

CRAWFORD SCHOOL OF ECONOMICS AND GOVERNMENT

Are you still feeling lucky punk?

Why we should abolish dividend imputation
and cut the company tax rate to 19 percent

Nicholas Gruen

Tuesday 14 April 2009

12.30am - 1.30pm

Seminar Room 4, First Floor, Crawford Building

Light lunch will be provided

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Dividend imputation which reduces the disparity in the tax treatment of debt and equity seemed like a good idea when Australia pioneered it in 1987. But simple economic theory supported by numerous econometric tests in various countries suggests that in an open economy, the revenue dividend imputation foregoes does not lower the cost of capital. Yet at over \$20 billion per year, it is extremely expensive. The problem is that the benefits of dividend imputation are not offered to foreigners and so it does not figure in foreigners' demand for our shares. Yet foreigners are the marginal investor. Thus it is foreigners' appetite for our shares which determines their price. Accordingly we would do better to recalculate the revenue foregone from dividend imputation in a form which would affect foreign demand for our shares – namely lower company tax. Even without taking into account the surge of investment this would produce, the revenue foregone in dividend imputation could fund company tax cuts down to a figure as low as 19%.

Nicholas Gruen leads Lateral Economics and Peaches, a discount finance broker, and is a substantial contributor to Australia's thriving policy blog scene, a board member of the government agency Sustainability Victoria and chairman of Online Opinion. He has been appointed to the Productivity Commission, completing five inquiries as an Associate and two as a Presiding Commissioner. He has a regular column in the Australian Financial Review, was a member of the recent Review into Australia's Innovation System and has been working with Lindsay Tanner on developing the concept of continual improvement in regulation.

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