

The Geelong Chamber of Commerce
Advancing Business and Industry in the Geelong Region

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**SUPPLEMENTARY SUBMISSION TO THE
AUSTRALIAN TAX REVIEW
FOR
AUSTRALIA'S FUTURE TAX SYSTEM**

25 March 2009

1. INTRODUCTION

The Geelong Chamber of Commerce made a submission to the Review of the Australian Tax System on 10 October 2008.

The Chamber now makes a supplementary submission to the Review on the need to retain the Share Dividend Imputation system as part of Australia's Tax System.

The Chamber submits that any changes that see the abolition of the share imputation system will result in related adverse consequences as explained in this submission.

The Chamber strongly submits that no changes are made to the share dividend imputation system.

2. THE CHAMBER

The Geelong Chamber of Commerce has, as its primary roles, the fostering and advancement of commercial and industrial activity and being the effective and independent voice of business for the Geelong region.

The Chamber is a totally independent non-profit business organisation and has operated continuously since its establishment in 1853 and represents all business and industry sectors in Geelong.

It is non-political and is funded solely by members' subscriptions and is answerable only to its members - currently 700 - who are drawn from a wide diversity of large, medium and small business enterprises and organisations operating in Geelong, and include, for example, Alcoa Australia, Ford Australia, Deakin University, Barwon Health, City of Greater Geelong, etc., to individuals and it speaks on their behalf.

The Chamber's Vision is:

The Geelong Region will be recognised nationally and internationally as one of Australia's strongest and most prosperous centres of commerce and industry and the Chamber as its leading organisation representing and supporting business.

The Chamber's Mission is:

The Geelong Chamber of Commerce will advance business and industry in the Geelong Region through creative and innovative leadership, advocacy, co-ordination and promotion of business interests.

The Geelong Chamber of Commerce, in representing the community's interests as well as business and industry members, sees itself as an important stakeholder providing regional leadership and is seen by others as the peak business organisation in the Geelong region.

This has been the recognised and accepted role of the Geelong Chamber over the past 156 years.

3. ABOLITION OF SHARE DIVIDEND IMPUTATION

The Chamber believes that the Review is likely to consider the abolition of Share Dividend Imputation as part of its proposed options in the Tax Review.

The Chamber is not the only commentator to suggest this.

It has certainly been suggested by others in recent press reports that consideration is likely to be given to abolishing the current dividend imputation system which was a positive measure introduced by the Hawke/Keating Government in 1987 as part of its tax reform package.

The Chamber strongly opposes the abolition of this system or any change which is similar.

The Chamber does this for the following reasons:

3.1. Share Income will be Taxed Twice

Without share dividend imputation, income derived by companies, which is subject to Australian income tax and which is distributed as dividends to shareholders, is taxed twice.

This is done, first, in the hands of the company and, second, in the hands of the shareholders. The Chamber believes that this is inequitable when compared with taxable income derived by individuals, which is taxed only once.

With the company tax rate at 30 per cent and the top personal tax rate at 45 per cent, the total tax payable on a dividend could be as high as 61.5 per cent (e.g. \$1,000 x 30% = \$300, plus 45% of \$700 = \$315: \$615).

3.2 Tax Avoidance will be Higher

The Chamber believes that the abolition of the dividend imputation system would almost certainly be accompanied by a reduction in the rate of company tax (currently 30 per cent) as part of the Review.

However, the Chamber believes that one of the causes of tax avoidance strategies being so rife in Australia is the disparity between company and personal tax rates.

The Chamber has previously made submissions advocating a narrowing of the gap between company and personal tax rates for this very reason.

The Chamber believes that a reduction in company tax rates will increase this disparity and encourage even greater attempts at tax avoidance.

3.3 The Cost of Capital Argument is Academic

The Chamber is aware that the Committee for Economic Development of Australia (CEDA) issued a report in 2006 - *Tax Cuts to Compete* - in which it was argued that share dividend imputation had proved an inefficient means of reducing Australia's cost of capital and that elimination of the system would allow the funding of a substantial corporate tax cut, encourage foreign investment and boost economic growth.

The Chamber believes the "cost of capital" argument to be an academic one which is esoteric rather than practical.

The Chamber suggests that there are better ways to encourage foreign investment and boost economic growth.

3.4 Financial Impact will be Disastrous for Investors

The Chamber believes that the abolition of the share imputation system at this time of probable serious recession for Australia, when shareholders' dividend income is also likely to be slashed, would be disastrous for Australia's investors.

This abolition would exacerbate the recent huge fall in share prices and result in a further loss of confidence in Australia's financial system and the measures in the Tax Review.

The Chamber believes that the action would also lead to enormous difficulty for companies wishing to raise capital to finance their growth, and even their survival!

4. FINAL COMMENT

As stated in its first submission, the Chamber is pleased that the Australian government is carrying out this major review of the Australian Tax System.

However, the Chamber now asks that the comments made in this supplementary submission are carefully considered as part of the review's process.

Submitted for and on behalf of The Geelong Chamber of Commerce by resolution of its Council.

The Chamber agrees that the contents of this submission can be made public.



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