

# AGRI XTRA FLOR-HANLY

Advertising Feature

## A change for the better?

Director of Flor-Hanly, Tony Olsen, details the dividend imputation system and Labor's proposed reforms, which would undo the current system.

**T**HERE has been a lot of publicity regarding Labor's proposal to make the tax system fairer by closing down a concession that gives cash refunds for excess dividend imputation credits.

Australia's dividend imputation system was introduced by Paul Keating to eliminate double taxation of dividends paid from company profits to shareholders.

Under that system, shareholders could use imputation credits to reduce their overall tax liability. However, if their imputation credits were more than their tax liability, the excess were lost. This policy change by Paul Keating was a massive step forward.

The Howard and Costello government introduced the refund of those excess credits to the taxpayer to make the system fairer which resulted in them getting a refund from the ATO.

The Labor Government is proposing undoing this. They believe this concession is costing the federal government more than \$5 billion dollars each year.

**The following simplistic example shows how the current system works:**

- Bill earns \$30,000 interest in his own name. He has no other income
- Ben is the sole shareholder in a company. That company earns \$30,000 interest. The company

pays tax at 30 per cent ie \$9,000 and pays Ben a dividend of \$21,000

### BILL'S TAXATION POSITION WOULD BE AS FOLLOWS:

- Taxable income - interest \$30,000
- Tax payable on \$30,000 will equal approximately \$2242
- Bill's after tax dollars would be \$27,758

### BEN'S TAXATION POSITION WOULD BE AS FOLLOWS:

- **Ben's Company**
- Taxable income - interest \$30,000
- Company tax payable \$9000
- Company's after tax dollars paid to Ben as a dividend would be \$21,000
- **Ben**
- Dividend from company would be \$21,000
- Add imputation credit of \$9000
- Ben's taxable income would be \$30,000
- Tax payable on \$30,000 will equal approximately \$2242
- Less tax paid by the company (imputation credits) \$9000
- Ben would get a refund of \$6758
- Ben's after tax dollars equals the dividend of \$21,000
- Plus the tax refund of \$6758
- Ben's after tax dollars would be \$27,758



**UP FOR DEBATE:** Will Labor's proposed changes result in a fairer tax system? That will probably depend on your political views and where you hold your investments, says Flor-Hanly director Tony Olsen.

The source of Bill and Ben's income is the same, ie \$30,000 of interest. The only difference is Ben's income was earned inside a company. Currently they would both end up with the same after tax dollars.

**Let's now consider what would happen under Labor's proposed changes to stop the refund of excess imputation credits:**

### BILL'S TAXATION POSITION WILL NOT CHANGE

- He will have after tax dollars of \$27,758.

### BEN'S TAXATION POSITION WOULD BE AS FOLLOWS:

- **Ben's Company**
- Taxable income - interest \$30,000
- Company tax payable \$9000

- Company's after tax dollars paid to Ben as a dividend would be \$21,000
- **Ben**
- Dividend from company would be \$21,000
- Add imputation credit of \$9000
- Ben's taxable income \$30,000
- Tax payable on \$30,000 will equal approximately \$2242
- Less tax paid by the company (imputation credits) \$9000
- Ben doesn't get a refund but doesn't have to pay any tax because the imputation credits cover it
- Ben's after tax dollars equals the dividend of \$21,000

**BEN IS \$6758 WORSE OFF THAN BILL ON THE SAME ORIGINAL INCOME**

### OF \$30,000 OF INTEREST

Labor recognises that a lot of pensioners are struggling with the cost of living and some of them rely on refunds of excess imputation credits. They plan to allow such pensioners to continue to get refunds of excess imputation credits.

Superannuation funds have low tax rates and the refund of imputation credits currently ensures the tax rate payable on the source income is at superannuation tax rate.

The proposed changes by Labor would result in a superannuation fund with 100pc invested in company shares paying close to 30pc tax instead of 15pc on its source income.

Superfunds who have a spread of investments will be able to use the imputation

credits to pay for the tax on the other sources of income.

The majority of the population have superannuation and will be indirectly affected.

Will the proposed changes result in a fairer tax system? That will probably depend on your political views and where you hold your investments!

### DISCLAIMER

The author of this article, Tony Olsen, is a director of Flor-Hanly, Commercial and Agribusiness Accountants. Mr Olsen can be contacted on 4963 4800.

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