Dr K Henry, Chairperson of AFTS Review 13 April 2009
CANBERRA, ACT

Dear Dr Henry

I have read several submissions already made by major organizations, and will not re-state detailed analysis and recommendations contained therein.

The following comments flow from over twenty years experience as a stockbroker, advising individuals on their investments and financial arrangements. Most of my clients are people over fifty years of age, operate Self Managed Super Funds and have a preference for Direct Investments in preference to Managed Investments.

Notwithstanding major improvements made in the “Better Super” program (after being re-badged from the "Simpler Super" program), I believe your Review should focus on **simplicity of the taxation of Personal Income and Retirement Income taken together**, and linkage to Commonwealth Age Pension benefits.

The topics I recommend for consideration are:

- Simplification of the personal income tax system such that fewer Australians need to file tax returns, and employ tax agents for preparing returns
- Regular adjustment of income tax scales (and related offsets) to reflect price inflation
- Maintenance of the dividend franking system that eliminates the double taxation of company profits
- Elimination of stamp duties on financial products.

I feel very strongly about the dividend franking system.
The franking of dividends has become particularly familiar since the privatisation and demutualisation of large institutions in the early 1990's. At 8 August 2008, the Commonwealth Bank **alone** had some 720,000 investors holding up to 5,000 ordinary shares.

Since its introduction, **investors** (supported by their accountants and financial advisors) have sensibly come to **regard dividend franking as an important criterion in selection of investment products**. Separately, companies have responded by making tax-efficient dividend payments to shareholders.

The franking system is not without wrinkles. For example, a profitable company (generating income in Australia and paying company tax on same) and returning 2/3rds of earnings as franked dividends to shareholders, will accumulate a surplus franking balance equivalent to one year’s average dividends every three years. This, I believe is an unintended consequence of the system, and has lead to (a) off-market buy-backs that provide uneven equity to participating and non-participating shareholders or (b) extension of franked income to hybrid securities.

The recently-appointed CEO of the ABC asked his predecessors for some advice on programming. The wisdom was ... whatever you do, do not muck about with "The Bill". And I would say ... **do not muck about with dividend franking**.

Howard Elton [removed for privacy reasons]