



AUSTRALIA NEW ZEALAND LEADERSHIP FORUM

AFTS Secretariat
The Treasury
Langton Crescent
Parkes
ACT 2600
AUSTRALIA

25 September 2008

Dear Sir

Mutual recognition of franking credits

The Australia New Zealand Leadership Forum was established in 2004 to create a constituency in each country that is well informed about and positively predisposed to the other, and which will encourage and foster the development of a closer relationship between the two countries. Forum meetings are held annually, and comprise some 35 representatives each from Australia and New Zealand, generally at Chairman/Chief Executive level, with a number of Ministers and other politicians and Heads of Government departments also in attendance.

While the focus of the Forum is not restricted to economic matters, it actively engages in pursuing the objective of free trade and goods and services, capital, knowledge and people.

Tax has long been recognised as one barrier to the free flow of investment between the two countries. Under current tax arrangements investment from Australia into New Zealand (and vice versa) is double taxed. Investment flows are distorted as a consequence.

In his speech to the June 2008 meeting of the Forum in Wellington, the New Zealand Minister of Finance Hon. Dr Michael Cullen commented on the double tax problem, and noted that a mutual recognition system under which Australia and New Zealand would each provide credits to their resident individuals for tax paid in the other country merits close attention. Mutual recognition had been discussed at a number of meetings of the Forum over the preceding few years, and indeed prior to the Forum's formation.

In the bi-lateral discussions held between the Australian Treasurer Swan and Dr Cullen in July 2008 the mutual recognition proposal was discussed. The Australian Treasurer expressed openness to investigating the issue and exploring possible solutions, and invited the New Zealand Treasury to make a formal submission on the subject to the *Australia's Future Tax System* review.

The submission

The Forum records its strong support for mutual recognition being considered as part of the review of the Australian tax system. It recognises that the initiative gives rise to a range of significant issues that need to be reviewed to determine the benefits and costs arising, and the feasibility of such a system. However, based on work the Forum has undertaken on this issue in recent years it is considered that:

- Many of the arguments for (and against) the introduction of the Australia New Zealand Closer Economic Relations agreement (CER) in 1983 have equal application to mutual recognition. Based on the CER experience we would expect significant increments and investment flows to arise from mutual recognition.

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- Mutual recognition is a prerequisite to achievement of the objective of a single economic market (SEM), which both Governments have expressed strong support for.
- The existing tax arrangements constitute a major impediment to the free flow of investment.
- Mutual recognition will lead to a more efficient allocation of investment between the two countries, and to a lower cost of capital in each.
- Mutual recognition would mean that the capital markets of the two countries would become more integrated and competitive.
- In a mutual recognition environment, trans-Tasman businesses would be better placed to be able to exploit economies of scale by producing for both markets.
- The introduction of mutual recognition would open up significant additional portfolio investment opportunities for institutional and other investors in each country.

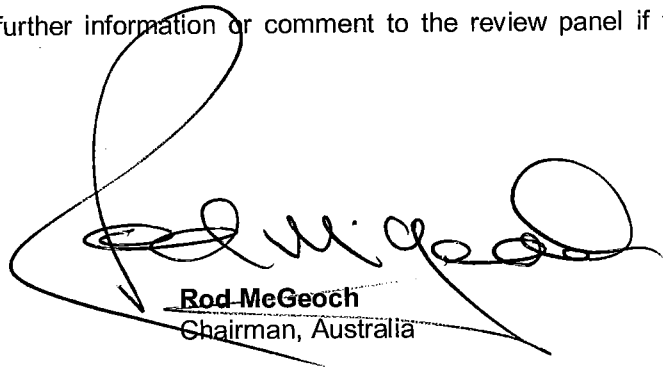
Tax has long been recognised as one of the remaining "big issues" that needs to be resolved in the context of the trans-Tasman relationship. The political initiative shown on this issue by Messrs Cullen and Swan, coupled with the review of the Australian tax system, provides an excellent opportunity to address this barrier.

The Forum would be happy to provide further information or comment to the review panel if that would be of assistance.

Yours faithfully



John Allen
Chairman, New Zealand



Rod McGeoch
Chairman, Australia