Submission in Relation to Dividend Imputation

Canberra Assurance & Investment Services was concerned to learn that a review of the current dividend imputation arrangements was being conducted. **Canberra Assurance & Investment Services** is strongly of the view that the current dividend imputation scheme should be retained for the following reasons:

- It removes the 'double' taxation of dividends.

- Provides a more equitable tax outcome for individual investors and therefore a significant incentive for Australians to invest in Australian shares as an asset class.

- Plays an important role in decreasing domestic equity funding costs for Australian companies by reducing any bias toward debt financing.

- Encourages local ownership of domestic equity because local investors derive a greater benefit from the imputation system than overseas investors.

    - Any reform to the system risks an increase in foreign debt funding requirements and costs which would inhibit company growth. Foreign debt funding is a significant issue for Australian companies in the current economic climate and any increase in gearing ratios reduces the attractiveness of potential future capital raisings for local investors.

    - The Treasury has noted the current dividend imputation system achieves neutrality in treatment between debt and equity funding.

- Provides significant benefits to superannuation investments and retirees which inturn encourages even further investment in Australian shares and long term retention of ownership of these assets inside the superannuation system.

- Complements Australia's other policy objectives such as reducing the reliance on the welfare system in retirement in favour of self funded superannuation.

    - Over the long term international shares have generated slightly higher rates of return than Australian shares and international shares have also exhibited lower levels of risk or volatility. However, Australian shares pay a very tax effective income stream due to dividend imputation which results in a higher income yield for Australian investors. When this is combined with the currency risk associated with international shares, the Australian share is a much more attractive investment for Australian investors, particularly those who invest via superannuation or who are in retirement phase and need to maintain an income stream but also require some capital growth to provide a long term hedge against inflation.

    - Any change in the system has the potential to discourage ongoing retention of this investment in favour of investment in less risky asset classes. Unfortunately, the two fold effect would be to reduce investment in Australian shares and reduce the level of investment in growth assets in favour of other asset classes that do not produce anywhere near the same level of capital growth. Less capital in retirement will lead to more reliance on welfare at some future point as the retirees capital depletes.

We would not be in favour of any change to the current imputation system which has the potential to reduce the incentive to invest and save. Changes would need to be mitigated to ensure we don't have to increase taxation levels in future to support our ageing population. In our view any reduction in the current imputation system has the potential to reduce our international competitiveness, reduce local investment and savings and potentially increase reliance on welfare in retirement.

It is our view that the current imputation system could be further enhanced to complement Government Policies which are targeted to reduce welfare dependency in a country with a rapidly ageing population.

It is important to note that even though the baby boomers and generation X may not have enough money to fund their retirement, they represent a segment of the overall population who have significant levels of capital invested inside superannuation. These funds are available for investment.

In our view the imputation system should be enhanced to provide additional benefits to individuals who choose to invest their capital via superannuation. Local investors tend to invest in Australian companies that provide high levels of franking credits. There is an even greater tendency to do this when the investment sits inside a superannuation fund. We believe that domestic shareholders who invest via superannuation should also be provided with some form of tax credit for any unfranked dividends paid out of foreign source income. This would encourage further investment in Australian companies across a wider range of industries and potentially provide a further incentive for long term savings and investment.

Kind regards

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