Australian Investors Association Ltd

Submission on

Australia's Future Tax System

Investors Helping Investors

As a non-profit organisation, The Australian Investors' Association exists for one purpose: to help our members become more successful long-term investors.

We protect and advance the interests of Australian investors across all types of investments and asset classes – including shares, cash, property and managed funds. Whether you invest through a self managed super fund, a family trust, or directly, the Australian Investors' Association leads debate on the policies and issues that matter to you.

Together, we can accomplish more. The Australian Investors' Association's local meetings, leading national conference, investor bulletins, telepresentations and website provide the opportunity for members to connect and learn both from experts and each other's experience.

Regardless of where, why and through what structure you invest, the Australian Investors' Association can help you develop the skills to take ownership of your financial future.

Australian Investors Association Limited	
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AFTS Secretariat - The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir

Please find herewith the Australian Investors' Association (AIA) submission to Australia's Future Tax System.

The AIA is a nation wide group of two thousand members devoted to the notion of '*investors helping investors*'. We do this by conducting an extensive program of educational activities, both formal and informal in nature. It is part of our culture, deriving from less than satisfactory experiences in seeking assistance from financial advisers, that we press hard for reform within that industry, starting most crucially with the methods of remuneration.

The AIA and its members have varying views, but a recent survey showed overwhelmingly support for the retention of the dividend imputation system.

In recent weeks the Chairman of the Review, Ken Henry has been floating the idea of abolishing the imputation credit system on dividends paid by Australian shares. The AIA has numerous members who have developed a strategy either personally and/or for their self managed superannuation fund (SMSF) where their annual income depends in large part on the dividends from Australian shares and associated imputation credits.

Franked dividends from Australian shares are paid from the after-tax portion of company profits and shareholders then receive imputation tax (franking) credits for the company tax already paid. The imputation credit represents the tax already paid on behalf of the shareholder and can be used to pay tax on income from other sources, or since 2000, excess credits are fully refunded. This means that superannuation funds paying a pension and low income earners have these tax credits fully refunded by the ATO.

This often means the difference between generating enough annual income to meet living expenses and having insufficient income. If the income is inadequate, some capital needs to be liquidated to meet the mandatory pension withdrawal amounts (and to pay living expenses) leaving less capital for the following year and this accelerates to the point where all capital is exhausted and the retiree is no long self-funded but becomes reliant on the taxpayer for income support. This would increase age pension payments in the future.

The suggestion that company tax would be dropped to 20% in exchange for abolishing imputation credits is of no benefit because it still means a cut in income to individuals and SMSFs, with the fund still paying an effective tax rate of 20%. Likewise, making the dividends tax-exempt does not alter the position. The AIA also questions whether it would make any difference to the alleged problems with foreign investment. A simpler solution would be to allow companies to pay unfranked dividends to foreign shareholders and use the existing foreign withholding tax system, which would allow such shareholders a credit for foreign tax paid in their own country.

Imputation credits simply represent tax withheld by Australian companies on behalf of their Australian shareholders in the same way that employers withhold tax for PAYG wage earners. As such, imputation credits are important to ALL Australian taxpayers who own shares in Australian companies either directly or indirectly. It also prevents double taxation of dividend income. This is important as investors would prefer other forms of investment eg property if dividends were double taxed, potentially causing another property bubble and making houses even more unaffordable.

The AIA on behalf of its members exhorts you to carefully examine ALL the potential affects of abolishing imputation credits system and ensure the Government does not embark on this retrograde step.

Jolyon Forsyth

President