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Treasury

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Franked Distribution and Capital Raising Consultation

I object to the proposed changes to the legislation.

I believe the draft legislation is inherently unfair and inequitable to shareholders and Australian companies.

Firstly, the short time frame for consultation smacks of sneaky behavior, trying to slide something through, knowing it's controversial, to eliminate the chance for considered review and input.

This legislation is in effect the reintroduction of double taxation for those who invest in Australian companies. It will certainly accelerate the push to shift investment out of Australia, as the local investment advantage will be eliminated.

Once the franking credits are at the whim of some unelected Treasury official, the certainty of the franked dividends is gone, and investors will have to look elsewhere to make investments. Investors always review risk versus return.

The uncertainty of franking credits being removed increases the risks on investing in Australian banks significantly.

- The franking credits have been the foundation of the Dividend Reinvestment Plans of the Big Four Banks, and once that becomes a matter of uncertainty, their risks have gone up.
- The solid and recurring capital growth that banks have been able to rely on via their DRP schemes will force them into more heavily gearing their balance sheets as an alternative. This is undeniably bad for the Australian economy.
- In addition, the increased riskiness of bank debt will mean investors will need higher returns, increasing the cost of borrowing by both corporates and consumers. Adding a further layer of cost to the current inflationary spiral is indefensible.
- The opportunities for kickbacks to those Treasury officials, who must make the assessments of qualification of franking credits, is introduced. Look at cricket, where the criminal element quickly understood that it was cheaper and more reliable to bribe umpires than players.

Investors have made long term decisions based on the reliability of dividends being franked. To now unwind this will force portfolio realignments, incurring capital gains costs as portfolios need to be adjusted to match the higher risk and lower returns from dividends.

The retrospective application of this proposed legislation back to 19 December 2016 is wrong in principle. A fundamental premise of confidence in the taxation system is that everyone can make plans without being hit with back taxes retrospectively. This legislation smacks of Argentina and other South American basket cases. Why should we sacrifice a democratic right to know what tax we must pay, so that some bureaucrat can determine that we now have a retrospective tax bill? The opportunities for public service corruption become endless.

If there are example of companies manipulating the tax system, they should be prosecuted or any loopholes closed, by legislation. The paucity of legal actions on these issues confirms that eliminating this behavior is not the purpose of the legislation.

This Government did not take this proposed legislation to the electorate in the recent election. In fact, it said the reverse. There is no mandate for the proposed legislation.

Yours sincerely,

Vin Plant