

# How do you navigate the present while building for the future?



## Funding key infrastructure projects – what assistance could the Henry Review provide?

Whether it is to meet demand for our resources, or the requirements of our growing population, the need for infrastructure investment in Australia is clear. The challenge, given the current state of the credit markets, is how to facilitate funding for key infrastructure projects from investors.

The Henry Review is due to provide its report to the Government on Australia's future tax system by the end of 2009. One of the areas the Henry Review should focus on is making investing in infrastructure projects more attractive for Superannuation Funds, including Self-Managed Superannuation Funds.

Superannuation Funds are looking for stable long-term income and infrastructure projects are, by their nature, providers of stable long-term cash flows. Consequently, they seem a logical investment match.

PwC highlights four possible improvements to infrastructure investment. Two slightly more complex approaches to inject new life into investment and two other changes that could be achieved through simple amendments.

### Targeted Infrastructure Bonds

A somewhat more complex amendment to the tax system that could make infrastructure projects more attractive to investors and thereby attract more funding in these capital constrained times, is the controlled reintroduction of targeted infrastructure bonds (for these purposes called Building Australia Bonds – “BABs”).

It is suggested that monies raised from these new BABs be invested only in key projects nominated and approved by a government sponsored body such as Infrastructure Australia (“IA”).

To make the BABs attractive, it is suggested they be given a higher return than project lenders but significantly lower than equity. The return could be indexed for inflation and interest income should not be subject to tax (or carry a 30 per cent tax credit like the Infrastructure Bonds Tax Offset scheme).

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## Flow Through Shares

Tax losses in infrastructure projects are typically created in the construction phase, primarily by interest expense on borrowings and upfront transaction costs. The benefit of these tax losses cannot be immediately accessed by investors.

The introduction of a Flow Through Shares (FTS) scheme would aim to supplement returns to equity investors in the early years of a project. Under a FTS model, the benefit of tax losses created by a company's project expenditures could be transferred to investors, most likely in the form of a 30 per cent tax credit. The transfer of benefits in this way would help to attract up front capital to infrastructure projects.

## Depreciation allowances

Most infrastructure projects are long life projects. Where the costs of these projects are eligible for depreciation, the effective depreciation rate is usually low to reflect the long life of the project.

In some situations (to date, mainly in the gas and oil sectors) a statutory life has been allowed for certain types of assets. It is recommended that a statutory cap be imposed on all infrastructure expenditure, in the range of 20-30 years. This would allow eligible assets to be depreciated over a much shorter term than what currently applies. For example, the cap on power stations could be lowered from 30 to 20 years, the cap on ports from 20-30 years to 20 years, and roads from 40 years to 20-30 years.

## Taxation of Trusts

It is recommended that, where trusts are used to hold infrastructure projects, they not be taxed as companies. This could require an extension to the definition of "eligible investment business" in Division 6C of the 1936 Tax Act, to include a wide scope of infrastructure assets.

The widening of this definition, and subsequent elimination of company tax on infrastructure investments held by trusts, would significantly simplify investments and make infrastructure as an asset class more attractive. It would remove the necessity of establishing convoluted dual or stapled structures, an inefficiency in the current system.

In conclusion, PwC recommends four potential amendments to the tax system the Henry Review could suggest to make investing in infrastructure projects more attractive

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