THE AUSTRALIAN

Labor's franking policy 'could be based on old data'

By **MICHAEL RODDAN**, REPORTER
7:04PM MARCH 26, 2019 • COMMENTS

The design of Labor's proposal to end excess franking credit refunds has been criticised as inelegant policy by Australian National University associate professor Geoff Warren, who urged the opposition to analyse its proposal in light of the government's $1.6 million cap on tax-free pensions.

Appearing before the final House of Representatives economics committee public hearing into the opposition policy, Mr Warren, appearing in a personal capacity, said the current public analyses of the impact of the policy were based on data from the 2015 financial year — a year before the introduction of the $1.6m cap by the Turnbull government.

The concessional tax rate applied on pension accounts above that level, or $3.2 million for couples, means that the wealthiest retirees in Australia may escape the ban on excess franking credit refunds as they have a tax liability. While pensioners, part-pensioners and those receiving government welfare will be exempted under Labor's pensioner guarantee, it is likely that only those retirees with enough assets to disqualify them from the pension but who do not have enough wealth to cross the $1.6m tax-free threshold will be affected by the proposal.

Mr Warren said he had "concerns around the design of the policy rather than the intent" of the plan, which Labor expects to benefit the budget bottom line by $56 billion over a decade. "It's not a very elegant policy as I see it," he said. "The analysis might be based on old data. That's a really critical point that needs to be addressed."

However, Mr Warren also said claims about loss of income under the proposal were also spurious, as although retirees could miss out on the refunds, they could offset this by drawing down on their assets. A number of retirees have complained that they will be forced to use their savings under the policy, rather than keeping their assets to hand down to their children's inheritance.

Grattan Institute senior fellow Danielle Wood told the National Press Club on Tuesday that tax-free superannuation, refundable franking credits and tax offsets for seniors introduced over the last two decades mean that "older Australians to contribute a lot less than we once did".

"The public hearings for the inquiry into the franking credits policy sometimes look more like the frontline in a generational war than a staid government inquiry," she said. "Here the contrast with the climate strike is difficult to ignore: while older Australians picket for their franking credits, young people are protesting for their very future."

Industry Super Australia public affairs director Matthew Linden said while industry funds were largely exempted from the policy, it was due to their tax status rather than a deliberate exemption.

"SMSF's will continue to benefit from imputation in the taxed accumulation phase and some subject to their size and mix of members may continue to benefit in the retirement phase," he said.

"In our view there is considerable merit in revisiting the age pension asset test which currently imposes punitive effective tax rates on private and superannuation savings," he said. "Unlike this committees' deliberations those changes were introduced and passed by the parliament in the space of just 14 days in November 2016 without any public hearings."

Michael Lorimer, the managing director of the Self-Managed independent Superannuation Funds Association, said Labor's proposal created an "unfair" distinction between particular classes of shareholders.

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