

# Australian Labor Party Members Dissenting Report

## 1. Coalition wasting taxpayers Money on a partisan political inquiry

### 1.1 Introduction

This inquiry has been a farce from its inception. On 19 September 2018 the Treasurer provided a reference asking the House of Representatives Standing Committee on Economics to investigate the Opposition's proposed policy changes to refundable franking credits.

This is highly unusual. The purpose of the House of Representatives Economics Committee is to scrutinise government legislation by conducting public inquiries and making recommendations to the Parliament regarding that legislation. Devoid of any economic agenda or policies, the Government has chosen to use the committee to attack an Opposition proposal.

Using tax payer's dollars to look at opposition policy proposals has been criticised by many Australians, the media and submitters to this inquiry as a waste of scarce government resources.

This inquiry has been more in the nature of a political campaign, than a parliamentary inquiry at tax payer's expense.

### 1.2 The Cost

Some estimates place the cost of hiring venues in Liberal member's electorates, flying MP's around the country, putting them up in hotels and other transport on costs the basic costs for the inquiry come in at approximately \$160,000<sup>1</sup>. This figure has never been disputed by the Chair or any member of the Government.

This figure does not include the Secretariat's time.

#### **Recommendation 1:**

- **The Committee Secretariat calculate the total cost of this inquiry to Australian taxpayers.**

### 1.3 The Abuses of Parliamentary Procedure

The Chair and his Liberal Party colleagues have colluded with private interests in order to achieve maximum political gain from this exercise. Wilson Asset Management, an opponent of Labor's policy has used the Chair Mr. Wilson to achieve an outcome designed to protect their interests.

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<sup>1</sup> <https://www.smh.com.au/politics/federal/taxpayer-funded-inquiry-used-to-raise-money-for-liberals-20190207-p50w93.html>

Wilson Asset Management also appear to have used the committee process for their own financial gain, marketing products to unsuspecting submitters to the inquiry.

The Chair has undermined the parliamentary committee process during this inquiry by using it for political means. This is evident from public reporting of a conference call by Mr. Geoff Wilson (of Wilson Asset Management) on 25 September 2018 to Wilson Asset Management clients and shareholders to boast that<sup>2</sup>:

*“I was actually talking to the Chairman of the Senate Committee for this hearing into franking. And I was saying it would be nice if we could have, if one of the hearings could be on a day that we're doing our roadshow, then we can do a little protest you know, we could have our placards and we could all walk down there.”<sup>3</sup>*

Shortly after the investor call, in November 2018 the Chair Mr. Wilson created a blatantly partisan website that included the ability to make submissions to the House of Economics Committee inquiry and encouraged members of the public to make submissions to the inquiry through that website rather than the Committee's official website. Some of the website features include:

- An official look - the use of the Australian Coat of Arms and an authorisation by the “Chair of the Standing Committee on Economics”.
- Articles attacking the Labor Party;
- Articles attacking Kerryn Phelps;
- Pre-written submissions to the committee. This means significant numbers of the submissions to the committee are partly written by him;
- Graphics and pictures also used by Wilson Asset Management on an anti-ALP website; and
- A form to sign up to Geoff Wilson's petition against Labor's reforms. Mr. Wilson falsely claims that half the Labor frontbench have signed up to it.<sup>4</sup>

To any reasonable person using this website you would believe that this is an official website, of the Committee through which submissions would be accepted and where personal information was safe. Sadly this could not have been further from the truth.

It later emerged that this website is partly funded by Wilson Asset Management. The full list of this websites funders have never been disclosed by the Chair.

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<sup>2</sup> <https://www.theguardian.com/australia-news/2019/feb/06/pm-under-pressure-to-sack-tim-wilson-over-use-of-franking-credits-inquiry>

<sup>3</sup> <https://soundcloud.com/user-680480244/investor-conference-call-25-september-2018>

<sup>4</sup> <https://www.theaustralian.com.au/national-affairs/treasury/retirees-grab-the-chance-to-cut-down-labor-for-super-tax-grab/news-story/ce6ca73aa2a07bfa37a3a39c26bebd11>

Further, the beneficiaries of the information obtained on this website have still never been disclosed.

People who have used this website to make submission have clearly had their information passed directly to third parties, including Wilson Asset Management for the purpose of commercial gain.

**Recommendation 2:**

- **The Chair disclose to the Parliament the full list of funders for his inquiry website.**
- **The Chair disclose to the Parliament the full list of beneficiaries of the information obtained by the website.**
- **Wilson Asset Management disclose to the Parliament any financial gain that it has received as a result of the information gained from the website.**
- **The Chair personally write to every person who made a submission to the website to apologise for the misuse of personal and private data obtained by what can only be described as a blatant act of deception.**

Having set up the sham website the Chair then scheduled a hearing in Sydney on November 20 2018. That morning Wilson Asset Management held an investor Shareholder Presentation (roadshow) 400 meters from the venue organised by the Committee for the for the hearing later in the day. A video recording of the roadshow event shows Geoff Wilson handing out anti-Labor placards and instructing his clients on how to protest against the changes.<sup>5</sup>

On 30 November 2018 Geoff Wilson appeared at the Committee inquiry hearing in Dee Why.<sup>6</sup>

The Chair Mr. Wilson failed to inform the Committee that he has shareholdings in Wilson Asset Management investments. It also emerged that Tim Wilson is a relative of Mr. Geoff Wilson.<sup>7</sup>

On Tuesday 5 February 2019 it emerged that the Chair Mr. Wilson is a shareholder of Wilson Asset Management investments<sup>8</sup>.

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<sup>5</sup> <https://www.smh.com.au/politics/federal/wilson-and-wilson-the-mp-the-fund-manager-and-the-franking-credits-inquiry-20190205-p50vqk.html>

<sup>6</sup> [https://www.aph.gov.au/Parliamentary\\_Business/Committees/House/Economics/FrankingCredits/Public\\_Hearings](https://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/FrankingCredits/Public_Hearings)

<sup>7</sup> <https://www.theaustralian.com.au/national-affairs/treasury/retirees-grab-the-chance-to-cut-down-labor-for-super-tax-grab/news-story/ce6ca73aa2a07bfa37a3a39c26bebd11>

<sup>8</sup> <https://www.smh.com.au/politics/federal/wilson-and-wilson-the-mp-the-fund-manager-and-the-franking-credits-inquiry-20190205-p50vqk.html>

On that same day Mr. Falinski, a Liberal Member of the Committee sent letters soliciting donations to the Liberal Party for drinks with the Chair of the Committee in Dee Why at the same venue for the Committee hearing.<sup>9</sup>

On Friday 8 February The Sydney Morning Herald reported that “Some shareholders in funds run by Wilson Asset Management also remain concerned that their details are being used for Liberal Party promotional material.”

The Sydney Morning Herald report stated that ‘One investor said he had been; “targeted with MP Tim Wilson's propaganda and petition-signing emails, as were my colleagues who hold shares in the listed entities. My email address isn't listed anywhere publicly, and I've never had any dealings with the MP's office,” he said. ‘Another voter said they received “two Wilson Asset Management newsletters” after being contacted by Mr. Wilson in their electorate.’<sup>10</sup>

Wilson Asset Management has strongly denied sharing any client details.

#### **1.4 Referral to the Speaker**

These hearing have been a blatant abuse of Parliamentary process. The Manager of Opposition Business referred the Chair to the speaker asking for an investigation into his conduct. The Chair was criticised by the Speaker of the House of Representatives:

*“... I believe his actions have not always conformed with what I see as the conventions usually observed by chairs of House committees and the practice of House committees. The particular matters I would mention include:*

- *having a private website 'authorised by', and with the badging of, the chair of the committee, which appeared to solicit submissions and attendees at public hearings from just one perspective; and*
- *apparently arranging for a public hearing of the committee to coincide with the meeting of a group with an active interest in the committee's inquiry, including with the possible intention to engage in protest activity at the hearing.”*

#### **1.5 The Member for Fisher – Using the Committee to promote membership of the Liberal Party**

On 30 January 2019 at a Committee hearing at Alexandra Headland Surf Lifesaving Club in Queensland the Member for Fisher Mr. Andrew Wallace, gave evidence to the Committee at the invitation of the Chair. At the hearing Mr. Wallace encouraged members of the audience to join the Liberal Party and then walked around the room handing out membership forms.<sup>11</sup>

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<sup>9</sup> <https://www.smh.com.au/politics/federal/taxpayer-funded-inquiry-used-to-raise-money-for-liberals-20190207-p50w93.html>

<sup>10</sup> <https://www.smh.com.au/politics/federal/taxpayer-funded-inquiry-used-to-raise-money-for-liberals-20190207-p50w93.html>

<sup>11</sup> <https://www.smh.com.au/politics/federal/taxpayers-foot-bill-for-roadshow-attacking-labor-s-franking-credit-policy-20190130-p50uja.html>

**Recommendation 3:**

**That the Member for Fisher Mr. Andrew Wallace apologise to the House of Representatives for abuse of parliamentary procedure.**

**1.6 The Chair's refusal to release to the public letters and emails critical of this inquiry.**

Many Australians have voiced their anger at the partisan nature of this inquiry and the waste of tax payer dollars via email and letters to the Committee. The total number of unpublished pieces of correspondence received by the committee is an astonishing 1738. This correspondence includes critical analysis from 2 former members of parliament.

At the regular meeting of the Committee on 13 February 2019 the Labor Deputy Chair of the Committee Mr Thistlethwaite moved a motion to publish an initial 54 letters on the Committee website in the interests of transparency and accountability. The Committee voted and the vote was locked at 4 votes for publication and 4 votes against publication. The Chair Mr. Wilson used his casting vote to deny publication of the letters and emails.

It seems the Chair's claim at a Committee hearing that "*many of you know that I'm quite hardline on defending free speech and I won't back down*" are hollow words.<sup>12</sup>

One example of these letters is from Jan Bruce of Carnegie in Victoria who wrote:

*As a constituent of Higgins I received yesterday received a letter from the Member for Higgins which contained incorrect and misleading information about the enquiry and I wish action to be taken with the Member for Higgins for distributing deliberate misinformation about the inquiry.*

*The letter states: Invitation: Public Inquiry into Labor's Retiree Tax*

*This is not the name of the inquiry and is a blatant attempt by the Member for Higgins to drum up anti-labor sentiment and community fear in older people with investment incomes about a proposal muted by the opposition.*

*A parliamentary Inquiry should be treated with respect, and truth from all elected representatives should be the minimum standard by which they operate and truth should be behind the information circulated in the community by parliamentarians.*

*The Member for Higgins has in fact told her con a lie and I would like to see action taken by the committee to address this issue as soon as possible.*

These letters and the minutes of this meeting where the Chair Mr. Wilson voted to prevent the release of documents and letters which are highly critical of his conduct as Chair and of the Governments motivations for holding an inquiry into an Opposition policy are available with the release of this report.

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<sup>12</sup> Standing Committee on Economics, House of Reps committee, Friday, 8 February 2019, Implications of removing refundable franking credits hearing in Chatswood.

The Labor members strongly urge the release of these documents in the interests of transparency and accountability.

The Government representatives having regularly stated that this inquiry was to give a voice to people affected by a proposed opposition policy, yet when those voices express dissent they are suppressed.

The Chair also had a hand in personally writing many of the submissions. As has been mentioned above, the Chair setup a website that allowed people to submit using a pre-filled section. Some estimates suggest that 20% of all the submissions to the inquiry were in part written by the chair<sup>13</sup>.

## **2. Labors' Policy for Franking Credit Cash Refunds**

### **2.1 Labor taking a Fiscally Responsible Approach to the Budget**

There is a clear structural problem with the Australian budget relating to the ageing of our population, that the Government is ignoring and does not have a plan to address.

As the 2015 Intergenerational Report prepared by the then Liberal Treasurer Joe Hockey, correctly points out in the coming decades, all governments will face growing fiscal pressures as the population ages and expectations for greater government support of ageing-related programs increase.<sup>14</sup>

While governments are expected to act and make tough decisions, the Morrison Government is simply failing to provide for older people with aged care home care packages waiting lists skyrocketing. The latest publicly available figures on the waitlist for home care packages show 127,000 older Australians are waiting for care. This figure has risen from 88,000 over just the last 12 months.

Over the past six years this government has chosen to freeze Medicare rebate payments meaning many doctors are charging copayments to patients for consultations. Public hospital funding has also been cut by the Abbott, Turnbull and Morrison governments.

As well, the Coalition has cut \$14 billion from public schools budget over the past six years.

Labor will take a more responsible approach to the budget to ensure we can continue to properly fund programs such as ending the Medicare rebate freeze and investing additional funding in education but we will need to make responsible structural changes to the budget to fund these important services that all Australians rely on.

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<sup>13</sup> <https://www.theguardian.com/australia-news/2019/mar/28/tim-wilson-helped-write-20-of-submissions-to-franking-credits-inquiry>

<sup>14</sup> 2015 Intergenerational Report: Chapter 2 - Government budgets

When it was first introduced, cash refunds for dividend imputation cost the Australian budget \$550 million a year. The cost of this policy is now \$6 billion a year and growing.

Labor will take a fiscally responsible approach to the Commonwealth budget. With an ageing population we must make structural changes to rebalance the budget to ensure as a nation we can continue to fund services that ensure Australians enjoy a high standard of living.

Ending cash refunds for dividend imputation for those who do not pay income tax is a responsible approach to the Commonwealth budget.

Labor will also close other tax loopholes that benefit wealthy Australians including reforms to negative gearing and capital gains tax, family trusts and multinational profit shifting.

Keeping cash refunds for dividend imputation at the expense of services for our country is simply unaffordable.

## **2.2 Cash Refunds for Dividend Imputation are unique to Australia**

The original imputation credits scheme devised by former Treasurer Paul Keating did not include cash refunds for unused franking credits.

The decision to introduce cash refunds for excess imputation credits was taken by the Howard Government in 2000 and came at a time when the budget was in structural surplus of 1-2% GDP due to a mining boom, and additional receipts from resource taxes. Also at the time superannuation assets in retirement were not tax free.

As mentioned above, the policy when first introduced cost taxpayers around \$550 million a year. Now it's \$6 billion a year and growing.

Australia is the only country in the world that has this fully refundable dividend imputation system – no other country pays out cash refunds for excess imputation credits. With an ageing population and a maturing superannuation system, the cost of allowing cash refunds for excess imputation credits will continue to grow. There is growing sentiment that Australia's current fully refundable dividend imputation system is fiscally unsustainable.

## **2.3 Who receives the cash refunds?**

Upon request the Parliamentary Budget Office (PBO) produced analysis on the quantum of people receiving cash refunds from imputation credits and the net wealth profile of households with shares.

This analysis from the PBO shows that 92% of taxpayers in Australia did not receive any cash refunds for excess imputation credits in 2014-15<sup>[1]</sup>. 90% of all cash refunds to superannuation funds accrued to SMSFs (just 10% went to APRA regulated funds). Labor understands that this is despite SMSFs accounting for less than 10% of all superannuation members in Australia.

The PBO analysis indicates that of all excess imputation credits refunded to SMSFs in 2014-15, 50% of the total benefits accrued to the wealthiest 10% of SMSFs by fund balances (which had balances in excess of \$2.4 million). The top 1% of SMSFs by fund balance received a cash refund of \$83,000 (on average). Labors analysis shows that this is an amount greater than the average full time salary.

Further the PBO analysis goes on to show that 10% of the wealthiest households in 2015-16 owned nearly three quarters of the value of all shares in Australia. Low wealth households typically don't benefit from the current taxation arrangements - they have little capacity to accumulate the wealth needed to do so<sup>[1]</sup>.

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<sup>[1]</sup> [https://www.aph.gov.au/~media/05\\_About\\_Parliament/54\\_Parliamentary\\_Depts/548\\_Parliamentary\\_Budget\\_Office/Publicly\\_released\\_costings/Dividend\\_imputation\\_credit\\_refunds\\_PDF.pdf?la=en](https://www.aph.gov.au/~media/05_About_Parliament/54_Parliamentary_Depts/548_Parliamentary_Budget_Office/Publicly_released_costings/Dividend_imputation_credit_refunds_PDF.pdf?la=en)

<sup>[1]</sup> <https://www.aph.gov.au/~media/05%20About%20Parliament/54%20Parliamentary%20Depts/548%20Parliamentary%20Budget%20Office/Publicly%20released%20costings/Dividend%20imputation%20credit%20refunds%20-%20further%20information%20PDF.pdf>

**Table 1: Excess franking credits claimed by SMSFs — Distribution by fund balance — (Source from PBO advice) 2014-15<sup>(a)</sup>**

Decile <sup>(b)</sup>	Fund balance range	Total excess franking credits claimed (\$m) <sup>(c)</sup>	Percentage of all excess franking credits
1	\$0 to \$90,276	12.0	0.5
2	\$90,277 to \$181,089	10.8	0.4
3	\$181,090 to \$279,252	22.5	0.9
4	\$279,253 to \$402,090	44.4	1.7
5	\$402,091 to \$558,140	75.8	2.9
6	\$558,141 to \$762,242	122.9	4.7
7	\$762,243 to \$1,044,621	186.3	7.2
8	\$1,044,622 to \$1,497,218	284.8	11.0
9	\$1,497,219 to \$2,443,843	468.7	18.1
10	\$2,443,843 and over	1,366.2	52.7
<b>Total SMSFs</b>		<b>2,594.5</b>	<b>100</b>

(a) Figures may not sum to totals due to rounding.

(b) Based on the fund balance of all SMSFs in 2014-15.

(c) Calculated as *the number claiming excess franking credits multiplied by the average excess franking credits claimed in Table C6 in the response to Senator Leyonhjelm.*

Claims that Labor's policy will target poorer Australian's are simply not supported by the facts outlined in the PBO analysis in Table 1 above. No contrary analysis has been presented to the Committee during this inquiry.

#### **2.4 Promoting risk in retirement & inhibiting investment in Australian companies**

The current cash refund system for dividend imputation encourages investors to be overweight Australian shares, meaning they have not adequately spread their risk.

It's the result of a tax payer-backed refund incentive that ultimately distorts investment decisions and sees the vast majority of Australians underwrite a risky strategy of a mostly wealthy minority.

The SMSF Association's own report has warned about a lack of diversification among many SMSFs.

*"Many investment specialists recognise that even a portfolio containing 30 stocks may not provide sufficient diversification, and there is strong consensus that managed funds help form the building blocks of a diversified portfolio."*<sup>15</sup>

Further analysis by Credit Suisse Private Bank found that a diversified portfolio of bonds, Australian and international equities, hedge funds, and commodities outperformed an ASX 200-only portfolio over a 10 year period.

And in the case of SMSF taxed at 15 per cent and with franking credits included in net returns, the annual return is only approximately 0.56 per cent above the balanced portfolio despite volatility more than 2.5 times higher.

That is, a lot more volatility and potential risk for only a slightly higher return – it's a gamble that's underwritten by the taxpayer.

Of course, the Australian stock market more than doubled between 1987 and 2000 when cash refunds weren't part of the dividend imputation system.

And as economist Stephen Koukoulas pointed out during his recent evidence to the House Economics Committee inquiry into Labor's policy, the over reliance on franking credits refunds is one reason why the Australian stock market is still 15 per cent below the 2007 peak, while the US, German and Canadian stock markets are substantially higher.

*It is only the dividend, not the underlying strength of the business, that guides much of the investment process. It is one reason why the Australian stock market is 15 per cent below the level of 2007, and this is while the US, German, Canadian and UK stock markets are substantially higher. None of these countries have refundable franking credits. Investors in those countries provide finance to dynamic growth companies and strong businesses. In Australia, such companies are often shunned by investors because they pay no or low dividends. Investors instead place their money with what are average firms that structure their businesses according to the tax distortions. The Australian tax distortions mean that local entrepreneurial firms have to access their capital from overseas because the money here is tied up in dinosaur companies that pay high dividends. It's one reason why so many 21st century technology and start-up firms in Australia head overseas to pursue their business models – they cannot get capital in Australia.*<sup>16</sup>

When the United Kingdom unwound refundability it resulted in little impact on the price of UK equities.

Australia benefits greatly from a large diversified pool of superannuation savings, which helped avoid the worst effects of the global financial crisis. We are now seeing a decline in diversification partly because of the strong incentive to

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<sup>15</sup> <https://www.afr.com/personal-finance/superannuation-and-smsfs/take-control-now-smsfs-warned-that-20-shares-is-not-diversification-20181115-h17ygu>

<sup>16</sup> Standing Committee on Economics - Implications of removing refundable franking credits Bondi Junction hearing 08/02/2019

maximise imputation credit cash refunds, particularly in SMSFs. A less diversified pool of national savings leaves Australia more vulnerable to financial shocks.

In their submission Industry Super Australia rightly point out that the vast majority of retirees will be unaffected by the proposal and the wealthy are the beneficiaries of most of the refunds of franking credit for non-pensioners.

Industry Super also point out that cash refunds for franking credits inappropriately incentivise lower income retirees to adopt risky portfolios overweight in dividend paying stocks<sup>17</sup>.

The government providing a refundable cash offset for franked dividends is encouraging a riskier investment environment for retirees. Labor's sensible reform with rebalance retiree investment and encourage greater diversity and ultimately more security in retirement savings.

## **2.5 Cash refunds are against principles of retirement incomes system in Australia**

Australia's Superannuation System is the envy of the developed world. Set up by the Hawke-Keating governments we have seen the pool of money held for retirement now at around \$2.7 trillion and growing.

In 2016 there were 3.7 million Australians aged 65 and over. By mid-century there will be 8.7 million. Our Super system must be safeguarded and future proofed.

The system was never intended to be a method for wealthy people to transfer vast amounts of personal savings to their children.

The evidence before this committee shows that there is an expectation amongst people utilising these tax free investment vehicles as a mechanism for intergenerational wealth transfer with the expectation that other taxpayers should foot the bill in the form of cash refunds.

At the public hearing in Chatswood Mr. Peter McIver stated:

*My comment is simply that I don't see this as a retirement tax. It's a death tax by stealth. What I'd like to know is where are all the young people are here, because it's their inheritance that's going to be decimated.*

At the same hearing in Chatswood Mr. Geoff Graham explained that he was using the system to provide for his adult children.

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<sup>17</sup> Industry Super Australia inquiry submission

[https://www.aph.gov.au/Parliamentary\\_Business/Committees/House/Economics/FrankingCredits/Submissions](https://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/FrankingCredits/Submissions)

*We all know it is terribly hard for kids with families these days. I am not worried about giving them inheritance. I'm worried about keeping them all going now. That's what I've said to the kids: 'If they take it from us, they're taking it from you.' Remember that when you get in there with a pencil.*

Because of the Chairs use of 3 minute statements and the inability of the committee members to ask questions of the people making the submissions it is difficult to ascertain the make up and financial circumstances of the people who made submissions unless they proffered them during their statement.

Many of the retirees who appeared before the Committee appear to be drawing the minimum required amount under legislation from their SMSF's and deriving most of their income from dividends on a small asset class and the cash refunds for the unused franking credit.

Over the course of this inquiry people providing statements have repeatedly explained how much they rely of cash refunds for their income in retirement.

Take for example Mr. John Flint who made the submission at the Chatswood Hearing that

*I'm very surprised that anybody could think that people on \$60,000 a year could be wealthy. We do not have superannuation anymore. ... this reduction in franking credits will lose us 20 per cent of our income.*

Most of these people will pass these balances along with the family home to their children.

The Labor members of the Committee understand why retirees have adopted this strategy.

With record levels of household debt, everything is rising under this government except wages. Young Australians are struggling to get into the housing market because of unsustainable tax concessions for property investors and parents naturally want to help out their kids.

But using superannuation as a vehicle for wealth transference is not consistent with the principles of the Australian superannuation system and why it was established.

Labor understands this concern and has announced changes to limit negative gearing to new housing only and to halve the capital gains tax discount for all assets including housing.

These changes will take the pressure off the housing market and mean that first home buyers aren't competing with investors looking to purchase their fourth or fifth property.

Labor will ease the pressure on households and ensure the superannuation system works according to the principles for which it was established- to provide Australian retirees with a comfortable retirement income and quality living standards through access to public services to support that retirement.

## 2.6 Dispelling the myths about Labor's Policy

The Liberals have constantly referred to the Oppositions proposed policy as a 'retirement tax'. This is absurd. Sadly, most of the people using this term know that this is not the case and are simply utilising the slogan in an effort to frighten people who are not aware of the details of the proposal.

Labor's policy is not a tax.

Our policy ends a cash refund for franking credits for people who have no taxable income in a particular year.

The Liberals have repeatedly attacked pensioners since their election in 2013. In the 2014 Budget they tried to cut pension indexation. In same Budget they cut \$1 billion from pensioner concessions and they axed the \$900 seniors supplement to self-funded retirees receiving the Commonwealth Seniors Health Card.

In 2015 the Liberals did a deal with the Greens to cut the pension to around 370,000 pensioners by as much as \$12,000 a year by changing the pension assets test.

The Liberals still want to axe the Energy Supplement to 2 million Australians, including around 400,000 age pensioners – a cut of \$14.10 per fortnight to single pensioners or \$365 a year. Couple pensioners will be \$21.20 a fortnight worse off or around \$550 a year worse off.

This policy is also described by some as a retrospective measure. This is not the case. A retrospective policy would require people to repay cash refunds. The Opposition policy only applies from 1 July 2019 if the policy is implemented.

The argument that people have made investment decisions based on a system created years earlier could also be applied to every other aspect of the Australian Government. If this were a guiding principle for policy makers it would be almost impossible for any future government to make any changes to any policy.

Labor announced this policy in March of 2018 to give all Australians, particularly those affected by the policy ample time to consider it and consult financial advisers about their personal financial situation and the need to adjust their circumstances. Labor has been upfront and open with the Australian people about this important policy reform.

The Government has repeatedly suggested that this policy will hit people with low taxable incomes the hardest. The use of taxable income figures is dishonest methodology. Because of the concessional treatment of superannuation many people can have significant wealth and a great deal of assets and report very little taxable income.

One example cited by the opposition illustrates this best:

A self-funded retiree couple with a \$3.2 million super balance, plus their own home, and \$200,000 in Australian shares held outside super. Even drawing \$130,000 a year in superannuation income, and \$15,000 a year in dividend income, they would report a combined taxable income of just \$15,000, and pay no income tax whatsoever.

Very few people with a low taxable income will be affected by Labor's policy because most retirees in the retirement phase of their lifecycle have no taxable income because of the concessional tax treatment of superannuation payments. They may have a very low taxable income but a very high income because their superannuation payments are tax free.

Many submitters to this inquiry have used the opportunity to describe company tax as a 'withholding tax' where the tax is collected on the originator of the payment rather than the recipient. Given the original scheme did not include cash payments for people without enough taxable income to offset the franking credits it is clear that ATO is not simply holding company tax 'in trust' as many have claimed during the inquiry.

Many people making statements at the hearings made the claim that people had been ambushed and caught off guard by this policy announcement. This could not have been further from the truth. Unlike the Coalition who told the Australian people nothing of their plans to make cuts huge cuts across the board before they took office in 2013 Labor has been upfront about its policy plans having announced this measure in March of 2018.

This has given people plenty of time to seek advice on their retirement plans and consider changes to their personal financial position.

**Recommendation 4:**

**The Parliament supports Labor's policy to end cash refunds for franking credits.**

**Hon Matt Thistlethwaite MP**

**Matt Keogh MP**

**Josh Wilson MP**

1 April 2019