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18 April 2009

Dr Ken Henry  
Secretary, Australian Treasury  
Langton Crescent  
Parkes ACT 2600

Dear Dr Henry,

**Australia's Future Tax System Review – Proposal to change the rules applying to dividend imputation**

It has been reported in media in this country that the Rudd labor government is looking at the abolition to the dividend imputation system as an outcome of the review of Australia's tax system which you are overseeing.

In 1987 the Hawk government introduced dividend imputation in order to remove the double taxation of dividends. Previously a company that paid dividends to shareholders from business income paid company tax on the full value of that income. The residual that was distributed to shareholders was taxed at the marginal rate paid by each individual shareholder. Effectively this meant that investors' money was taxed at 49 cents in the dollar in the hands of the company and the residual distributed to shareholders was taxed at marginal rates up to 57 cents in the dollar. In other words, the government appropriated most of the income of the company in tax. This had the effect of discouraging investment in companies in Australia such that Australian business was often forced to raise funds offshore.

The outcome of dividend imputation has been to remove the iniquitous regime of double taxation such that investors receive an imputation credit for the tax paid by the corporation they own through their shareholdings. In this respect the income earned by the company is shareholder income and not two separate streams both subject to the same levels of taxation.

Consequently, many Australians have invested to fund their retirement income according to the rules established following the introduction of dividend imputation over 20 years ago. As a self funded retiree I have made investment decisions that will provide me with a "living wage" once I leave the workforce on the basis of the income streams available from dividends and dividend imputation credits.

Should the Rudd labor government abolish dividend imputation under the auspices of your review of Australia's tax system it will be ruinous to the investment decisions of countless Australians (made under the taxation laws available over the past two decades) and ruinous to the living wage they have sought to create such that they will not be dependent upon the pension.

In the main, politicians and public servants will be shielded to the extent that they have indexed pensions and superannuation schemes.

What is perhaps more troubling is that this proposal comes on top of the level of debt the Rudd labor government is consigning to Australians. Given the constraints the repayment of this debt will place on the citizens of this country in coming years, the Government can ill afford to destroy the self funded retirement incomes of many Australians through the abolition of dividend imputation only to have them

become dependent on a pension at a time when most of Australia's earnings will be used to service debt and interest payments.

I urge you to resist any recommendation to abolish dividend imputation.

Yours sincerely,

Peter John Brooke