

Double taxation risk in franking credit changes

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The Self-Managed Superannuation Funds Association (SMSF Association) is maintaining its campaign against the Government's upcoming franking credit changes telling a Parliamentary Committee that there are risks they will give rise to double taxation.

The submission, filed with the Senate Economics Legislation Committee, has pointed to significant unintended consequences likely to flow from the legislation and urged modification.

SMSF Association chief executive, Peter Burgess pointed out that companies often reinvest their profits instead of holding them as cash to be distributed to shareholders.

"The Association contends that for these companies reinvesting profits and the raising of capital to pay dividends is merely prudent cash flow management and nothing to do with tax avoidance or the manipulation of the franking system," he said.

"Disallowing franking in these situations would expose the shareholders to double taxation. Company profits would still be subject to tax, but the shareholder would receive an unfranked dividend with no franking credit to offset the tax paid by the company. The company will have no retained profits – but will have a significant franking credit balance trapped within the company."

"To avoid these unintended consequences, the proposed amendments should be modified to make it clear they will not apply to distributions in situations where a company has made a taxable profit, those profits have been applied in funding the operations of the company, and the company now intends to distribute those profits as a dividend," Burgess said.

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