

Re: Australia's future tax system & dividend imputation

Recent stories have appeared in the press concerning the review of the tax system, and in particular the possibility that the system of dividend imputation, or franking credits, may be discontinued.

If true, this would be a terrible outcome for us as shareholders and self funded retirees. Dividends make up an important part of our income, and the system of dividend imputation has been a major reason for us continuing to be investors in Australian equities.

The following arguments in favour of retaining full dividend imputation are, we believe, very strong:

1. Without dividend imputation, the profits that our investment generates are being taxed twice, which is clearly inequitable. Even if a Company increases its dividend due to any fall in the corporate tax rate, we will still be disadvantaged by being taxed twice on the income.
2. The removal of dividend imputation would at a stroke severely reduce the income that many shareholders like us receive from our investments.
3. Such an outcome would severely reduce the attractiveness of investing in Australian companies, which we have been willing to do in large part due to the franking credit regime. Without dividend imputation, we would be far better off putting our investments in bank accounts and higher-yielding fixed rate instruments, which will pay us gross of any tax.
4. The imputation system has been a significant factor in encouraging retail investors such as us to participate in the Australian equity markets. These retail investors provide a significant source of long-term equity capital funding for Australian companies. This could change overnight with the removal of dividend imputation, which would be a disaster for the financial system.
5. We have been encouraged to invest in superannuation funds as a means of providing future income for retirement. To change the basis of this, and reduce the amount that our fund can provide as retirement income, is not only going to mean that we have less to live on in retirement, but is a disincentive to put more than the minimum into superannuation, and will increase the numbers of people who are dependent upon the Government for support in retirement.
6. By providing companies with an incentive to pay fully-franked dividends, Companies are encouraged to pay tax in Australia rather than off-shore.
7. We have read that one of the arguments in favour of removing dividend imputation is that this will allow corporate tax rates to fall which would then lead to an increase in share prices. Not only have we not seen any evidence that this increase would automatically occur, why should we have to sell our investments in order to derive a benefit from them? By encouraging companies to pay fully franked dividends, we can have an income from our investments without having to sell them, which of course means that we can continue to derive future income from them.

The removal of dividend imputation would in our opinion be a grave policy error.