

AUSTRALIAN LISTED INVESTMENT COMPANIES ASSOCIATION

C/- LEVEL 20
101 COLLINS STREET
MELBOURNE VIC 3000
AUSTRALIA

TEL (613) 9654 0499
FAX (613) 9654 3499

28 August 2014

Financial System Inquiry
GPO Box 89
Sydney NSW 8001

via electronic submission

Dear Sir/Madam,

Submission to the Financial System Inquiry Interim Report
RE: Dividend Imputation

The Australian Listed Investment Companies Association ("ALICA") is the industry body representing many of Australia's traditional Listed Investment Companies ("LIC").

As traditional LICs, ALICA's members adopt a consistent 'buy and hold' approach to investments with the objective of deriving dividend income for on-payment to their shareholders. Combined, ALICA's 7 members have in excess of 200,000 shareholders and more than \$11 billion invested in predominantly Australian listed companies and trusts.

The shareholder base of ALICA's members is predominantly Australian retail shareholders, self-managed superannuation funds, charitable and not for profit organisations.

Through their investment in LICs these shareholders provide capital to many Australian corporates, both large and small. The consistent fully franked dividend they receive from their investments in the LICs is a critical factor in their investment decision.

The dividend imputation system supports the Australian financial system. It is designed to prevent the double taxation of company profits paid as dividends. It focuses Corporations on investing for an adequate and regular return to shareholders after the payment of Australian tax. It has also demonstrably encouraged Australian investors to support capital raisings by Australian companies, providing a deep and responsive capital market. Capital markets are more stable as Australian shareholders are encouraged to hold investments long term rather than trade, when the dividend streams are reliable and taxed fairly.

There are many Australian corporates that do not have easy access to foreign equity or debt investors and rely heavily on Australian shareholders to support their operations through the provision of equity. ALICA supports the development of a deeper corporate bond market in Australia but notes that companies participating in this market will still need to have access to local equity markets, and Australian investors should remain tax neutral as to whether they invest in bonds or equity.

The removal of the dividend imputation system would make equity investment less attractive and it would be more difficult and expensive for companies to raise equity capital to fund their operations initially prior to entering the bond market.

ALICA considers the dividend imputation system as fundamental to the stability of the Australian retirement incomes system. Reintroduction of double taxation of company profits would weaken the entire superannuation system and place a greater burden on future governments to provide retirement incomes.

The dividend imputation system has been successful in lowering the cost of capital for Australian corporates and any change to this system that results in higher taxation for investors will increase the cost of capital. This would ultimately impact share prices and lower the valuation of assets held by investors such as superannuation funds.

We conclude that to recommend interference with the dividend imputation system would in our opinion be contrary to the purpose of the Financial System Inquiry to consider ways to maintain and enhance the stability and resilience of the Australian Financial System.

Reintroduction of double taxation of company profits would lessen the depth of the capital markets and weaken the Australian Superannuation and retirement income structures. We urge the Inquiry to consider the importance of the retention of the dividend imputation system to the Australian Financial System.

Yours sincerely,

A handwritten signature in cursive script that reads "F Gooch".

Frank Gooch
Chairman