Does the Financial Services Council understand imputation?

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The Financial Services Council (FSC) has called for a cut in the company tax rate to 22% to be funded by an increase in the GST. It's hard to see why FSC made this call, particularly given that its stated number one priority is "working to improve the well-being of all Australians".

Given the nature of Australia's imputation system, a reduction in the corporate tax rate would bring minimal gains for most Australian investors. Lower corporate taxes means lower imputation credits, and the net impact on after-tax dividends received by Australian investors would be exactly zero. The big winners would be overseas investors for whom the value of dividends would increase by over 10%.

And who pays? All Australians, by way of a higher GST. Hardly a win for all Australians!

One suspects the reason imputation is not on FSC's radar is because it's not on their radar. If imputation credits were part of fund performance reporting, imputation would be front and centre of FSC's thinking.

Of course, there are claims of a whole range of second order effects - primarily, increased investment.

For Australian investors, it shouldn't matter because the effective corporate tax rate for Australian investors is close to zero - corporate tax is just a prepayment of personal tax. If it does matter, it is because Australian investors don't care about imputation. Let's see - who would those Australian's be? Ah yes, FSC members! And why? Because imputation credits aren't part of performance reporting.

What about the claim that lowering the corporate tax rate would increase direct investment by overseas investors? This seems a long bow. FSC's argument is that 30% tax is uncompetitive - therefore, businesses invest elsewhere where the tax rate is lower. If we accept this at face value, then 22% is still uncompetitive; businesses will still invest elsewhere. A fall in the corporate tax rate to 22% will then be followed by a call for it to fall to 15%, then 10%, and on and on. Again, the beneficiaries would be overseas investors - not Australians due to the nature of the Australian imputation system. Again, the cost will fall on Australian taxpayers.

And, if a 30% corporate tax rate was a substantial hurdle to investing in Australia, why do we see the likes of Google, Aldi and Apple make substantial investments here? Perhaps it's because they have found (legal) ways to pay little or no tax. For them, a fall in the corporate tax rate to 22% makes no difference at all. Perhaps we should be trying to find ways to make them pay their fair tax share.

One area I can agree with FSC is that such a move would reduce the reliance of the Federal Government on company tax. However, I wasn't aware that it was a problem that needed fixing. Perhaps the FSC would propose that an increase in fees would benefit all Australians as it would reduce our reliance on investment income?

The bottom line is that the FSC should get back in touch with the people it claims to be there to serve, all Australians. A really good start would be to recognise the critical role that imputation plays in the financial wellbeing of all Australians, by at least adding it to members' performance reporting.

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