To: Standing Committee on Economics

Re: Implications of removing refundable franking credits

Background:

I rely predominately on pension payments from a Self-Managed Superfund (SMSF with my wife and I as the only trustees and members). I also have some income from private holdings of interest bearing bank deposits and ASX listed equities. My superfund member account value is less than $1.6m. I draw a $55,000 pension (2018) and my private investments generate another $10,000-15,000 per year depending on composition. We own our 2 bedroom apartment in Maylands Western Australia but have no investment properties. We do not currently, nor do we expect in future to draw any Australian Age Pension. We have always worked, planned, saved and invested with the intent to be self-funded in our retirement. This intention may change depending on how government tax policy is structured and depending on any impacts to our recurring income.

Financial Impact:

The financial impact for our SMSF from the removal of refundable franking credits is approximately $10,000 per annum (based on current SMSF portfolio and refundable franking credit data from 2017-2018). My share of the SMSF means that the impact on my personal account would be approximately $7000 per annum. The impact for my private holding income (from ASX equities) would be another $2,000 to $3,000 per annum depending on the composition of the portfolio at the time (i.e. deposits vs equities).

The net impact of $9,000-$10,000 per annum (across my SMSF member account plus private bank deposits and ASX equities) would constitute a material impact on the current and future income accruing to my financial accounts. I rely on those accounts to provide for my modest lifestyle during retirement.

Recommendation:

Do not proceed with legislation directed at removal of refundable franking credits without adequate consideration of personal income and/or personal net asset value. My suggestion is that any person with less than $100,000 in income or $2 million in net wealth (including Super) should be exempt from any restrictions on refundable franking credits. Above these income and net wealth figures there should be a tiered reduction (if any) in refundable franking credit allowances.

Do not proceed with legislation directed at removal of refundable franking credits without adequate consideration of the likely changes to individual investment portfolios and professional asset managers portfolios, including a possible 'reach for yield' that might result from the attempt to re-establish income levels to a 'pre-removal level'. Impacts on investment risk profiles can have significant impact on the robustness of personal and institutional fund accounts. I found this out personally during the 2008 GFC when several large cap real estate investment funds became over leveraged, then went bankrupt, and I lost my whole investment in them.

General Comment on Tax Policy:

Any tax related legislation should consider the implications for working, saving and investing versus consumption. Somehow popular economic dogma has it that 'consumption' is the well spring of

real economic growth, but it is 'saving and investment' that are the fundamental driver of sustainable economic development and wealth.

Assuming that Government waste has already been minimised so that the requirement to raise tax is reasonable, there should be a bias in favour of lowering personal income tax rates and establishing the correct level of broad based consumption tax (i.e. GST). Finally, any review of refundable franking credits should only be undertaken at the same time that other 'exemptions' and 'deductions' are reviewed.

I note that negatively geared property investment has been a very popular method to reduce personal income tax and speculate on property price appreciation. The impacts on the whole Australian economy (including our Banks and other financial institutions) has been monumental and not completely for the good. I have friends who are significantly over committed to property investments and bank funded debt as part of their tax minimisation and wealth creation strategy; which are predominantly driven by current tax policy. These friends are now in a precarious position due to job insecurity at the same time that rental income is down and lending rates are rising.

Finally, I note that some of my friends intend to hold substantial wealth in their primary residence (sheltered from Age Pension eligibility considerations), so that they can access a part Age Pension. A primary residence 'exemption' should be limited to something in the order of the value of the median price of a 2-bedroom apartment in the area of concern.

Thank you