

Dr H J B Corderoy
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AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600
30 March, 2009

Dear Dr Henry,

I write to express concern about possible changes to the franking credit (tax imputation) scheme.

I heard on the ABC radio recently that the your committee was considering reducing or removing entirely the franking credits on share dividends. If the tax rate for business remains the same and the franking credit rate reduced this will result in an unfair double taxation.

However, if both the business and the imputation taxation rates are reduced by the same amount then retirees can hopefully rely on companies to give a higher dividend. This will still result in a higher tax bill for retirees.

I know I speak for many self-funded retirees when I say that any reduction of the franking credit rate will impact severely on our quality of life and in many cases our ability to remain self-sufficient. This is particularly so in the present economic climate of low bank interest rates and diminishing dividends. The net result will be to make many more retirees dependent on social security payments thus offsetting if not wiping out any tax revenue advantage to the Government.

Many self-funded retirees fall into the 20% - 30% marginal tax level and have arranged their affairs to rely on franking credits to reduce or remove their tax liability. Many of these retirees receive little or no social security benefits because of the means test.

Those self-funded retirees who have worked hard all their lives and have saved to provide themselves with a reasonable standard of living in their old age will find themselves being taxed again.

For example a retiree earning \$40,000 in fully franked dividends and \$20,000 from bank interest would just about break even in terms of tax liability. However, the retiree would be liable for \$4,600 tax if the franking credit rate was lowered to 20%. This would mean a 7.8% reduction in income for the year.

I thank you for your consideration of these matters.

Yours sincerely,

Professor Emeritus H J B Corderoy
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