

Spotlight on Spending

Financial Services

The Financial Services industry has performed relatively well through the pandemic, with many banks returning higher than expected profit and many fund managers exceeding performance expectations. Due to this, it is not surprising that there has been limited focus on the industry in this year's Federal Budget.

Key takeaways

- The Government has signalled that it is moving to cut the red tape on licensing Foreign Financial Service Providers (FFSP) in dealing with wholesale clients and professional investors. This means that FFSP could be exempted from holding an AFSL if they are licenced in their own jurisdiction or have limited connections to Australia.
- Fund managers hoping to attract foreign investors will have a slightly easier task with the expansion of the list of Exchange of Information (EoI) countries. From 1 July 2022, investors in 7 new jurisdictions will be added to the list of EoI countries. This means the Managed Investment Trust (MIT) withholding rate will reduce to 15% from 30% on certain distributions.
- The 10% concessional tax rate on offshore banking activities will be removed. This is in response to the OECD's concerns in relation to preferential tax regimes internationally.
- For transactions entered into from 1 July 2022, taxpayers will no longer be subject to unrealised taxation on foreign exchange gains and losses unless they elect into Taxation of Financial Arrangements (TOFA). The legislative changes will also facilitate easier access to hedging rules on a portfolio hedging basis.
- The Government noted that the Corporate Collective Investment Vehicle (CCIV) regime for collective investment vehicles (CIV) with corporate structures is to be finalised and legislation to be developed in order to align with the attribution tax regime for managed investment trusts.
- A Financial Market Infrastructure (FMI) regulatory package will be introduced to give regulators power to pre-emptively identify and manage risks or intervene in a FMI failure crisis.
- Additional funding will be provided to APRA and Super Consumers Australia to support stronger consumer outcomes for members of superannuation funds.
- There is a focus on strengthening the Digital Economy by increasing funding to enhance capabilities in AI, digital infrastructure and cyber security.



General measures

- Proposed changes to the employee share scheme (ESS) rules will mean that a cessation of employment will not give rise to a taxing outcome.
- There will be a 12-month extension to the instant asset write off and the loss carry back provisions announced in the 2021 Budget. These rules apply to businesses with global turnover up to \$5 billion.





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Opportunities

- Businesses thinking of making significant capital expenditure can benefit from the extension of the immediate asset write off equal to the cost of certain assets.
- Losses made in this or subsequent years can be offset against past profits which will help business smooth the tax costs across years of volatility in profit.
- Potential opportunities are on the horizon for Foreign Financial Service providers with the lowering of the barriers to entry in relation to financial services to Australian investors.
- Investors in the newly added EoI will have a levelled playing field. This will potentially help unlock additional investment flows into Australia.

Did the Budget put the spotlight on what you wanted?

With the relative strength and performance of the sector through COVID, it is unsurprising that the Budget held few targeted support measures. However, there has been support provided by way of reducing red tape for FFSPs.

It has been an extraordinary year of upheaval as the nation grapples with the effects of COVID-19 and we recognise that everyone has been impacted in different ways. Reach out to our experts to the right for assistance navigating the implications and opportunities this Budget presents for you, your business and your industry.

Our review



3/5 – Not enough in the plot

While there were a few tweaks to the financial services support framework, including the change to AFS licencing for FFSP, overall this Budget will have limited impact on the industry.



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