

Director,
Corporate Tax Policy
Unit, Treasury,
Langton Crescent, Parkes
ACT 2600

Dear Director,

Thank you for the opportunity to submit a response to the consultation on the proposed legislation relating to **Franked Distributions and Capital Raising**.

I object to the proposed legislation changes and I am disappointed in the timeframe to make a submission.

I believe the draft legislation is inequitable to Australian companies and shareholders and it could inadvertently impact situations of legitimate company operations.

The draft legislation fails to recognise the fundamental principle underlying the franking regime and the reason for its creation, the avoidance of double taxation on company earnings.

The Franked Distribution and Capital Raising draft legislation, if widely applied, will lead to the demise of the franking system. Is this an attempt to abolish franking credits by stealth? It will stop Australian companies who issue new shares under a Dividend Reinvestment Plan (DRP) from paying franked dividends and significantly increase the cost of capital for all franked dividend paying Australian companies. It will also risk the stability and integrity of the Australian banking system by inhibiting effective capital raising during challenging economic periods such as the start of the coronavirus pandemic.

If passed, its application would also unfairly burden Australian investors with retrospective tax debt, to be paid at a time of economic uncertainty.

Franking credits and the subsequent annual tax refund enables me to maintain **Private Health Insurance** and also enables me to participate in preventative medicine procedures i.e. recent Shingrix vaccinations, regular colonoscopies, prostate cancer biopsies/surveillance, DEXA scans, skin checks, etc. thus alleviating the need to utilise the already grossly overstretched Public Health system.

I am of the demographic where Private Health Insurance and the ability to participate in preventative medicine procedures may identify potential major health issues early thus avoiding lengthy stays in hospitals and ultimately saving the public purse.

Details of my submission are :

1. **There would be unintended consequences based on the current drafting of the proposed legislation.**

As drafted, the proposed legislation does not really/sufficiently distinguish between acceptable activities and tax avoidance situation it intends to address.

2. **Managing cash flows between capital raising and distributions can represent the normal and legitimate flow of commercial capital management.**

The drafted legislation removes the ability of operating businesses to legitimately manage and invest their cash flows productively. While there are instances of companies manipulating the tax system, companies that have legitimately earned profits and paid tax should be entitled to choose how they invest or distribute those profits to their shareholders.

3. The proposed legislation would burden thousands of Australian shareholders who have planned or are planning their retirement, placing stress on individuals and on the Australian pension system.

The dividend imputation system has not fundamentally changed for over 20 years and implementing change now, and retrospectively, on people who are already retired and, in many cases, cannot return to work, will burden individual, their families and in turn the economy all of which will face economic uncertainty.

4. Retrospectively.

This would unfairly prejudice franked dividends paid out to shareholders and leave them with unexpected tax bills for past dividends received. This is particularly concerning for us who rely on fully franked dividends as income.

Conclusion :

While I appreciate Treasury is trying to deal with situations involving tax avoidance and franked dividend distributions, the proposed legislation, as drafted, will fundamentally change the nature of how Australian companies manage their capital, increase their cost of capital and negatively impact Australian shareholders.

Yours sincerely,

Thomas Braun