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- 4 SEP 2007

Board of Taxation

30th August 2007

The Board of Taxation
C/- The Treasury
Langton Crescent
Canberra ACT 2600

Dear Sir,

Re The Board of Taxation review of the taxation treatment of off -market buy backs.

Please find attached a submission from the Lord Mayor's Charitable Fund to The Board of Taxation, on the taxation treatment of off – market share buy backs.

We would be happy to elaborate further on this submission if you require.

Thank you for the opportunity to comment on this issue.

Yours sincerely

Mr Andrew Chappell
Chief Executive Officer



Background about the Lord Mayor's Charitable Fund

The Lord Mayor's Charitable Fund was established in 1923 and has a long history of providing much needed funds to Melbourne Charities. The Fund is administered under the Lord Mayor's Charitable Fund Act 1996 (Revised 2003). The Lord Mayor's Charitable Fund is endorsed as a deductible gift recipient under Subdivision 30-B of the Income Tax Assessment Act 1997. The Fund is endorsed for an income tax exemption.

Over the last 6 years The Lord Mayor's Charitable Fund has built up a substantial Corpus from donations made to the Trust and Bequests area of our Fund. These donations have been invested in equities & other cash investments with the purpose of generating income that can be distributed to charities each year, through our granting process. Generation of this income is from share dividends, interest, profits on sale of shares and the refund of franking credits by the ATO.

It is within this context that the following comments are made in relation to off - market share buy backs.

Our comments on off – market share buy backs.

Since the changes to the taxation legislation were made in 2000, a number of the companies in which the Fund holds shares have offered shareholders the opportunity to participate in off - market share buy backs , each having a franking credit associated with the dividend paid to the Fund. In the 2006-2007 financial year the Fund participated in four off - market share buy backs.

The attraction of the off - market share buy back is that the gross proceeds from the share buy back that are received by the Fund include a franking credit. As the shares are bought back at a discounted rate of up to 14%, a loss on the sale of shares can occur and this loss is compensated for by the associated franking credit attached to the franked dividend. It would normally be the case that the Fund would derive more income in aggregate from the off market share buyback than it would have if the shares had been sold on market.

As the Fund is exempt from Income Tax & Capital Gains Tax, the gross proceeds of each off market share buy back sale being made up of a franked and/or unfranked dividend and the franking credit, are available in full to the Fund. The ability to be able to claim a refund of franking credits from the ATO at the end of each financial year has enabled our Charity to significantly increase our annual grant distributions to over 300 charities, primarily in the greater Melbourne area.

The total amount that the Lord Mayor's Charitable Fund is able to distribute to Charities depends on both the franking credits obtained through receipt of dividends with franking credits during the year and also the gross result of our participation in off - market share buy backs.

The view of our Board of Management is that if we are not able to continue our participation in off - market share buybacks and access the franking credits associated with these, then the annual distribution of grants to the 300 plus charities we support, would be significantly reduced.