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26 August 2014

Financial Systems Inquiry  
GPO Box 89  
SYDNEY NSW 2001

**BY EMAIL fsi@fsi.gov.au**

Dear Sirs

## **FINANCIAL SYSTEMS INQUIRY – SUPPLEMENTARY SECOND ROUND SUBMISSION – US S CORPORATIONS**

Further to our submissions of yesterday, 25 August 2014, we make the following supplementary submission.

We invite the Inquiry to consider implementation of Australian taxation and incidental changes to give Australian start-up companies the opportunity to be treated, at least for flow through of company tax losses to shareholders, in a manner akin to “S corporations” in the United States of America.

Information on such corporations may be found at or in:

- <http://www.sba.gov/content/s-corporation> (a publication of the U.S. Small Business Administration on an official website of the US Government)
- <http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/S-Corporations> (a publication of the US Internal Revenue Service), and
- S S Karlinsky, *S Corporations*, The Tax Adviser, published by the American Institute of CPAs, October 2012 (sourced from a members only access website; .pdf copy enclosed).

This supplementary submission builds on our stated objective of inter-operability and should enhance a more widespread and effective use of the benefits afforded by our Free Trade Agreement with the United States. In the important area of encouraging the further development and commercialisation in Australia of software written by Australians, this particular jurisdictional inter-operability is of especial importance.

In essence, S corporations allow flow through of corporate losses to US stockholders in specified circumstances, which may be said to be akin to “loss imputation” in addition to our “dividend imputation” rules.

The capturing of losses, rendering them unavailable to shareholders, in Australian start-up companies is one of the primary disincentives to investment in Australian companies as opposed to US S corporations or other Australian start-up structures.

If equivalence were achieved in Australia in this regard, one may see a reduction in the use of more complex, including trust, structures; more Australian software developers staying in Australia and US software developers undertaking more software development here.

A reduction in complexity should also hopefully see an increase in efficiency, with a view to increased returns.

We commend this supplementary submission to you.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Daren Armstrong', written in a cursive style.

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