

AUSTRALIAN LISTED INVESTMENT COMPANIES ASSOCIATION

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AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir,

SUBMISSION TO AUSTRALIA'S FUTURE TAX SYSTEM REVIEW PANEL

I am writing on behalf of the Australian Listed Investment Companies Association ("ALICA") in response to the Consultation Paper released by the Australia's Future Tax System Review Panel on 10 December 2008.

ALICA is an informal organisation of a number of investment companies listed on the Australian Stock Exchange. Our member companies invest their shareholders' funds primarily in a portfolio of operating companies listed on the Stock Exchange.

The ALICA members have a long term investment time horizon. Common characteristics of their investment strategies include:

- The holding and maintenance of an investment portfolio over the long term with a view to the generation of dividend income and the on-payment of net dividend income to shareholders;
- A focus on the generation of return through the long term earning capacity of the companies in which they invest, and from the receipt of a growing stream of dividends over the long term;
- The raising of capital to grow and rebalance portfolios which in turn reduces the occasions on which shares are sold;
- A low level of portfolio turnover, usually occurring as a result of takeovers and mergers or due to consistent poor performance of an individual investment.

Listed investment companies are one of the oldest forms of collective investment vehicles. The majority of the ALICA members have been in existence for more than 60 years and in total they represent in excess of 188,000 shareholders.

The ALICA members provide their shareholders with a reliable fully franked dividend income stream and an exposure to an efficiently managed, diversified portfolio of Australian companies.

This submission refers only to comments contained in Section 6 of the Consultation Paper entitled "Taxing business and investment".

Shareholder taxation and international competitiveness

Many of Australia's larger companies have been successful in attracting foreign investors as can be seen by the level of international investment in the companies listed on the ASX.

There is a significant cost incurred by these companies to attract and maintain foreign capital. These costs can be prohibitive for the many small to medium sized companies in Australia that fund their operations from equity provided by domestic investors.

The dividend imputation system is well understood and has a material impact on investment decisions made by domestic investors including self funded retirees, superannuation funds and charitable organisations.

The removal of dividend imputation would make an equity investment in Australian companies less attractive for many Australian investors even if the company tax rate were to be reduced. This could seriously affect the ability of Australian companies to raise capital.

A reduction in the company tax rate will not necessarily increase the level of foreign equity investment in Australian companies.

Taxation is only one of many issues affecting decisions by international investors to allocate funds to Australian companies. Other issues that international investors may consider include: political stability, relative valuations, industry and geographical weightings, and arbitrage and hedging opportunities.

Many international investors do not allocate capital on a long term basis, rather they can be more mobile and opportunistic. Any incentive to encourage international capital should address this issue.

The impact of more internationally competitive taxes on investment returns

The reform of taxes on investment returns to make Australia a more internationally competitive location for investment may be beneficial for certain Australians. However if this were to occur at the expense of the abolition of dividend imputation it would negatively impact on the wellbeing of many Australians.

The removal of dividend imputation will have a detrimental effect on the wellbeing of the self funded retirees who lose the benefit of the franking credits. One of the Government's aims is to increase the proportion of the ageing Australian population that can self fund their retirement.

Dividend imputation and offshore investments

The dividend imputation system has been successful in encouraging Australians to invest for the long term in Australian companies.

The imputation system has also operated to encourage companies to pay tax in Australia.

The Panel is encouraged to review aspects of the imputation system to improve how it operates for Australian firms investing offshore. However it should be noted that many Australian companies have been able to successfully expand offshore irrespective of the dividend imputation system. The Australian tax regime has not been the reason that many Australian companies have failed to expand offshore.

Conclusion

The dividend imputation system has been successful in encouraging Australians to invest for the long term in Australian companies.

According to the "2006 Australian Share ownership Study" released by the ASX, approximately 7.3 million people or 46% of the Australian population owned shares either directly or indirectly via a managed fund or self managed superannuation fund.

Many of these Australians rely on the fully franked dividends to provide cashflow for day to day living whilst others rely on the franked dividends to bolster their investment in their superannuation so that they may be able to fund their retirement.

There is no guarantee that international investment will flow to Australia simply because of a reduced tax rate. Furthermore there is no certainty that any benefit that may arise from additional international investment would more than offset the adverse affect on many Australians that would arise from the abolition of the dividend imputation system.

Accordingly it is recommended that the current system of dividend imputation be retained.

We thank you for the opportunity to submit our views on what is an extremely important topic that affects many Australian investors.

Yours faithfully

Frank Gooch
Chairman
ALICA

LIST OF MEMBERS OF ALICA

Argo Investments Limited
Australian Foundation Investment Company Limited
Australian United Investment Company Limited
Brickworks Investment Company Limited
Choiseul Investments Limited
Diversified United Investment Limited
Milton Corporation Limited
Sylvastate Limited
Whitefield Limited