
Tax Risk Low For RHG

RHG is seeking a tax ruling from the ATO about its proposed return of capital. I contacted a friend about the risk of this not being forthcoming and he had the following to say:

The issue the ATO might look at is whether they are doing things "pro-rata".

So if they have very little capital and heaps of profits then large div/small capital return seems appropriate. However if they have a large amount of capital and are just doing "profits first" the ATO might make them do it on a more "pro-rata" basis.

Almost all of RHG's \$300m-odd in shareholders' capital is retained earnings. The share buyback of the past few years ate all of the issued capital. So it looks as though the proposed structure of the buyback, \$0.87 dividend and \$0.01 capital, will be difficult for the ATO to argue with (not that I'd place too much emphasis on consistency or logic when trying to predict the ATO's moves).