

29 March 2023

**Committee Secretariat
Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600**

By email: seniorclerk.committees.sen@aph.gov.au

Submission on *Treasury Laws Amendment (2023 Measures No.1) Bill 2023*

I am pleased to provide a submission to the *Senate Inquiry on the Treasury Laws Amendment (2023 Measures No.1) Bill 2023* for your consideration. By way of background, I am a former military officer with an interest in harnessing private capital for defence and other capabilities. I am also a tenured academic and advise the private sector on security challenges for Australia.

I object to the proposed changes, specifically, Chapter 5, and assess that they will have significant, long-term unintended consequence for Australian companies and investors, especially in the areas of Australian sovereign defence industry as well as in the onshore renewable energy sector. Small and Medium Enterprise in both areas rely heavily on continued access to capital throughout their business cycle as they struggle to generate the scale and capacity required to compete against foreign defence and energy companies, many of whom enjoy significant levels of support from their own governments. These proposed amendments, which could potentially weaken the very franking system that has encouraged private sector investment throughout the past three decades could be catastrophic for a defence or alternative energy company trying to gain access to onshore capital in order to grow, compete and remain part of the Australian domestic manufacturing system. Put simply, the current Australian franking system supports Australian companies in their management of capital risk when taking on debt; it also encourages companies to invest in Australia and emboldens shareholders to follow suit, the follow-on employment and skill gains as well as the long-term ownership of Australian companies is now at potential risk if this Bill is adopted.

My main concern within the proposed legislation is *Chapter 5: Franked distributions funded by capital raisings*. The “established practice”, “effect” and “purpose” tests, rather than limiting the legislation to a few instances of mischief as an integrity measure would instead target thousands of legitimate users of the current system as discussed above. These mechanisms would distort the capital market in Australia, increase corporate capital risk, raise the cost of capital, and increase the potential for tax avoidance or minimisation; I would predict that a flight to international tax havens would become part of the strategic calculus for some entities operating in Australia presently if this Bill is adopted as currently proscribed.

The proposed changes contemplated in Chapter 5 risk significant unintended consequences for the economy and capital markets, with flow on effects for how Australia might generate the capabilities needed in the coming decades; I urge you to consider removing it entirely.

Yours Sincerely,

ID Langford, PhD