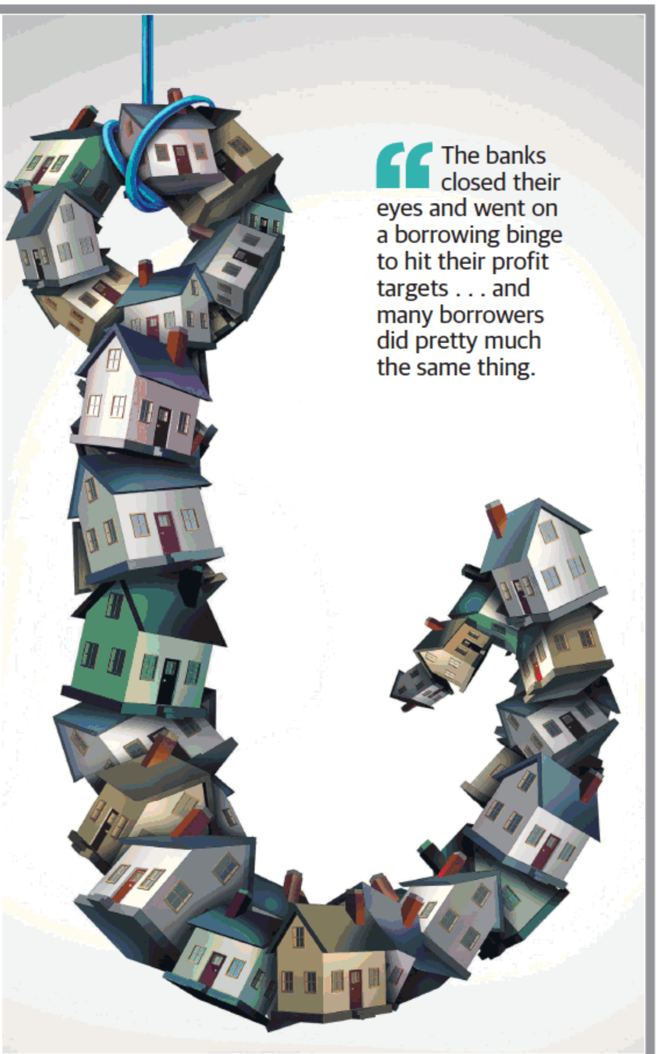
Franking my dear, Bill don't give a damn



"The banks closed their eyes and went on a borrowing binge to hit their profit targets . . . and many borrowers did pretty much the same thing.

Noel Whittaker

LABOR'S attack on retirees by removing the refund of excess franking credits is getting increasing publicity. On Monday night, even the ABC's *7.30* jumped on the bandwagon in what it claimed was an attempt to explain the system.

Unfortunately, as is common in many TV programs, too much time was spent airing opinions from retirees on both sides of the fence who were big on words but short on knowledge.

Shadow treasurer Chris Bowen was a guest but got an easy run as none of the hard questions were asked.

Labor claims it is unfair for people with no taxable income to get the benefit of refunded imputation credits.

But this ignores the fact that people with a taxable income do get the benefit of them. For example, Bill, a self-funded retiree receives a dividend of $700, plus $300 franking credits and claims $300 back in cash from the ATO. His daughter, Sally, earning $50,000 a year, gets the same dividend. She is entitled to use the franking credit to reduce the tax on the dividend. As a result, she effectively pays tax of just $25 on the dividend, because she has had the benefit of the franking credit to reduce any other tax that could be payable. Under Labor, Sally will retain her credit, but Bill will miss out.

The next factor *7.30* ignored was that Labor's projections are based on figures produced by the Parliamentary Budget Office, which were based on 2014–15 tax returns. But the system changed significantly when the Turnbull government in 2017 limited the amount that could be held in pension mode to $1.6 million a member. This was the end of big franking credit refunds for big self-managed funds.

As a barrage of emails from readers points out, the combination of the two changes discriminates in favour of the wealthy, who will still be able to use their franking credits to pay the tax that has only just become payable due to the Turnbull changes.

No reference was made to the inevitable behavioural responses from investors affected by Labor's changes.

Naturally, they will put strategies in place to defend their finances.

You can bet that any retiree receiving franked dividends, and who is a little over the assets test cut-off point, will have a ball travelling and renovating to slash their assets and qualify for a miniscule part-pension, so as to retain those valuable franking credits.

The policy may also result in changes to how Australian companies decide their share buybacks and dividends.

Typically, a proportion of the proceeds from a share buyback are deemed to be a return of capital, with the remainder a fully franked dividend.

As these dividends will become less attractive to a significant group of investors under the proposed policy change, Australian companies may reduce share buybacks and instead reinvest in growing their business.

According to financial consultant Rice Warner, with fully franked dividends less attractive to some Australian investors, companies may bring forward any buy-back into the 2019 financial year.

This would remove a significant number of future dividends from the targeted group, further reducing the revenue expected.

Summing up, Labor's goal of cutting the nation's debt is laudable, but this policy is not the way to do it. It is based on false assumptions and is easily avoided.

Deja vu the mining tax.

Noel Whittaker is the author of *Making Money Made Simple* and other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions.

Blue-chip vision

Phil asks: I have always put my savings in a long-term deposit bank account.

But about 12 months ago I decided to use half of this money to invest in crypto currencies, and this resulted in a 90 per cent loss.

I then used the remainder of my savings to get into some blue-chip ASX shares that have delivered a 25 per cent loss.

Of my original $40,000 I have just $10,000. Should I accept this loss, cash out and put my $10,000 back in the bank, or hold?

The Barefoot Investor for Families: The Only Kids' Money Guide You'll Ever Need
HarperCollins
RRP $29.95

Barefoot replies: Holy moly.

This year really has been your annus horribilis, to quote the Queen.

Now, given your experience, you probably think everything is a scam.

But please don't confuse punting on crypto and investing in shares. The small but fundamental difference is that you are becoming a part-owner in a (hopefully) profitable business, that (hopefully) pays you a growing dividend.

So, what would I do?

Well, after suffering a 90 per cent loss on your crypto, I'd mentally write them off as worthless, but continue holding them just in case crypto madness returns.

However, I'd hold and add to the blue chips over time.

It's the slow and steady accumulation of dividends that will make you wealthy.

The rest is just noise.

ASK THE EXPERT

Send your questions to Noel Whittaker noelwhit@gmail.com or tweet @NoelWhittaker

Q Could you explain the pros and cons of withdrawing money from super then recontributing it back to super. What advantage is there in doing this?

A There is a tax of 15 per cent plus Medicare levy (17 per cent) on the taxable component of a lump sum superannuation death payout if such sum is left to a non-dependant. By making a tax-free withdrawal from super, and then recontributing it as a non-concessional contribution, you increase the non-taxable component and decrease the taxable component. This means less tax to pay on death.

Getting phubbed by boss hard act to swallow

WORKPLACE MATTERS
Gary Martin

IT'S a new word creeping into dictionaries and though it might not be in your vocabulary just yet, it has happened to you.

And, what's more, you are more than likely guilty of doing it yourself.

It is called phubbing — the practice of looking at your mobile phone or tablet while in the presence of others, effectively snubbing them.

You will be familiar with the range of phubbing scenarios, including when you arrange with an old friend to catch up for coffee, meet up with a relative over dinner, or even go out on a date.

Proceedings take an unnerving turn when you discover the person you're with appears more interested in their phone than you.

While the phenomenon may appear relatively harmless at first, experts believe phubbing does significant damage to the quality of interaction between people in a face-to-face setting, most probably because the person being phubbed feels unimportant as they are regarded as a low priority.

In the past, phubbing was mostly restricted to our personal and social lives. In more recent times, though, we have seen phubbing creep into our workplace in such a way that may suggest it is now a mainstream organisational behaviour.

And in an unsavoury and rather surprising twist, it appears the biggest culprits are not everyday employees, but their bosses, and the more senior the manager, the more likely they'll engage in phubbing.

We have all been through it. You are talking to your boss and he or she glances at their phone while talking to you, or they suddenly grab it when it pings with a message. It's almost as if you don't exist.

The unprecedented rise of bosses snubbing their team members in the workplace has given rise to a new term, "boss phubbing", and the consequences are thought to be particularly damaging.

At the very least, managers act as role models for others.

Employees who experience or witness boss phubbing will be quick to jump on the bandwagon — believing the practice has been legitimised by their boss — and increase the incidence of this phenomenon across the workplace.

And it is hardly surprising that experts suggest employees who experience boss phubbing are less likely to feel valued by their supervisor.

This in turn may impact on their overall performance and productivity.

Above all, boss phubbing is extremely inconsiderate and will undermine any organisational culture based on respect.

Regardless of your situation and whether you are at work or out with friends, next time you are talking with others face to face, yet feel tempted to steal a quick sideways glance at your phone, stop and think about the signal this sends to the people you are supposed to be focused on.

And if the potential impact on them doesn't sink in for you, think about how you feel when the person you are talking to suddenly expresses more interest in their phone.

Professor Gary Martin is chief executive at the Australian Institute of Management WA