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AMIT legislation welcomed despite limitations

The tabling of the Attribution Management Investment Trust Bill (AMIT) in parliament today is to be welcomed as a significant step to help Australian funds compete internationally, says Harvey Kalman, Executive General Manager Corporate Trustee Services, with Equity Trustees.

“Changes to the managed investment trust regime are without question positive but the issues hindering the competitive distribution of local trusts globally still need to be addressed,” Mr Kalman said.

“Nonetheless it helps the move for Australia to be recognised as a centre for investment product development and management.

“As I’ve said before, doing so will increase the strength of our financial sector and its ability to compete, benefiting local investors and the economy overall.

“The proposed changes would mean managed funds are exempt from the out-dated taxation provisions that apply to trusts. New rules would apply for the tax treatment of the trust and unit holders in that trust, which is a positive move for fund managers and investors,” Mr Kalman said.

The proposed start date for the AMIT regime is 1 July 2016, however AMITs can elect to transition into the new tax regime from 1 July 2015.

The positive changes of the proposed new tax system for AMITs include:

- A new attribution model for determining unit holder tax liabilities, which allows amounts to retain their tax character as they flow through a MIT to the final unit holder
- the ability to carry forward understatements and overstatements of taxable income, instead of re-issuing investor statements
- deemed fixed trust treatment under the income tax law
- upwards cost base adjustments to address double taxation
- legislative certainty about the treatment of tax deferred distributions and
- the key change, which is the ability to create multi-currency classes within a fund.

Mr Kalman said: “There is still more that needs to be done to ensure that Australia is internationally competitive and that we need to create “Me 2” Collective Investment Vehicles (CIVs) that are able to compete with UCITS and Cayman Funds. Further, we need enhancements, in particular, there are two changes needed.

“A key element that is still missing from the proposed legislation is the ability to elect that capital from foreign exchange gains and losses be moved into capital accounts rather than being recorded in income accounts.

“The alignment of foreign exchange gains or losses to the underlying portfolio treatment is critical to enable currency overlay funds or classes to be created in an effective way. This is particularly important given global investors will be reluctant to invest in Australian funds nominated only in A\$.

“The proposed changes are good news and a good start as we have a Manager who will set up a \$NZ asset class, as the currency movements between the \$A and the \$NZ are not substantial. Further, we already have clients who have indicated their plans to take advantage of AMIT from day one.

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"But there is no doubt we also need different currency classes for those investors who want to hedge their exposure and invest in \$US rather than \$A. Until this is possible, global investors will be reluctant to invest in Australian funds denominated only in A\$.

"Another requirement is that we move away from unitised trusts to united companies as our CIVs. This is the critical "Me 2" aspect required, with the FX issues, to allow us to export our funds.

"On the whole the proposed new rules go a long way to enhancing the international competitiveness of Australian managed funds and promote the greater export of Australia's funds management expertise. It is clear the Government is listening to the industry and the legislation passed is a good start in the right direction.

"I am confident the Government will continue to move in this right direction for the industry, and implement further legislative change to ensure that Australian's managed investment trusts can compete internationally," he said.

Mr Kalman added that the AMIT regime is an important step in the Asian Passport approach to counter in-roads being made by fund managers from other countries.

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