

From: Geoffrey.Cripps
Sent: Friday, March 31, 2000 3:48 PM
Subject: Comments on Employee Shareholdings

Dear Sirs,

I note that your committee is currently investigating the low levels of employee participation in employee share schemes. It strikes me, as a practitioner in Human Resources and a Consultant to companies attempting to initiate IPO's, that there are a few reasons why this may be so. I am astounded that the government requires a committee to investigate an area that is so patently obvious.

This country will not achieve the levels of employee ownership of shares, or will achieve only limited interest from employees in participating in employer sponsored share schemes, whilst we have the regressive Australian Taxation regime in place. This regime makes it difficult to leverage investment, whilst at the same time passes all losses to the capital providers. (the shareholders). Australian shares do not normally provide the same upside as those overseas. This means that gains are limited against the overseas experience and losses are not able to be offset against a larger variety of share issues by companies due to the small size of the share market. In other words, it is harder to pick winners. Why invest in your employers' shares when the currency is declining and you are bearing risk? You are better off to invest offshore and take a risk that the currency will continue to move against the Australian dollar, after all, the risk is less than that with local shares; there is no return needed, especially for speculative ventures, and the differential in price provided to employees is taxed at marginal rates at this stage. The profit can come solely from currency movement which tends to be one way in the case of the long term trend of the \$A.

If one couples this with archaic Bankruptcy Laws which provide for almost immediate closure of a business as compared to the USA with its Chapter 11 provisions, a small population, and an upcoming GST on punitively high rates of personal tax, and high rates of State taxes, one discovers why the participation rates in Australia are perhaps lower than offshore. People need their income to live. If one looks at the financial powerhouse of Sydney, incomes are approximately 10% higher than other capital cities and yet one requires more than \$30,000 of additional income (pretax) to fund a house purchase. People are heavily committed where the bulk of the investment is expected to occur. They do not have funds to invest. This has probably not occurred to the high income earning personnel in the ACT (second highest per capita income in Australia after NT) with relatively low housing prices, reasonable tenure of employment and beneficial retirement schemes paid for by the bulk of taxpayers. Perhaps the

committee should investigate Share Savings schemes in the UK which provide for a guaranteed return to assist employees to purchase shares over a time period, rather than the Australian experience where share savings schemes have the income taxed, the interest on the savings taxed and the difference between the price of offer and the actual value at the time of issue taxed.

Perhaps the Committee could investigate US schemes which provide a different form of investment under 401K schemes etc. At least retirement savings in the US are not taxed. (Unlike Australia where the inputs are taxed, the earnings are taxed and the outputs are taxed as are the earnings from this money)

Perhaps we should stop considering ourselves as part of the OECD and review our status to that of developing country. This could well put us back on an accelerated growth path and provide increased savings via increased employee participation in share programs., This country will never achieve its maximum potential whilst it has, as its base, the view that everything will and must be taxed without providing upside and opportunity and return to potential investors. This note has been written in my personal capacity and in no way reflects the views of my clients and employers.

Regards

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