, although their true value rises substantially during the first two years. A primary producer may adopt a valuation based on market selling value, at his option, in lieu of the average cost method.





# Taxation in Australia

---

voting power, capital, or dividend entitlement must be owned by at least twenty persons.

## Taxation of Private Companies

A company that is not a public company is a private company. The primary tax rate for a private company is 42.5%. In addition, a private company is required to distribute a portion of its after-tax profit within a period commencing two months prior to and ending ten months after the end of its tax year, or to pay a further tax on any shortfall (undistributed portion of profits required to be distributed). The profit that must be distributed is all profit in excess of a retention allowance. The tax penalty for not making the required distribution is 50% of the underdistribution.

The retention allowance of a private company is the aggregate of —

- a. 60% of the taxable income less tax thereon, and
- b. 10% of any “property” income. “Property” income normally consists of interest, rent and public company dividends. This reduced retention allowance of 10% is after deducting expenses and primary tax applicable to property income, either by strict expense allocation or on the basis of a formula accepted by the tax authorities. There is no retention allowance for dividends received from another private company.

### *Examples of Tax Calculation:*

A company’s taxable income in Australia for the year ended June 30, 1976, is \$100,000 from sources other than property income.

1. A public company (tax rate of 42.5%) would pay tax of \$42,500.
2. A private company would pay primary tax of \$42,500, and would be subject to additional tax if dividend requirements were not met.

### **Calculation of Dividend Required to Avoid Additional Tax**

Taxable income	\$100,000
Less: primary tax (42.5%)	<u>42,500</u>
Distributable income	57,500
Less: retention allowance (in this example 60% — see explanation above)	<u>34,500</u>
Required dividend (Sufficient distribution)	<u><u>\$ 23,000</u></u>

If no dividends are declared within the required period, or if dividends are less than \$23,000, an additional tax of 50% of the difference between \$23,000 and the amount distributed would be payable.

Until recently, if a private company declared a larger dividend than required for a sufficient distribution, the excess could be carried forward indefinitely and credited towards the sufficient distribution of any subsequent year. Such surplus dividends were known as “excess distributions” and were combined with similar excess distributions of prior years. However, the provision allowing the carrying forward of “excess distributions” will cease after 1976.

### **Changes in Public or Private Tax Status**

Public or private tax status is subject to change and, theoretically, a company’s status could change each year. In fact, tax avoidance schemes have been used that were based on securing the advantages of public or private status. To counter this, legislation was enacted in 1972 that authorized the Commissioner of Taxation to deny public status to a company that meets the test for such status by “artificial” means.

If a company does not meet the tests for public status, but the Commissioner considers it reasonable to treat the company as public, he may confer public status at his discretion, as well as withdraw this status if circumstances warrant.

### **Branches of Public and Private Companies**

Branches of Australian companies established in foreign countries are not subject to Australian income tax on trading profits if tax has been levied in the foreign country, nor are trading losses deductible. However, a loss by a foreign branch of a private company is deductible from distributable income for purposes of calculating the retention allowance.

#### *Example:*

If the private company in the previous example had a branch in New Zealand that incurred a trading loss of \$10,000, the primary tax would still be \$42,500, but the sufficient distribution would be calculated as follows:

Australian-source distributable income	\$57,500
Less — loss of New Zealand branch	<u>10,000</u>
Distributable income	\$47,500
Less retention allowance	
60% of \$47,500	<u>28,500</u>
Sufficient distribution	<u><u>\$19,000</u></u>

# Taxation in Australia

---

## **Taxation of Australian Branches of Foreign Companies**

Australia taxes branch profits in the same way as company profits, and the distinction between public and private tax status is also relevant. However, the tests for private or public status are applied to the branch's home or parent company. If the foreign parent company is deemed to be a private company, the requirements for a sufficient distribution are or are not satisfied by the dividend distributions of the parent company from its world net income.

### *Example:*

A USA company has branches in Australia, Japan and Fiji. If the dividends paid to shareholders from profits earned in the USA, Japan and Fiji exceed the requirement for a sufficient distribution, all of the profits of the Australian branch, after primary tax, can be retained without penalty. If the requirements are not met, the Australian branch would incur the 50% tax penalty.

## **Tax Status of Subsidiary Companies**

The public or private tax status of a subsidiary is determined by the status of its parent company. Consequently, an overseas company that is listed on a recognized foreign stock exchange may incorporate a private (proprietary) company in Australia, but the subsidiary will be classified as a public company for income tax purposes.

## **TAXATION OF OTHER TYPES OF ENTITIES**

### **Partnership Taxation**

No income tax is imposed on partnerships in Australia, but partnerships are obliged to file annual tax returns in which the assessable income is allocated among the partners and added to their individual taxable incomes for the tax year in which the partnership's tax year ends. There is a minor exception but it is not significant to non-Australians.

### **Taxation of Trusts**

Trust income normally is not taxed, provided the trustees distribute the income to beneficiaries who include such income in their individual tax returns. However, income of a deceased estate that has not been cleared by the Probate Office cannot be distributed and, in such case, the trustee is assessed for tax at rates applicable to individuals. A trustee is also assessed for the income of a beneficiary under a legal disability, and such tax payment is deductible from the beneficiary's entitlement.

The use of inter-vivos trusts as a regular form of business organization has become very popular in Australia in the past five years or so. These trusts are

taxed in the same way as trusts created from deceased estates with the difference that, in many cases, undistributed income is taxed at a flat rate of 50%. Distributed income is only taxed in the hands of the beneficiaries.

## **Taxation of Companies in Liquidation**

A company in liquidation must satisfy all claims for taxes and pay all creditors in full before making any distributions to shareholders. Failure to observe this priority subjects company liquidators to personal liability.

Taxable profits earned during liquidation are taxed in the same manner as any current income. Surpluses distributed to shareholders of a company in liquidation are taxable in the shareholder's hands to the extent the distributions represent income as distinct from capital gains. If a liquidator distributes 50 cents per share, consisting of 10 cents from accumulated income and 40 cents from capital gains derived from the sale of fixed assets, each shareholder's taxable income would include one-fifth of the amount received, or 10 cents. If the recipient is a resident company, the one-fifth portion would be treated in the same manner as normal dividends. If the recipient is a nonresident, dividend withholding tax would be imposed only on the one-fifth portion designated as income.

## **WITHHOLDING TAXES ON PAYMENTS TO NONRESIDENT COMPANIES AND INDIVIDUALS**

Payors of dividends, interest and royalties to nonresidents are required to withhold taxes at appropriate rates, and are themselves liable for failing to do so. Amounts withheld must be forwarded to the Tax Department within 21 days of the payment date. Withholding taxes on payments to nonresidents are imposed only on dividends, interest and royalties.

### **Withholding on Dividends and Interest**

The withholding on dividend and interest payments to nonresidents is a final tax on such income. The withholding tax rate applied to dividends is affected by international tax treaties. Current rates are:

Dividends:	
Residents of treaty countries and Papua New Guinea	15%
Residents of non-treaty countries	30%
Interest (for all nonresidents)	10%

Dividends are strictly defined for withholding tax purposes as "dividends paid by resident companies." Interest is loosely defined as "including payments in

# Taxation in Australia

---

the nature of interest” for withholding tax purposes. Under this definition, discount factors and certain loan fees have been held to constitute interest. Neither definition includes such items as salaries and wages, branch profits, rental income, or distributions by a trustee from sources other than interest or dividends within the withholding tax provisions. In special circumstances, nonresident interest and dividend income is subject to tax under the general provisions. In those cases, withholding taxes do not apply (see pages 101 and 103).

## **Exemptions From Withholding on Dividends and Interest**

Withholding does not apply to income exempt from tax under the general income tax provisions such as ex-Australian profits taxed abroad (except for dividend income, or royalties and interest from the UK, Japan and Singapore). If the nonresident recipient is a nonprofit or other organization exempt from tax in its country of residence, Australian withholding also does not apply.

An important exemption from withholding on interest applies to loans made after May 25, 1971, provided the purpose of the loan is to support ownership and control of Australian enterprises by Australian residents. This exemption applies to two types of interest:

1. Issues of bearer debentures sold in a foreign currency and on a broad basis outside of Australia, with interest payable in a foreign currency and the funds used in an Australian business.
2. Foreign loans to an Australian owned and controlled enterprise, or to an enterprise that has substantial Australian participation and the loan is to support that participation. To qualify under this exemption, the borrower must be either:
  - An Australian government or public authority.
  - An individual ordinarily resident in Australia.
  - A resident company that meets *all* of the following conditions:
    - a. At least 60% of the equity (and rights to dividends and distributions in the event of liquidation) is owned by Australian residents.
    - b. No single foreign entity or associated group of foreign entities owns more than 20% of the equity (or rights to dividends and return of capital).
    - c. No foreign entity has rights to appoint directors other than through the exercise of voting power possessed by virtue of share ownership.

If the borrowing company uses the loan to support Australian participation in a joint venture (Item 2 above), the following minimum percentages of local ownership must be present to qualify for the interest exemption:

at least 20% — if one Australian entity

at least 30% — if two to five Australian entities

at least 40% — if more than five Australian entities.

The commissioner has discretionary power to grant exemptions if the borrower cannot meet the above conditions. A prospective borrower may request an exemption and be assured of qualifying before borrowing. However, the approval will be withdrawn if the final conditions of the loan vary from those for which approval was granted.

## **Withholding Taxes on Royalties**

Because taxes are required to be withheld on royalties, this tax is commonly but incorrectly referred to as a withholding tax. The true nature of the tax withheld on royalties paid to nonresidents is that such royalties are deemed to have an Australian source, and are taxable under the general provisions of the income tax laws. Such is not the case with dividends and interest paid to nonresidents. The tax withheld on dividends and interest is a final tax and is based on gross income. Royalty income from a deemed Australian source is subject to withholding on the gross amount being remitted, but a nonresident taxpayer is able to file a tax return in the normal way, and to deduct any expenses related to earning the royalties. In the usual case, taxable income is less than the royalties remitted, and a tax refund is obtained. The standard income tax rates, according to class of taxpayer, apply.

Tax treaties limit withholding on royalties for residents of the UK, Japan, Singapore, Germany, France, and the Netherlands and to 15% of gross royalties for a resident of New Zealand. However, care should be exercised since certain of the above countries tax royalties on a residence rather than origin basis. Reference should be made to each of the agreements for more details.

In the case of residents of the USA and Canada, tax treaties do not provide any tax benefits for the usual type of royalties, and the standard income tax rates apply.

These tax situations are illustrated in the following examples. The first example concerns a corporation in the USA that qualifies as a public company under Australian law. It receives royalties of \$10,000 from an Australian

# Taxation in Australia

---

manufacturer and incurs expenses of \$5,000 in earning the royalties. The current tax rate is 42.5%.

Gross royalties	\$10,000
Less expenses	<u>5,000</u>
Taxable income	<u>\$ 5,000</u>

Tax applicable in this case is 42.5% of \$5,000, i.e., \$2,125.

If the same royalty recipient were a resident of Japan, the following would result:

Tax on gross royalties —	
10% of \$10,000	\$1,000

A recent court decision has thrown some doubt on the manner in which royalties earned by Canadian and USA residents have been taxed in Australia. Recent legislation has attempted to clarify the issue. Notwithstanding, a substantial body of opinion exists that the amendments to the law are ineffective in relation to Canada and the USA. Residents of those countries are strongly advised to seek professional help in Australia before concluding royalty agreements.

## Definition of Royalty

The definition of royalty under Australian tax law is very broad. It includes "payments of any kind to the extent to which they are paid as consideration for the use of, or the right to use, any copyright, patent, design or model, plan, secret formula or process, trademark, or other like property or right, or industrial, commercial or scientific equipment, or for the supply of scientific, technical, industrial or commercial knowledge, information or assistance, and includes any payments of any kind to the extent to which they are paid as consideration for the use of, or the right to use, motion picture films, films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting, but does not include royalties or other amounts paid in respect of the operation of mines or quarries or of the extraction or removal of natural resources."

Under Australia's international tax treaties with the USA and Canada, royalties associated with literature, works of art, music and dramatic performances (but not movies) are exempt from Australian tax and are taxed in the recipient's home country. However, the usual business transaction that generates royalties is taxed on the basis that has been outlined.



## **Taxed Royalties**

As has been stated, the taxation of royalties begins when royalties are actually paid or credited. The accumulation of royalties in a general liability account postpones taxation until the royalties are remitted. The accumulation of royalties in this way may be a convenient method of financing Australian subsidiaries.

## **INDIVIDUAL INCOME TAXATION**

Individual income is broadly classified into income from wages and income from other sources. Wage income is subject to withholding by employers on the Pay as you Earn (PAYE) system. Individuals who earn income from other sources in excess of \$400 must pay provisional (estimated) taxes for the next year, which are credited against that year's assessment.

If a taxpayer's estimate of his succeeding year's income is more than 20% below actual income for that year, and he cannot satisfy the Commissioner that the excessive variation is due to circumstances not known at the time of filing his election, interest of 10% per year is charged on the tax underpayment. Although the payment of provisional tax in the current year on next year's income may seem harsh, the tax assessment which includes provisional taxes is not due until at least nine months after the end of the tax year.

Taxpayers who receive wage income in addition to income subject to provisional tax are assessed for provisional tax only on income from sources other than wages.

When an employee receives a lump sum payment in consequence of retirement, only 5% of the sum received is taxable.

## **ASSESSABLE INCOME**

The question of residency is one of the factors involved in determining an individual's income.

### **Resident and Nonresident Individuals**

An individual is a resident under any of the following conditions:

1. His domicile is in Australia, unless he maintains a permanent residence outside of Australia.

# Taxation in Australia

---

2. He has lived in Australia for more than 183 days in any one tax year, either continuously or intermittently, unless he maintains a permanent residence outside of Australia and has no intention of becoming an Australian resident.
3. He is a member of a superannuation fund established under the Superannuation Act of 1922-37. This condition has little practical significance.

An individual who does not meet these conditions is a nonresident. The distinction between resident and nonresident individuals has the following tax consequences:

1. Residents are assessed on world income (subject to notes on *Taxation of Foreign Income*, below), while nonresidents are assessed only on Australian-source income. The notes on Australian-source income on pages 99 and 101 apply here.
2. Rebates and foreign tax credits are available only to residents.

## Income of Nonresident Individuals

Nonresident individuals are taxable only on Australian-source income. If the nonresident is from a treaty country, any income earned in Australia during a temporary stay of less than 183 days is not taxable in Australia and will be taxable in the nonresident's country of origin. If the nonresident is from a non-treaty country, any income earned during the first 183 days will be taxable in Australia.

## Business Income of Individuals

The provisions concerning assessable income and allowable deductions of individuals in businesses are basically the same as those of companies.

## Dividend Income

Unlike companies, dividends received by individuals (except exempt dividends) are includable in assessable income and are not eligible for the Section 46 rebate (see page 103).

## Taxation of Foreign Income

All foreign (ex-Australian) income received by a nonresident (even while in Australia) is exempt from Australian tax. Except for dividends, and certain classes of interest and royalty subject to the jurisdictions of the United Kingdom, Singapore, Japanese, New Zealand, and German double tax agreements, all foreign-source income received by a resident is exempt from Australian tax if the income is subject to tax in the country of origin.

## **Taxation of Foreign Dividends**

Gross dividends from overseas must be included in taxable income apart from United Kingdom dividends, in which case the net figure is used.

If taxes are deducted in the country of source, a tax credit is allowed for the lesser of:

1. The foreign tax, or
2. Australian tax payable on the gross dividend, or
3. Total Australian tax payable on all income before the foreign tax credit.

## **Temporary Residence Allowance**

Resident and nonresident taxpayers living away from their normal places of residence must include any compensatory allowance in assessable income. The value of any free accommodation must also be included. A deduction is then allowed, which effectively reduces the amount included in assessable income to a maximum of \$2.00 per week for executives.

## **ALLOWABLE DEDUCTIONS TO INDIVIDUALS**

The deductions available to individual taxpayers who have business or investment income are the same as those available to companies which receive the same type of income, and are explained on pages 104 to 115. In addition, there are a range of rebates which can be set off against the prima facie tax payable by residents. Broadly, these rebates can be classified into two main groups:

1. Dependant's rebate.
2. General rebate, which replaces the old concessional deductions for medical, life insurance, etc., expenses, education of children and domestic property taxes.

The taxpayer can claim a reduction of tax instalment deductions (PAYE) on account of —

- a. The general concessional rebate (\$610 for 1967/77) allowable to all taxpayers. It is indexed for the effects of inflation and roughly equates with the standard deduction allowed in the USA.

# Taxation in Australia

---

- b. The rebates (if any) to which the taxpayer is entitled on account of dependants. The rebates are (for 1976/77): dependants (spouse, daughter, housekeeper) \$500. Rebates for dependant children are discontinued after 1976. They have been replaced by increased Social Service Benefits to mothers, \$226.

Until 1976, concessional deductions were allowed on expenditures such as medical expenses, life insurance premiums, superannuation contributions etc. Now these expenditures along with deductions for private rates and land taxes and calls on shares (mining and forestry) are converted to a rebate of tax.

This general rebate for 1977 is the greater of 40% of the sum of the qualifying expenditures or \$610. Every resident individual taxpayer qualifies for a minimum rebate of \$610 regardless of his expenses on qualifying items.

Zone rebates are granted to individuals resident in specified remote areas of Australia or its territories. The zone rebate varies with the location.

## Individual Income Tax Rates

The tax rates (for 1976) for individual taxpayers are progressive for the first \$32,000 of taxable income. Income exceeding \$32,000 is taxed at a flat rate of 65%. No tax is payable on income of less than \$2,518. No distinction is made between earned income and investment income.

The following table illustrates the progression of tax rates (in Australian dollars) which apply for the year ending June 30, 1976 (before deduction of rebates):

<b>Taxable Income</b>	<b>Tax</b>	<b>% on Excess</b>
2,000	400	27
5,000	1,210	35
10,000	2,960	45
16,000	5,760	55
20,000	7,960	60
32,000	15,510	65

### *Example:*

For the year ended June 30, 1976, a taxpayer had a salary of \$10,000 and dividend income of \$100. His expenditures for the year were subscriptions to professional journals \$60, membership fees for professional association \$40, contributions for superannuation \$1,000, net medical expenses \$200, self-education expenses \$200, and rates and land taxes \$400.

The taxpayer's tax liability is:

Salary		\$10,000
Dividends		<u>100</u>
Assessable income		10,100
<b>Less:</b>		
Subscriptions	\$60	
Membership fee	<u>40</u>	<u>100</u>
Taxable income		<u>\$10,000</u>
Gross tax at 1975/76 rates on \$10,000		\$2,960
Less general concessional rebate (40% of \$1,700)		<u>680</u>
Tax payable		<u>\$2,280</u>
<b>General concessional rebate:</b>		
Superannuation contributions	\$ 1,000	
Medical expenses	200	
Self-education expenses	200	
Rates (maximum rebate allowable)	<u>300</u>	
Total concessional allowances subject to rebate		\$ 1,700

Rebate is 40% x \$1,700 = \$680. As this exceeds the minimum concessional rebate, the taxpayer is entitled to a rebate of \$680.

## Income Averaging

Individuals who qualify as primary producers may take advantage of the income averaging provisions of the Act. The tax relief offered by income averaging is that the current year's taxable income is taxed at a rate applicable to the average income over five years. These averaging provisions apply to income from all sources, not just from primary production.

### Example:

A primary producer had the following taxable income for the five years ended June 30, 1976:

	Actual	Taxable
1972	\$4,000	\$4,000
1973	1,000	1,000
1974	(3,000)	nil
1975	1,000	nil
1976	5,000	3,000
	<u>\$8,000</u>	<u>\$8,000</u>

Average income for 1976 =  $\$3,000 \div 3 = \$1,000$ . (1974 being the first year capable of being included in the calculation). The average rate of tax on \$1,000 is 0.20 and, accordingly, for the year ended June 30, 1976, tax on a taxable income of \$3,000 is \$600 (i.e.,  $\$3,000 \times 0.20$ ).

# Taxation in Australia

---

The averaging provisions apply only up to the first \$16,000 of taxable income and their effect is to tax the first \$16,000 of taxable income at the lower of the rate applicable to the averaging income or the rate applicable to an income of \$16,000. When taxable income exceeds \$16,000, the excess is taxed at the rate applicable to that portion of the income as if averaging did not apply. When both the taxable income and the average income exceed \$16,000, the averaging provisions have no effect.

The averaging provisions not only reduce the tax liabilities of primary producers, they also enable such taxpayers to plan their capital expenditures so as to spread the tax impact of increased earnings over the following four years. The averaging provisions apply to individuals who are primary producers in any of the following legal forms:

1. Sole proprietor.
2. Member of a partnership.
3. Beneficiary currently entitled to income from a trust estate in the business of primary production.

A modified scheme of income averaging applies to the abnormal income of authors and inventors who obtain income in one year that represents the work of several years. A special tax rate is applied to the total income of such persons. The special tax rate is the rate that would be imposed on normal income plus 1/3 of abnormal income.

## **TAX RETURNS — FILING, PAYMENT AND OBJECTION PROCEDURES**

The following sequence applies to all taxpayers (companies and individuals) in the order listed:

1. Lodgment of return by taxpayer.
2. Issue of assessment by tax office.
3. Payment of amount shown as due in assessment form.
4. Filing an objection if tax assessment is considered excessive by taxpayer.

## **Tax Years**

In the usual case, the tax year of all taxpayers ends on June 30. However, permission can be obtained to adopt another tax year for practical reasons, such as to coincide with the tax year of a parent company.

## **Filing of Tax Returns**

All tax returns must be filed by August 31 each year, regardless of the type of taxpayer. Where an alternative tax year has been approved to terminate on a date between July 1 and December 31, the return is due two months after the close of the approved year. In all cases, extensions of time for filing tax returns are granted to taxpayers who file through a Registered Tax Agent.

## **Tax Return Information Requirements**

All taxpayers must provide a statement of income and deductions, and details of profits earned from the sale of land or shares acquired for resale at a profit.

A company must also include the following with its tax return:

1. Balance sheet and detailed profit and loss account.
2. Explanation of any large or unusual claims.
3. Schedule of depreciation.
4. Any alterations in the capital structure.
5. List of payments of dividends and interest.
6. Changes in "Provision" and "Reserve" accounts.
7. Statements supporting rebate claims.

Each company must appoint a Resident Public Officer who assumes responsibility for the accuracy of the tax return and on whom any notice of demand is served.

## **Groups of Companies**

Although groups of subsidiary and/or related companies are common in Australia, each company is taxed as a single entity and no provisions exist for consolidated tax returns. Conversely, where a company's structure is based on a series of divisions, the company is taxed as a single unit. The principle is that tax is assessed on each separate legal entity.

# Taxation in Australia

---

## **Assessment of Tax Due**

Taxpayers do not calculate their own tax liability. When the tax office has examined a return, it issues its official document showing its calculations of taxable income, the total tax payable, and the date due for payment. This document is known as an assessment.

## **Payment of Taxes**

A system of provisional taxes is in effect for individuals, but not for companies. The provisional system requires individuals to prepay income tax on an estimated basis, as described below. Companies are required to pay their tax assessment within 7½ months after June 30.

Individuals earning salaries or wages pay tax instalments each pay period on a "pay as you earn" (PAYE) system. Employers of ten or more must register as group employers and withhold the appropriate tax each pay period. The amount withheld is remitted to the Taxation Department each month and, at the end of the year, the employer must furnish each individual with a certificate of the total withheld for the full income year.

Individuals whose income is not taxed at the source under the PAYE system (those with business or investment income) pay a provisional tax for the next year in addition to the tax on the current year's income, and deduct provisional tax paid in the previous year. Next year's provisional tax is calculated on the presumption that next year's income will be the same as that of the current year. If the taxpayer anticipates reduced income next year he can apply for a reduction in provisional tax.

Assessments that contain provisional tax are payable normally within nine months of the relevant June 30. Unless the tax collector has agreed to an extension of time, overdue taxes bear interest at 10% per year. Tax refunds are normally issued with the assessment.

A system of collecting company tax by instalments was introduced by the former government. Its operation has been suspended until 1977 at least due to economic factors.

## **Tax Clearance on Departure**

Tax clearance is not required of any person leaving Australia. A tax return must be filed, but at the usual time. The Taxation Commissioner is authorized to demand a tax return for any interim period and to issue a special assessment, but such authority is invoked only in special cases.

The Taxation Commissioner has power to freeze any assets in Australia that are owned by a nonresident or a resident taxpayer by serving notice on a



third party controlling those assets (such as a bank) until the Commissioner's demands have been met.

## **Tax Disputes**

If any taxpayer is dissatisfied with the amount of tax assessed, he may formally object to the assessment. A written objection must be lodged within 60 days of the date of issue of the assessment, otherwise the taxpayer loses his right to object. There is no provision for allowing an extension of time for lodgment of objections. An objection must state fully the grounds upon which the objection is based and the taxpayer is limited to arguing his case on these grounds. Except in fraud cases, the burden of proof is on the taxpayer to establish his claims.

When an objection is lodged, it is first considered by the tax office that made the decision on the matter. If the taxpayer is still not satisfied, he has rights of appeal to a Federal Taxation Board of Review or the Supreme Court of any state or territory of Australia.

## **MISCELLANEOUS TAXES**

Except for gift and death duties, the indirect taxes levied by various levels of government do not overlap and are not duplicated. Furthermore, except for gift and death duties, indirect taxes paid by a company or individually-owned business enterprise are usually allowable deductions for income tax purposes where the underlying transaction is a deductible expense.

### **Stamp Duties**

All states and some of the territories impose stamp duties at varying rates on a wide range of agreements and documents evidencing legal and commercial transactions. Each state has its own legislation, with a resulting lack of uniformity both as to the amount of duties and the documents on which duty is payable. Some of the common documents subject to stamp duties are: mortgages, land transfers, promissory notes, hire purchase agreements, insurance policies, leases, settlements, and deeds of gift.

Stamp duties are normally imposed on the buyer or user of the document. However, in the case of share transfers through a stockbroker, half the duty is payable by the buyer and half by the seller. The states have worked out an efficient method of collecting duties on transactions that cross state lines.

### **Land Taxes**

All states impose an annual tax on the owner of land as of a specific date. The state land tax is based on land value and does not take into account the

# Taxation in Australia

---

value of any buildings erected on the land. Land tax rates are progressive, increasing with the value of the land. The rates vary among the states, but are within the range of similar taxes in other countries. The tax rates start at a level that excludes the average small home owner and are relevant only to large property owners and businesses that own large blocks of land.

Land values are determined by assessors with new valuations being made every few years.

Some states impose higher land taxes on nonresidents of that state than on residents. Land owned by a subsidiary, whose voting power is at least 75% controlled by a parent company, is taxed by some states directly to the parent company. Thus, the parent company will be taxed on cumulative land value, which bears a higher tax rate. Land tax is deductible for income tax purposes.

The owners of land as of a specific date are required to pay rates both to the municipality in which the land is located and to a water and sewerage authority. Rates are also taxes on land and are the major sources of revenue for municipalities. In the case of rates, the assessment may be based on the unimproved value of the land or improved land value, or a combination of the two. Rates are within the range of similar taxes in other countries.

Rates are at the same level for both individuals and companies and the concept of taxing a parent company, instead of its controlled subsidiary, does not apply. In many cases, concessions are granted to primary producers.

## Sales Tax

A sales tax is imposed exclusively by the federal government on the sales value of items not exempt from tax. The tax is imposed on the last sale of the goods at wholesale in the distribution chain. Usually, the last sale at wholesale is to the retailer. This is accomplished by making all manufacturers and wholesalers primarily liable to charge sales tax, but permitting all but the last wholesaler to obtain a numbered exemption certificate from the Sales Tax Department.

Most goods are subject to this tax, but at varying rates. The following rates, and the types of goods taxable at each rate, are merely illustrative. To ascertain the tax for a specific item, the law itself must be reviewed.

2.5% — many foodstuffs and beverages, household furniture and appliances.

27.5% — private motor vehicles, jewels, cosmetics, television and radio sets, cameras.

15% — all other goods not exempt, commercial vehicles, automobile spare parts and accessories.

**Exemptions.** Certain goods are exempt from sales tax. The exemptions are based either on the nature of the goods or their intended use. The following, again, are merely illustrative. The law must be reviewed for a specific item.

### *Exemptions Based on Nature of Goods*

- Second-hand goods of Australian origin
- Freight, insurance and other charges not “goods”
- Staple foods
- Clothing
- Construction materials

### *Exemptions Based on Intended Use*

- Charitable and public institutions
- Goods considered manufacturing aids
- Containers
- Primary producers
- Mining enterprises
- Government instrumentalities

Sales tax is collected through monthly tax returns filed by those wholesalers and manufacturers required to charge the tax. Sales tax paid by business entities is deductible for income tax purposes if the goods purchased are deductible.

## **Payroll Tax**

A payroll tax is imposed on all employers whose annual payroll (defined as total wages, salaries, and allowances) is more than \$41,600. The federal government was the sole collector of payroll tax until September 1, 1971, at which date the state governments took over this tax. The state tax rate is 5%. The only general exemptions granted from payroll tax are government departments, at all levels, and some charitable and public bodies.

Some states offer payroll tax exemptions to attract industry or to encourage decentralization of city-based enterprises.

# Taxation in Australia

---

## **Collection of Payroll Tax**

Employers must file a monthly tax return, but this requirement is waived for employers with a small payroll or those liable only during peak seasonal periods. The full payroll tax is deductible for income tax purposes.

Payroll tax was originally introduced as a “temporary” wartime measure, but it is now such a significant part of state revenues that it has become a permanent part of the business scene.

## **Death Duties**

The estate in Australia of a deceased person is subject to both federal estate duty and state probate and succession duties. If the deceased was domiciled and all assets were located in the Australian Capital Territory, only federal estate duty would be levied.

Residents of foreign countries who have assets in Australia normally prefer to locate these assets in a territory rather than in a state. The purpose is to confine the potential liability to federal estate duty only.

## **Federal Estate Duty**

Duty ranging from 3% to 27.9%, increasing with the value of the estate, is imposed on real property located in Australia, on personal property in and out of Australia where the deceased had been domiciled in Australia, and on personal property in Australia where the deceased had been domiciled outside of Australia. Duty may also be payable on other amounts, termed notional estate, arising from specified transactions entered into prior to death.

The estate duty is imposed on the value of the estate, less liabilities existing at date of death, less any state probate or succession duty payable, and less a standard exemption that varies with the terms of the will.

The estate duty is not imposed on any assets which pass to a surviving spouse.

Estate duty relief is available in the case of a beneficiary who dies within five years of the death of the original deceased. The relief begins with a rebate of 50% if the beneficiary dies within one year of the original deceased, and decreases to 10% in the fifth year.

The only convention Australia has entered into with respect to federal estate duties is with the USA.

## **State Probate and Succession Duties**

Each state imposes its own death duty. Generally, these are applied similarly to federal estate duty although the rates are different in each state and are generally higher than the federal duty. Particularly in Victoria, death duties are levied on many items of notional estate. Such duties are deductible in the calculation of federal death duties. Queensland State death duties are to be abolished in 1976.

## **Gift Duties**

Gift duties are imposed at the federal level and by the states of Queensland, South Australia and Victoria. Other states impose what amounts to a gift duty, but through the vehicle of stamp duties.

The rates of federal gift duties are the same as for estate duty and are levied on gifts in excess of \$10,000 in any 18 months. The rates of state gift duties range from 2% at \$2,000 to 27% at \$200,000, depending on the state.

State gift duty acts are based on aggregate gifts within specified time periods. Those states that rely on stamp duties normally tax each transaction without aggregation. States that levy gift duties as well as stamp duties at gift tax rates provide relief from double imposition of duties. Similarly, where gift duty has been paid prior to death, and the gift is part of the notional estate of the deceased, a credit is allowed in the calculation of death duties.

# Notes

---

# Notes

---

# Notes

---



# Notes

---

# *Touche Ross International*

## **Services in Australia**

### **Principal office**

Touche Ross & Co.  
P & O Building  
2 Castlereagh Street  
Sydney, New South Wales 2000

Telephone: 02-221-1577  
Cable: TOUCHEROSS  
Telex: 24049 TROSS AA

### **Mail address**

Touche Ross & Co.  
G.P.O. Box 14  
Sydney, New South Wales 2001

### **Other offices**

Adelaide, Brisbane, Canberra, Melbourne, Newcastle,  
Perth, Surfers Paradise, Wollongong

## **Asia/Pacific Regional Partner**

Touche Ross & Co.  
DBS Building, Tower 2602  
Singapore 1

Telephone: 2206723  
Cable: TOUCHEROSS  
Telex: 23701 TR SPOR

## **International Executive Office**

Touche Ross & Co.  
P.O. Box 778 - Radio City Station (*Mail*)  
1633 Broadway  
New York, N.Y. 10019  
USA

Telephone: (212) 489-1600  
Cable: TOUCHEROSS  
Telex: 232419 TRCO

## **BUSINESS STUDIES ISSUED TO DATE**

Australia (1977 edition)  
Belgium/Luxembourg  
(1975 edition)  
Brazil (1976 edition)  
Canada  
Colombia  
Common Market  
Germany  
Hong Kong  
Japan (1976 edition)

Malaysia  
Mexico  
Netherlands/Netherlands Antilles  
(1977 edition)  
South Africa  
Spain (1975 edition)  
Switzerland  
Section 482 (transactions  
between related parties)  
United States

# Offices Around the World

## ARGENTINA

Buenos Aires

## AUSTRALIA

Adelaide  
Brisbane  
Canberra  
Melbourne  
Newcastle  
Perth  
Surfers Paradise  
Sydney  
Wollongong

## AUSTRIA

Vienna

## BAHAMAS

Nassau

## BELGIUM

Antwerp  
Brussels

## BERMUDA

Hamilton

## BRAZIL

Belo Horizonte  
Porto Alegre  
Rio de Janeiro  
Salvador  
Sao Paulo

## CANADA

Calgary  
Corner Brook  
Cornwall  
Edmonton  
Halifax  
Hamilton  
Kelowna  
Kitchener  
Langley  
London  
Mississauga  
Montreal  
New Westminster  
Ottawa  
Quebec  
Regina  
Saint John  
St. John's  
Saskatoon  
Sydney  
Toronto  
Vancouver  
Victoria  
Windsor  
Winnipeg

## CAYMAN ISLANDS

Grand Cayman

## CHANNEL ISLANDS

Jersey

## CHILE

Santiago

## COLOMBIA

Bogota  
Cali

## CYPRUS

Larnaca  
Limassol  
Nicosia

## DENMARK

Ballerup  
Copenhagen  
Esbjerg  
Kolding  
Odense

## FRANCE

Paris

## GERMANY

Berlin  
Bielefeld  
Bremen  
Dusseldorf  
Frankfurt/Main

Hamburg

Hanover

Munich

Nuremberg

Stuttgart

## GREECE

Athens

## GREENLAND

Godthaab  
Holsteinsborg

## GUAM

Agana

## GUATEMALA

Guatemala

## HONG KONG

Hong Kong

## INDONESIA

Bandung  
Jakarta  
Medan  
Surabaya

## IRAN

Tehran

## IRELAND

Cork  
Dublin  
Limerick

## ITALY

Milan

## JAMAICA

Kingston  
Montego Bay

## JAPAN

Fukuoka  
Hiroshima  
Kobe  
Kyoto  
Nagoya  
Naha (Okinawa)  
Osaka  
Sendai  
Takamatsu  
Tokyo

## KENYA

Nairobi

## KUWAIT

Kuwait City

## LEBANON

Beirut

## MALAYSIA

Johor Baru  
Kota Kinabalu  
Kuala Lumpur  
Kuala Trengganu  
Kuantan  
Kuching  
Penang

## MAURITIUS

Port Louis

## MEXICO

Guadalajara  
Mexico City  
Monterrey

## NETHERLANDS

Alkmaar  
Almelo  
Amersfoort  
Amsterdam  
Arnhem  
Beverwijk  
Breda  
Eindhoven  
Enschede  
Gouda  
Groningen  
Haarlem  
The Hague

Heerlen

Hilversum

Leeuwarden

Middelburg

Nijmegen

Rijswijk

Rotterdam

Terneuzen

Tilburg

Zwolle

## NETHERLANDS ANTILLES

Curacao

## NEW ZEALAND

Auckland  
Christchurch  
Wanganui  
Wellington

## NICARAGUA

Managua

## NORWAY

Moss  
Oslo  
Sandefjord

## PANAMA

Panama

## PAPUA NEW GUINEA

Lae  
Port Moresby  
Rabaul

## PERU

Lima

## PUERTO RICO

San Juan

## RHODESIA

Bulawayo  
Salisbury  
Umtali

## SAUDI ARABIA

Jeddah  
Riyadh

## SINGAPORE

Singapore

## SOUTH AFRICA

Cape Town  
Durban  
Johannesburg  
Pietermaritzburg  
Port Elizabeth

## SPAIN

Barcelona  
Madrid

## SURINAM

Paramaribo

## SWEDEN

Stockholm

## SWITZERLAND

Geneva  
Zurich

## TRINIDAD AND TOBAGO

Port of Spain

## TURKEY

Istanbul  
Izmir

## UNITED ARAB EMIRATES\*

Abu Dhabi  
Dubai  
Sharjah

## UNITED KINGDOM

Belfast  
Birmingham  
Bristol  
Edinburgh  
Glasgow  
Leeds  
Leicester

Liverpool

London

Manchester

## UNITED STATES OF AMERICA

Akron, Ohio  
Albuquerque, New Mexico  
Anchorage, Alaska  
Atlanta, Georgia  
Austin, Texas  
Baltimore, Maryland  
Birmingham, Alabama  
Bloomfield Hills, Michigan  
Boise, Idaho  
Boston, Massachusetts  
Buffalo, New York  
Charlotte, North Carolina  
Chicago, Illinois  
Cincinnati, Ohio  
Cleveland, Ohio  
Colorado Springs, Colorado  
Columbus, Ohio  
Corpus Christi, Texas  
Dallas, Texas  
Dayton, Ohio  
Denver, Colorado  
Detroit, Michigan  
Elizabethtown, Kentucky  
Fresno, California  
Grand Rapids, Michigan  
Hackensack, New Jersey  
Harrisburg, Pennsylvania  
Honolulu, Hawaii  
Houston, Texas  
Jackson, Mississippi  
Jacksonville, Florida  
Kansas City, Missouri  
Lincoln, Nebraska  
London, Kentucky  
Los Angeles, California  
Louisville, Kentucky  
Melville, New York  
Memphis, Tennessee  
Miami, Florida  
Milwaukee, Wisconsin  
Minneapolis, Minnesota  
Morristown, New Jersey  
Nashville, Tennessee  
Newark, New Jersey  
New Orleans, Louisiana  
New York, New York  
Oakland, California  
Oklahoma City, Oklahoma  
Omaha, Nebraska  
Philadelphia, Pennsylvania  
Phoenix, Arizona  
Pittsburgh, Pennsylvania  
Pocatello, Idaho  
Portland, Oregon  
Richmond, Virginia  
Rochester, New York  
Sacramento, California  
St. Louis, Missouri  
Saint Paul, Minnesota  
Salem, Oregon  
Salt Lake City, Utah  
San Antonio, Texas  
San Diego, California  
San Francisco, California  
San Jose, California  
Santa Ana, California  
Santa Rosa, California  
Seattle, Washington  
Stamford, Connecticut  
Tampa, Florida  
Toledo, Ohio  
Tulsa, Oklahoma  
Washington, D.C.  
Worcester, Massachusetts

## VENEZUELA

Caracas  
Maracaibo

\*Correspondent with Touche Ross staff in residence