

Review of Non-Forestry Managed Investment Schemes  
Business Tax Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

12 September 2008

## Review of Non-Forestry Managed Investment Schemes

Dear Sir or Madam,

PricewaterhouseCoopers (PwC) welcomes the opportunity to comment on the Non-Forestry Managed Investment Schemes Issues Paper, which was released on 1 August 2008.

Our submission particularly revolves around an observation in respect of the internal rate of return generated by Managed Investment Schemes (**MIS**) versus partnerships or sole traders.

Paragraph 54 of the Issues Paper sets out an example of how the timing of tax might impact the rate of return generated by varying business structures. The example assumes that partnership or sole trader structures involve investing in 50% tax deductible items and 50% capital items (which, for the purpose of the example, are not subject to capital allowances).

The example shows that the internal rate of return under a MIS structure is lower than under a partnership or sole trader structure, despite the overall rate of return (after tax) being similar. It is our observation that this could be due to the different commercial aspects of the structures rather than solely as a result of tax differences.

In particular, one should take into consideration the following:

- The MIS participant does not invest in capital items, so the internal rate of return can be expected to be different.
- A separate taxpayer (the **lessor**) would hold the capital items and generate an internal return on them by leasing them to the MIS participant.
- The combination of the internal rates of return of the MIS participant and the lessor could be similar to that under the partnership or sole trader structure.

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We note that other commercial businesses similarly separate out the ownership of the capital items from the business operations (for example infrastructure funds).

I hope the above is useful. If you have any queries in relation to this submission please do not hesitate to contact me on 08 9238 3332.

Yours sincerely



Frank Cooper  
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Tax and Legal Services