Shaw

2316
Director
Corporate Tax Policy Unit
Treasuryr
Langton Cres
Parkes ACT 2600

By email: frankeddistconsult@treasury.gov.au

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.

We object to the proposed legislation changes.

We 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. 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 debts, to be paid at a time of economic uncertainty.

The retrospective nature of the proposal would mean greatly reduced future dividends from the affected companies. Such reductions would affect self-funded retirees (such as ourselves) who depend totally on share income via:

share dividends

income from managed funds
superannuation,

all of which could be affected by the proposed legislation.

There is already considerable uncertainty in the economy with higher fuel costs and rising interest rates affecting geared businesses as well as increasing their rental costs. Introducing this retrospective measure will further de-stabilise companies and thus affect their ability to pay normal dividends, upon which self-funded retirees depend.

Many Australian businesses have been hit hard by not only the Covid pandemic, but also by supply chain issues and rising fuel and electricity prices. Further stressors such as the proposed legislation could send many companies to the wall when we are trying to encourage and promote Australian business.

Self-funded retirees who experience a reduction in income because of the proposed changes, may find it necessary to apply for government pensions. Many retirees are already suffering financial stress due to higher fuel costs and food prices and rising interest rates. It is relevant to note that retired couples who are self-funded currently save the government around $50,000 per annum per couple in pension payments.

It would be wise to remember that trying to meddle with franking credits contributed to Labour's loss in the 2019 election. It also fails to promote confidence in a government that introduces important fiscal changes without having given indication of these proposals prior to their election

Please contact us on shawletter@hotmail.com if you have any questions on this submission.

Yours sincerely,
John and Jennifer Shaw