Australian Shareholders' Association

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The Hon Malcolm Turnbull MP
Prime Minister
PO Box 6022
House of Representatives
Parliament House
Canberra ACT 2600

The Hon Scott Morrison MP
Treasurer
PO Box 6022
House of Representatives
Parliament House
Canberra ACT 2600

The Hon Kelly O'Dwyer
Minister for Revenue &
Financial Services
PO Box 6022
House of
Representatives
Parliament House
Canberra ACT 2600

Dear Mr Turnbull, Mr Morrison and Ms O'Dwyer

Proposal to remove the refund of tax paid on franking credits

The Australian Shareholders' Association (ASA) represents its members to promote and safeguard their interests in the Australian equity capital markets. ASA is an independent not-for-profit organisation funded by and operating in the interests of its members, primarily individual and retail investors, self-managed superannuation fund (SMSF) trustees and investors generally seeking ASA's representation and support. ASA also represents those investors and shareholders who are not members, but follow the ASA through various means, as our relevance extends to the broader investor community.

ASA members, many of whom have entered the share market as a means of providing for their retirement, are deeply concerned by Labor's proposal to stop the cash refund for all franking credits should it be elected. It is not seen to be fair policy.

Having a self-funded retirement income requires long-term planning and stability. Many ASA members have structured their investments and drawn a pension taking into account that since 2000 they will receive a cash refund for all franking credits. While Labor has now announced that it will exempt part and full pensioners from its proposed changes, this does not take account of other Australians who have diligently saved for and depend on their self-funded retirement income.

The proposed changes will penalise investors who prefer high dividend-paying Australian shares where the 30 per cent corporate tax has been paid already to the Australian Taxation Office. It penalises retirees who have saved for their retirement and invested in Australian companies.

Opposition to piecemeal approach to changing superannuation and tax systems

ASA is not opposed to policy reform. We note that a comprehensive overhaul of the tax system was proposed by the Ken Henry review, yet no government has yet acted on its recommendations.

ASA is strongly opposed to either political party changing the rules in a piecemeal fashion. Our opposition is to any policy reform of the superannuation and tax systems that 'moves the goalposts' and has a retrospective, unfair impact. Retirees do not have the time to earn more money and restructure their affairs as does a younger cohort. Policy reform needs to take account of this and not jeopardise retiree's savings programs with piecemeal approaches to superannuation and tax systems. When people have been making long-term plans within those rules over many years, it erodes confidence in the superannuation system. It erodes the trust of Australians in the goal of saving for their retirement in order not to be a drain on the public purse.

The Coalition government has already limited the amount of tax-free income for retirees with the introduction of the $1.6 million cap on pension accounts as of July 1, 2017. Those reforms also changed the age pension asset test so that 91,000 part-pensioners became ineligible and another 235,000 had their part-pension reduced. These were significant changes and many retirees are still grappling with their impact. Labor's announcement is a further change to superannuation and tax policy which will have an unfair impact on retirees.

Many Australian listed companies have large retail shareholder bases. For example, individual investors make up a significant portion of the share register of the big four banks. NAB has 570,000 shareholders and Westpac has 611,000 on the register, and at each bank 46% of them are what are called 'mum and dad' investors. ANZ has 550,000 shareholders — 40% of its share register is retail. And CBA has the largest register, at 800,000, with 53% being retail shareholders.

Up to 90% of these retail shareholders hold 5,000 shares or less. These are not wealthy holdings. Many retail shareholders do not have extensive investment portfolios, but are retirees living off their dividends and franking credits.

ASA recommends that both the Coalition and Labor comprehensively evaluate the tax and superannuation systems rather than 'cherry-picking' them in order to raise revenue.

Undermining the principles of dividend imputation

The fundamental principle behind dividend imputation is to ensure that income is taxed once by those who are obliged to pay it.

The purpose of dividend imputation, introduced by the Labor Government in 1987, was to remove the double taxation of dividends. Previously a dividend would be subject to a corporate tax of about 30 per cent, in addition to marginal tax applied in the hands of the shareholder. Under dividend imputation, the Australian taxpayer receives a tax credit equivalent to the company tax already paid on their dividend, which can be used to offset other tax liabilities.

The dividend imputation system was designed to encourage Australians to invest in equities, so that the benefits of corporate prosperity could be spread, and to support the use of our savings to finance equity in Australian companies. Public policy encouraging demutualisations and privatisations in turn also encouraged ordinary Australians to become shareholders. In 2018, Australia has the strongest culture in the world for individual direct sharemarket investment by ordinary citizens — the result of decades of public policy driving Australians in that direction.

Labor’s proposed policy undermines the principle of dividend imputation as one cohort of citizens will not continue to receive a tax credit equivalent to the company tax already paid. Self-managed super fund trustees with only a pension account – which by definition was commenced with less than $1.6 million of assets – have no taxable income that can be used to offset the franking credits.

The aim of encouraging ordinary Australians to become shareholders and support the use of our savings to finance equity in Australian companies is undone by Labor’s proposal.

Conclusion

ASA strongly opposes piecemeal changes to the superannuation and tax systems that overturn the long-term planning of those seeking to fund their own retirement, which is the objective of ASA members and other Australians.

ASA recommends that both the Coalition and Labor comprehensively evaluate the tax and superannuation system rather than ‘cherry picking’ them in order to raise revenue. Any overarching evaluation of our tax system needs to ensure that self-funded retirement remains achievable and can be maintained.

ASA notes that the Minister for Financial Services, Kelly O'Dwyer, in a speech on 4 April reaffirmed the Coalition government's commitment to "certainty and stability in relation to tax changes" relating to superannuation, noting the government will not introduce further changes to the package of tax changes announced in the 2016-17 budget.

Notwithstanding this, ASA calls on the government to provide regulatory certainty to those already in retirement by committing to no further changes in its next term should it be elected. The government needs to consider how best to support Australians seeking to be self-supportive in retirement ,rather than introducing reforms that increase the potential for reliance on the age pension.

ASA is more than happy to discuss these matters further with you.

Yours sincerely

Judith Fox
Chief Executive