AUSTRALIAN COUNCIL FOR THE DEFENCE OF GOVERNMENT SCHOOLS

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Franking credits and public education

Maralyn Parker, a public education advocate is comparing public education funding with withdrawal of 'franking credits' for retirees on Twitter:

The Morrison Govt gives $5.9 billion a year (yes every year) to 4% of the Australian population in cash tax rebates for franked shares. It gives less than $5 billion each year to public schools. This is mind-blowingly stupid. Public education is an investment for ALL Australians.

11:07 PM - 3 Feb 2019

These are strong arguments for public school voters to prefer a Labor to a Coalition Government.

What are franking credits and What is the truth of this claim?

Franking Credits

Franking Credits also known as Imputation Credits are a type of tax credit that allows Australian Companies to pass on tax paid at the company level to shareholders. The benefits are these franking credits can be used to reduce income tax paid on dividends or potentially be received as a tax refund.

Basically franking credits stop the double taxation of company profits as the tax paid at company level can be passed to the shareholder.

Under this system, the Australian Tax Office recognises that corporate tax has already been paid on profits distributed as dividends. This already-paid tax can be transferred to investors using franking credits, reducing their tax liability.

According to a joint statement by Bill Shorten and Chris BowenSelf-managed super funds are a major beneficiary, with 50 per cent of the benefit to SMSFs accruing to the top 10 per cent of SMSF balances – with some funds receiving cash refunds of more than $2.5 million a year. Pensioners, i.e. those who receive limited superannuation payments, are exempt.

The Grattan Institute , on 3 February 2019 produced information which favors the Labor position. https://insidestory.org.au/the-real-story-of-labors-dividend-imputation-reforms/

Labor's plan would restore the pre-2001 system: most taxpayers could still use imputation credits to offset other tax owing to the ATO, but those with no income tax liability — mainly retirees and their self-managed super funds — would no longer be able to claim cash refunds.

The government *claims* *that 54 per cent of people affected by Labor's policy — some 610,000 individuals — have* taxable *incomes of less than $18,200. And it says that 86 per cent of the value of all franking credits refunded are received by those with taxable incomes of less than $87,000 a year.*

These claims are deeply misleading. Taxable *income ignores the largest source of income for many wealthier retirees: tax-free superannuation.*

Take the example of 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.

And is the treasurer seriously suggesting that 610,000 retirees actually get by on less than $18,200 a year, or nearly 20 per cent below the *poverty line*? *If that were anywhere close to the real story, it would signal a full-blown retirement-income crisis.*

Whoever they are, Scott Morrison's 610,000 "low-income earners" are clearly not the poorest retirees. Few, if any, are maximum-rate pensioners.

Where does the $5 Billion figure come from?

It comes from Chris Bowen, the Shadow Treasurer at https://www.chrisbowen.net/issues/labors-dividend-imputation-policy/

He claims :

Professor John Hewson remarked Under Howard and Costello, a concession was created allowing some individuals and superannuation funds to receive a cash refund from the ATO if their imputation credits exceeded the tax they owed.

Because of this change, Australia is the only OECD country with a fully refundable dividend imputation credit system – a concession which has grown at a rapid rate and now costs the budget more than $5 billion dollars a year. (Tax Forum, McKell Institute, 2 March 2018).

Self-managed super funds are a major beneficiary of this practice, with 50 per cent of the benefit to SMSFs accruing to the top 10 per cent of SMSF balances – with some funds receiving cash refunds of more than $2.5 million a year.

Failing to reform this unfair revenue leakage puts a greater tax burden on low and middle income working Australians.

A Shorten Labor Government will close down the concession created by Howard and Costello, and return to the arrangement first introduced by Hawke and Keating – so that imputation credits can be used to reduce tax, but not for cash refunds.

Closing down this concession will save the budget $11.4 billion over the forward estimates from 2018-19, and improve the budget bottom line by $59 billion over the medium term.

These are impressive figures.

But Public Education supporters should be very wary. A Shorten Government is little different to a Morrison Government in preferential treatment of a religious system of education to a public, national system. For every billion given to public schools a greater amount is diverted into religious systems.

Not one dollar has ever been taken from the religious system since 1969, while Labor, as well as Liberal governments throughout Australia have been prepared to withdraw funds and close public schools.

Watch this space.