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Government Relations Strategy

Federal Labor commits to reforming dividend imputation

March 2018

On Tuesday 13 March 2018 Federal Labor Leader Bill Shorten and Shadow Treasurer Chris Bowen announced that a future Shorten Labor Government will reform the dividend imputation system by removing fully refundable excess credits.

From 1 July 2019, the policy will remove shareholders' ability to receive cash refunds when a dividend imputation, or 'franking credit' – which ensures company profits are not double-taxed – exceeds their rate of personal tax.

Labor's policy affirms the importance of dividend imputation as a mechanism to reduce tax paid on income derived from a dividend that has already been taxed through corporate taxation. The policy removes the ability for shareholders to reap benefit from dividend imputation as a result of their low personal tax rate. Australia is the only OECD country with a fully refundable dividend imputation system.

No individual will pay more tax as a result of the reforms, though government refunds will no longer be made.

More than 92 per cent of taxpayers do not receive a cash refund for excess imputation credits, and those shareholders who may be affected will have the ability to adjust their investment decisions to limit any impact from this policy. The changes will only effect earnings in years following the start-date of 1 July 2019.

Eliminating the concession will improve the budget by $11.4b over the forward estimates from 2018-19 and add $59b to the budget over the medium term.

Federal Labor's policy has been fully costed by the independent Parliamentary Budget Office. Labor will consult with the Australian Tax Office, Treasury and tax experts on the implementation of the changes. Implementation will be assisted by Labor's existing commitment to provide additional resources to the ATO to ensure thorough operation.

Background
The announcement aims to return dividend imputation to its original form, as established by the Hawke Government in 1987. The Labor policy will remove the Howard Government's amendment to the policy which allows for cash refunds in situations where excess credits exist.

The Howard reforms cost the budget $550m per year. Today, the fully refundable credit system worsens the budget bottom-line almost ten-fold at $5b per year.

Currently, shareholders are entitled to a tax credit on a dividend which is equivalent to the corporate tax already paid on that dividend by the company. If this credit exceeds the rate of tax the individual is liable to pay, they are entitled to receive this excess credit in the form of a cash refund. Labor's policy will remove shareholders' ability to claim this cash refund.

Further information
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