



Level 32, 100 Queen Street
Melbourne Vic 3000 Australia
Phone +61 3 9273 6607
Fax +61 3 9273 6106
www.anz.com

Peter R. Marriott
Chief Financial Officer

26 September 2008

Dr Ken Henry
AFTS Secretariat
The Treasury
Langton Crescent
Parkes ACT 2600

*St Secretary
Mr Murphy
Mr Parker*



Dear Dr Henry

**Australian Future Tax System Review:
Elimination of interest withholding tax on foreign raised deposits**

ANZ supports the Government's initiative to undertake a comprehensive review of Australia's tax system and will be actively participating in submissions prepared by both the Australian Bankers Association and Corporate Taxpayers Association.

During your recent meeting with our CEO Mike Smith, Mike mentioned the funding anomaly caused by the current non-resident interest withholding tax regime. This issue is relevant to the review currently being undertaken by the Australia's Future Tax System Review Panel, and so I am taking the opportunity to table the matter in that context

Under the current regime if Australian banks raise deposits overseas (excluding certain categories of tax exempt investors such as central banks), those deposits are subject to interest withholding tax when repatriated to Australia. As a result, Australian banks do not raise and repatriate deposits. The tax therefore generates nil revenue to the government and cuts off Australian banks from certain pools of liquidity. Foreign banks, including Singaporean and Hong Kong based banks, operating from global funding pools face no such constraints.

The anomalies of the current regime have been highlighted by the global credit crisis and severe dislocation in wholesale funding markets which may ultimately serve to constrain bank lending, resulting in higher credit charges for consumers. Australian banks are highly reliant on wholesale funding and from a prudential and solvency perspective it would make more sense to increase reliance on customer deposits. The current interest withholding tax regime, however, discourages Australian banks from raising customer deposits overseas and therefore constrains the liquidity pool available to Australian banks.

It is difficult to quantify the impact of the current regime on Australian businesses and consumers. However, in a recent report commissioned by the ABA, McKinsey has advised that if the increased liquidity generated by an exemption of withholding tax on foreign deposits led to just a single basis point reduction in interest rates, the interest burden to Australian borrowers would be reduced by \$116m.

ANZ submits that interest withholding tax on foreign deposits be abolished. The Government's stated commitment to develop policies to establish Australia as a

financial services hub for the broader Asia / Pacific region provides the opportunity to remove this significant barrier being faced by the Australian banking industry.

Should you have any queries in relation to this matter please contact Stephen Green on 039273 6395.

Yours sincerely

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

A handwritten signature in blue ink, appearing to read 'Peter Marriott', with a long horizontal stroke extending to the right.

Peter Marriott
Chief Financial Officer