Submission to Better Tax Review

Dividend Imputation and Superannuation

Dear Sir/madam

I wish to make a submission to the better tax review on two issues: (1) Dividend Imputation and (2) Superannuation.

Dividend Imputation:

The strong arguments I have seen put in the Financial Review on the need to do away with this are that:

(A) some other countries don't do it; and

(B) it stops Australian Companies investing overseas as they try to maintain a 100% imputation of dividends.

1. Comment -

Comparisons of isolated facts, customs or rules with other countries by themselves are meaningless.

The fact is, removal of dividend imputation is double taxation. If this is considered acceptable, then on what basis would a government draw a line in the sand there?Why not tripple or quadruple taxation? Maintenance of well established principles always provides a better basis for long-term policy solutions.

Let's keep single taxation and other countries can follow us, in the knowledge that money in taxpayer hands is more productive than in Government hands and has a much greater multiplier affect.

Many people have planned for retirement after years of sacrifice buying Australian Shares along the way in the knowledge of benefits of dividend imputation after ceasing work. Not everyone who is retired was on a big salary or has huge assets.

Removal of dividend imputation lessens the benefits of holding Australian Shares and may well lead to some selling off due to the lesser net returns, and in the knowledge this will improve an individual's situation regarding the assets test and income tests for receiving a pension.

The unintended dysfunctional aspects of policy change need to be factored into any policy change considerations.

As for the argument that dividend imputation restrains companies deciding to invest overseas, I have not observed that companies which do provide dividend imputation are wedded to not investing overseas. A couple of good examples are NAB and ANZ banks. They invested heavily overseas, and the NAB Shareholders are still paying for it because of the disastrous forays. Telstra has also gone offshore in the past and continues to look elsewhere for good fit companies.

In normal circumstances, a company would invest anywhere as long as the acquisition is earnings accretive. The dividends on its Australian earnings would still be subject to dividend imputation, so shareholders would not be disadvantaged. Presumably, some of the company decision making process would involve that the net returns to shareholders would be greater from those investments as the Australian Share Market represents only 2% of global opportunities.

(2) Superannuation

First, Governments need to stop mucking around with this. Past changes have already seen reductions in contributions from ordinary salary earners. Increases in complexity turn people away and contribute to increased management costs, reducing returns and therefore moving borderline people closer to pension entitlement.

We should not be the only country in the world to tax superannuation at each stage, any more than we want to be the only county to hang people for parking offences.

Where people have used superannuation as a "tax dodge" in circumstances where they may have, say, $10 million or more, they perhaps should be considered for appropriate tax consideration as the ATO goes after all other tax dodgers using approaches such as "intent".

However, when it is clearly established that people need at least $1.0M to retire, life spans are increasing and the markets in which industry super-funds invest in can drop by 25% or more in a short time, taxation should not be considered for income of balances of less than $2.0M.

It is a concern that it has not been, that I have seen, made clear by either major party how calculations on income would be based. Is it withdrawals? Is it the earnings in a year, and if so would it include the increase in the value of the holdings? As we know, the value of holdings can drop dramatically overnight.

If the value of the holdings decrease, after tax has been paid, will the government refund that tax the next year, or two years hence etc?

What will the additional costs be to the super-funds if they have to split changes, up or down, in value from actual earnings on investments each year, and report them separately no doubt to the government and members?

There should be no tax on Super invested with fund/super managers where the amount is less than $2.0M per individual. It should not be couple based as couples do split up even in older age groups.

(The need for increases in revenue to match past uncontrolled Government spending and locked-in policies to make things difficult for alternative governments should not be a basis for screwing retirees who have struggled to get a comfortable amount, on which there is no guarantee as to it covering all future living and health costs.)

Kind regards

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