Submission No. 28

AUSTRALIAN SHAREHOLDERS' ASSOCIATION LTD

ACN 000 625 669

Level 12, 418A Elizabeth Street
Surry Hills NSW 2010
Postal:
GPO Box 5210
Sydney NSW 1044

Telephone: (02) 9282 6982
Fax: (02) 9212 5636

Web Site: www.asa.asn.au
Email: share@ozemail.com.au

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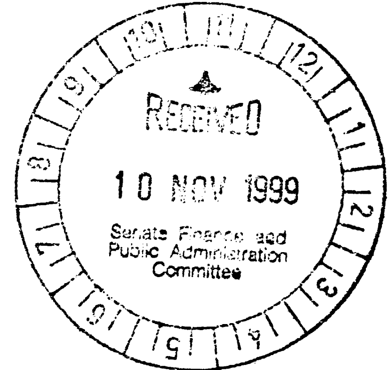


The Secretary
Senate Finance & Public Administration References Committee
SG 60
Parliament House
Canberra ACT 2600

By facsimile to (02) 6277 5809

Dear Sir or Madam

We wish to make a brief submission to the Committee on the subject of Capital Gains Tax.

Background

Our Association represents the interests of more than 5 million Australian shareholders and endeavours to reflect and resolve their concerns in many different forums.

Following the announcement of the taxation reform measures, many shareholders have complained to the Association about the impact of Capital Gains Tax (CGT) in particular.

The Australian Shareholders' Association believes that a substantial real reduction in CGT is long overdue. The ASA's sister organisation in Sweden, showed in a recent submission to their own government, that average Australian and Swedish investors paid more tax than investors in any of the OECD countries. Australia in fact, topped the list.

The effect of the reforms on shareholders

The ASA acknowledges that the Ralph reforms will deliver long-overdue benefits to shareholders in the form of an exemption from CGT in scrip for scrip takeovers and in refunds of excess franking credits. However, these changes should not be regarded as concessions for shareholders but as merely rectifying past inequities in the taxation legislation.

Unfortunately the benefits of halving the CGT on assets held for more than a year will be substantially diminished or more than offset by the removal of indexation and averaging. In principle and in practice, indexation or some equivalent form of inflation recognition, should have been sacrosanct.

Shareholders have traditionally been counselled to invest for the long haul, but now faced with paying tax on inflationary gains (which were not previously taxed), will be more inclined to turn their shares over.

This increase in 'capital mobility' will benefit brokers, stock exchanges, governments and indeed the whole investment community, apart from investors. As the Ralph report predicts, there will be a rush to cash in on unrealised capital gains over the next few years. Hopefully these investors will not desert the share market because they find the tax system less certain, less equitable or less durable.

The abolition of averaging, while simplifying the calculation of CGT, is certain to increase the effective tax rate for low and middle-income investors, particularly self-funded retirees.

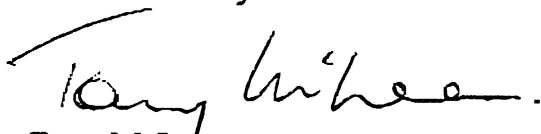
Proposal

The present CGT regime can be particularly onerous where shareholders have participated in a Dividend Reinvestment Plan and thus have to account for a relatively large number of small transactions. Any CGT reform should also avoid the need to retain detailed records for unduly lengthy periods, simplify taxation calculations and reduce compliance costs.

Any reform of CGT should provide incentives for shareholders to invest for the long term. There is evidence of better returns when investments are held for lengthy periods. It is certainly in the public interest for five million shareholders to maximise their returns in the long run and be less dependent on social security. Long term investing also provides the capital for local industry and enhances the competitiveness of Australian business.

With the advantages of long-term investing in mind, the government should consider implementing a stepped reduction in CGT. Ideally this would take account of the rate of inflation.

Yours faithfully



Tony McLean
Executive Officer