The Sydney Hearing - Parliamentary Economics Committee Inquiry into Franking Credits
Tuesday 20th November 2018

Statement by Graeme Bottrill, National President, on behalf of the Australian Investors Association

Many aspects of this have been covered already today, and we support all of those views. So I will mention some other points:

1. **We need to stress that this proposal is fundamentally discriminatory and unfair**
   - It discriminates against self-funded retirees in favour of age pensioners.
     With assets of a dollar more than $848,000 for a couple, the age pension is lost and now the franking credit is lost. Income abruptly drops by 30%
     If you are on a pension, you have your pension AND you keep your franking credits
     If you have no pension, you lose your franking credits. Pensioners get two handouts (the pension and the credits) – the self-funded gets neither.

   - It discriminates against some SMSF members based on age.
     SMSF members that were also pensioners at 28 March 2018 are ok. Everyone else is discriminated against.

   - It discriminates against SMSFs in favour of industry funds.
     Industry funds keep their franking credits because they are pooled funds.

   - It discriminates against equities in favour of other assets.
     That will have long term and likely unpredictable effects on capital markets.

   - It discriminates against those that have saved to have a self-funded retirement.

   - Most of all it shifts the goal posts for retirees after they have started retirement. -
     No grandfathering (unlike the negative gearing proposal), no phase-in period, and no opportunity to return to work - it looks like punishment for being self-reliant. That will affect long-term planning for several generations of retirees.

2. The policy is claimed to target the rich. IT CERTAINLY DOES NOT!

The policy targets those individuals and couples with relatively meagre savings. It requires a tad over $700,000 (at say 5%) as a couple, to produce income equivalent to the age pension (just under $36,000). So with assets of $848,000 you are certainly not 'rich', and yet you are the most affected of all. You have instantly lost 30% of your income. There is every reason that you will be very angry about that.

I have seen it reported that 95% of those receiving cash refunds (1,077,400) had taxable incomes of less than $65,000. 320,000 of these individuals who receive government pensions and allowances will be exempt from the new policy and will still receive their refunds, but the other 757,400 will not.

3. Franked shares will be sold by those who cannot receive the credits, and bought by those who can claim the refund.

Franking credits do not disappear. They don't just evaporate. There will be little or no saving here.

4. A franking credit is both additional income and a tax credit.
The issue of the income has been missed by most people. The grossed-up amount – including the franking credit is counted as income. People will be assessed as having income that they never received, and taxed accordingly.

This hits the young and the old alike. Forget those with SMSFs.
For the elderly - We know of elderly people who retired before superannuation, and they live on franked dividends. They will be taxed on income they never receive. I can show you an example (page 11 of our submission) where the dividends are taxed at 64.5% I look forward to taking questions on this point.

A recent media report contained, and I quote -
"Applications for the low and medium income tax offset (LAMITO), senior Australians and pensioners tax offset (SAPTO), family benefits Part A and B, child care rebates, Commonwealth seniors health card etc., or means-tested aged care fees will be assessed against inflated taxable income which includes the "grossed up franking credits". That is, their assessable income will be overestimated as it will still include dividends with the franking credit refund they will not receive. Not only **not** receiving a legitimate tax refund but potentially being assessed ineligible for welfare assistance or reduced benefits on incorrect assessable income".

The same applies for the Medicare levy.

For the young - We had a member contact us. Husband and wife saving a deposit for a house. Husband working – wife at home with the kids. They have $100,000 invested in the wife's name. They will lose say $2,500 in franking credits.
BUT – the franking credits still count as income, and will be on her tax return. She will be taxed on money that she never received AND she has lost the family tax benefit. Is that what is intended??

So, in summary

1. **A great many Australians have just enough to get by, but are proud of being self-funded in retirement,** and their income will be decimated. This is a cruel blow to lower-middle Australia.

2. **There will be a large increase in the number receiving the age pension.**
   Those with $1 million or more invested, did not achieve that by being financially illiterate, and if they are near the boundary, they will adjust their affairs to qualify for the pension. And it's not just the income, it's the benefits attached as well.
   And, there is no longevity risk with the pension – the government pays you while you still breathe.

   Proponents of the policy have said that this has been taken into account, and that it is tax-payers money either way. It is just impossible to defend such a ridiculous argument.
   This will hurt our kids and grandkids, as they will be paying increased taxes to fund the welfare for the retired.

3. **Elderly Australians though** will be crippled by not knowing what to do. It will be shattering and hugely stressful!

4. **The savings that have been suggested will not be achieved,** and the costs to welfare will increase even more. It could actually be a negative sum game. See the Super Concepts report.