



Policy costing

Eliminate Withholding Tax Exemption on Foreign Bondholders	
Person/party requesting the costing:	Senator Gerard Rennick, Gerard Rennick People First
Date costing completed:	17 April 2025
Expiry date of the costing:	Release of the next economic and fiscal outlook report
Status at time of request:	Submitted outside the caretaker period
	<input type="checkbox"/> Confidential <input checked="" type="checkbox"/> Not confidential
Summary of proposal: The proposal would remove the exemption under section 128F of the <i>Income Tax Assessment Act 1936</i> to pay withholding tax on interest paid to a foreign resident through a debenture or a 'debt interest'. This results in a 10% withholding tax rate to interest payments to foreign resident lenders. The proposal would be ongoing and commence on 1 July 2025.	

Overview

The proposal would be expected to increase the fiscal balance by around \$2.35 billion and underlying cash balance by around \$2.23 billion over the 2025-26 Budget forward estimates period (see Table 1).

The proposal would be expected to have an impact beyond the 2025-26 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2035-36 is provided at Attachment A.

There would be an increase in departmental expenses for the Australian Taxation Office (ATO) associated with implementing the proposal.

Australia currently imposes various rates of withholding tax on interest paid to foreign residents, unless an exemption applies. Section 128F of the *Income Tax Assessment Act 1997* provides an exemption from interest withholding tax for certain publicly offered debentures and debt interests, where those debentures and debt interests are issued by a State or Territory, the Commonwealth, a resident Australian company, a non-resident company operating through a permanent establishment or certain non-resident subsidiaries.

Table 1: Eliminate Withholding Tax Exemption on Foreign Bondholders – Financial implications (\$m)^{(a)(b)}

	2025-26	2026-27	2027-28	2028-29	Total to 2028-29
Fiscal balance	587.4	587.8	587.8	587.8	2,350.8
Underlying cash balance	466.4	587.8	587.8	587.8	2,229.8

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) PDI impacts are not included in the totals.

Uncertainties and Limitations

The financial implications are uncertain and sensitive to changes in the global financial market (including interest rates), and responses to the proposal from foreign lenders and domestic borrowers in the Australian debt market. Country specific Double Tax Agreements (DTA) may alter the interest withholding tax rate levied on foreign residents from the rate specified in this proposal. If these uncertainties materially change over the forecast period, the estimated revenue gain is likely to also vary.

Key assumptions

General

- The interest withholding tax rate for foreign residents is assumed to be 10% on the gross interest payment.
- 60% of the interest payments exempt under section 128F are also exempt under a DTA. The remaining 40% is not exempt and therefore in scope of the proposal.¹
 - Interest payments from Governments (Commonwealth and State Governments) are assumed to make up 70% of the non-exempt interest payments. Interest payments from companies are assumed to make up 30% of the non-exempt interest payments.
 - The proportion of State Government debt to overall Government debt is assumed to be 36%.²
 - No growth rate in interest payments is assumed beyond the 2024-25 income year.
- The incidence of taxation is fully borne by the borrower, as foreign investors will still be seeking the same current rate of return. The 10% withholding tax will effectively increase the cost of borrowing for domestic borrowers where issuance of debt to foreign lenders is held constant.
- There is no behavioural impact as borrowing costs are assumed to be absorbed by borrowers and lenders will receive the same amount of net interest payments (Governments and large corporate entities).
- Companies affected by this proposal (those borrowing from foreign lenders) would be subject to the full Australian company tax rate of 30%.
- Departmental costs are based on policies with a similar degree of administrative complexity.

Timing

- 90% of the interest withholding tax is paid in the year in which the liability is raised. The remaining 10% is paid in the subsequent income year.
- Companies issuing debt to foreign lenders pay monthly tax instalments to the ATO.
- All companies issuing bonds to foreign residents are taxable.

¹ [Income Tax Treaties | Treasury.gov.au](#)

² [Australian National Accounts: Finance and Wealth, December 2024 | Australian Bureau of Statistics](#)

Methodology

The Department of the Treasury provided annual data on interest payments made to foreign residents under the section 128F exemption. The annual revenue gain was calculated by the following:

- Aggregate interest payments were held constant at 2024-25 levels based on the methodology in the *2024-25 Tax Expenditures and Insights Statement* model for item *B11-Exemption from interest withholding tax on certain securities*.
- Non-exempt interest payments were calculated by reducing the current section 128F interest payments by 60%.
- The remaining 40% non-exempt interest was apportioned to Governments (70%) and companies (30%). This was grossed up by 10% to account for the increased borrowing costs.
- Withholding tax revenue was calculated by multiplying the interest payments by 10%.
 - For the Commonwealth Government, the increased cost of funding is directly offset by the increased withholding tax paid.
- Increased withholding tax paid by companies is utilised as a deduction, reducing the overall company tax payable.
- Cash timing assumptions were applied to estimate the annual UCB impact.

Financial implications were rounded consistent with the PBO's rounding rules.³

Data sources

Australian Bureau of Statistics, [Australian National Accounts: Finance and Wealth, December 2024](#), Canberra: Australian Bureau of Statistics, accessed 14 April 2025.

Commonwealth of Australia (2025) *Pre-election economic and fiscal outlook 2025*, Commonwealth of Australia.

The Department of the Treasury provided annual data on section 128F interest payments as at 3 April 2025.

The Department of the Treasury, [Income Tax Treaties](#), Canberra: Australian Taxation Office, accessed 15 April 2025.

The Department of the Treasury, [2024-25 Tax Expenditures and Insights Statement](#), Canberra: Australian Taxation Office, accessed 10 April 2025.

Price Waterhouse Coopers (2024) [Australia - Corporate - Withholding taxes](#) accessed 10 April 2025.

³ <https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules>

Attachment A – Eliminate Withholding Tax Exemption on Foreign Bondholders – Financial implications

Table A1: Eliminate Withholding Tax Exemption on Foreign Bondholders – Fiscal balance (\$m)^(a)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Tax revenue													
<i>Interest withholding tax</i>	1,270.0	1,270.0	1,270.0	1,270.0	1,270.0	1,270.0	1,270.0	1,270.0	1,270.0	1,270.0	1,270.0	5,080.0	13,970.0
<i>Company tax</i>	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-456.0	-1,254.0
Total – revenue	1,156.0	1,156.0	1,156.0	1,156.0	1,156.0	1,156.0	1,156.0	1,156.0	1,156.0	1,156.0	1,156.0	4,624.0	12,716.0
Expenses													
Administered													
<i>Commonwealth borrowing</i>	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-2,272.0	-6,248.0
Total – administered	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-2,272.0	-6,248.0
Departmental													
<i>ATO</i>	-0.6	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.2	-2.6
Total – departmental	-0.6	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.2	-2.6
Total – expenses	-568.6	-568.2	-568.2	-568.2	-568.2	-568.2	-568.2	-568.2	-568.2	-568.2	-568.2	-2,273.2	-6,250.6
Total (excluding PDI)	587.4	587.8	587.8	587.8	587.8	587.8	587.8	587.8	587.8	587.8	587.8	2,350.8	6,465.4

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

Table A2: Eliminate Withholding Tax Exemption on Foreign Bondholders – Underlying cash balance (\$m)^(a)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Tax receipts													
<i>Interest withholding tax</i>	1,140.0	1,270.0	1,270.0	1,270.0	1,270.0	1,270.0	1,270.0	1,270.0	1,270.0	1,270.0	1,270.0	4,950.0	13,840.0
<i>Company tax</i>	-105.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-114.0	-447.0	-1,245.0
Total – receipts	1,035.0	1,156.0	1,156.0	1,156.0	1,156.0	1,156.0	1,156.0	1,156.0	1,156.0	1,156.0	1,156.0	4,503.0	12,595.0
Payments													
Administered													
<i>Commonwealth borrowing</i>	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-2,272.0	-6,248.0
Total – administered	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-568.0	-2,272.0	-6,248.0
Departmental													
<i>ATO</i>	-0.6	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.2	-2.6
Total – departmental	-0.6	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.2	-2.6
Total – payments	-568.6	-568.2	-568.2	-568.2	-568.2	-568.2	-568.2	-568.2	-568.2	-568.2	-568.2	-2,273.2	-6,250.6
Total (excluding PDI)	466.4	587.8	587.8	587.8	587.8	587.8	587.8	587.8	587.8	587.8	587.8	2,229.8	6,344.4

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

Table A3: Eliminate Withholding Tax Exemption on Foreign Bondholders – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
<i>Fiscal balance</i>	10.0	34.0	61.0	90.0	120.0	151.0	184.0	219.0	255.0	294.0	334.0	195.0	1,752.0
<i>Underlying cash balance</i>	8.0	28.0	55.0	83.0	113.0	144.0	176.0	210.0	246.0	284.0	324.0	174.0	1,671.0

- (a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the tables above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary⁴.
- (b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

⁴ [Online budget glossary – Parliament of Australia \(aph.gov.au\)](https://aph.gov.au)