



MEDIA RELEASE
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OFF-MARKET BUY-BACKS' HIDDEN COST

The recent announcement by Telstra of a \$1.5 billion share buy-back has sparked a call from the Institute of Public Accountants (IPA) for the Government to review the revenue leakage generated through off market buy-back schemes.

“In this difficult, fiscal deficit environment that Australia finds itself in, it’s time to have a look at the off-market share buy-back scheme loophole that continues to reduce the Commonwealth revenue line,” said IPA chief executive officer, Andrew Conway.

“Off-market share buy-backs are different to on-market shares bought directly through the ASX. They comprise of a capital and dividend component and are offered to all shareholders on an opt-in basis. If the shares were sold on-market there would not be any dividend component and the proceeds would be generally capital gains or losses.

“People on higher marginal tax rates receiving a dividend have to pay ‘top-up’ tax and are therefore, much less likely to participate in off-market share buy-back schemes.

“This creates an inequitable distribution of franking credits than would ordinarily be the case had the company paid the dividend equally amongst all shareholders. Off-market buybacks are mostly attractive to nil rate or low tax paying shareholders.

“For entities that pay no tax and superannuation funds paying no tax or up to 15 per cent tax, share buy-backs can be a genuine benefit as they receive the additional incentive of an imputation rebate directly from the Government.

“While buy-backs may be a useful tool for corporate entities in terms of capital management, they come at a cost to the taxpayer, as Treasury coffers miss out on top up tax due to the skewed distribution of franking credits.

“Streaming of franking credits to specific classes of shareholders (ie those paying nil or low tax) is normally caught by anti-avoidance streaming rules.

“If more major listed entities engage in off-market share buy-backs the revenue leakage cannot be ignored while we are running historically high budget deficits and likely to do so in the short to medium term.

“The Government needs to seriously consider the tax treatment of off-market share buy-backs, for the benefit of all taxpayers,” said Mr Conway.

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About the Institute of Public Accountants

The IPA, formed in 1923, is one of Australia’s three legally recognised professional accounting bodies. In late 2014, the IPA acquired the Institute of Financial Accountants in the UK and formed the IPA Group, with more than with more than 35,000 members and students in over 65 countries. The IPA is a member of the International Federation of Accountants, the Accounting Professional and Ethical Standards Board and the Confederation of Asian and Pacific Accountants. The IPA was recognised in 2012 as Australia’s most innovative accounting organisation and listed in the top 20 in the 2012 *BRW* Most Innovative Companies List.