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Tax breaks for foreign funds

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Financial Services Minister Bill Shorten is pushing for tax breaks for foreign funds investing in Australia to help boost financial services exports to Asia.

After a closed-door meeting with senior finance executives yesterday, Mr Shorten told *The Australian Financial Review* he hoped "in the near future" to announce a new initiative to develop an investment manager regime for the funds management sector, proposed by investment banker turned government adviser Mark Johnson.

Under the likely scenario, foreign funds using an Australian fund manager would not be taxed on their returns. Local funds would still pay tax on fee income.

The proposal would cost the federal budget and requires Cabinet approval. But the funds management industry argues that without the changes Australia will miss out on attracting billions of dollars of overseas investments that could grow the local asset management industry and create jobs.

The industry hopes to receive the green light before the budget in May next year.

Macquarie Group chief executive Nicholas Moore, AMP chief Craig Dunn, ASX Ltd head Elmer Funke Kupper and Mr Johnson were among about 50 attendees at the meeting called by Mr Shorten at The Mint in Sydney yesterday afternoon.

While there were no major announcements at the two-hour session, sources who attended said the Minister affirmed his commitment to the investment manager regime recommended by Mr Johnson in his 2009 report for the government, *Australia as a Financial Centre*.

A senior banker who attended the meeting said: "The formula to success is the Mark Johnson report."

The Johnson report said Australia has arguably the most efficient and competitive full-service financial sector in the Asia-Pacific region, with many of the key requirements for a successful financial centre, including a highly skilled workforce and a first-class regulatory framework.

"Yet our exports and imports of financial services are low by international standards," the report said.

"Our funds management sector, one of the largest and most sophisticated in the world, manages only a small volume of funds sourced from offshore."

The Board of Taxation has delivered an interim report to Mr Shorten on options to develop the investment manager regime for fund managers.

Mr Shorten said the government believed financial services were fundamental to Australia's integration with Asia and he wanted the sector to plug in to the region's fast-growing economy.

"The price of minerals will go down eventually, so we and the financial services sector want to get on with moving into Asia," he said.

For over a decade, successive Australian governments have expressed aspirations to turn the country into a



financial services hub.

Financial Services Council chief executive John Brogden, who attended the meeting, said the goal of creating a financial services hub was not about replacing the financial hubs of London, Hong Kong or Singapore.

“The government is moving strongly on this agenda,” he said.

Another chief executive who attended the meeting yesterday was critical of Mr Shorten for leaving early.

“It was very, very disappointing to watch him get up and leave before the panel discussion.

“It makes you wonder about his commitment to this process, where there are a lot of people working hard to makes some changes”.

Mr Shorten, who left the meeting to attend an event in Melbourne last night, said: “We’ve got to make an announcement in the near future about IMR [investment manager regime] III.”

In December last year, the government announced tax changes to block the Australian Taxation Office from pursuing foreign hedge funds for a potential tax liability on returns made from buying and selling local shares up to June 2011.

Mr Shorten’s intervention overcame a related change to the United States extending its FIN 48 accounting rule from public companies to private companies, including hedge funds. The accounting provision requires companies to make a provision in their financial accounts in relation to uncertain tax positions.

In January this year, Mr Shorten also made inroads on the IMR when he announced tax exemptions for foreign funds using a “permanent establishment” in Australia.

Others figures to attend yesterday’s meeting were ANZ Banking Group chief executive for Australia Phil Chronican, Suncorp Group chairman John Story, UBS Australia chief Matthew Grounds, Morgan Stanley Australia chief Steve Harker, BT Financial Group head Brad Cooper, former investment banker and Australian Financial Centre Taskforce member Paul Binsted, Bank of America Merrill Lynch head of capital markets Jason Murray, Mr Brogden, Ernst & Young tax partner Alf Capito, Australian Prudential Regulation Authority chairman John Laker and Treasury deputy secretary David Gruen.

with James Chessell

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From Top: arriving at yesterday’s meeting in Sydney: AMP chief executive Craig Dunn; ANZ chief executive for Australia Philip Chronican; Suncorp chairman John Story; ASX chief executive Elmer Funke Kupper; and Treasury deputy secretary David Gruen. **Photos: Rob Homer**