

Q&A webinar Proposed legislation changes to the Australian franking system

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What are the proposed changes?

Treasury Laws Amendment (2023 Measures No. 1) Bill 2023

Chapter 4 – Off-market share buy-backs

- Aims to stop companies paying a fully franked dividend as part of an off-market share buy-back.
- No part of the purchase price in respect of the off-market buy-back will be taken to be a franked dividend.

In the future...

- If any company does an off-market buy-back it will **lose franking or pay a franking deficit tax** if it has retained earnings.

Raises \$150 million in 2023/2024

Chapter 5 – Franked distributions funded by capital raisings

- Will stop companies from paying fully franked dividends that, in Treasury's view, are directly or indirectly linked to capital raisings.

Raises \$10 million in 2023/2024

Unintended consequences and significant second and third order effects

1. Australian economy – encouraging off-shore investment and/or tax minimisation by large companies, double taxation on small and medium sized tax paying growth companies.
2. Company behaviour – encourages debt over equity, discourages local investment, restricts companies' ability to restructure.
3. Australian budget – loss of tax revenue from large companies.
4. The franking system – reduces overall effectiveness.

“These changes will have unintended consequences and significant second and third order effects on the Australian economy, company and investor behaviour and the Australian budget. It will undermine the value and importance of Australia’s franking system and create significant inequality between mature Australian tax paying companies and smaller Australian tax paying growth companies that require capital.”

- Geoff Wilson AO

How will these changes impact you?

1. Significantly **REDUCE** fully franked dividends paid to Australian shareholders overtime.
2. The impact will be **GREATER** if you have invested in small Australian tax paying growth companies that require capital to grow.
3. Increase volatility as companies may take on **MORE DEBT** to pay out franked dividends.
4. Increase the cyclicity of the Australian economy and therefore the likelihood of a **RECESSION**.

How will the proposed legislation impact Australia?

1. Permanently **TRAP** in excess of \$86 billion per annum of franked dividends from being paid out to investors.
2. **DESTROY** over 2.5 million Australian small and medium sized companies' ability to pay fully franked dividends while raising capital to grow.
3. Significantly increase the **COST OF CAPITAL** for small and medium sized Australian companies, as the payment of fully franked dividends promotes equity over debt.
4. Encourage **LARGER** companies with excess franking credits to **MINIMISE TAX** payment in Australia.
5. **STOP** the restructure and recapitalisation of any Australian company by utilising a legitimate capital management initiative of an off-market share buy-back.
6. Negatively impact **CHARITIES, MUM & DAD** investors and **SMSFs**.
7. Negatively **IMPACT** the efficient operation of the Australian capital markets.
8. Encourage Australian companies to increase their **DEBT**, creating more **RISK**.

Broken promises

Jim Chalmers

“Labor will focus on multinational taxes and making them fairer. We won’t be doing negative gearing, **WE WON’T BE DOING FRANKING CREDITS**, those other examples that I’ve already given you. I couldn’t be clearer than that.”

(4BC Drive on 17/01/2022, Chalmers speaking to Scott Emerson)

Nadia Mitsopoulos

“Deborah has a question about franking credits. Is that an issue? You’re not touching those?”

Anthony Albanese

“WE’RE NOT TOUCHING THEM.”

(ABC Perth on 04/03/2022, Anthony Albanese speaking to Nadia Mitsopoulos)

2018/19 - Retirement Tax

Labor election policy in 2018/19 was to unfairly stop individuals from receiving franking credits.

Labor lost the election as the adult children and grandchildren of the retirees voted against the Retirement Tax.

2023 - Retirement Tax 2.0

Reintroducing double taxation: Labor is proposing legislation to stop companies from paying fully franked dividends - that is company profit that has already had tax paid on it.

This is a more **SIGNIFICANT ATTACK** on the Franking System.

How you can act now

1. Make a submission to the Senate Economics Committee by **31 March 2023**.

Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

2. Write to your local member of parliament to share your concerns.

3. Letters to the Editor – write to the major publications.

4. We would really appreciate hearing from you if you or your small business are set to be impacted by the proposed changes.





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