

[removed for privacy reasons]

20 April 2009

Dear Treasurer,

I, along with many others, am concerned by the current speculation that the Government may choose to trade dividend imputation for a general reduction in corporation tax. From a personal and national standpoint, I hope this does not eventuate.

Dividend imputation has provided a major incentive for Australians to invest in the Australian share-market. It has boosted returns and so reduced the need for those dependent on unearned income to call on social security. This has assisted me and given me comfort, for I have no wish to be a burden on my fellow countrymen.

All forms of taxation and all taxation concessions distort markets. Their administration incurs costs. Simplification of taxation arrangements will increase efficiency. I have no argument with this. I also recognise that changes will benefit some and disadvantage others. This is where the equity argument has a place. While many arguments will be offered, I will make four points.

- Removal of dividend imputation will reduce the incentive for Australians to invest in Australian equities. Compensating reductions in corporate taxation will encourage overseas investors to fill the space. In consequence, the returns to Australian resources, effort and innovation will increasingly flow overseas – hardly a plus in the national interest.
- Lower corporate taxes will increase corporate profits. To the extent that those profits are retained in Australia, that's good. However, increasing profitability will encourage those well placed to leverage their own remuneration (executives) and those with strong bargaining power (key employees) to up the ante. They will be net winners. Polarisation of wealth is not in the longer-term interest of the nation.
- Reducing corporate taxes without reducing individual taxation will increase the spread between the top rate of income tax and the corporate rate of taxation. This will encourage an increase in the use of tax shelters by wealthy individuals – again counterproductive from a national interest viewpoint.
- Trust. Many respond to changes in government policy in the belief that policies will endure. Lack of continuity incurs costs and generates resentment. It lowers faith in the integrity of government. It has been my observation that politicians increasingly make changes simply to differentiate themselves from the party in opposition. Stability, integrity, and honesty come second to self-marketing and point scoring. This is not in the national interest.

So what to do? Income taxes have proved largely discretionary for the rich. It is harder to avoid consumption taxes. The legacy of underinvestment by government in public infrastructure must be funded. A tax on consumption ensures all contribute in proportion to their expenditure. This discourages profligacy and goes

some way to changing the paradigm of growth and greed to one of saving and conservation. The efficiency and effectiveness of death duties should be revisited. Above all, the premise of fairness that underpins a democratic society requires that the spread in wealth should reflect the value added by an individual not his or her inheritance.

There are no easy ways to meet the criteria of equity, efficiency and effectiveness in taxation but it does not strike me as politically or economically smart to reduce self-sufficiency of the increasing proportion of the population that depends on savings. Those who depend on savings and those who have responded to the Government's incentives to save for their retirement have seen the value of their savings slashed by the global financial crisis. I fear that removal of dividend imputation would further savage the capital value and income derived from those savings.

With best wishes for your deliberations,

John McKenna