

April 21, 2009

AFT System Tax review

DIVIDEND IMPUTATION

I am a self funded retiree and have been so since 1992.

It has been widely reported that the elimination of Dividend Imputation is a plank of proposed changes to the tax system. If the reports are true, it is essential that the following factors need to be taken into account to avoid what might be unintended if unintended but highly damaging consequences.

1. Dividend Imputation was adopted and has been actively promoted by Governments of both parties as a means of encouraging savings through greater investments in Australian companies, benefiting Australian Companies through
 - a. Increasing share prices;
 - b. Increasing their ability to raise capital, and
 - c. Thereby strengthening Australian jobs.
2. In sum, Dividend Imputation has provided and provides a net benefit to the Australian domestic economy rather than to the economy of another country.
3. In addition it has led to investment in Australian Companies that pay Franked Dividends being widely recommended by financial advisers, and has become a principal element in investments by accepted by both individual and institutional investors. Indeed, Retirement Plan calculations including Dividend Imputation are a significant, even critical, assumption in plan structure.
4. Elimination of Dividend Imputation at any time will lead to an immediate reduction in self-funded retiree income of up to 30%.

In addition, in the present and impending economic circumstances, capital losses of up to 50% can be expected and lower profitability and lower dividends are almost certain to follow this path. In this case, if Dividend Imputation is also eliminated, **retirees can face income reductions of the order of 60% to 70%**. This would be devastating to the retirement living standard of many present and future retirees.

This affects a wide spectrum of the Australian saving population, and in particular retirees who rely on dividends to fund their retirement through to death. Reductions of this magnitude will force many retirees on to the government pension, whilst others with a much higher level of investments will be forced to drastically reduce their expenditures and living standards, and many will outlive their reduced superannuation assets.

(It is noted that the government has already recognised the reality and magnitude of this capital loss potential by reducing the compulsory super pension annual withdrawal by 50%. This does nothing to protect the retirement living standard of retirees.)

Retirees are particularly vulnerable as, unlike those of working age, they have no way of compensating for losses other than as outlined in the preceding paragraph.

As the consequences of the devastation caused by elimination of Dividend Imputation become apparent, a massive loss of faith in the government's integrity and the credibility of the superannuation system is inevitable.

John C. Olsen