David & Maya Bradley
[removed for privacy reasons]

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TO: AFTSubmissions@treasury.gov.au
Hon. Wayne Swan, Treasurer <Wayne.Swan.MP@aph.gov.au> Hon. Jenny Macklin, Member for Jagajaga <JMacklin.MP@aph.gov.au>
RE: Rumoured removal of franking credit

If press reports that the Australia's Future Tax System review is about to recommend the removal of the franking credit system are correct, we wish to protest in the strongest possible terms, and urge you not to do so!

The current system was a reform introduced by the previous Labor government. Such a reform would be a serious breach of trust with Australians who have invested in Australia.

If franking credits are removed, every Australian shareholder will lose 30 per cent of their current overall franked dividend income. Dividends would need to increase 42.7 per cent in order to offset this, and companies are highly unlikely to increase dividends by this much, even if company tax is lowered by one third as mooted.

If removal of franking credits is combined with recent share price and dividend declines, retirees who have relied on the existing system will become dependent on government pensions much sooner.

Once the franking credit system is abolished, Australian-based shareholders will have NO incentive to invest in Australian shares in the future, as opposed to overseas shares. Australian shareholders have always been the mainstay of support for Australian companies, so a shift by Australian investors to foreign equity investment may also have serious implications for the ability of Australian companies to raise equity funds, given the current world economic situation.

The franking credit system has also given Australian companies more incentive to arrange their affairs to pay tax in Australia, rather than in some lower-tax jurisdiction, and to distribute franked dividends up to the level of their tax paid. A change may induce more companies to rearrange their affairs so as to pay less tax in Australia. Some Australian companies have already taken actions with undesirable consequences for Australia: moving to other jurisdictions, like News and Hardies, or merging with overseas companies, like BHP Billiton and CRA/Rio. The outcome is lower Australian tax revenue and diminution of Australian control over Australia's major assets. The current system acts as a major incentive for companies to remain here and pay tax here; Australia cannot chase the lowest worldwide company tax rate.

Elimination of the franking credit system would also be a free hit for overseas investors, who currently pay some kind of tax on dividends in all major jurisdictions; from their perspective, the franking credit system is just the Australian version of dividend withholding taxes as found in the US, the UK and so on. The introduction of a replacement Australian tax on dividends flowing from Australian companies to overseas shareholders may require the renegotiation and amendment of every tax treaty between Australia and each other country, which could take many years and create uncertainty, thus deterring rather than encouraging overseas investment into Australia.

We believe that you may also want to consider the electoral consequences of having taken away 30 per cent of every Australian shareholder’s franked dividend income.

Yours sincerely

David Bradley & Maya Bradley