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26 April 2009

AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Dr Henry

Submission for Retention of Dividend Imputation Credits

In recent months I have read several media articles and been advised through my attendance at your Tax Review public meetings that the Panel reviewing Australia's Future Tax System is addressing the question of whether there should be a change to Dividend Imputation for share dividends paid by listed and unlisted Australian Companies.

Dividend Imputation is extremely important to self-funded retirees as many are shareholders with significant investments in Australian Companies. Self-funded retirees through superannuation or private sources represent a very large percentage of investments in both listed Australian Companies on the ASX and unlisted Property Development Companies.

Any reduction or removal of the present dividend imputation credits arrangements could have significant negative and/or unintended consequences, some of which are listed below:

- Significant reduction (up to 30%) of self-funded retirees annual income
- Reduce self-funded retirees asset base (for pensions) and thereby result in progressively lower living standards
- Reduce discretionary expenditure by self-funded retirees with negative impact upon the economy and employment
- Substantially less investment in listed and unlisted Australian Companies by self-funded retirees, superannuants, current and future investors
- Reduce investments in property development with its negative consequences for land provision, employment and the economy
- Reduce or remove franking credits income for retirees requiring the selling of assets and incurring capital gains and reducing asset base further
- Reduce incentives to be self-funded in retirement
- Increase reliance on Government funded welfare system
- Reliance on Government Aged Pension from an earlier Age
- Regression to double taxation with all its dysfunctional effects
- Less active lifestyle by retirees leading to higher health care system costs
- Increase anxiety and lead to the deteriorating health of older Australians
- Less volunteer activity due to declining activity and poorer health of seniors
- Is contrary to the Government's Sustainable Retirements Income Policies

The investment strategies that have been employed by self-funded retirees before and during their retirement are heavily influenced by the availability of Dividend Imputation. For example, many self-funded retirees decide to invest in listed and unlisted companies rather than in ‘safer’ fixed-interest accounts or direct property because of the availability of Franking Credits and often only invest in companies that pass on full Franking Credits to their shareholders. Any change to the Dividend Imputation system that reduces retiree incomes will cause many of these self- funded retirees to consider changing their investment strategies.

Any direct or indirect reduction to incomes from a change to the Dividend Imputation Credits system will have a significant impact on the ability of self-funded retirees to maintain their lifestyles, to maximise the use of their investment, and to minimise their need for government welfare support throughout their retirement.

What with the impact on retiree incomes and investments of the current economic crisis, there is fear amongst self-funded retirees regarding the additional negative effects on their incomes and assets that would result from withdrawing or reducing Dividend Imputation.

This submission is made in the sincere hope that the Tax Review Panel in reviewing Australia’s Future Tax System and the Government will recognise the importance of not further reducing the independent incomes and investments of self-funded retirees in the context of maintaining their independence and minimising their need to rely on government welfare throughout retirement.

The retention of the imputation credits is critical to the welfare of many Australian current and prospective retirees and it also underpins their long term commitment to investing in both listed and unlisted Australian Companies.

The encouraging words reported in the AFR on 23 April from the Federal Treasurer Wayne Swan that Imputation Credits would not be scrapped and that self-funded retirees are unlikely to lose their benefits is heartening and we hope that the Review Panel will similarly appreciate the enormous benefits the present system provides to the Australian economy and refrain from changing an arrangement that works well for Australian retirees.

Should you require any further information, please don’t hesitate to contact me.

Yours faithfully

Alan W Stirling