Complete Financial PLANNING

Your family's future is our business

NEWSLETTER – APRIL 2018

News from Complete Financial Planning

- Emma and Monkey are happy to share the news that they will have baby number 2 arriving in September 2018. Those with annual reviews in September, October, November and December – Emma will be seeing you before the baby comes.
- CFP Annual Movie Day will be in July School Holidays this year
- Remember that you will be receiving calls or emails from the office to get updated information before your review with Emma or Kathy
- Don't forget the office is shut on a Friday, as Kathy and Emma work from home these days – they can be contacted on their mobiles, 0413 348 472 and 0488 198 200 respectively
- And make sure you go on and 'LIKE' our Facebook page - **www.facebook.com/completefp**

Introducing our new Estate Planning Referral Partner

RYAN & DRURY Solicitors

ESTATE PLANNING

Ryan & Durey Solicitors takes a practical approach to their clients' estate planning affairs. Their experienced team of legal practitioners provide a full service offering for their clientele.
Their team of lawyers liaise with clients' existing advisors, such as accountants and financial advisors, to achieve an individually-tailored succession plan that suits each client's distinct circumstances.
Their provide advice in all aspects of Elder law.

Their lawyers provide a full service offering including:

Preparing Wills with or without testamentary trusts
Advising on business and personal succession planning
Preparing Enduring Powers of Attorney (EPAs), Enduring Powers of Guardianship (EPGs),
and Advance Health Directives (AHDs)
Reviewing Family Trusts
Reviewing Superannuation Trusts and preparing non-lapsing, binding and non-binding nominations

Rob Durey

Jacinta Binstead

Dividend imputation – what does Labor's announcement mean?

In the past week, there has been an enormous kerfuffle about Mr Shortens plans to abolish the refunding of excess franking credits.

On the surface, this might look like a topic that is best ignored, however, there has been so much media commentary both in favour of and against the proposal, it probably can't be ignored.

Before we start, let's take a step back and look at what it all means…..

Back in 1987, the Labor government introduced the concept of dividend imputation. This was a simple policy designed to remove the double taxation of dividends paid by companies to their shareholders.

It works something like this:

- Companies pay tax on their profits. The company tax rate is generally 30%;
- These same companies distribute profits (dividends) to the owners of the companies – their shareholders;
- The shareholders include super funds, self-managed super funds, companies and trusts, and individuals like you and I;
- Dividends are taxed in the hands of the shareholders;

By now, astute readers will be saying something like *'hang on a minute, the profit is being taxed twice – once in the hands of the company, and again in the hands of the shareholder'.*

That is where dividend imputation comes in.

To avoid double taxation of dividends, the dividend is grossed up (increased) to reflect the tax already paid by the company. The grossed- up dividend is then included in the taxable income of the shareholder and is taxed at their marginal tax rate.

However, to remove the impact of double taxation, shareholders are allowed a tax credit (referred to as a franking or imputation credit) equal to the tax paid by the company. This is then deducted from the actual tax payable by the shareholder.

This has the effect of taxing the dividend at the individual shareholder's tax rate, rather than at the company tax rate.

In one stroke of the tax-man's pen, double taxation has been eliminated.

But that is not the end of the story.

In 2001, the then LNP (Howard-Costello) Government introduced a nice little change to the imputation system.

Up until then, if your personal tax position was such that you couldn't use up all your franking credits, any excess credit was lost. The people most affected where individual taxpayers that paid little or no tax, and superannuation funds that paid tax at a maximum rate of 15%. Superannuation fund's paying pensions to members pay no tax on their investment earnings.

The changes introduced by the Howard-Costello Government resulted in the excess franking credits being refunded to taxpayers in cash.

Refunding of excess franking credits has benefited:

- low income earners – particularly retirees and other low-income earner Australians, and
- superannuation funds, including SMSFs – particularly those paying pensions to their members.

Now, here is the crunch.

In last week's announcement, Labor stated they intend to abolish the refunding of excess franking credits with effect from 1 July 2019.

Let's look at a simple example of how this will work for taxpayers on different tax rates:

	Taxpayer 1	**Taxpayer 2**	**Taxpayer 3**	**Taxpayer 4**
Example	*Pensioners Super funds paying pensions*	*Super fund in accumulation phase*	*Average income earner*	*Top marginal tax payer*
Dividend received	$ 7,500	$ 7,500	$ 7,500	$ 7,500
Franking credit[1]	$ 3,214	$ 3,214	$ 3,214	$ 3,214
Taxable income	$10,714	$10,714	$10,714	$10,714
Marginal tax rate	0%	15%	32.5%	45%
Gross tax payable[2]	$ 0	$ 1,607	$ 3,482	$ 4,821
Less franking credit	$ 3,214	$ 3,214	$ 3,214	$ 3,214
Tax payable (refund)	($ 3,214)	($ 1,607)	$ 268	$ 1,607

Under Labor's proposal, the excess franking credits refunded to Taxpayers 1 & 2 will be forfeited.

What should I be doing now?

Firstly, the announced changes are simply that – an announcement.

For this to occur, Labor will need to win the next election and have a friendly Senate in order to pass the amending legislation. The next election must be held no later than 2 November 2019, however it could be called earlier.

Within days of Labor announcing its policy, some back-tracking has occurred. Once it became apparent that pensioners who hold shares in Australian companies will be affected by this change, the idea of paying pensioners a supplement to compensate for losses they incur was being suggested.

How this works out in the fullness of time is anyone guess. Perhaps it is just kite-flying so then a modified version of the same proposal will seem far being more palatable.

It is a matter of waiting to see what develops over time.

If I were a low-income taxpayer or a trustee of a SMSF – particularly one paying pensions to members, I would not be rushing out to sell down my Australian shares simply off the back of this announcement.

Remember – when investing, the impact of taxation is just one of a number of things to consider. Before making any changes to the investments you hold, seek the advice of your financial planner.

Please don't forget…

Our success is a result of referrals from clients and friends like you. We could always use a few more. So, if you have children, family members, friends or colleagues that may need some advice, please pass our details to them.