

MILTON CORPORATION LIMITED

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1 June 2015

Tax White Paper Task Force
The Treasury
Langton Crescent ACT 2600
via electronic submission

Dear Sir/Madam,

SUBMISSION TO THE MARCH 2015 TAX DISCUSSION PAPER

This submission is being made by Milton Corporation Limited (Milton), a widely held listed investment company.

Milton invests predominantly in dividend paying Australian companies that are listed on the Australian Securities Exchange. Milton has been a long term investor in large and small companies since its incorporation in 1938 and relies on the dividend income received from its investments to pay dividends to Milton's shareholders.

Milton supports the tax review and its objective of designing a system that balances fairness, efficiency and simplicity. This submission is in response to Discussion Question 25:

"Is the dividend imputation system continuing to serve Australia well as our economy becomes increasingly open? Could the taxation of dividends be improved?"

The dividend imputation system has played a critical role in delivering a strong capital market in Australia and is likely to continue to do so.

The benefits of the dividend imputation system are well documented and include:

1. Company profits are not subject to double taxation with Australian shareholders effectively taxed at their marginal tax rate on distributed company profits. This provides a more neutral tax treatment of incorporated and unincorporated businesses.
2. The dividend imputation system promotes more disciplined capital management.

Companies are able to distribute surplus capital by paying fully franked dividends without subjecting their shareholders to double taxation.

Our experience is that companies that effectively manage their capital by rewarding their shareholders with higher dividends generally perform more strongly and their shareholders are more willing to support additional capital issues when required.

3. The dividend imputation system encourages Australian residents to provide capital to Australian companies, many of whom do not have access to international debt or equity markets.

This pool of domestic capital has resulted in a lower cost of capital for Australian corporates.

4. The dividend imputation system encourages Australian companies to pay tax and distribute franked dividends.

The tax discussion paper is concerned that the dividend imputation system has led to a concentration of investments in Australian shares by Australian residents. This concentration has occurred for a number of reasons including the lack of widely available investment vehicles to facilitate investments in foreign companies. This issue is being addressed by the funds management industry through the likes of new LICs, ETFs and other unlisted managed funds.

The paper is also concerned that the imputation system creates a bias for corporates to invest domestically. In practice however there are many Australian companies that have expanded their operations offshore with the full support of their investors.

Any consideration of the removal of the current dividend imputation system needs to take into account the potential consequences such as the withdrawal of Australian equity investors from the capital markets and the subsequent increase in the cost of capital that would follow. This in turn would likely lead to higher debt levels amongst Australian corporates which could result in increased risk with the capital market system.

The removal of dividend imputation would significantly affect the wealth of all Australians either directly or indirectly through their superannuation fund. The impact would be felt through an immediate fall in the value of their holdings in the Australian equity market and also through a likely reduction in dividend income from these equity investments.

We strongly support the continuation of the existing dividend imputation system which we believe provides stability to Australian capital markets. It has served Australia well since its introduction in 1987 and is likely to continue to do so in the future.

Yours Sincerely

MILTON CORPORATION LIMITED

A handwritten signature in black ink, appearing to read 'F Gooch', written in a cursive style.

Frank Gooch

Managing Director