

# NEWS

## Red tape cut lifts dividend payouts

Report Patrick Durkin

Shareholders have been given more reason to invest in listed investment companies after federal laws making it easier for all companies to pay dividends were passed during the week.

The changes, part of a package aimed at cutting red tape, allow companies to pay dividends when they do not have profits, as long as they are solvent.

"The newly introduced government legislation is one of the most positive steps for the stockmarket and capital formation I have seen over the last 30 years," Wilson Asset Management founder Geoff Wilson said.

He said corporate Australia's collective balance sheet contained \$100 billion worth of dividend franking credits – which shelter investors from tax – that could be paid under the changes.

"Listed investment companies are looking for fully franked dividends they can pass on to their shareholders, so there will be a lot of companies who might not have to cut their dividends or will be able to pay out that \$100 billion of excess because of the change," Mr Wilson said.

Actively traded listed investment companies such as Wilson Asset Management, Century Australia and Australian Leaders Fund will be the greatest beneficiaries.

That is because many of the newer-style LICs are traders for tax purposes and the value of their assets fell during the downturn, which in turn reduced their profits.

So, from a cash-flow perspective, they were making profits but couldn't pay dividends.

The changes should benefit all companies by scrapping the requirement to pay dividends only from profits.

Last year there was an average 25 per cent fall in dividend payments and this year many dividend payouts remain in doubt for companies still recovering from the downturn.

Listed investment companies such as Argo, AFIC and Milton also backed the change. "We strongly support the move to have dividends paid so long as a company is solvent, rather than just using profit as the basis," AFIC chief Ross Barker said.

"We think it will be a benefit to the market," he said.

"It certainly is a benefit to some of those smaller LICs who are more active in the market but I

think it will go beyond that."

But the changes have been criticised for not going far enough.

The Australian Institute of Company Directors warned the changes could actually make things worse for about 1.5 million smaller companies.

"We are concerned that the 'assets greater than liabilities' test is inappropriate as it can have little relationship to solvency (the test does not take into account the timing and magnitude of inflows and outflows of funds)," it said in a letter to Corporate Law Minister Chris Bowen.

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"The proposed test has the opposite effect of what is intended by the bill. It increases rather than decreases red tape costs, which is clearly contrary to the government's stated intention of reducing the regulatory burden on businesses," the AICD said.

Directors and accountants are also concerned that, in the final version of the laws, a new requirement has been added that links the calculation of the dividend test to international accounting standards.

CPA Australia and the Institute of Chartered Accountants said smaller companies, which were not required to file full financial statements, will now have to meet the standards or be stopped from paying a dividend.

Mr Bowen said the government was aware of the issues raised by the AICD and it continued to consult on further changes.

### Big payers

Largest forecast 2011 dividends (\$/share)	
Commonwealth Bank	\$3.14
Macquarie	\$2.85
Cochlear	\$2.23
Perpetual	\$2.03
ASX	\$1.89
NAB	\$1.68
Westpac	\$1.50
Leighton	\$1.44
Wesfarmers	\$1.43
ANZ	\$1.30
QBE	\$1.29
Woodside	\$1.28

SOURCE: BLOOMBER