

The Committee Secretary
Standing Committee on
Economics
PO Box 6021
Parliament House
Canberra ACT 2600

22 October 2018

Dear Members of the Committee

Proposal to remove the refund of tax paid on franking credits

Platinum Investment Management Limited (ABN 25 063 565 006), trading as Platinum Asset Management (Platinum), is an Australian based fund manager that specialises in international equity investments. Platinum currently manages around A\$25.7 billion¹ in assets and issues and/or manages a wide range of investment products, including a number of Australian registered managed investment schemes (Unit Trusts) and two listed investment companies (LICs), namely Platinum Capital Limited and Platinum Asia Investments Limited.

We write today in response to the Committee's request for submissions on the recent proposal to stop the cash refund of franking credits, a proposal that will impact many of our LIC investors.

We note the terms of reference for the Committee's enquiry and would like to point out that the franking credit proposal, in its current form, would result in an uneven playing field between LIC's and Unit Trust structures (both listed and unlisted). The proposal therefore violates tax neutrality principles and is manifestly unfair to pre-existing LIC investors.

As Platinum delivers its investment strategies through a range of investment vehicles including Unit Trusts and LICs, we are agnostic as to which type of vehicle investors select to access our investment capabilities. This should instead be a matter of investor choice, with some investors preferring listed vehicles over unlisted vehicles, and others preferring the close-ended nature of LICs over the open-ended structure of a Unit Trust. Whatever the investor preference, all things being equal, the impact for an investor from a tax perspective should be neutral.

However, we note that the current franking credit proposal will result in the adverse tax treatment of certain zero or marginal tax rate LIC investors in comparison to Unit Trust investors. This is because Unit Trusts distribute 100% of income (which includes trading gains) on a before tax basis, whereas LICs distribute those same trading gains as dividends only after corporate tax has been paid.

This proposal would then see any cash refund of franking credits on LIC trading gains being fully or partially removed for certain zero or marginal tax rate payers. This places LIC investors at a significant disadvantage to Unit Trust investors.

¹ As at 30 June 2018

The costs to LIC investors of either switching to an alternative trust structure (should one be available) or converting LIC's into a trust (should that even be feasible) would likely be very significant. Accordingly, we urge the Committee to reject this policy proposal.

Alternatively, if Government does ultimately elect to pursue this policy, we submit that LICs should be exempted from the proposed franking credit rule in order to ensure that the level playing field continues between LIC investors and their Unit Trust counterparts. Such an exemption would likely have a very modest impact on forward budget estimates, with LICs comprising a small fraction (approx. 2%) of the total market capitalisation of the ASX².

Yours sincerely



Andrew Clifford
Chief Executive Officer
Platinum Investment Management Limited

² Source: ASX. The combined Australian LIC market cap is currently approximately A\$40b. The total ASX market cap is approximately A\$1.9trillion.