

A FAIRER TAX SYSTEM: DIVIDEND IMPUTATION REFORM

A Shorten Labor Government will make the tax system fairer by closing down a concession that gives cash refunds for excess dividend imputation credits.

Today's announcement builds on Labor's other reforms to make Australia's tax system fairer and repair the budget – such as negative gearing and capital gains tax reform, closing discretionary trusts loopholes, and putting a cap on the deductibility of managing tax affairs.

Australia's dividend imputation system was introduced by Paul Keating to eliminate double taxation on dividends from company profits. Under this system, shareholders can use imputation credits to reduce their overall tax liability.

Under Howard and Costello, a concession was created allowing some individuals and superannuation funds to receive a cash refund from the ATO if their imputation credits exceeded the tax they owed.

Because of this change, Australia is the only OECD country with a fully refundable dividend imputation credit system – a concession which has grown at a rapid rate and now costs the budget more than \$5 billion dollars a year.

Professor John Hewson remarked on this tax concession recently, stating that: *"I think the bottom line is that in economic terms, it [cash refunds] doesn't make any sense at all"* (Tax Forum, McKell Institute, 2 March 2018).

Self-managed super funds are a major beneficiary of this practice, with 50 per cent of the benefit to SMSFs accruing to the top 10 per cent of SMSF balances – with some funds receiving cash refunds of more than \$2.5 million a year.

Failing to reform this unfair revenue leakage puts a greater tax burden on low and middle income working Australians.

A Shorten Labor Government will close down the concession created by Howard and Costello, and return to the arrangement first introduced by Hawke and Keating – so that imputation credits can be used to reduce tax, but not for cash refunds.

Closing down this concession will save the budget \$11.4 billion over the forward estimates from 2018-19, and improve the budget bottom line by \$59 billion over the medium term.

This change only affects a small number of shareholders who have no tax liability and use imputation credits to receive a cash refund.

While those people will no longer receive a cash refund, they will not be paying additional tax.

More than 92 per cent of taxpayers do not receive a cash refund for excess imputation credits, and won't be affected at all by this change.

Shareholders who may be affected will have the ability to adjust their investment decisions to limit any impact from this policy.

Charities and not-for-profit institutions, such as universities, are exempt from these changes.

The policy will apply from 1 July 2019, which means it will only affect future earnings and franked dividends that start flowing in following financial year.

Labor believes in a fair go for all Australians. That's why we have targeted generous tax loopholes and concessions for reform and protected working Australians from tax increases.

Our fairer tax system means we can afford to fund better local schools, better local hospitals and better infrastructure for all Australians. It also means that Australia's tax system supports structural Budget repair that grows over time and contributes towards paying down debt.

In contrast, Turnbull and his divided government are handing over a \$65 billion tax giveaway to the top end of town while increasing income taxes for working Australians.

A Shorten Labor Government will keep taxes lower for working Australians. Someone earning \$70,000 a year will pay \$350 less tax a year under a Labor Government.

provide substantial new resources to the ATO to ensure our policies are implemented effectively.

Under Labor's plan:

- o No one will pay a single cent more tax
- o No one will lose a single cent from their super contributions
- o No one will lose a single cent from their pension
- o No one will lose a single cent from their share dividends.

Pensioner Guarantee:

Labor believes in a fair go for Australians – we know a lot of pensioners are struggling with the cost of living and that a small proportion of pensioners rely on modest cash refunds on excess imputation credits.

We've always said we'd look after pensioners, and that is why Labor's Pensioner Guarantee will protect pensioners from our proposed changes to dividend imputation.

The Pensioner Guarantee means Australian government pensioners and allowance recipients will be protected from the abolition of cash refunds for excess dividend imputation credits when the policy commences in July 2019.

Under the Pensioner Guarantee:

- * Every recipient of an Australian Government pension or allowance with individual shareholdings will still be able to benefit from cash refunds. This includes individuals receiving the Age Pension, Disability Support Pension, Carer Payment, Parenting Payment, Newstart and Sickness Allowance.
- * Self-managed Superannuation Funds with at least one recipient of an Australian Government pension or allowance as at 28 March 2018 will be exempt from the changes.

More information on Labor's policy can be found [here \(/web/20190527190917/https://www.chrisbowen.net/media/183744/180604-updated-factsheet-dividend-imputation.pdf\)](https://www.chrisbowen.net/media/183744/180604-updated-factsheet-dividend-imputation.pdf).

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