

Re: Tax Treatment of Equity Investment in Infrastructure

Infrastructure projects usually operate under long term concessions from Government. As such they are ideal investments for pension funds and other institutional investors which have long term liabilities and therefore need long term assets to invest in.

However, pensions funds usually have the benefit of being subject to a low concessional tax rate.

Therefore unless an investment in infrastructure by a pension fund is taxed at the same rate as any other investment by the pension fund there is a disincentive for pension funds to invest in infrastructure.

All infrastructure assets which are PPP's must be held in a business entity which is usually a company unless there are other vehicles available. However in most jurisdictions, companies are taxed at a much higher rate than pension funds with the result that pension funds will not invest in such vehicles unless there is some specific tax concession available to equalize the investment opportunity.

The simplest solution, which has been adopted in Australia, is to have a special vehicle which is taxed at the investor level rather than at the entity level. In Australia, we use a trust for this purpose.

Japan does not have such a vehicle for holding Infrastructure assets which is one of the reasons why institutional equity is not available for infrastructure in Japan.