

To whom it may concern,

I read with some alarm that once again, Labor was making a cash grab at the cost of dividend investors by way of the dividend imputation scheme.

Before even addressing the proposal, the **integrity** of ANY retroactive tax policy has to be called in question. Time seems to be immutable for all except governments making cash grabs. Reaching back into history to create tax liabilities that didn't exist and weren't supported by the legislation of the day is unconscionable and will instantly erode any trust in government. Perhaps voters should also be given the option of retroactively changing our votes? Or perhaps a better analogy that more of the Australian public will understand: how about we retrospectively change football rules to change the outcome of the last football grand final. Pretty sure that would have most of the country yelling foul. You could also ask how many people would take part in a game where the rules can be changed when you don't like the outcome of the original rules.

Given the state of our education system, I suspect there are relatively few people who will understand the implications of the latest attack on the franking credit system. Fortunately, like last time individuals such as Geoff Wilson will may a ruckus about the proposed changes. I have no illusion that they are acting altruistically on behalf of the Aussie battler having a go at providing for their own retirement, but in their own self interest given the LIC business model relies heavily on the distribution of franking credits.

So point one: Changing the rules retrospectively on franking credits is unconscionable and should not be legally allowed. Labor lost one election on the back of franking credit cash grabs - are you willing to risk another?

Now, turning to the actual policy proposal.

As noted above. Few Australian tax payers actually understand the imputation system as it stands. I do. And I don't need a retrospective tax bill from 6 years ago to change my attitude towards franked dividends. With this the second attack Labor has made against the system, I no longer trust the viability of the system.

Let's just review that franking credits held on corporate balance sheets is equivalent to the tax already paid to the ATO for realized profits. So by the time franking credits are available for companies to distribute to shareholders they are based on past transactions, not the current cash funding arrangement to pay them out. As an analogy, how I pay (credit card, or bpay) my mobile phone bill (dividend with franking credit) is of no consequence to Tesltra (ATO). Stop trying to tax based on an accrual AND cash basis depending on what suits.

The franking credit system is supposed to eliminate the double taxation of dividends in the hands of the corporation and the investor. In essence the tax paid by the corporation is a prepayment of the shareholders tax liability. Until it is claimed via a shareholder tax return the ATO receives a tax free loan from the shareholder.

How the company finances their dividend distributions should be of absolutely no concern to the ATO since the profit has already been taxed by the ATO. Would the ATO dare to eliminate the eligibility of the interest deduction on an investment property just because the investor could have financed the investment property with cash rather than a loan? I think not.

Additionally, the shareholder has no control over how the company finances its dividend payments. As a shareholder, I don't like to see dividends financed over the long term via capital raisings and debt. One dilutes the shareholders ownership and the other impacts the company's profitability and ability to generate profits (and pay taxes) in the future. You could also argue that whenever a company doesn't payout 100% of its profits as dividends

to shareholders it is in effect capital raising (retaining). Given that tax is only paid on realized profits of the company, franking credits should apply for the full amount. Capital raisings or debt taken on AFTER the earning of the profits and associated eligible franking credits is irrelevant. Those franking credits were technically funded by investments/ capital raisings/profit made before the profit was earned. To unwind this web the ATO would need a seriously large compliance team. Isn't Australia's tax system complicated enough?

I'm also not sure how tax avoidance provisions apply either. The company distributing the franking credits has already paid the tax, so no avoidance there. And the benefit is being passed on the shareholders who have absolutely no control over the funding mechanism of the dividends or how much of the profit is being paid out. So I'm not sure how there can be any tax avoidance there.

Lastly, I have read that dividend reinvestment plans that are underwritten will also not be eligible for franking credits. I will immediately remove all dividend reinvestment settings. I am not going to monitor whether each dividend reinvestment is underwritten or not. Really, that is not my problem and I won't let you make it my problem. So no more dividend reinvestments.

Finally, the reason many Australians invest so heavily in Australian companies is the imputation scheme. The proposed changes to franking credits will limit Australian companies ability to raise capital – which from my understanding is a core purpose of a stock market. Do not turn the imputation system into Australia's superannuation system which is also unnecessarily complex and subject to annual rule changes. All you are doing is discouraging people from using these investments because we can't rely on consistent fair rules.

I could go on, but won't. Dividends should be a passive income source. Too many rules will make this a tax compliance nightmare for dividend investors. These cash grabs serve only to undermine an investors faith in the Australian government and all it inspires in me is selling my shares and spending it on travel and relying on government payouts in my old age.

Beware of what your tax policies are motivating....