CURRENT REVENUE POLICIES AND PRACTICES

FID and Debits Tax

1. The primary rate of Financial Institutions Duty (FID) is 0.06% in most jurisdictions, including Victoria. It is generally payable by a financial institution (FI) on non-concessionary or non-exempt receipts of money from retail transactions in the particular State or Territory, whether obtained physically or electronically or through transfers between accounts. A concessional rate of 0.005% is applied to an FI's liabilities arising from wholesale short term dealings, ie transactions over $50,000 with maturities shorter than 185 days, with concessional duty generally paid on the daily account balance. Queensland is the only jurisdiction which currently does not levy FID.

2. Registered financial institutions liable to pay FID are not only licensed banks, but also non-bank financial institutions; stockbrokers; trustee companies; credit providers; and those persons whose sole or principal business is the borrowing of money and provision of finance.

3. Short-term money market operators who are not otherwise financial institutions can register under FID legislation provided they conduct a business dealing in the short term market. This enables them to run primary rate exempt bank accounts eligible to receive short term dealings, which then only attract FID's concessional rate.

4. Debits Tax is principally levied on withdrawals from all licensed bank non-exempt accounts with a cheque facility. Dutiable debits include not only cheques written, interest debited and bank charges, but electronic instructions for direct debit transfers between accounts; as well as cash withdrawals, including through ATMs and EFTPOS terminals. A flat rate of Debits Tax applies to various ranges of amounts debited, increasing in NSW, Vic and SA from 30c for debits of $1 but less than $100, to $4.00 for debits of $10,000 or above. Other jurisdictions - including Queensland, but with no Debits Tax in the ACT - levy about half this rate on most debit ranges. However, the smaller jurisdictions (WA, SA, Tas and NT) also charge various other duties on cheque and non-cheque debits.

5. Since FID's 1982 inception, a ceiling or cap has applied to the amount of primary rate duty payable on any one receipt. Currently, it is limited to $1,200 per receipt in most jurisdictions levying FID; when FID commenced it was just $300. Thus, for any receipt exceeding $2m, FID is now capped at $1,200 or 0.06% of $2 million. An original rationale for the cap was to prevent FID significantly impacting on any one transaction. Among other things, this reduces the incentive for large transactions to move to a non-FID jurisdiction; together with the concessional rate for the short term money market, it also ameliorates the tax impact on large, repetitious, narrow margin transactions.

6. Under continuing legislative interpretations by revenue offices, individual credits to accounts cannot be bunched or aggregated to take advantage of this $1,200 ceiling. In

other words, if a customer banks a number of cheques, or receives electronic credits in bulk to their account from a number of debited accounts; at law each constituent receipt must individually attract FID of 0.06%.

7. In practice, however, jurisdictions have tolerated $1,200 capping by FIs if bundled cheques (and cash) are physically deposited under one pay-in-slip; unbundling of such deposits for FID purposes is impractical and expensive. In contrast, however, most jurisdictions allow no such concession to a FI for a day's aggregation of electronic transfers: individual transactions in the bulk crediting are taxed whether they arise from use of EFTPOS, direct entry or bill-paying facilities applied to individual accounts. Even so, industry has submitted to revenue offices that the cap applies to a single electronic crediting of $2m or more, regardless of the number of individual transactions in that total. This is based on the argument that electronic aggregation of customers' account debits occurs in larger corporates' or banks' computer data centres in the major capital cities, with only one account credit then passed on to a billing merchant's or institution's account.

8. A very low ceiling also applies to Debits Tax payable on any one withdrawal; depending on the jurisdiction this is either a maximum of $4 or $2. However, on one view of the legislation, when a single large debit is electronically fragmented into multiple credits to payee accounts (for example, when a company employer pays its employees by direct credit), the appropriate rate of Debits Tax is deemed payable on each such individual credit. Nevertheless, recent national interpretations by revenue offices have rejected this approach, so that only the Debits Tax ceiling ($4 or $2) is now payable on single large payroll debits, with no taxing recourse to its electronic fragmentation into multiple employee credits.

Stamp Duty on Marketable Shares or Units

9. Stamp duty is levied on the full market value shares in a Victorian corporation, a non-Australian corporation which has a register in Victoria and units in a unit trust scheme. These securities are either listed and traded on the Australian Stock Exchange or traded over-the-counter (off-the-exchange). Securities which are unlisted and traded over-the-counter are also dutiable. Both parties involved in the transaction, including the company whose shares are transacted, are liable to duty. However, only the parties involved in the exchange pay the duty.

10. In the case of share transactions involving the Crown and the public which are conducted through Victorian brokers, natural persons, corporations or trusts who purchase marketable shares are taxable. However, special provisions might be introduced to exempt them. For example, when privatising the Commonwealth Bank and Qantas, the Commonwealth provided an exemption from duty for shares sold to the public. This exemption enabled the Commonwealth to obtain a higher sale price than would otherwise have been the case.

11. The tax rates for shares transactions undertaken in the Australian Stock Exchange (ie., on-market) are different from rates applying to shares which are traded over-the-counter (ie., off-market). The tax rates for marketable shares are as follows:

Value of Shares	**Tax Rate**	
Listed on the Exchange and traded on- or off-market	**Before 1 July 1995**	**After 1 July 1995**
<$100	14 cents for every $25 or part therefore	7 cents for every $25 or part therefore
>$100	60 cents for every $100 or part therefore	30 cents for every $100 or part therefore.
Unlisted and traded off-market.		
< $100	14 cents for every $25 or part thereof	
> $100	60 cents for every $100 or part thereof	

Mortgages, Bonds, Debentures and Covenants

12. Mortgages are loans which are secured against real and personal property and usually enable one party to finance the purchase of the mortgaged property. The base on which tax is levied is the amount of the loan and the taxpayer is the mortgagor. Bonds and covenants are unsecured loans while debentures are borrowings by companies which are usually secured on company assets. In each case, the tax is levied on the amount of the loan and the borrower is liable to the duty.

13. The tax rate is the same for mortgages, bonds, debentures and covenants, namely:

Amount secured	**Tax rate**
<$10,000	$4
>$10,000	$4 plus 0.4%

14. In addition, where the amount secured under an existing mortgage is increased, 0.4 per cent is levied on the additional amount. However, from 1 April 1996, re-financing of business loans are exempt from additional mortgage duty.

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