

To The Director,

Corporate Tax Policy Unit, Treasury.

Dear Director,

I write to object to proposed changes in legislation relating to Franked Dividends and Capital Raising.

I understand that a theoretical loophole is thought to exist whereby a company can raise funds from shareholders in order to fund franked dividends. However I seriously doubt that a capital raising from shareholders, by dividend reinvestment or otherwise, often takes place purely to fund franked dividends and not as a long-term strategy. But whatever the case may be the proposed solution would be like cracking a peanut by wildly swinging a sledgehammer and would cause far more damage than the problem itself.

The proposed "solution" would effectively ask companies to choose between either having an efficient and internationally competitive way of raising capital or maintaining the good faith and loyalty of their existing shareholder base. The latter are often investors who rely upon franked dividends for income, in many cases to fund their retirement plans. Australian companies would tend to either become ageing behemoths with a doubtful future but that provide what would amount to a sort of annuity for the time being, or they would choose to raise capital more competitively but from a small and exclusive base from which a large chunk of the country's potential investors would remove themselves.

The result would not only fly in the face of the original concept behind dividend imputation but would be a big setback for the superannuation system that has been developed in recent decades. And it would reverse some of the advantages that are particular to Australian public companies.

Yours Faithfully,

Hannibal Bonython