

18 June 2008

**TAX LAWS AMENDMENT  
(ELECTION COMMITMENTS NO. 1) BILL 2008  
INCOME TAX (MANAGED INVESTMENT TRUST  
WITHHOLDING TAX) BILL 2008  
INCOME TAX (MANAGED INVESTMENT TRUST  
TRANSITIONAL) BILL 2008**

**Second Reading**

**Mr BRADBURY (Lindsay) (11.22 a.m.)**—I rise in support of the Tax Laws Amendment (Election Commitments No. 1) Bill 2008 and related bills that are before the House. These measures are in fact an important part of the government's strategy to attract more investment into the country. Not only is it about investment but it is about jobs and local jobs. There has been much discussion in the debate and some of it has dwelt upon the racial elements of this particular series of measures. The constant reference to foreigners is something that I think does not really allow the debate to be conducted in an objective fashion. When we are talking about the particular taxpayers that are likely to be the immediate beneficiaries of these measures they are nonresident investors, but those nonresident investors will be the individuals and the entities that will be contributing capital towards industry in this country.

While matters of race are sometimes important to men and women, I have to say that when it comes to global capital there is much more interest in rates. That is why the significance of this particular measure is to reduce the withholding tax rate on managed investment trust income by taxing particular distributions arising from managed investment trusts. Perhaps the best way of describing the particular types of distributions involved is to say they are distributions other than those that would otherwise be characterised as dividend, royalty or interest income. There has been much discussion in this debate about listed property trusts, but of course the legislation is broader than that. It is not just about listed property trusts; it is about managed investment trusts, as defined in the bills.

The particular measures that are contained in these bills that I rise in support of involve the lowering of the current rate of withholding tax of 30 per cent in a staged fashion. The first stage will involve a reduction to 22.5 per cent, followed by a reduction to 15 per cent and then a further reduction to 7.5 per cent, which will take our rate of withholding tax for these types of distributions to one of the lowest, if not the lowest, rate in the world. That will be a very clear signal, a marker, to global capital that this is a place to invest—that Australia is a country where you are able to invest and you are able to get a reasonable rate of return without being slugged with excessive levels of tax, as may be the case in other jurisdictions.

A number of comments were made earlier in the debate that I would like to address, one by one. Firstly, I feel it is appropriate to go through and comment on some of the third-party endorsements that this bill

has received from particular players in industry, many of whom have been calling for these measures for some time. Mr Richard Gilbert, the Chief Executive of the Investment and Financial Services Association, IFSA, said:

I was shocked that the move was better than the election target. It was a pleasant surprise. When you look at the package, it's brilliant.

It is brilliant because it goes further than the election announcement, taking our rate to a level that is much lower than that of most of our trading partners, making Australia a more attractive destination for overseas investors looking to invest in the particular types of funds and projects that are in contemplation under the bills.

We have also heard Mr Trevor Cook, the Executive Director of the Property Council, state:

This is world's best practice. This will increase the competitiveness of the Australian REIT sector and its ability to attract capital. The joy comes from the fact that the government has committed to aggressively attacking the issues.

That is true: this is a government that is very much committed to attacking those barriers to foreign investment. If we are to be internationally competitive then it stands to reason that we must have rates of taxation that are amongst the lowest in the world. Certainly this is a particular series of measures designed towards ensuring that in respect of these types of distributions we will be delivering one of the lowest rates of withholding tax in the world.

Mr Stephen Dunne, the Chief Executive of AMP Capital, said:

Reducing their withholding tax for foreign residents will strengthen Australia's competitiveness as an international investment centre.

That is precisely the point that the government is making. Mr Jeremy Duffield, the Managing Director of Vanguard Investments, said:

This single initiative delivers a vital fillip to Australia's credentials as a regional investment centre—

once again, that echoes the views of the government—

allowing our local industry to attract greater capital inflows through a sharpened competitive edge.

And Mr Peter Verwer, the Chief Executive of the Property Council of Australia, said:

This reform has come at a critical time for the real estate funds industry, which is facing increased global competition for capital and a tightening market.

That is a point worth reflecting on: significant changes are proposed in these bills, but they are also timely in the sense that there is a squeeze out there for funds. It is a tight market and we hope, and we certainly believe, that this measure will go some way towards increasing the pool of funds available for investment here in Australia.

Significant benefits flow from having Australia as a serious player in financial services. The ambition that the government has of creating some of the big cities in Australia in particular as hubs for financial services and managed funds is an ambition that we are very much committed to. This particular range of proposals is one of the first instalments towards trying to achieve that ambition. The significance of this, of course, is having more money flowing into this country for investment and more money flowing into managed investment trusts in this country. We heard from previous speakers—the member for Corio and the member for Charlton—that in Australia we have a managed funds industry that is first rate. We are punching well and truly above our weight internationally. This is an area in which we have a comparative advantage in terms of the skills of our local residents, but that also begs the question: what do we need to do in order to consolidate that industry? What do we need to do in order to expand the range of opportunities in that particular space, in that particular industry?

An initiative such as this will not only bring more capital into this country; it will provide more jobs, and those jobs will be in a highly skilled sector of the global economy. That is an important point to make because, from my observations over the many years that I have been both a participant and an observer of the public policy debate in this country, the perils of globalisation have been much lamented by people on all sides of the House and, indeed, by many beyond the walls of this House.

With globalisation there clearly come many challenges but also some great opportunities. In providing an internationally competitive tax regime in relation to withholding tax in respect of distributions from managed investment trusts, as a nation we are able to position ourselves in such a way as to take advantage of some of those potential benefits of globalisation. In essence, that is what this is about. It is about investing in our nation's future and investing in our capacity as a nation to become a regional hub when it comes to financial services, managed funds and the managed funds sector.

I would like to turn my attention to some of the comments that were made, in particular, by the opposition spokesperson on these matters, the member for Stirling. I note that the member for Stirling concentrated in large part in his speech on a very simple proposition: how can this government come forward, after providing very little tax relief to Australians, and offer this huge tax windfall to foreigners? That is, in essence, the major critique that has been put forward by the opposition. Thankfully, when they were in government, in some respects they took a more far-sighted approach to these things. They were a little more cognisant of our national interest and they were a little more broad-minded when it came to having genuine debate about how we as a nation can invest in our future and secure a future for ourselves in the global economy. Unfortunately, as with many things we have seen from the coalition since they have been in opposition, they really have been forced to revert to the populist pit that many oppositions that have preceded them have fallen into.

In relation to those criticisms about taxation, I have to say that it is slightly more than a minor oversight on the part of the member for Stirling to ignore the fact that the budget will deliver \$46.7 billion worth of tax cuts to Australians. The sort of money we are talking about in these bills is approximately \$600 million over the next four years. Just to debunk this argument that all the freebies and concessions are being offered to foreigners and that local people do not get a cent, let us just focus on the facts. Commencing on 1 July, \$46.7 billion in income tax cuts alone will be delivered to Australian families.

There are a range of other measures—depending on how you define a tax concession or preferential tax treatment—that clearly would fall within the scope of the budget that we have just handed down

that deliver additional benefits to Australian people, to many working families and to many people in need throughout our community. For example, there are the childcare tax rebate and the education tax refund. Rebates and refunds of this nature, in large part, are to be characterised as providing tax relief. In addition to that, we have the first home saver accounts. Apart from delivering a co-contribution in respect of savings put aside by first home buyers, this initiative also provides a tax incentive, a tax concession, in terms of the tax treatment of the earnings on the funds set aside in the first home saver accounts. In total, the first home saver account initiative involves a commitment of \$1.2 billion over four years. So there is \$46.7 billion for the tax cuts, \$1.6 billion for the childcare tax rebate, \$4.4 billion for the education tax refund and \$1.2 billion for the first home saver accounts. In fact, there were additional tax initiatives that provided tax relief to Australian people. The National Rental Affordability Scheme is an initiative that delivers tax concessions, or tax credits, to investors who invest in providing affordable housing, delivering rental housing at 20 per cent less than the market value. There are other initiatives, but that particular initiative means another \$623 million.

We are talking about billions and billions of dollars worth of tax relief that has been delivered. And that does not take into account some of the other initiatives that this government has supported in terms of transfer payments and direct payments into the pockets of pensioners, carers, seniors and many other Australians in need. The reality is that the budget just handed down has delivered a significant amount of the wealth that has been collected by government back into the hands of the people who put it there in the first place—and that is predominantly Australian taxpayers. So to come into this place and suggest that a \$600 million initiative over four years is somehow the only contribution that this government is making to providing any tax relief is not only disingenuous; it is just plain wrong. The member for Stirling knows it. But I have noticed that he has been rather lax when it comes to the truth on these matters in relation to a number of these bills that have come forward in his portfolio area.

I want to address another issue that was raised—that is, the critique brought forward by the member for Stirling. It had, perhaps, a little more substance than the earlier critique. He said that some of our trading partners are not listed in the draft regulations so therefore this is just a sham—there is no way at all that this could possibly be a measure involved in making Australia some financial services hub. The reality is that he is right—there are some jurisdictions within our region that are not listed in that draft regulation. The reason they are not listed in the draft regulation comes back to one of the really important aspects of these bills—that is, these bills are directed towards also improving overall levels of information exchange between jurisdictions when it comes to tax matters. We are determined to make sure that, in our dealings with other countries, whether it be through bilateral means—and traditionally that is the way in which we deliver greater certainty when it comes to information exchange—whether it be through information exchange protocols or whether it be through the double tax agreements themselves, we are committed to delivering robust information exchange procedures.

It is our expectation that the extent to which we as a nation are prepared to share information with other jurisdictions should be the benchmark that others reach. If they are not prepared to reach that then the disadvantage to their residents will be that they will not get the benefit of the reductions in withholding tax that are proposed under these bills. That seems pretty fair to me, and I think most fair-minded Australians would say that that is fair. We want an initiative that brings more money into this country and provides more jobs—more high-skill jobs—but at the same time we do not want to be giving a free ride to investors abroad who may be involved in practices that are not necessarily above board or the most scrupulous. The best way to ensure that is to make sure that there is some sort of oversight. The best way

of achieving that is to have information exchange that is rigorous.

Another criticism brought forward by the member for Stirling was that he said this delivers no real benefit in tax terms to the investor so therefore it is a tax concession that does not and will not achieve any additional inflow of capital into this country. His argument for that is that if you are paying less tax here then ultimately the money in the hands of the nonresident investor will be taxable within their home jurisdiction. Well, that is true but there is a false premise upon which that assertion rests—that is, that all taxpayers are paying tax within other jurisdictions and in particular within their home jurisdiction. What it ignores is that many of the pension funds—and, let us be realistic about it, they are one of the targets when it comes to this legislation; we are looking to target some of those big pension funds around the world that are cashed up and looking to invest; they are the principal targets of this legislation—are either taxed at a low rate or tax exempt within their own jurisdiction. So the argument brought forward has absolutely no application at all when it comes to these particular entities. It might be a subtle point but it is a really significant one when we have a look at the impact of this measure and whether or not it will deliver on the government's ambitions, and I believe that it will.

In closing, I wish to conclude by saying that this is an important plank in the government's attempts to establish Australia as a financial services hub. We have the expertise. We are strategically located within the Asian time zone, or sufficiently proximate to most of those time zones in order to be a regional hub. In addition to that, we have a robust regulatory regime and a very stable economic and political context within which investment can occur. These are some of the selling points on which we must compete with the rest of the world. There are other players within our region that are actively pursuing the title of being the regional hub when it comes to financial services and the managed funds sector. If we are to compete with those, we need to be proactive; and these are proactive measures that will deliver real gains in our efforts to secure our place as a regional hub when it comes to financial services and the funds management sector in the global economy.