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RETAIN IMPUTATION CREDITS

In recent weeks the Chairman of Australia's Future Taxation System Review, Ken Henry, has promoted the possibility of abolishing the imputation credit system on dividends paid by Australian companies to their shareholders. The annual income of my partner and I, through our self-managed superannuation fund (SMSF), depends in large part on dividends from Australian companies that are accompanied by imputation credits which are then fully refunded by the ATO.

An end to franking would significantly increase the likelihood that we would have to liquidate capital annually to meet the mandatory pension withdrawal amounts and maintain an adequate standard of living. Such a self-defeating exercise would quickly accelerate to the point where we would become age pension claimants.

The suggestion that company tax would be dropped to 20% in exchange for abolishing imputation would still mean a cut in income.

Our request: if there is a significant problem with foreign investment, deal with it without jeopardising the franking system for Australian-resident shareholders.

Imputation credits are tax withheld by Australian companies on behalf of their Australian shareholders in the same way that employers withhold tax for PAYG wage earners. As such, imputation credits are important to all Australian taxpayers who own shares in Australian companies, directly or indirectly; and prevent double taxation of dividend income.

Their abolition would create a major problem for us and, ultimately, a massive increase in pension payments by future governments. Bastardy in the international financial system is causing us enough problems - our super income will be halved this financial year and, through gritted teeth, we are appreciative that we are able to halve it. The last thing we need now is economic theorists pushing us into riskier investments in an attempt to compensate for the loss of franking.

Yours sincerely,

Mal Maloney