

# Australia's Future Tax System

7 April 2009

AFTS Secretariat  
The Treasury  
Langton Crescent  
Parkes ACT 2600

## Submission

This submission relates to the maintenance of our dividend imputation system.

## Dividend Imputation System

As part of the review of the Australia's future tax system it is important that we **maintain** the current dividend imputation system. This system has significant benefits to our corporations, retail investors and the Australian Taxation Office.

Some of the reasons to maintain our dividend imputation system are:

### 1. It eliminates the double taxation of dividends.

Prior to the introduction of the dividend imputation system the profits of a corporation were taxed twice.

- Firstly if a corporation made a profit of \$100, tax was paid to the Australian Taxation Office (ATO) at the corporate tax rate of 30%, ie \$30 is paid in tax to the ATO.

- If the remainder of the profit was paid as a dividend to its shareholders the dividend would be taxed at the shareholders tax rate eg 45%,  $70 \times 45\% = \$31.50$ .

-That is of the profit of \$100.00, \$61.50 is paid in tax, only \$38.50 remains untaxed. The company profit has in effect been taxed twice.

The current system by providing a imputation credit to the shareholder means that the shareholder is obtaining the benefit of the tax paid by the corporation, ie there is no double taxation of dividends.

### 2. It encourages corporations to pay company tax.

Prior to the introduction of the dividend imputation system some corporations would engineer the way certain transactions were done (eg sometimes involving tax havens) to achieve a certain outcome which meant that a lower amount of tax was paid to the ATO.

With the introduction of dividend imputation corporations were encouraged by their shareholders to be good corporate citizens by paying income tax to the ATO. Shareholders were well aware of the benefits of receiving a franked dividend, this created some pressure/encouraged corporations to pay their share of income tax so they could pay a franked dividend.

This created a win win situation where the corporations, shareholders and the ATO were all winners. The encouragement to pay income tax via the dividend imputation system is far more effective then any "heavy handed approach" by the ATO.

### 3. It provided a greater source of capital for our corporations

As investors become aware of the benefits of the dividend imputation system it encouraged some investors who previously did not invest in share capital, to buy shares in corporations with the intention of receiving a franked dividend. Those investors who already held some shares were more willing to provide additional capital to existing or new corporations.

Without capital corporations cannot operate, the Australian economy requires corporations to provide goods and services. These corporations then require employees to carry out various functions and hence provide employment to Australians.

Hence, the dividend imputation system has provided a greater source of capital for our corporations. Any tinkering with our dividend imputation system will reduce the amount of available capital to our corporations.

Please feel free to contact me if you wish to discuss any of the issues that I have raised with this submission.

Regards  
Jonathan Hestelow