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INFRASTRUCTURE PARTNERSHIPS AUSTRALIA
BUILDING AUSTRALIA TOGETHER

Mr Stephen Boyd
Committee Secretary
Standing Committee on Economics
PO Box 6021
Parliament House
CANBERRA ACT 2600
AUSTRALIA

Dear Secretary,

## INCREASE IN MANAGED INVESTMENT TRUST FINAL WITHHOLDING TAX RATE

In the 2012-13 Federal Budget the Government announced that the Managed Investment Trust (MIT) final withholding tax rate will be increased from 7.5 per cent to 15 per cent, taking effect from 1 July 2012. Infrastructure Partnerships Australia is concerned about this sudden and unexpected announcement, and welcomes the opportunity to comment on this proposed change.

Infrastructure Partnerships Australia opposes the *Income Tax (Managed Investment Trust Withholding Tax) Amendment Bill 2012* – both in terms of the manner of its introduction, as well as its content. The changes relating to the MIT withholding tax rate should be abandoned until there has been comprehensive industry consultation and there should be an acknowledgement by Government that existing projects will be grandfathered. Irrespective of any prospective change, it would be poor public policy for the proposed doubling to adversely affect investors in projects who made decisions in good faith based on the existing rate.

MITs are typically used in infrastructure, as well as property projects, and these sectors will be adversely impacted by this change. This comes at a time when Australia needs to be attracting more, not less private capital into public infrastructure projects. The change creates confusion as to the Government's overall policy with respect to private investment in infrastructure.

## 1. ABOUT INFRASTRUCTURE PARTNERSHIPS AUSTRALIA

Infrastructure Partnerships Australia is the nation's peak infrastructure body. Our mission is to advocate the best solutions to Australia's infrastructure challenges, equipping the nation with the assets and services we need to secure enduring and strong economic growth and importantly, to meet national social objectives.

Our Membership is comprised of the most senior industry leaders across the spectrum of the infrastructure sector, including financiers, constructors, operators and advisors. Importantly, a significant portion of our Membership is comprised of government agencies.

Infrastructure Partnerships Australia draws together the public and private sectors in a genuine partnership to debate the policies and priority projects that will build Australia for the challenges ahead.

## 2. SOVEREIGN RISK CONSIDERATIONS

The surprise introduction of the new rate causes significant uncertainty and legitimate concern about the stability of the Australian investment environment, and has the potential to deter future investment. The future tax rate is a serious consideration for overseas investors deciding where to send their funds and reliability and transparency in decision-making is of key importance. Investors need to be able to trust that their investments won't be subject to inconsistent decision-making.

The uncertainty caused by the sudden rate change is exacerbated by the context in which it is being introduced. From 1 July 2008, the previous 30 per cent non-final withholding tax rules applying to certain distributions from Australian MITs were replaced with a final withholding tax regime, and the reduction to a rate of 7.5 per cent was phased in over three years. A doubling of the rate now – so soon after and in the opposite direction to earlier changes – signals worrying instability in this area.

Relatively speaking, the rate is changing from a quarter to half of the corporate tax rate. The magnitude of the change, combined with the manner in which it has been announced, has caused considerable worry that further significant changes could be introduced without warning.

Uncertainty in taxation and other regulatory environments has significant adverse impacts on future investment in infrastructure projects, particularly considering their long investment horizons. Investors thrive on certainty, and while we accept that the Government needs to boost revenue and reduce expenses, it should not do so in ways that could serve to frustrate its broader productivity objectives, including much-needed investment in infrastructure.

Infrastructure Partnerships Australia emphasises the need for comprehensive industry consultation before any changes are made to the infrastructure taxation environment. Infrastructure Partnerships Australia's Taxation Taskforce welcomed the opportunity to participate in previous consultation processes, including surrounding MITs.

## 3. GRANDFATHERING PROVISIONS

In addition to deterring future investment, the rate change will reduce financial returns on investments which have already been made. The 7.5 per cent rate was an incentive to attract investment into Australia, and protection must now be given to investors who, in good faith, relied on the expectation of that reduced rate going forward over the term of their investment.

Infrastructure Partnerships Australia considers that the inclusion of grandfathering provisions, whereby the existing rate of 7.5 per cent continues to apply to investments in existing projects, is essential. The current Bill has no such inclusion.

## 4. FURTHER CONTACT

Should you require further information, I invite you to contact our Director, Policy, George Powell, on (02) 9240 2060 or our Manager, Policy, Zoe Peters, on (02) 9240 2064.

Yours sincerely,

**BRENDAN LYON**
CHIEF EXECUTIVE OFFICER