ADVANCE AUSTRALIA

your voice for a fair go

SUBMISSION TO THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

Inquiry into the implications of removing refundable franking credits

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30 November 2018

Committee Secretary
Standing Committee on Economics
PO Box 6021
Parliament House
Canberra ACT 2600

Submission: Inquiry into the implications of removing refundable franking credits

Dear Committee Secretary,

Please find following the Submission from Advance Australia into the implications of removing refundable franking credits.

This is a crucial issue for many Australians, especially those who are already retired and those approaching retirement age.

If you require any additional information, please feel free to contact me.

Yours sincerely,

Gerard Benedet

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ABOUT ADVANCE AUSTRALIA

Advance Australia is an independent movement to provide a voice for mainstream Australians and help ensure a fair go for all. Our aim is to protect, defend and advance mainstream values and freedoms while championing the institutions which strengthen the Australian way of life.

As a growing organisation, our members have clearly outlined their objection – with more than 3,200 people signing our online petition in the space of a week. This number continues to grow.

WHAT WE BELIEVE

We believe that ensuring fair financial opportunity and reward for effort is integral to the wellbeing of individuals and families - and should be the hallmark by which policy decisions are evaluated.

It is our strong view that the proposed policy to remove refundable franking credits will unfairly penalise those individuals and couples (mainly self-funded retirees) who have worked to provide for their own retirement and result in more Australians claiming the Age Pension (at considerable public cost). Moreover, we believe it will ultimately damage Australia's interests and economy by driving up government Age Pension outlays while also making Australian companies less attractive as an investment option vis a vis offshore investments.

Advance Australia has a wide range of objections to, and concerns with, this policy - based both on practice and principle.

SPECIFIC CONCERNS

In specifically addressing the Terms of Reference, we would like to focus on the following:

If refundable franking credits are removed; who it would impact and how and the implications from expected behavioural change by investors, including for:

- ***increased dependence on the pension;***
- ***stress and complexity it will cause for Australians, including older Australians to adjust their investments;***
- ***if there are carve outs applied, what this might mean for additional complexity, uncertainty and fairness;***
- ***reduced incentives to save and distortions to which asset classes are invested in and funds are used; and***
- ***the reliability of providing a sustainable revenue base over the longer term.***

In addressing the questions of who would be impacted, it is clear that the removal of refundable franking credits would have far-reaching consequences and be much more wide-spread than just those individuals and self-managed funds directly impacted.

Evidence from the Financial Services Council states that 2.6 million superannuation accounts in more than 2,000 APRA-regulated superannuation funds (including Corporate, Industry, Public Sector and Retail) stand to be affected by the removal of franking credits.
(Financial Services Council, Submission to the HoR Economic Committee Enquiry on Refundable Franking Credits)

The estimate from the Australian Listed Investment Companies Association on individual investors affected is that:

“840,000 individuals outside superannuation will be impacted – many of them investors in our member companies. By virtue of them receiving refunds of franking credits, they are not high income earners.”
(Australian Listed Investment Companies Association, Submission to the HoR Economic Committee Enquiry on Refundable Franking Credits)

It is very clear that any change to franking credits will impact on many millions of Australians, not just the smaller self-managed funds and individuals who will undoubtedly be hardest hit.

We note that the exemption for pensioners, which Labor was forced to make just days after the policy announcement, will have the effect of creating a two-tier discriminatory system and provides a strong incentive for those nearing retirement to “spend” rather than save.

In order to maintain their eligibility for franking credit refunds, if they are close to the threshold of part-pension eligibility, it would be prudent for individuals and members of self-managed funds to make significant changes to how they derive income and which assets are held in retirement.

It is an obvious and logical conclusion that this poorly-designed policy will result in significant behavioural changes.

We note that Treasury modelling found:

"The main mechanism by which individuals are expected to respond is through rebalancing their portfolios away from franked dividend paying shares."
(Treasury costing note - Denying Franking Credit Refundability)

Of course, changing investments from franked dividend paying shares itself would also result in an immediate loss of income for those who are forced to restructure in this way. The implications of this "rebalancing" were aptly and succinctly summarised by the Association for Independent Retirees:

"The majority of members who reported that they would NOT be able to make up the lost annual income from franking credit refunds have indicated they will drawdown additional capital from their retirement savings.

These members reported that they intend to sell investment assets to fund the annual shortfall in meeting living expenses. Our members realise that this increased drawdown of capital would reduce their annual investment returns and more rapidly make them eligible for the government Age pension and health card benefits.

They are disillusioned that after planning to be self-reliant in retirement, they will be 'forced' onto a government Age pension."
(Association of Independent Retirees Submission to the HoR Economic Committee Enquiry on Refundable Franking Credits)

It is clear that removing the franking credit will mean greater numbers of retirees will either seek or be forced into eligibility for the Age pension. A number of our members, and indeed a number of the public submissions to date, have provided anecdotal evidence that this will be the case.

Advance Australia strongly contends that it is not in Australia's national interest to drive more people onto the Age pension, particularly as our nation faces the challenges of an ageing population. We are concerned that in the long-term this will have a significant impact on the Federal Budget into the future.

It is also inherently unfair that a two-tier discriminatory system will exist and will mean that pensioners near the threshold will have a constant "juggling act" with the potential to lose their eligibility in any given year should their shares perform better than expected. Many will simply avoid investing in shares in order to spare themselves the complexity and therefore emotional burden of this two-tiered system.

On that note, Advance Australia is particularly concerned about the emotional and financial stress that changing the existing system of franking credits would have on older Australians. As the National Association of Seniors explains:

"What is most concerning are sentiments raised by members about the impact the proposed change is having on their health and wellbeing. A significant level of stress and anxiety has been created as a direct result of the proposal."
(National Association of Seniors Submission to the HoR Economic Committee Enquiry on Refundable Franking Credits)

Advance Australia is deeply concerned that the constant altering of laws governing/ affecting superannuation (by both sides of politics it should be noted) is having a profound impact on retirees and those nearing retirement.

At a time in their lives when they should be able to plan with a degree of certainty and enjoy the results of a lifetime of hard work, significant changes to the rules – which in practice are of a punitive retrospective nature – mean they face uncertainty and stress.

Our older Australians deserve much better.

This was well summarised by self-funded retiree Vicki Harper:

"All hardworking Australians who have paid taxes and paid their way through the years and not been a dole bludgers etc, have earned the right to be able to lead a semblance of a comfortable retirement and not have to worry about where the next dollar is coming from. Stress and anxiety creates health problems, particularly as you age, so there you have more expense and more burden to the health system and it will happen."
(Submission 105 to the HoR Economic Committee Enquiry on Refundable Franking Credits)

Moreover, we believe that future generations who witness their parents and grandparents struggling with constant changes, will be discouraged from investing in superannuation over and above that which is compulsorily required.

In effect, removing franking credits will have a snowballing effect on the rigorousness of Australia's superannuation system into the future.

As self-funded retirees Suzanne and Ross Whalley succinctly put it:
"In most of our recent tax returns the refundable tax credits have made up anywhere between 5 to 15 percent of our yearly cash income so the impost to our cashflow is significant. I now question why we both worked so hard, saved and did without."
(Submission 85 to the HoR Economic Committee Enquiry on Refundable Franking Credits)

On the issue of “fairness” and “carve outs”, one of the most unfair aspect of Labor’s proposal is the exemption provided for many Labor-aligned industry super funds.

It is also noted, that amongst the not-for-profit groups which will enjoy an exemption under Labor’s plan and will still be eligible for franking credits is the Union Education Foundation and Construction Industry Drug and Alcohol Foundation (both set up by the CFMEU), Construction Charitable Works, Mates in Construction, Australia Institute and McKell Institute.

These groups are affiliated with Labor and/or the Unions and, along with registered charities, will be exempt from the changes to franking credits proposed by Labor.
(“Bill Shorten’s pensioner tax plan: Union slush funds and Labor-aligned groups exempt”, Daily Telegraph, 21 March 2018)

Finally, it has to be said that the proposed changes undermine the egalitarian and highly desirable practice of everyday Australians having a stake in the economic success of Australian companies through investing in the share market. The ASX Australian Investor Study 2017, conducted by Deloitte access Economics, found that 31% of Australian adults invest on a securities exchange, and 84% of lapsed investors were planning to invest again.

Importantly, in the five years from 2012-2017, the number of 18-24 year olds investing doubled from 10% to 20% and the number of 25-34 year olds jumped from 24% to 39%. This is indicative of a growing trend toward share ownership which has benefitted the economy and improved the financial wellbeing of many Australian individuals and families.

Removing refundable franking credits will effectively “disenfranchise” older Australians and those on lower incomes from investing in the share market.

CONCLUSION

Advance Australia strongly opposes any policy proposed by any political party that would remove refundable franking credits.