

7 June 2017



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By email: Phoebe.Lyons@ato.gov.au

Dear Phoebe

PCG 2017/D7 Enterprise Tax Plan: small business over-franking in 2016-2017 income year because of tax rate change

CPA Australia represents the diverse interests of more than 160,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We welcome the opportunity to make this submission on behalf of our members and in the broader public interest.

The draft Guideline PCG 2017/D7 is well written and technically correct. However, the broader issue is that the Enterprise Tax Plan produces anomalous and inequitable outcomes - with different taxpayers receiving different income tax outcomes on the same fully franked dividend income. As proposed, the Enterprise Tax Plan fails the fairness test in dealing with the imputation changes.

This is not a problem for partnerships, trusts or individuals where the full franking amount received will be able to be passed on to the respective partner or beneficiary, or in the case of an individual where it is received directly.

The iniquitous outcome is for shareholder-investors who hold shares in a holding company that has invested in other dividend-paying companies. Such holding companies are also regularly family investment companies.

For example, the holding and family investment company may receive dividend income franked at 30 per cent in the 2016-2017 year, but if the holding company has a turnover of less than \$10 million per annum it will only be able to pass on these dividends to its shareholders at the reduced franking rate of 27.5 per cent.

It is important also to understand that this is not a one-off/ once-off issue – that is, it is not confined to the 2016-2017 year alone. The unfair outcome will be compounded as the company tax rate is further reduced for companies with certain annual turnovers under the Enterprise Tax Plan over the coming years.

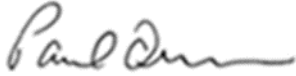
To overcome this anomalous outcome and the otherwise effective double-taxation on part of the dividends received by holding entity shareholders CPA Australia encourages the Commissioner of Taxation to exercise his discretion available under s202-85 of the ITAA 1997, enabling the full franking amount received to be passed on to the holding company shareholders.

This would eliminate the double taxation problem and place different taxpayers on a level footing outcome-wise.

Further, it would also overcome the requirement to reissue distribution statements - which will be a compliance bug-bear at least and at worst a compliance nightmare for many small businesses and investors.

If you have any queries, please do not hesitate to contact Gavan Ord, Manager – Business and Investment Policy, on 03 9606 9695 or gavan.ord@cpaaustralia.com.au.

Yours faithfully

A handwritten signature in black ink, appearing to read "Paul Drum". The signature is fluid and cursive, with a long horizontal stroke at the end.

Paul Drum FCPA

Head of Policy

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