Warakirri
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14 December 2012

Manager
Charities Unit
Indirect, Philanthropy and Resource Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via email NFPReform@treasury.gov.au

Dear Sir/Madam

RE: Not-For-Profit Sector Tax Concession Working Group – Discussion Paper

Thank you for the opportunity to comment on the Not-For-Profit Sector Tax Concession Working Group Discussion Paper: *Fairer, simpler and more effective tax concessions for the not-for-profit sector.*

Warakirri Asset Management Pty Ltd (Warakirri) currently manages approximately $400m in Australian equities for close to 100 tax exempt Not-For-Profit (NFP) organisations. Since being founded in 1993 Warakirri has worked with NFP organisations helping grow their corpus over the medium to long term through active management of their Australian equity exposures.

Warakirri has always had a focus on the after-tax returns of investors. For the tax-exempt NFP investor base the importance of franking credits and the ability of eligible NFP's to claim a refund of franking credits from the ATO cannot be understated. For this reason the focus of Warakirri's submission is on the area of franking credits and the ability of eligible NFP's to receive the full benefit of franking credits.

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Section 1: Income Tax Exemption and Refundable Franking Credits

Q6: Should the ability of tax exempt charities and DGR's to receive refunds for franking credits be limited?

Answer: No, the ability of tax exempt charities and DGR's to receive refunds for franking credits should not be limited. Warakirri has managed Australian equities on behalf of tax exempt NFP organisations for almost 20 years. Warakirri reports to all investors on an after-tax basis, which for tax-exempt investors includes the value of franking credits. Each NFP organisation that is eligible to claim a franking credit refund fully understands the value of the franking credits to the organisation. Within the Warakirri Charitable Trusts, which invest in Australian equities, the value of franking credits to eligible NFP's is typically in the range of 1.5%-2.5% p.a. From our experience, the majority of the NFP organisations that invest in Australian equities place a very high importance on the income yield (including franking credits) of their investment. Typically this yield, comprising of dividend distributions and franking credits, is used for grant giving, funding programs, provision of services and short term cash flow requirements. The removal or limitation of this important source of income would have a detrimental effect on eligible NFP's and may result in capital components of their investments having to be realised (resulting in an erosion of corpus). Directly related to a removal or limitation in franking credit income available to NFP organisations would be the subsequent reduction in the funds available for these organisations to distribute to the wider community in general. This would result in a shortfall in the level of services or grants these organisations can provide, which would likely have to be filled by the Government. Hence, significantly reducing any revenue savings the Government may have from any decision to limit franking credit refunds.

If a decision were made to remove, either wholly or partially, the ability of an eligible NFP to claim a refund of franking credits, this would in effect be imposing tax on a tax exempt entity (as the company/share that the NFP has invested in has already paid tax on its dividends at a rate of 30%). In principle we believe this is wrong and counter to the notion of charitable investors being tax exempt.

Any decision to eliminate or reduce the value of the franking credit refund could have a detrimental effect on the share price of Australian listed companies. Our view is that such a decision would result in Australian equities becoming less attractive in the eyes of charitable investors.

Warakirri is an Associate Member of Philanthropy Australia. Warakirri has reviewed the draft submission prepared by Philanthropy Australia in response to the Discussion Paper. Warakirri would like to formally support Philanthropy Australia in the points it has made against any change to the current ability of eligible tax exempt charities and DGR's to receive refunds for franking credits.

Yours sincerely,

S. Sanjevan

Conor Hayes
Head of Charities

Sanjevan Subramaniam
Investor Relations Associate