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Address for communications :

**The Editor, JASSA,
G.P.O. Box 5085,
Sydney, N.S.W. 2001**

Secretary: Mrs.J.A.Crivelli
13-15 O'Connell St., Sydney
Telephone 28-5376

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THE PROBLEMS OF THE INVESTOR

By The Hon. L.H.E. Bury, M.P.

(This address was delivered by Mr. Bury, a former Commonwealth Treasurer, to a luncheon meeting in Sydney on 10 December 1971 arranged by the N.S.W. Division of the Institute and attended also by members of the Society.)

I propose to deal with what is in reality a very broad subject firstly by touching on what are currently the subject of debate on specific taxation problems and then deal with some general considerations applying to the future of investment in Australia and what may lie ahead.

At present the stock market is sick and business psychologically at a low ebb. The reasons for this are many and elusive to pinpoint, but the resultant serious. Tax problems are cited as a potent factor particularly the present mode of taxing profits from the sale of shares, the removal of the double deduction for share dealers in respect of which a deduction was allowable under either section 77A, 77AA or section 77D, and the suspension of the investment allowance early this year.

There has been no change in the provisions of the income tax law determining whether profits made from buying and selling shares are subject to tax. These principles apply not only to shares, but to real estate or any other form of property which is bought with the primary purpose of re-selling it for more than he pays for it. Any profit he makes is taken into account for assessing his income for taxation purposes. If, however, he acquires property to enjoy the income from it or aims to use it for his own use or enjoyment, there is no liability to income tax, even if he changes his mind, sells it and makes a profit. The position is governed by the end that the taxpayer has in view when he makes the purchase.

The assessment of the purchaser's intention at the time imparts an element of uncertainty which in case of doubt requires an element of discretion to decide. It is often claimed that the Tax Commissioner should not have such discretion but that there should be a system of fixed rules by which the taxpayer can determine his own position with precision.

Some have proposed, for instance, that property or shares held for a fixed period, say twelve months or more, should be deemed to be an investment not subject to income tax. Others suggest that any profit should not be treated as income subject to income tax, but should be regarded as a capital gain subject to a special capital gains tax.

The whole controversy has been sharpened up by relatively recent efforts by the Taxation Department to apply a long-standing law of forty years and make it effective. Members of the public for many years have bought and sold shares without any thought that they rendered themselves liable to income tax and on the assumption that, except for dealers, their capital gains would not be subject to tax. The large windfall profits of the 1969 boom sharpened up the issue and when the existing law was strictly applied many were caught in a most embarrassing way which they had not in the least suspected.

When people buy shares they sincerely expect the transaction to prove profitable. The march of inflation has now reached a pace at which some capital gain is essential just to maintain the real value of an investment. It can be very difficult to disentangle motives which in itself gives force to the argument that a fixed period of ownership should be the test of what is a tax exempt investment so that certainty can be established and acted upon.

The other suggestion that a capital gains tax be evolved and applied instead does not appeal to me. It would import a basic new principle into the tax law the results of which are difficult to foresee.

The first point to determine is what property should be subject to it. If shares then why not real estate, or housing, or any other property which over the years increases in value, or at least property on which income is earned in whatever form. It is scarcely fair to apply it to stock exchange transactions alone, leaving untouched all the other things which money can be converted into.

Britain has applied a capital gains tax to stock exchange transactions. The revenue yielded to the Exchequer, however, is scarcely worth all the trouble and administrative effort which has had to be applied. It is one of those taxes beloved of politicians and popular prejudice which in practice yields mainly friction. A much more convincing case than I have seen needs to be made before Australia could accept it.

In 1969 the Government set out to eliminate a feature of the mining incentives which was deemed to be unnecessary. Provisions for tax deductions were considered as being too much availed of by persons classed as share dealers who sold to others who, in effect, supply the funds to finance exploration and development but who do not receive any tax concession on their original payment. A dealer in shares was entitled to the special deductions for capital subscribed to mining companies but the same amount is also deductible in determining a taxable profit or deductible loss made on the sale of shares. For capital subscriptions to petroleum exploration and mining companies the amount deductible could be as much as 200 per cent of the expenditure actually made, and for calls to general mining or afforestation companies the amount deductible could be 133 1/3 per cent of the actual outlay. The law was amended so that the deduction available to share dealers could not exceed the outlay actually made. It was thought that the provision of funds on a continuing basis would not be significantly affected and that one result would be a wider spread of issues of mining shares among the Australian public. This move immediately became controversial and is now widely deemed responsible for the great difficulty in raising new capital for mining ventures generally.

There is little doubt about that it has had a marked effect in actual experience. You will, of course, be familiar with the widespread feelings on the subject. For one reason or another Australian listed companies engaged in mineral and petroleum exploration are having a very difficult time. Incentive has certainly been weakened by the change but the subscription of capital has also been influenced by other factors such as the collapse of the mining boom and the revelation of numerous cases where misleading statements, both of expectation and fact, have had an unfortunate effect on the confidence of the community in this form of investment. I am sure that fresh thought is being given to the problems tied up with 77A, 77AA and 77D. This does bring me to a point which I think should be made and that is the difficulty which governments do have in processing these matters.

In Britain the Chancellor of the Exchequer has three full-time, fully-fledged Ministers with whom he can share his load. There is a Chief Secretary to the Treasury, the Financial Secretary to the Treasury and the Minister of State for the Treasury, all of whom are senior, well-equipped politicians. In Australia our Treasurer has only one Assistant Minister who himself has a full-time portfolio in another Department. So many political factors are involved in tax questions that a number of minds need to be regularly on them. A political head need and should not be a full-time professional expert in taxation but he should be able to consult them and assess the advice given after active consultation with all the interests involved.

The suspension of the investment allowance last year is also something which is alleged to have inhibited the making of different manufacturing investments, although the actual pace of business investment has been statistically high. This concession was introduced as a special measure to stimulate investment in the depressed days of early 1962. Having once got into the system, it was regarded as a permanent feature of the landscape upon which everyone could rely. It was certainly a great stimulant to investment when confidence had revived. At the beginning of last year business investment was expanding very quickly and we were faced with the growing threat of acute inflation. In itself it was extremely costly in revenue receipts and mainly acted as an extra reward for investment which would have taken place in any case. How long the suspension will last is a matter of Government policy and at present I would not predict the outcome. It could in appropriate circumstances act as a stimulus. It will undoubtedly be considered in the context of the broader running of the economy.

Those who are very concerned about the ownership of Australian business passing into other hands must be concerned at the unusually low stock price level prevailing in Australia in comparison with earnings and asset values.

Of particular significance is the unusually low price level prevailing in Australia in comparison to earnings and asset values. Approximately 63 per cent of the shares listed are selling for less than ten times earnings. In New York the Dow Jones average sells for 16.4 times earnings. In London the equivalent "Financial Times" index is 16.9 times earnings. Of equally important significance is that the market price for industrial shares has now declined to a level where some 60 per cent are selling for less than asset value. Viewed in a practical financial way most of these companies would be better off to liquidate assets rather than to raise equity capital for expansion. This situation is contrary to the concept of local Australian participation in the expansion of the growing economy.

Quite a number of mineral exploration companies are now down to about one-fourteenth of their 1970 high points. This is extremely severe even by most up and down cycles in natural resource shares in other parts of the world. The difficulty of raising capital for Australian companies provides a powerful temptation to sell out control of their best mineral prospects to overseas companies.

The brute fact is that leading industrial shares are now at such low prices that the industrial future of Aust ralia can easily be bought on the cheap. Bargain-basement prices are now offered for the best of our industrial structure. If Australian investors do not now take advantage of the situation they offer a standing temptation to investors in other parts of the world.

We are passing through a most baffling phase at present in which many of the answers are far from clear. Ever since the war our policy-makers have been engaged in the management of demand. The Keynesian revolution has had everyone in its grip. Guide-posts for management were set out in the full employment white paper of 1945 and have been followed broadly by every subsequent Government and all the monetary authorities. A similar experience has been undergone by the rest of the western world in varying degrees. Demand management in Australia has been unusually successful and led to an immense improvement in welfare.

THE ALUMINIUM INDUSTRY IN AUSTRALIA

(Highlights from an address delivered to the New South Wales Branch of the Society in Sydney on 11 November 1971 by Mr. G.M. Pynn, Manager, Market Development and Public Relations, Hunter Douglas Limited.)

Mr. George M. Pynn's address to the Society touched on the outlook for the aluminium industry in Australia, the constitution of the market for aluminium in this country & on the activities of Hunter Douglas Limited.

The growth of the Australian aluminium industry over the past decade can be gauged from the following figures. In 1960 Australia imported over $21 million worth of bauxite & aluminium & exported less than $1 million of these commodities. In 1970 imports of the same materials totalled $11 million while exports reached $100m. By 1976 Mr. Pynn's expectation was for exports of over $300m.

Usage of aluminium in Australia moved from 11.6 lbs per head of population in 1960 to 24 lbs in 1970 which compared with consumption of 23.8 lbs & 44.3 lbs per head respectively in the U.S.A. Production of aluminium in Australia has moved from 13,000 short tons in 1960 to 225,600 short tons in 1970 & could reach 375,000 tons by 1976.

Mr. Pynn commented that his advice from well-informed sources was that despite cutbacks in aluminium production by primary producers there would be no long-term interruption in the growth of the industry.

In Australia aluminium finds its way to market in many applications:

	% of total usage
Architectural & building products	39
Electrical	18
Transport	15
Consumer durables	11
Industrial & miscellaneous	9
Containers & packaging	8

He then turned his attention to his own company. Hunter Douglas was listed on the Sydney & Melbourne Stock Exchanges in 1961. About 43% of the shareholding is Australian & the controlling interest is owned by an expanding global group of the same name. The latter has sales exceeding $120 million & earnings close to $6 million derived from operations in over 80 countries. The Australian company has eleven factories in Australia, four distributing warehouses, a total floorspace of over half a million square feet & more than 1,400 employees. The company processes aluminium from raw strip to an almost unlimited range of shapes & sizes in a number of pre-coated finishes such as alkyds, acrylics, vinyls, & so on. Products include venetian blinds, curtain tracks, insect screens & aluminium awnings, siding, cladding, ceilings & roofing tiles. Well-known brand names include "Permalum", "Kirsch", "Luxaflex", "Cordex", "Flexalum", "Mello-Lite", "Luxalon" & "Shademaster".