COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON EMPLOYMENT, EDUCATION AND WORKPLACE RELATIONS

Reference: Employee share ownership in Australian enterprises

MONDAY, 11 OCTOBER 1999

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON EMPLOYMENT, EDUCATION AND WORKPLACE RELATIONS

Monday, 11 October 1999

Members: Dr Nelson *(Chair)*, Mr Barresi, Mr Bartlett, Dr Emerson, Ms Gambaro, Mrs Gash, Ms Gillard, Mr Katter, Mr Sawford and Mr Wilkie

Members in attendance: Mr Bartlett, Ms Gillard, Dr Nelson and Mr Sawford

Terms of reference for the inquiry:

The extent to which employee share ownership schemes have been established in Australian enterprises and the resultant effects on:

(a) workplace relations and productivity in enterprises; and

(b) the economy.

WITNESSES

GREEN, Mr Andrew, Executive Director, Australian Venture Capital Association Ltd 327

TAYLOR, Mr Richard Hazen, Partner, Deloitte Touche Tohmatsu 327

Committee met at 11.34 a.m.

GREEN, Mr Andrew, Executive Director, Australian Venture Capital Association Ltd

TAYLOR, Mr Richard Hazen, Partner, Deloitte Touche Tohmatsu

CHAIR—I declare open this public hearing of the inquiry into employee share ownership. Welcome. Thanks very much for coming along today. I really appreciate it. It is very important to us, and I know it also is to you. Does either of you have any comment on the capacity in which you appear before the committee?

Mr Taylor—Yes. I am assisting AVCAL in relation to this submission.

CHAIR—Thank you. I remind you that the proceedings here today are legal proceedings of the parliament and warrant the same respect as proceedings in the House itself. The deliberate misleading of the committee may be regarded as a contempt of the parliament. The committee prefers that all evidence be given in public but, if at any stage you want to say something of a confidential nature and give evidence in private, please indicate that that is the case, and we will consider your request.

Kerry Bartlett is the Liberal Party member for Macquarie, covering the Blue Mountains in New South Wales. Rod Sawford is our Deputy Chairman and is the Labor member for Port Adelaide in South Australia. Julie Gillard is the Labor member for Lalor in Victoria—following in the footsteps of Barry Jones; and I represent a Sydney metropolitan seat for the government.

Perhaps you could give us an overview of your submission and, in particular, set out the nature of the problems you see for the venture capital industry and what sort of changes, if any, you would like to see and why that would be the case. Then we will discuss it.

Mr Green—Mr Chairman, Secretary, honourable members and advisers, thank you for the opportunity to present to this committee today. We consider it a privilege to have an institution which is focused on responding to the needs of the community. This is a very good example of Australian democracy in action.

Before getting into the intricacies of the employee share option schemes, I will outline from Australian Venture Capital's perspective some areas which we think need to be addressed. I will then pass over to Rick Taylor, who prepared our submission to the Ralph Business Review, to fill in the details.

By way of thanks to the government and to people on both sides of politics who have been involved in the consultation processes, I would like to mention the enormous importance to Australia of getting the Ralph reforms into law. The most profound thing in recent years has been a shift away from income driven companies to growth companies—those which are represented by the ITT and bioscience companies. It is important, as a nation, that we realise that.

If we get the rules right on CGT reform, then we can go places; and I do not doubt that, with our intellectual property and our lateral skills, we can be every bit as good as anyone else in the world. To prove that, we have got 7,000 Australians in Silicon Valley providing employment for Americans and doing what they should be doing here, but they are doing it over there. To us, that is a situation which we want to see addressed. The best way to do it is to put in place an environment in which those sort of companies—which are focused and skewed towards growth—can flourish in Australia.

Turning to employee share options: the Ralph reforms have given us the opportunity to move forward and to recognise this new paradigm of growth. There are three areas, however, in which on a practical basis this committee can help us achieve our objectives. In the first area, we ask that employees who received options as part of an employee share option arrangement be treated in the same way as ordinary option holders. It is quite a simple concept. In other words, they are liable for CGT in the same way as anyone else is who gets options.

In the second area, we would like to see replaced the five per cent arbitrary limitation on the ownership and control provisions. If we have to have an arbitrary limit, let us suggest it be moved to 30 per cent. The reason is that, if we are to have world best companies, we need to be able to recruit world best people from blue chip corporations like the CISCOs and the IBMs of this world. In order to do that, we are asking people to forgo maybe a salary of $US500,000 a year and come and work in an Australian start-up company. Unless we can offer really serious upsides, we are going to have second-rate people trying to create world best companies and we will never succeed. So it is really important that we leave to the market the option of providing a big incentive package for really good senior executives—if we want to achieve the combination of world best executives running world best Australian companies.

Thirdly, we ask that you please amend section 139FB of the Income Tax Act so that directors' valuations become an acceptable means of valuing the company in terms of issuing options. At the moment, the companies are in practice required by the regulators of the act to have formal valuations done, at a cost of at least $30,000. This is all money out the door, which is unnecessary. We do not see why a director's valuation could not be substituted and save the company this valuable seed money.

I would now like to introduce Rick Taylor, tax partner of Deloitte's, who prepared our submission to the Ralph Business Review. I should add that his firm did it gratis, and I guess the professional time involved on their part was worth in the order of hundreds of thousands of dollars. We as an industry association and as Australians are beholden to them for the effort they put in. Rick, I now ask you just to run through the points in some detail.

Mr Taylor—I would like to run this interactively, so jump in where you feel like it. In relation to Ralph, before I get on to this, we still need to get through the venture capital changes which were announced. We would really like the support of everyone in relation to getting them through. Some of the detail necessary there will be quite important, as well, in relation to some of the venture capital stuff. Foreign investors usually invest via trusts into the venture capital industry, and we need to have a flow-through status in relation to those trusts. In other words, you need to have transparency from the tax point of view for these

foreign pension funds. When that comes up, please bear in mind that we need some more detail in relation to those foreign pension funds to make sure they get the exemption.

Ms GILLARD—Why is a trust a preferred vehicle, as opposed to direct shareholding?

Mr Taylor—Basically, all venture capitalists in Australia are managers, and they need to have something to manage when they are investing. So you usually have a pension fund, whether it be Australian or foreign, investing into a trust which is managed by venture capital managers, and then that trust invests into investees—in other words, the companies you want to invest in. For those pension funds overseas to get this tax free status, you have to be able to maintain that tax free status right through, through the pooling of interest in that trust. The way in which Ralph has put together what he called 'collective investment vehicles' has a very narrow definition and we will not be able to basically pool interests of local Australians with these foreign pension funds and still be able to maintain that flow-through status. So there is some extra work to be done there.

Ms GILLARD—So they are just doing do that to manage risk, so that you have a pool of venture capital investments instead of just exposure to one?

Mr Taylor—Yes. At the moment, you get tax free exemption if those trusts are wholly owned by those pension funds. But if, for instance, you had these pension funds with 50 per cent individuals and companies and you put them together in that trust, you will not get a flow-through status of that trust.

Mr Green—Might I add there that one of the things that we want to encourage is for US pension funds and venture capital funds to team up and create strategic alliances with Australian managers, so that we can have a marriage not only of capital but of minds. Where there is special expertise residing in the US in niche areas, we can bring that into the Australian venture capital firms so that we have got this strategic alliance. At the moment, it seems that that may be difficult because of the flow-through provisions—meaning that the American pension funds have got come in here and do the whole thing themselves. We would rather say, 'Come in here and do it in conjunction with the guys who are already doing it.' Then you have the wonderful marriage of complementary skills.

Mr Taylor—I move now to employee share schemes. That other matter was just an add-on. Since Ralph, clearly there is a big distinction between income and capital gains, especially for individuals. With individuals, you have got half rates applying, or only half the capital gain included in their assessable income, whereas ordinary income is taxed at full rates. With the way in which the tax act is set up at the moment, any gains made by employees—in relation to options generally—will be taxed as ordinary income.

Really, what we have is employees participating in the future growth of these companies. We could have a look at the example which I have got here. This is a classic example where you have got a share price of, say, $1, and an exercise price of $1. In other words, there is no discount for the employees. If there is a five-year option term, say that in five years time the company is worth $2.50; so basically there is a $1.50 gain.

You have got two ways in which you can be taxed under the option scheme, under the employee share scheme provisions. The first one is the simple one: you are taxed at the time when you exercise the option. So there is a $1.50 gain in there, the difference between $2.50 and $1. All of that is included in your accessible income and you pay tax at the top marginal rate.

The other alternative is for a qualifying scheme. Most employee option plans will be qualifying plans, and you can elect to be taxed up front on the value of the option at the day. You can see that the share price is $1 and the exercise price is $1. There is actually an imputed gain in there, under the act, dealing with the time value of money. It is 11.6 per cent, so that 12c is actually taxable, up front. You include that in your assessable income at 48.5c in the dollar and you have got 6c tax.

Once you have been taxed under the employee share scheme provisions, that gives you a cost base then of a $1.11 or $1.12. It is assumed you then sell it straight away after you have exercised it, so you make a gain. What is included in your assessable income in that calculation is the $2.50, less the $1 exercise price, less the 12c amount which has already been taxed, which gives you $1.38 that is taxable. Under Ralph, that will be a capital gain and only half of that will be included in your assessable income, so 34c is the tax.

So the difference basically between the two scenarios, alternative 1 and alternative 2, under the existing provisions is a tax of 73c and a tax of 39c. This is for exactly the same gain. You can elect to be taxed under one way or the other, but you have a dramatically different tax result. One way is basically that all of it is treated as income; under the second alternative, most of it is capital gain.

It is worth pointing that out, for a start. What do we want to do? Do we want to tax the gains that employees make under employee options as ordinary income, or do we want to treat them as capital gains? Our view is that, with that 12c, we should follow the model of alternative 2, basically because there is an imputed value in these options up front, when the employee is given the options. That is the 12c. Anything else after that is basically from any increase in the value of the company; and we are saying that the employee should be treated in the same way as any other option holder or any other participant in the company: the gain should be treated as a capital gain and taxed as such. Are there any questions on that one?

CHAIR—I think we understand that one. We have had a few people say that to us.

Mr Taylor—That is fine. You have probably heard the next one already, as well. For an employee share plan to be a qualifying plan, a particular taxpayer cannot hold more than five per cent of a company as a result of having those shares. In the venture capital industry, that does not make a lot of sense, because we are dealing with quite small companies. When we want to attract an executive in—a CEO or a CFO or whatever—we usually give them quite a big slice of the company, because the company is not worth much when they first get in there. Venture capital backed companies are only worth $2 million, $3 million or $5 million usually. Like the five per cent rule, it just seems too arbitrary and too small a number as it applies to a venture capital backed company. We are asking you to bring that limit up to 30 per cent or get rid of it. Why is it there?

Mr SAWFORD—Maybe we should call them directors share ownership plans.

Mr Taylor—Yes, if you want to.

Mr SAWFORD—What you are talking about is not really an employee share ownership plan. You are talking about director share ownership plans.

Mr Taylor—We are talking about CEOs and CFOs.

Mr SAWFORD—That is right; you are not talking about employee share ownership.

Mr Taylor—We are probably are, because we are only talking about a company with five or six employees, and it will apply to the CEO—

Mr SAWFORD—Not too many companies of five or six employees run $5 million.

Mr Taylor—Yes, they do.

Mr SAWFORD—Not many: name one.

Mr Taylor—My business turns over $3 million, and I have only got six employees.

Mr SAWFORD—You have six people and a turnover of $3 million?

Mr Taylor—Yes.

Mr SAWFORD—You do not subcontract?

Mr Taylor—No; we just work our guts out.

Mr SAWFORD—Those six people make $3 million?

Mr Taylor—Yes. We are also talking about the top IT guys, or the top biotech sciences or whatever. We are talking about quite small companies here.

CHAIR—In terms of increasing the five per cent rule—and that has been one of the many suggestions that have been put to us—I can understand the basic concept in small venture capital backed companies. But to go to 30 per cent, for example, would have significant and serious consequences for large companies. You would have takeovers and all sorts of things going on.

Mr Taylor—In relation to listed companies, you will not, because the listing rules require the employee share plans to be voted on by an AGM or an extraordinary general meeting. The shareholders get to vote on whether it actually gets in or not—that is a listing rule. There is also an informal rule, such that the ASX, the investment managers and basically the body that the institutions belong to say that there should not be any more than five per cent. The market will always put in place a limitation for listed companies anyway.

You need shareholder approval and, basically, the ASX and the institutions are not going to let a big slice of their company be given away to executives.

CHAIR—A part of your argument is that we are suffering in Australia because we are unable to attract the sort of personnel we want because, in the qualifying scheme, they cannot own more than five per cent of the company.

Mr Green—That is right. There is not enough blue sky for them. They have to forgo salary and employment in a big company. We are talking about the best people around—in IBM or in CISCO—who could quite easily be on $US½ million per year. If we are to be in the race, we have to have those people. It may be that the company is only worth $100,000 and there may be a wonderful opportunity.

CHAIR—Is there a way of dealing with this five per cent rule for small and perhaps unlisted companies?

Mr Taylor—Just make it unlisted, if you want to.

CHAIR—Because it is not just these companies that have this enormous potential; it is also smaller companies that have succession issues and things that they want to deal with.

Mr Taylor—You bet. The whole private sector is disadvantaged by employee shares and share option plans in general. The tax rules were designed for listed companies and they do not take into account small growing companies at all. The last point which we will get on to also deals with this as well. This five per cent just does not have any relevance to us. It is very easy to get five per cent. Let us say a company is worth $1 million: five per cent is only $50,000. You still have to pay your $50,000, but you only have $50,000 worth of interest in it.

CHAIR—The objectives and things that you want from the point of view of the companies you are talking about, in terms of employee share ownership, are actually a bit different from some of the objectives that we are looking at in larger, publicly listed companies where we are looking at employee loyalty, productivity issues and all sorts of things.

Mr Green—That is right.

CHAIR—It seems that the tax system has evolved around one part of the business sector, in terms of employee share ownership, and has actually disadvantaged the other.

Mr Taylor—Yes, that is right. It is designed for the big listed companies.

Mr SAWFORD—The tax department is pretty concerned sometimes—and, I think, justifiably so—in terms of business's track record on the issue of tax avoidance.

Mr Taylor—Yes.

Mr SAWFORD—In terms of what you are suggesting, do you believe the tax office can operate and not have the loopholes and just open up Pandora's box?

Mr Taylor—Yes, I do. There was a rewrite of these provisions in 1995, and I think there was a bit of avoidance going on, and it just went too far.

Mr SAWFORD—There was a lot of avoidance going on—not just 'a bit' but a lot.

Mr Taylor—There was, because basically you had people getting shares in companies they were not even working for and qualifying under employee share schemes. I do not have any problem in relation to anti-avoidance provisions coming in. These are not anti-avoidance provisions. They are just making the rules unbelievably complex. Every time I pick up employee share scheme provisions with some of my partners who specialise in it, we go back to the act, because we cannot remember how it works. That is us, who deal with it all the time. Why should you have elections up front, and different rules for qualifying and non-qualifying? Let us just make this a lot simpler. I suppose we are getting off the point.

Mr SAWFORD—I am all for making it simpler, but you also have to satisfy the concerns of the tax office. If you cannot do that, you are not going to convince anyone in government or even in opposition that what you are saying is viable—even though it may be.

Mr Green—I think you have raised a very valid point. As an industry body—and I am sure that Rick, as a practitioner, would agree—we have to preserve the integrity of the taxation system. I am a PAYE taxpayer and I am happy to be, and my wife is. We all have civic responsibilities. As a nation, we have to fund these things. The last thing we want to see is people exploiting this provision to shift income into capital.

But I will put it to you this way: these start-ups do not have any income. They have got blue sky potential, and we want to empower the company to bring people in to help them live that blue sky. If they can live that blue sky, we, as a nation, can create wealth going forward. It is a whole new paradigm. Sure, there may be people out there who will look at trying to shift income in the big end of town. By all means let us close that down. Let us not make this provision open to them.

CHAIR—You want them to be able to own up to 30 per cent and to be taxed through capital gain at the time of disposal.

Mr Green—Exactly.

Mr Taylor—And any value in the options that are granted at the time should be taxed as ordinary income. It is only future growth that we are taxing as capital gains. Any value in the options is taxed as income up front.

Ms GILLARD—And it would fix your problem to limit that regime to proprietary limited companies?

Mr Taylor—Yes. In all honesty, the listed companies are much bigger. The CEO has a lot less impact. The guy who is the innovator has a lot less impact than he does at the

private company level. For private companies, how will you realise the gain you will make in relation to your shares unless you do listing, or if it is a venture capital backed company and they do a trade sale somewhere? That is the only time they are going to realise something out of this. But, if they are focused in doing it, they will work their guts out to build that capital up.

Ms GILLARD—Moving on to the valuation point, if you got that regime where a key employee could take more than five per cent and have it taxed on disposal as a capital gain, then you do need an independent valuation, otherwise you could get a bogus start and finish price for the capital gains calculation as a tax avoidance measure. What is to stop that happening?

Mr Taylor—Certainly, in relation to the end, I agree with you. In relation to the beginning, it should not be an issue. If I own a company, I am not going to give away equity, basically—that is the bottom line. If we just have a rule which says, 'We have a valuation. It doesn't need to be pursuant to some complicated formula under the act.' The act requires a company auditor to do it, and an employee cannot be someone who can do this valuation at the start. If you get the valuation and there looks like there has been some avoidance, then surely the commissioner would come in and challenge the valuation. You do not need to have complicated rules up front. You should say, 'Let them work out their own valuation. If it is wrong, the commissioner can challenge it'—rather than putting in requirements up front that it has to be from an independent person who is an auditor.

Ms GILLARD—I can accept that for the start valuation. There are other things that are going to lead you to properly value at the start. But what about on disposal? You are the executive. You have got 35 per cent of the shares in the company. It is one of these companies that has gone from nothing to being tremendously valuable because it has achieved what you want—

Mr Taylor—To a $10 million, $50 million or $100 million one.

Ms GILLARD—Yes. But, particularly in a proprietary limited company, where there is no independent yardstick of shareholder value, there is a big incentive—if you are going to get out and you want to cash out your shares—to manipulate the final price, minimise your capital gain and minimise your tax.

Mr Taylor—From the employee's point of view, there is that incentive; but, from the continuing shareholders' and from the company's point of view, how are they going to actually manipulate that price? I suppose that is what I am saying. Who is going to pay the extra amount and make it a bigger capital gain? No-one. The person who is going to get in and buy those shares would want to buy at the right price. You could do a share buy-back, but then it is still the continuing shareholders who have basically bought them back then and they do not want to pay too much.

Ms GILLARD—I understand what you are saying.

Mr Taylor—I can understand why there would be the temptation to try and do it, but how are we actually going to do it? I do not see from a practical point of view that it is really going to be an avoidance issue.

Ms GILLARD—So the share purchase is going to keep the price honest: that is what you are saying.

Mr Taylor—Yes. Who is going to pay too much for them or too little? The tax office has covered a whole bunch of scenarios where I am wrong, and I am quite happy to work with them.

Mr SAWFORD—I was just thinking aloud, and you caught me thinking aloud.

Mr Taylor—We are willing to work with the tax office. If they think there is any way of avoidance in there, we would love to work with them and build in some rules that they can see are helpful.

Mr SAWFORD—Most people do not see any problem with employee share ownership in terms of the listed firms. That is a separate issue altogether. Regarding Andrew's exposition in terms of the need for venture capital, probably everybody on this committee has a great deal of sympathy for what you are arguing. It might just be me, but I have a problem not with what you are trying to aim for—which I think is laudatory—but with the mechanism that is being used. The question I want to put to you is this: is employee share ownership really the only mechanism that is available?

Mr Green—It is the only way to align the interests of executives with those of the shareholders in the company.

Mr SAWFORD—There is no other way?

Mr Green—There is no other way to do it.

Mr Taylor—They become shareholders.

Mr Green—That is the crucial thing. It is alignment of interest. We have got people working together with the providers of equity, to achieve the same results. The harder the CEO or the CFO or the marketing director works, then the better the result for him, but also the better the result for the venture capitalists, the better the result for the Australian institutions who put the money in, the better the returns all through the system, and the more money will come in, chasing more—

Mr SAWFORD—That is the upside.

Mr Green—Yes.

Mr SAWFORD—A lot of us are also concerned, though, that in terms of everything human beings are involved in, there is always a downside; and it is a matter of managing that downside. It is avoidance, that is what it is. If I was convinced as an individual that the

tax department could manage the avoidance then I would have no problem with supporting the propositions you are putting forward. But I still have that concern at the back of my head. I am just not convinced. You convinced me about the aims and the process, and I do not have any problem with that. But I am still not convinced at this stage about the actual outcome.

Mr Taylor—I believe the ATO is paranoid in relation to these provisions. I think they have overreacted. They think that everything should be taxed as income and should be taxed up front. I do not think that is correct. I do not think it is the right way to go. I do not think it provides the incentive that you require. If we are paranoid, just adopt the US model. They have had a long time to work where all the loopholes are. Adopt the US model. It does not have any of these problems with trying to value options—

Mr SAWFORD—The US also have a minimum tax rate of 20 per cent.

Mr Taylor—On capital gains.

Mr SAWFORD—No. They have a minimum tax rate of 20 per cent on everything. So you are not comparing apples with apples. It is not a matter of simply adopting the US model, is it? There is a whole range of other characteristics that need to be in the pot as well before you can actually compare apples with apples.

Mr Green—Just addressing the avoidance concerns, I think it is one thing to be concerned about them. As I have already stated, we are very concerned to make sure that everyone fulfils their civic responsibility to fund the nation, as we have our own need as a nation to survive. If we are talking about avoidance, we have to identify those areas and close them down. In our submission, we are putting forward what we think are reasonable proposals to recognise the shift in paradigm to growth companies away from the blue chips which have traditionally been the focus of our economic development. We are asking that, in the shift of paradigm, there be a recognition that the gains accruing will be taxed as capital gains. The person who is making the sacrifice is the incoming person who is forgoing that income—$US500,000 a year—that they could well be on. They are forgoing that. They are making the big sacrifice.

Mr BARTLETT—And it may or may not work.

Mr Taylor—That is right. It may or may not work. It is a calculated risk.

CHAIR—Andrew, apart from the figure of the 7,000 Australians working in the IT sector in Silicon Valley, do you have evidence of people whose skills are needed in Australia but who have not taken up a position here because of the share ownership arrangements? Have you got any cases or examples? Can you present any to us at some point?

Mr Green—We can provide you with anecdotal evidence of companies who have gone to the US for this reason. We can do it. I cannot give them to you now, but I could certainly—

CHAIR—Could you send that sort of evidence on to us?

Mr Green—Certainly we can.

Mr Taylor—Every venture capital backed company has an employee share scheme. I do not know whether that is evidence of the fact that they just see a huge boost coming out of the fact that their employees are going to participate.

Ms GILLARD—That is true here.

Mr Taylor—Yes; and also in the States. MBO is a classic example—the really big management buy-outs. You are backing the employers.

Ms GILLARD—Is employee shareholding at this sort of level—the CEO, key employee level—a common feature of venture capital companies outside the States? What about Europe?

Mr Taylor—I am sure that it would be, but I do not know because I have not asked.

CHAIR—In summary, you are proposing that there be a different treatment of non-listed companies from that of listed companies; that that treatment at the very least be up to a 30 per cent limit on share ownership by a single employee; that there be tax in the form of capital gains at the time of disposal; and that there also be some changes to valuation rules.

Mr Taylor—Yes.

CHAIR—I think that is one area where the tax office would have a reasonable basic concern, though.

Mr Taylor—Everywhere else in the act there is self-assessment in the capital gains tax area. But, for this one, you have to have a report in a form approved by the commissioner, given by a person who is qualified; and the qualified person has to be a company auditor. He cannot be a director, secretary, employee, partner, employer or employee of a person—blah, blah. It is an unnecessary complication.

Mr Green—An unnecessary cost.

Mr Taylor—Yes. If you want us to value a company, it is $10,000 minimum. That is not an anti-ad.

CHAIR—Yes. Do you have any concerns about the prospectus requirements for the sorts of companies that you are dealing with?

Mr Taylor—With listed companies, it is a pain; but usually it is not.

CHAIR—A number of people have told us that prospectus requirements are too onerous, particularly for small companies in relation to share ownership.

Mr Taylor—They are, basically. I think the act requires you to be an executive who is aware of the major planning aspects of the company. Really, if you want to actually provide

something that is out of the rank and file to everyone, you do the prospectus. But that is not our submission. It is certainly a problem with relation to a number of the schemes that I have been looking at. We just do not need it, especially with employee share option plans where there is no downside risk for employees. If you give someone an option, there is an outside risk in theory, unless you pay for the option.

CHAIR—Yes.

Mr Taylor—So why have a prospectus requirement on top of it? It does not make sense. I think that is it for us.

CHAIR—That concludes our questions. I do not think there is much more we can usefully go over. What you want is complex in one sense, but simple in another.

Mr Taylor—I think we can make it simpler. It just went over the top, the last time around.

CHAIR—Okay. It does seem to be a real issue, though, amongst people in Andrew's sector.

Mr Green—It is a key issue. We are very happy to work on a case-by-case basis, identifying these possible avoidance issues with the tax department and working through them to make sure that there is due compliance with the act. We are all for that. Let us, within that, recognise that there is a special need for us to acknowledge the new paradigm of growth.

CHAIR—Certainly in one of the early submissions, there was a suggestion that there should be some sort of standing committee, advisory board, council or statutory authority that would bring together the business sector, the unions, the tax office, Treasury and so on, to actually work through issues that do arise—policy issues, in particular—in relation to the whole share ownership area. If nothing else, I think there is a good case for that. Thank you very much for your evidence today.

Resolved (on motion by **Mr Sawford**):

That supplementary material be accepted as a supplementary submission from Mr Andrew Green of AVCAL and from Mr Richard Taylor.

Resolved (on motion by **Mr Sawford**):

That this committee authorises publication, including publication of the proof transcript on the parliamentary database, of the evidence given before it at the public hearing this day.

Committee adjourned at 12.12 p.m.