

30 April 2009



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## HEART FOUNDATION SUBMISSION: AUSTRALIA'S FUTURE TAX SYSTEM

- Question 6 (Taxing business and investment)
- Question 7 (Not-for-profit organisations)

By email: [AFTSubmissions@treasury.gov.au](mailto:AFTSubmissions@treasury.gov.au)

### **Australia's dividend imputation system: how it helps the Heart Foundation reduce death and suffering from cardiovascular disease**

#### **Recommendation**

*The Heart Foundation calls for the current imputation system to be maintained as it directly increases the level of support the Foundation and many other charitable organisations can make to the community.*

#### **Background**

In addition to our submission on tobacco taxation, made jointly with Cancer Council Australia, the Heart Foundation would like to make this further submission relating to the dividend imputation system (franking credits). In doing so, we strongly support the submission of Philanthropy Australia on the tax treatment of company dividends.

We are aware of calls for the abolition of the dividend imputation system as a way of offsetting a cut in company tax. The Heart Foundation joins Philanthropy Australia and many other charitable organisations and trusts to strongly oppose the abolition of the dividend imputation system.

As with many other charities, the Heart Foundation receives significant income from franking credits earned on Australian equity investments. This income assists us fund vital medical research and run a range of important national programs to reduce death and suffering caused by cardiovascular disease – Australia's leading killer (accounting for 34% of all deaths in 2007).

Our work not only helps save lives, it also makes an important contribution to the Australian economy. By funding research and conducting a comprehensive range of

programs and projects – such as the development of clinical guidelines and consumer resources - we have helped people survive life-threatening events, such as heart attack, enabling them to return to the workforce and continue a full and productive life.

By investing in prevention and helping people recognise and avoid risk factors, we help reduce avoidable hospital admissions. This is important as cardiovascular disease remains the most costly condition, accounting for 11.2% of the health system's expenditure in 2004-05.

The imputation credit system was introduced into Australia in 1987 to give effect - the Australian Government said at the time - "to the most significant business taxation reform in this country in the post war years - the elimination of the double taxation of company dividends".

The system was amended in 2000 to enable zero tax payers, including charities, to reclaim excess franking credits as cash refunds as the lowest tax payers were not benefiting from the franking system.

The Australian Government said the amendment would provide a significant financial boost (around \$50 million a year) to charities and they would, as a consequence, be in a position to provide more services and assistance to their beneficiaries.

The amendment increased cash received from fully franked dividends from Australian companies by 42% and accounts for a significant part of the income distributed by foundations to the community each year.

This has certainly been the case for the Heart Foundation. The income - \$638,729 in 2008 - is of enormous significance to our work. It has helped to boost our investment in medical research into cardiovascular disease. This year we will invest some \$13m into research on the prevention, causes, treatment and management of heart, stroke and blood vessel disease.

Since the Heart Foundation was formed, we have invested some \$200m in medical research, a milestone passed this year, our 50<sup>th</sup> anniversary.

This investment has provided significant returns to the nation, not only by making a highly significant contribution to declining death rates, but also by nurturing Australian researchers (through our fellowships and scholarships program) and helping to stem the medical research 'brain drain'. It has been estimated that up to 50% of the health gains we have enjoyed over the past few decades can be attributed to medical research.

The Heart Foundation, therefore, strongly supports the case for retaining the dividend imputation system made by Philanthropy Australia, namely:

1. The tax principles of fairness, efficiency, and simplicity are as relevant today as they were in 1987 when dividend imputation was introduced to remove the double taxation of dividend income.
2. The reimposition of taxation on tax-exempt entities would see charities suffer when the need for our services is growing. In the case of the Heart Foundation, we are concerned that prevalence of cardiovascular disease is on the rise and death rates – which have been in decline since the late 1960s - could rise again in the years ahead as some risk factors (such as overweight

and obesity) become more common and others (such as poor nutrition, insufficient physical activity and high blood cholesterol) continue at high rates.

3. By providing companies with an incentive to pay fully-franked dividends, companies are encouraged to invest, create jobs and pay tax in Australia rather than off-shore.
4. Abolition of the imputation dividend system would reduce the attractiveness of investing in Australian companies for domestic investors, which, like many retail shareholders and superannuation funds, charitable trusts and foundations have been willing to do in large part due to the franking credit system. Australian investors provide a significant source of long-term equity capital funding for Australian companies.

### **Summary**

The Heart Foundation agrees with Philanthropy Australia's assessment that the imputation system has been of significant benefit to Australia, Australian business and Australian shareholders including charitable trusts and foundations, and should be maintained.

The Heart Foundation calls for the current imputation system to be maintained as it directly increases the level of support the Foundation and many other charitable organisations can make to the community.

Yours sincerely



Dr Lyn Roberts AM  
Chief Executive Officer – National  
Heart Foundation