FACT SHEET
ASX Listed Shares

Financial Desk
National Seniors Australia

3/26 Bougainville Street
Manuka ACT 2603
Phone 1300 020 110
fid@nationalseniors.com.au
fid.org.au

What Are Shares?

Public companies initially raise capital through the issue of shares. The stock market provides a primary market where companies requiring capital issue shares to investors wishing to invest their capital efficiently, and a secondary market where investors are able to trade listed shares and other securities. Shareholders accept the risks and responsibilities of share ownership and are granted certain entitlements in return. These include:

- To share in the company's profits in the form of dividends;
- To participate in rights and bonus issues;
- To vote at company meetings;
- To share in the company's growth as reflected in changes in the share price;
- To be kept informed about the company.

The market price of a company's share is determined by supply and demand from buyers and sellers i.e. market forces, which is influenced in part by the expectations for the future company profits, share price and dividends. Shares may be purchased and sold on a stock exchange through a stockbroker. Minimum transaction amounts may apply and details are available from stockbrokers. With all share transactions now being processed electronically investors will have either a company issuer sponsor holding statement or electronic sub-register system (CHESS) holding statement detailing the opening balance, all transactions and the closing balance for the month a transaction occurs. A stockbroker can act as a CHESS sponsor and electronically register purchases and sales by reference to the investor's Holder Identification Number (HIN). It is possible to have issuer-sponsored shares which are recorded on the company's own sub-register using a Security-holder Reference Number (SRN).

Many financial institutions offer discount brokerage services by investors placing their transactions online. In these situations advice is not usually provided. It is also possible to transfer shares directly from one party to another. This is known as an 'off-market transfer' and can be done through the company's share registry.

When purchasing shares in a company for the first time investors must acquire at least one marketable parcel as defined in the Australian Securities Exchange (ASX) Business Rules. The minimum marketable parcel in any one company is currently $500. After the initial purchase investors can buy or sell any additional amount they wish. Stockbrokers may set higher minimum transaction limits or charge higher fees for transactions that do not meet their minimum transaction or trade value.

There are different types of shares. Ordinary shares are the most common shares trading on the stock exchange. Other types of shares include Preference Shares, Contributing Shares, Bonus Shares and Rights Issues. The different types of shares have different rights, liabilities and obligations which may vary from company to company - the terms and conditions of the particular security should be fully understood prior to purchasing

Preference shares are a type of hybrid security (see 'Listed Hybrid Securities' page 3) giving the investor the right to a fixed or higher dividend not related to company profits and are paid before the dividends to ordinary shareholders. Holders of Preference shares do not have the same voting rights as ordinary shareholders. While having the right to this special dividend, the company is not obliged to pay the dividend at a specific time,

Glossary

Blue Chip – *Larger, well established companies known for consistent, stable, long term returns*

Brokerage – *Negotiable commission paid for the purchase or sale of shares as instructed by client*

Dividends – *Returns paid by a company for each share held and can be paid to the investor or reinvested to purchase more shares*

Franking credits – *(imputation) A credit available to shareholders reflecting the tax paid by the company and refunded by the ATO*

Green chip – *Shares in companies involved in activities/practices considered environmentally friendly and/or socially responsible*

Liquid – *Assets easily sold or convertible to cash*

Liquidation – *The sale or write-off of company assets due to the company being wound up*

Realisation – *When the share is sold therefore giving a definite final value*

Small cap – *Companies with smaller market capitalisation which may have the potential for growth in the future.*

Speculative – *An investment that carries a higher risk of loss.*

Unrealised loss – *A reduction in value of the asset (share) but not an actual loss as the asset is retained. This is also known as a 'paper loss'.*

but where it is not paid in a particular year it may or may not accumulate and be paid in a subsequent year. In the event of the liquidation of the company, Preference shareholders are usually entitled to be repaid their capital before Ordinary shareholders but after creditors. At a specified date the capital may be redeemed (repaid) or converted to Ordinary shares, depending on the specific terms applicable.

With Contributing (or partly paid) shares, dividends are paid in proportion to the paid up amount. Further contribution will be required in the future for the shareholder to fully own the share and become an Ordinary shareholder. It is a way that companies can accrue capital in line with expected needs.

Bonus issues of shares are new shares issued to existing shareholders in proportion to their existing holding at no cost. This does not change the proportion of the company's total shares they own. In fact the value of each share may initially fall and the dividend per share may reduce. However if the price of the shares rise and dividends increase they will receive their benefit. They are sometimes described as a cashless dividend because at the time of issue the shareholder does not receive a cash payment.

A Rights Issue is made when a company wants to raise more capital and an offer is made to shareholders to purchase extra shares. They have no obligation to take up the offer. There are Renounceable and Non-renounceable Right Issues. Renounceable issues can be traded and as a result if an existing shareholder does not wish to purchase the shares they can still profit by trading them. Non-renounceable shares cannot be traded and if they are not taken up they are of no value to the shareholder.

Shares are complex and professional advice should be sought before investing. Even the most researched and best-intended advice may result in a loss.

Features of Ordinary Shares

- Can provide income through dividends usually paid every six months
- Provide taxation benefits through dividend imputation (franking credits) system
- A well-balanced or diversified share portfolio can improve the chance for growth and reduce investment risk
- Provide a balance between income (from dividends and realisation) as well as capital growth
- There are no management fees for the investment itself
- Shares are very liquid allowing investors to rearrange their portfolio at any time by selling and/or buying different shares when they choose
- Some companies provide dividend reinvestment plans (DRP) that deliver additional shares without transaction costs.

But Remember...

- Share prices are volatile and losses may occur upon sale no matter how well companies are managed or how profitable they have been
- The fall in price of a share that is held is an unrealised (not real) loss until/unless the share is sold
- Income from dividends may vary and in times of low profit a company may reduce or pay no dividend. A company must be profitable or have retained profits to pay a dividend
- Brokerage is charged when using a broker to buy and sell shares and rates can vary between brokers. This can eat into gains particularly if small parcels are bought or sold
- If reinvesting dividends through a Dividend Reinvestment Program (DRP), accurate records must be kept to ensure that the necessary calculations made under the Capital Gains Tax (CGT) regime are correct. For further information visit www.asx.com.au

Derivatives

Derivatives refer to financial products using shares as the underlying investment and include Options, Warrants, Futures and Contracts For Difference (CFD) to name a few. Derivatives are used as a means of earning extra income, protecting existing share portfolios and as a form of gearing into share investments. Further information can be obtained from the ASX at www.asx.com.au or by phoning 131 279.

Exchange Traded Funds (ETFs)

ETFs are managed (unitised) investments listed on a stock exchange. The underlying assets can include local and international shares, Australian Real Estate Investment Trusts, commodities and fixed interest securities providing a portfolio diversified over the majority of investment markets. As a general rule, the turnover of assets in an ETF is low, minimising Capital Gains Tax liabilities in the fund. As with shares, the values of ETFs can rise and fall with movements in the price of the underlying assets. Brokerage and adviser fees can apply. Management Fees also apply and can range from 0.07% to 0.80% of the value of the fund and is usually reflected in the unit price.

Listed Investment companies (LICs)

LICs invest primarily in other listed companies although they may also invest in fixed interest securities, property and unlisted private companies. Effectively they provide a diversified portfolio within the investment. LICs have had a 'buy and hold' (passive management) philosophy but many now employ an active management style, trading their assets and endeavouring to deliver a greater return. LICs pay dividends from their profits which are affected by their management costs, which in turn are affected by their management styles and performance fees charged. They raise capital primarily from issue of new shares and also from retained profits. They may also buy back and cancel shares. LICs are described as 'closed-end structures' because exiting investors sell their shares on the market and this does not affect the fund size. As a result the fund manager does not have to sell fund assets to meet withdrawals.

Listed Hybrid Securities

Hybrid Securities such as capital notes, preference shares and income securities are financial products that combine features of the Bond Market and the Stock Market. Check the individual terms and conditions in the product disclosure statement before purchase.
They enable companies to 'borrow' funds (raise capital) relatively cheaply. The security pays interest at a fixed rate either for the full term or for set periods of the term with the rate 'floating' in line with an index such as the 90 day Bank Bill rate. On maturity the holder may be repaid in cash or equivalent ordinary shares in the company or the security 'reset' for a further fixed term. The Hybrid may be more secure than shares because of the certainty of the income stream and if an interest payment is not made ordinary shareholders cannot receive dividends. They are less secure than Bonds because their value can rise or fall in line with interest rate movements and if able to be converted to ordinary shares will move in line with the stock market share price.

Government Income Support

Assets test

The market value is used to determine the total value of the shares for the assets test. If money has been borrowed to invest in shares and the debt is secured against an assessable asset, the asset value of the shares may be reduced by the amount of the debt. The amount assessed cannot be reduced by a debt secured against the primary residence (home) as it is an exempt asset. Department of Human Services (DHS) automatically updates individual shareholdings as at 20 March and September each year using values that may have been determined within the preceding month.

Income test

Shares are assessed as financial assets with their full market value being added to other financial assets and the total being subject to the deeming rules. The market value is not reduced by any debt. DHS will adjust pension or allowance payments to reflect the movement in the market value of shares held following the half-yearly review. Further information is available from DHS Financial Information Service (FIS) Officers or your local Department of Veterans' Affairs (DVA) office.

Taxation Dividend Imputation - Franking Credits

Dividends paid to shareholders must be included in their taxable income. Under the dividend imputation system shareholders who receive assessable dividends are entitled to a tax offset (rebate) for the company tax already paid (see example on Page 4). The amount of the dividend received, grossed up by the amount of the imputation credit, is declared as income to establish taxable income. The Medicare Levy is payable on the grossed up taxable income. The imputation credit is taken off the tax payable.

Taxpayers with franking credits that exceed their tax payable will be entitled to a refund of any excess credits.

Note – *The corporate tax rate in Australia varies according to the company's aggregated turnover. For more information visit www.ato.gov.au.*

Capital Gains

A comprehensive CGT regime exists in Australia. Individual taxpayers can discount the amount of capital gains by 50% for gains made on or after 21 September 1999, provided the shares have been held for at least 12 months. For shares acquired before 21 September 1999 the amount included is either 50% of the realised gain or the whole difference between the disposal price and the frozen cost base. The frozen cost base is the original acquisition price plus certain costs adjusted for the movement in the consumer price index (CPI) between when the shares were purchased until 30 September 1999. The taxpayer can choose which method of calculation is used.

Shares acquired before 20 September 1985 remain exempt from CGT.

Due to the complex nature of the rules it is essential detailed records be kept and it is suggested you consult with a taxation adviser.

For shares inherited from a deceased person the date of death is taken as the date the shares were acquired. The value used is dependent on the date the deceased acquired the shares and the date of their death. Important dates are 20 September 1985 and 21 September 1999. Refer to the Australian Taxation Office (ATO) publications including 'Assets passing to a beneficiary or legal representative'.

Brokerage

Brokerage can be charged as a flat fee up to specified amounts and as a percentage of the value of the share parcel over these amounts. The level of service provided may vary depending on the fee charged. If you have access to the internet, the fee can be smaller as online brokers usually do not give advice.

Investing with Safety

To reduce the chance of losing money investors may consider diversifying their share portfolio to include different companies across different market sectors, e.g. industrial or resource markets etc.

Shares are often classified as blue chip, green chip, small cap, speculative etc. While these terms attempt to describe the type, quality and size of a company it must be remembered that share markets can be volatile and investors need to fully accept the risks involved before investing in shares. For further information refer to FID publication called 'Safety, Risk & Scams'.

A full investigation of the company's profile, performance, history and profit/loss forecasts should be made prior to any share purchase. If investors are not willing or unable to undertake the appropriate analysis a share broker can make some recommendations. If this all seems too difficult purchase of shares in a LIC, an ETF (see page 3) or investing in a managed share fund may be more appropriate.

Indirect investment in shares is covered in a separate FID leaflet called 'Equity Trusts'.

Help for Shareholders

The Australian Shareholders' Association (ASA) is Australia's largest, independent, not-for-profit, member-funded organisation representing Australian individual investors. As well as standing up for shareholders' rights, ASA also helps its members improve their investment knowledge through its educational offerings.

Visit www.australianshareholders.com.au or call 1300 368 448 or 02 9252 4244.

Tax Effect of Dividend Imputation: An Example

Calculations are based on 2017/2018 tax rates and do not include the Medicare levy and other possible tax offsets. It is assumed that Person A has a total income of $10,000, Person B $20,000 and Person C $30,000 including the grossed up fully franked dividend.

	Person A	Person B	Person C
Fully franked dividend (received)	$1,000.00	$1,000.00	$1,000.00
Plus imputation credit @ 30% (not received)	$ 429.00	$ 429.00	$ 429.00
Taxable income from shares	$1,429.00	$1,429.00	$1,429.00
Tax payable on share income only			
Personal Tax Payable A @ 0%	$ 0.00		
Personal Tax Payable B @ 19%		$ 342.00	
Personal Tax Payable C @ 19%			$2,242.00
Less imputation credit (rebate)	$ 428.57	$ 428.57	$ 428.57
Excess franking credit	$ (428.57)	$ (86.57)	$1,813.43

The excess franking credit can be used to offset any income tax or Medicare Levy payable - any unused amount will be refunded in cash. Therefore Person A receives the full credit in cash as they have no tax liability. Person B receives $86.57 cash refund while Person C has their tax liability reduced from $2,242 to $1,813.43