



EMBARGO Budget. Not for release before 7.30 pm AEST, 13 May 1997.

INTRODUCTION OF THE INFRASTRUCTURE BORROWINGS TAX REBATE

Financial Implications (\$m)

1997-98	1998-99	1999-00	2000-01
-37.5	-75	-75	-75

Explanation

The Government has decided to introduce a tax rebate to continue Commonwealth support of private sector provision of public infrastructure. This rebate replaces the Infrastructure Borrowings (IBs) tax concession for which, as announced on 14 February 1997, certificates cannot be issued from that time (see the measure described under 'Preventing future access to the Infrastructure Borrowings tax concession' in Budget Paper No 2).

The programme will be open for applications for assistance in respect of: private land transport infrastructure projects; project proponents which had applied for an IBs certificate by 12.00 pm (by legal time in the Australian Capital Territory), 14 February 1997; and extensions of projects that had been certified to use IBs.

This measure will permit resident infrastructure financiers to apply for a tax rebate on interest received from infrastructure providers in return for the infrastructure providers forgoing the tax deductibility on that interest. This will benefit infrastructure providers because financiers will be able to offer lower rates of interest or other benefits.

The rate of the rebate will be set at the lower of the financier's current year marginal tax rate or 36 per cent, the current company tax rate, and will be available in respect of the (grossed up) amount of interest on borrowings that is returned as income by the financier. The rebate will be available for up to five years from the time of first borrowing for a qualifying project. The rebate will not be tradeable and will be applied only against tax payable in respect of the income year in which the financier treats the interest as assessable income. Where a loan is fully refinanced or fully transferred, the rebate amount will be available to the new financier for the unused period of the rebate if the conditions of approval continue to be satisfied. However, if the loan interest is assigned to another entity, neither the assignee nor the assignor will be eligible for the rebate from the time of the assignment.

The cost to the budget of the rebate will be capped at \$75 million per annum (including running costs). Once this cap has been reached, further rebates will not be approved. There will be no avenue of appeal against Government decisions on a project's eligibility.

The Commissioner of Taxation will call for applications for the rebate on a twice-yearly basis. Applications will be assessed against the following criteria in two stages.

In stage 1, projects will be examined to determine whether they: fall into an eligible category for assistance; involve genuine private provision of new public infrastructure; and have been subject to benefit-cost analysis. The benefit-cost analysis (together with documentation establishing the commercial feasibility of the project) should accompany the application for assistance.

- The eligible categories of new public infrastructure are road and rail projects and their related facilities and, as a transitional measure, projects that had applications for IBs pending at the time of the 14 February 1997 announcement and extensions of projects that had previously been certified to use IBs.
- Only genuine private sector proponents which provide new public infrastructure will be able to access the tax rebate. Private sector proponents will only be able to access the rebate while they pass the tests contained in section 51AD and Division 16D of the *Income Tax Assessment Act 1936*.

In stage 2, only projects which have fully satisfied the requirements of stage 1 will be assessed. The basis for assessment will be:

- The viability of the project from a commercial feasibility viewpoint. Projects must be commercially viable. A lack of material to support claims of commercial feasibility will be interpreted as indicating no commercial feasibility.
- The extent to which the project would not proceed without the rebate. Commercially feasible projects which are unlikely to proceed without the rebate will be preferred to projects which are likely to proceed regardless of whether they are granted the rebate. A lack of material to support claims that the project would not proceed without the rebate will be interpreted as indicating that the project would proceed regardless.
- The extent to which the tax benefits arising from the tax rebate flow to the infrastructure project proponent. Higher levels of tax benefits flowing to the infrastructure project proponent will be preferred to projects where lower levels of tax benefits flow to the project proponent. A lack of material to support claims of tax benefits flowing to the project proponent will be interpreted as indicating low levels of flow to the project proponent.
- The estimated present value of the cost to the revenue of the tax rebate being granted to the project relative to the present value of total project expenditure. Projects with lower ratios of present value cost to the revenue to present value of the total expenditure will be preferred to projects with higher ratios. A lack of material to support claimed cost to the revenue ratios will be interpreted as supporting the highest cost to revenue ratio consistent with known features of the project.
- The nature and extent of:
 - any national economic and social benefits from the project that are unlikely to be captured by the project proponent; and
 - any wider economic and social costs that are unlikely to be borne by the project proponent

because of market failures, externalities or spillover effects. Projects with higher balances of such benefits over such costs relative to total project expenditure will be preferred to projects with lower balances relative to total project expenditure.

- The consistency of the proposed investment with any relevant Commonwealth or State policy or planning objectives. Projects meeting relevant Commonwealth or State policy or planning objectives will be preferred.
- The degree of open and public consultation with those affected by the project. Greater levels of consultation will be preferred.

Projects will be assessed against all criteria, and so a project need not be preferred on every criterion to be assessed favourably.

The programme will have effect from 1997-98, with approval for rebates first being granted in respect of applications received by 31 December 1997. The Commissioner of Taxation will shortly be calling for applications.

The above material is an extract of the description of the measure as contained in *Budget Paper No 2: Budget Measures 1997-98*. This paper explains all outlays and revenue measures, and is available from Australian Government Bookshops or from the Treasury Internet site at <http://www.treasury.gov.au/budget>

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