

MEDIA STATEMENT

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Abacus exposes “extreme” taxation of deposits

Independent research commissioned by credit unions and mutual building societies makes a powerful case to ease the taxation of interest earnings on deposits.

Deposits in Authorised Deposit-taking Institutions (ADIs) - building societies, credit unions and banks - are the most important source of funding for home lending but are subject to punishing levels of tax.

Abacus – Australian Mutuals today released a report by the South Australian Centre for Economic Studies (SACES) entitled *Interest Earnings on ADI Deposits and Australia’s Tax and Transfer System*.

The report will be submitted to the Federal Government’s review of Australia’s Future Tax System and has been provided to the House of Representatives Inquiry into competition in retail banking.

Abacus is the industry body for credit unions, building societies and friendly societies, representing 168 institutions that collectively hold more than \$70 billion in assets and serve the needs of more than 6 million members across Australia.

“Our members have a long tradition of encouraging Australians to save,” said Abacus CEO Louise Petschler. “Credit unions and mutual building societies, collectively, hold more of Australia’s household deposits than any bank other than the Commonwealth Bank.

“Deposits are the simplest, safest, most accessible and best understood savings vehicle. This explains the flight to deposits in the current financial markets crisis. However, the long-term trend is against deposits. Between 1990 and mid-2007, deposits’ share of financial assets of Australian households fell from 30 per cent to 18.5 per cent.

“The Government’s own report on Australia’s taxation system released in August shows the effective rates of taxation applied to interest earnings on ADI deposits in Australia are very high.

“The SACES report we are releasing today reveals an even worse picture by using assumptions that reflect official forecasts and market interest rates.

“Real effective marginal taxation rates based on the Government’s own scenarios are quite extreme, with rates of up to 120 per cent.

“Heavy taxation of deposits discourages domestic saving and pushes up the cost of funding for home lenders.

“While the Government’s three-year guarantee of all deposits with credit unions, banks and building societies is a welcome confidence-boosting measure in current conditions, we encourage long-term planning to support Australia’s ADI deposit base into the future.

“Funding for home lenders is not the only problem that can be addressed by reforming the taxation of deposits.

“Our research shows that the taxation treatment of deposits disproportionately affects savers with relatively lower levels of wealth and income, and we believe a fairer system is needed.

“One short term option that could be considered, to provide immediate relief ahead of larger scale tax reform, is to give interest earnings on ADI deposits the same treatment that is given to capital gains on assets held for longer than 12 months.

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“Under this option, the taxpayer would pay tax at their marginal rate on half of the total nominal net investment income derived.”

For a copy of the SACES report, go to www.abacus.org.au

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