Simon

Very generally I agree with the policy change of the reduced corporate tax rate not applying to passive investment companies (until it applies more generally from 2023). However I have two observations I wanted to share:

1. I assume it is obvious to the policy makers that this change appropriately allows passive investment companies which have significant accumulated franking credits up to 6 years to get those franking credits out to their shareholders at 30% (instead of at the reduced tax rate). Personally I am happy with that outcome.

2. While generally I agree with the policy change, I struggle to understand why a policy which was not announced until July 2017 and for which draft legislation was not released until September 2017, should apply from 1 July 2016? I assume:

(a) lots of passive investment company tax returns for FY17 have already been lodged (and will continue to be lodged before the draft legislation becomes law); and

(b) consistent with current law, the lower corporate tax rate is being applied to these companies.

So, if this draft legislation eventually becomes law, there is presumably going to have to be a whole lot of amended assessments. Even if you ignore the bad policy outcome of having tax laws apply retrospectively, is the extra tax to be collected worth the admin hassle of all those amended assessments (and all those people who are left in a hiatus of not lodging their company tax returns until this issue becomes certain)? I note for completeness that I do not buy into the 'it was arguable the lower rate did not apply to passive investment companies even before this change' argument – such companies are in my view clearly carrying on an investment business.

Kind regards

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