Future Generation
INVESTMENT & SOCIAL RETURNS

31 March 2023

Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

By email: economics.sen@aph.gov.au

To the members of the Senate Standing Committee on Economics,

Submission on Treasury Laws Amendment (2023 Measures No.1) Bill 2023

I write to you on behalf of Future Generation Australia (ASX: FGX) and Future Generation Global (ASX:FGG) (the **Future Generation** companies) and their 15,000 investors to object to *Schedule 4: Off-market share buy-backs* (Schedule 4) of the Treasury Laws Amendment (2023 Measures No. 1) Bill 2023.

We believe that the changes outlined in the proposed legislation will negatively impact the Australian charitable sector that the Federal Government and the Future Generation companies, so passionately support. Franking credit refunds represent a particularly efficient, low-cost form of income for charities and Deductible Gift Recipient (DGR) organisations. This income, applied for a charitable purpose, helps generate social benefit and reduces charities reliance on government funding and other forms of subsidy.[1]

The Future Generation companies are Australia's first listed investment companies to provide both investment and social returns. We offer a unique opportunity to invest with leading Australian and global fund managers, while supporting high impact, youth-focused Australian charities. We have invested more than $65 million in Australian charities since inception in 2014, making us one of Australia's Top 30[2] corporate philanthropists.

The Future Generation companies have more than $1 billion in net assets, managed by 30+ leading Australian and global fund managers on a pro bono basis. This allows us to give 1% of our net tangible assets each year to charitable organisations. We are on track to invest more than $100 million by 2030.

The franking system reduces the cost of capital for Australian companies, which stimulates local investment and in turn employment in Australia. It has encouraged Australian companies to invest and pay tax in Australia and Australian shareholders to invest in Australia. It has also encouraged philanthropic giving, that plays a significant and growing role in supporting Australian charities who are crucial to the social fabric of our communities and to the delivery of essential human services.

We applauded the Australian Government's recent pledge to develop a strategy to double giving to charities by 2030 and its first action of establishing a Productivity Commission Inquiry to analyse motivations for philanthropic giving in Australia and identify opportunities to grow it further. The Australian Government rightly sees this strategy as a transformational opportunity to channel billions of dollars of additional support for Australians in greatest need, address the critical issues of our time and build a more generous national culture which ultimately relieves pressure on public spending.

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[1] https://treasury.gov.au/sites/default/files/2019-03/128_JBWere.pdf
[2] https://www.afr.com/work-and-careers/leaders/thankyou-group-donates-more-than-suncorp-brambles-qbe-and-mirvac-20211125-p59caf

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Our concern about the proposed legislation is two-fold.

Firstly, we are concerned this once-in-a-lifetime effort between the Australian Government, the philanthropic, not-for-profit and business sectors to double philanthropic giving by 2030, will be undermined by changing the franking system that has provided a great incentive to private giving since its inception. The ATO reported that between 2001-02 and 2016-17, refundable franking credits provided a cumulative total of more than $8.3 billion to philanthropic trusts, foundations and other charities[3]. This period also saw exponential growth in the number of philanthropic organisations in Australia with more than 1,200 Private Ancillary Funds established between 2001 and 2015[4]. The growing philanthropy sector has advocated vocally against any changes being made to the dividend imputation system because it would reduce the funds it distributes to charitable causes for the public benefit.

Our second concern is that charities themselves, as tax-exempt entities will be directly impacted by the proposed changes to off-market share buy-backs. Despite reports, it is retirees and low-tax investors, including registered Australian charities, who participate in off-market share buy-backs. Inhibiting companies from undertaking fully franked off-market buy-backs and distributing the fully franked dividend to its shareholders, will result in negative consequences for those forward-thinking, financially savvy charities that have established their own investment portfolios in an effort to diversify their income streams and become more self-sustaining and less reliant on government funding. This is the kind of mindset we should be encouraging and incentivising in our charities if we are to meet the increasing financial burden of human services and address the social and environmental challenges of our time.

Looking at the Future Fund, Australia's sovereign wealth fund with a focus on investing for the benefit of future generations of Australia, they benefited directly from $1.9 billion in refundable franking credits in the 2022 financial year, under Section 30 of the Future Fund Act 2006. The proposed changes to the franking system will also have a direct impact on the Future Fund by limiting the ability of Australian companies to distribute fully franked dividends.

In 2019, when it was proposed to remove the cash refund of excess franking credits, it was recognised that limiting the franking system would reduce philanthropic granting and the income charities earn through investment, which would ultimately increase the demand on the government purse. This resulted in philanthropic organisations and charities being exempted from the proposed changes.

Today, limiting the franking system by stopping companies from being able to pay franked distributions to their shareholders risks reducing the funding available to charities supporting our most vulnerable through this period of high inflation and rising cost of living.

Yours sincerely,

[redacted]

Caroline Gurney
Chief Executive Officer
Future Generation

[3] https://www.afr.com/wealth/philanthropy-and-the-franking-credit-debate-20190225-h1bouz
[4] PAF Report 2015, JBWere

Level 26, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000
Future Generation Investment Company Limited ABN 97 063 935 553
Future Generation Global Investment Company Limited ABN 52 606 110 838
W. futuregeninvest.com.au
T. +61 2 9247 9202