SMSF Owners' Alliance
Limited ABN 96 161 052 464
Not-for-profit public company

Media Release
27 August 2013

Getting PPL into Perspective

The current debate over the Coalition's Paid Parental Leave (PPL) plan is confusing and may be causing unnecessary concern to investors, including people with self-managed superannuation funds.

The debate needs to be kept in perspective.

A lower corporate tax rate can only be good for Australia. It will stimulate business activity, maintain jobs, make Australian companies more internationally competitive and generate better profits.

If the company tax rate is reduced, and a company makes the same amount of profit as before, then franking credits will be lower but after tax profits available to pay dividends to shareholders will be higher. There is no change from the investor's point of view.

If corporate profit levels increase overall because a lower company tax rate and other pro-business policies lead to a stronger economy, then investors may receive higher returns even though the value of franking credits will be lower as a result of the lower company tax rate.

The benefits of a lower corporate tax rate should not be confused with the question of how the PPL plan is paid for.

All government expense has to be paid for somehow, either through general taxation, special levies or budget savings.

In the case of the PPL plan, it seems fairly rational that companies should pay as it is an employment-related cost. We note the Coalition will exempt smaller business enterprises from the levy to encourage them to grow their business and employ more people.

The cost of the PPL plan borne by large companies will need to be recovered through higher sales, perhaps higher prices, internal efficiency gains, lower dividends or a combination of these factors. This will be decided by each company depending on its own circumstances.

It is not possible to say that all of the cost of the PPL to large companies will flow directly to their shareholders. However, to the extent that it may be reflected in dividends, the effect on existing investors may be more than offset by a rise in share values propelled by a lower company tax rate and other measures to grow the economy. For future investors, the price of shares will take into account any profit impact so the PPL will not affect them.

Any effect on SMSFs will also depend on the make-up of their asset portfolio. On average, SMSFs invest 32% of their assets in listed shares.

While the merits of the PPL should be discussed, we believe it is more important for the main focus of debate in this election to be:

- How to improve investor confidence, business performance and economic growth overall
- How to reduce government spending and bring the budget under control
- How to structure superannuation to minimise the long term cost of age pensions and encourage more Australians to become financially independent in retirement. In this context, the next government should set higher and more flexible voluntary contribution caps and not proceed with the proposed earnings tax.

Contact:

Duncan Fairweather
Executive Director
SMSF Owners' Alliance
dfairweather@smsfoa.org.au
0412 256 200