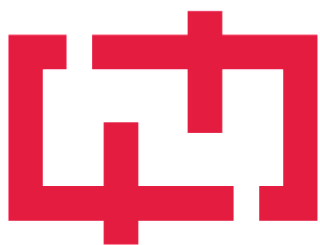


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## Strategy for establishing in Australia - funding considerations

Most entities when establishing a presence in a foreign country, do not consider the best way to fund the business venture; whether it should be in the form of debt or equity and if the decision is debt, should be interest bearing or non-interest bearing?

Whilst most enterprises want to see a reasonable payback return period; fostering a provision of debt mentality (as loan funds can be remitted back to source country without limitation); there is a potential loss of an advantage that is available where the funding is provided on a commercial basis bearing interest.

Interest on loan funds, which are sourced offshore are only subject to a 10% withholding tax (which is a final tax in Australia). Such interest, where the loan funds are utilised to establish a business enterprise, are considered deductible and therefore obtain an income tax benefit of 30% thereby providing a net benefit of 20%. However, for such interest to be deductible we need to ensure that the Thin Capitalization Rules are being adhered to, as tabulated:

Non-Financial Entities: debt to equity ratio 3:1  
Financial Entities: debt to equity ratio 5:1

NON-FINANCIAL ENTITY		NON INTEREST LOAN FUNDING MINIMUM	INTEREST BEARING LOAN FUNDING
<b>BACK GROUND INFORMATION</b>			
Funding provided by foreign entity	\$3,000,000		
Sales generated in Australia	\$2,000,000		
Expenses (excluding interest)	\$1,500,000		
Capital		3,000,000	1,000,000
Interest Bearing Debt			2,000,000
<b>Total Investment Made</b>		<b>3,000,000</b>	<b>3,000,000</b>
Sales		2,000,000	2,000,000
Less Expense		1,500,000	1,500,000
Less Interest 2,000,000 @ 10%			200,000
<b>Net Profit</b>		<b>500,000</b>	<b>300,000</b>
Tax thereon @ 30%		150,000	90,000
<b>Net Profit after tax</b>		<b>350,000</b>	<b>210,000</b>
<b>TAX POSITION</b>			
Company Tax		150,000	90,000
Withholding Tax			20,000
		<b>150,000</b>	<b>110,000</b>

This represents a saving of 40,000AUD