

22 February 2019

Australian Foundation
Investment Company Limited
ABN 56 004 147 120
Level 21, 101 Collins St
Melbourne VIC 3000
T 03 9650 9911
F 03 9650 9100
invest@afi.com.au
afi.com.au

Dear Shareholder,

Proposal to Remove the Refundability of Excess Franking Credits

You may be aware of policy changes proposed by the Federal Labor Party to remove the refundability of excess franking credits for certain investors.

The proposed policy will mean many shareholders who have a marginal tax rate below 30 per cent will no longer receive a cash refund from franking credits. We believe this change will negatively impact many of our shareholders.

We're writing to you to:

- ensure you are aware of the proposed changes;
- explain our position; and
- invite you to share your views on the issue.

We will continue to campaign to highlight our serious concerns on behalf of our shareholders regarding this proposed policy to ensure the adverse impact of these changes is well understood by all members of Parliament and policymakers. We hope to do this with your support.

What can you do?

If this issue is important to you, you can help us advocate on your behalf by:

- completing the enclosed survey and returning it to us via the reply paid envelope included with this letter; and
- sending through a more detailed example of what the proposed change will mean to you in the space provided on the survey form.

We are aiming to collect and review all responses by **8 March 2019**

Keeping you informed

If you have not already done so, we strongly encourage you to share your email address with us by adding it to the bottom of your survey response. It will help us to keep you informed about what we are doing and, importantly, what you can do over the ensuing months to ensure your voice is heard.

Thank you for your time and we look forward to receiving your response to the survey.

Yours sincerely,



John Paterson
Chairman

Further Information

Why are franking credits beneficial to you?

Franking credits are effectively a credit to investors for the corporate tax that has already been paid by the Australian companies they are invested in. The current system avoids double taxation of your dividend income.

We pass franking credits from the dividends AFIC receives from its investments directly to you, as our shareholder. The dividend amount, as well as the amount of franking credits you are eligible for, is outlined in each dividend statement we provide to you.

Under the current policy, if your marginal tax rate is below the company tax rate of 30 per cent, you may receive a cash refund for some or all the franking credits received, depending on your individual circumstances. This refund is received once you complete your tax return.

What will the proposed changes to franking credits mean?

The proposed policy will mean many shareholders who have a marginal tax rate below 30 per cent will no longer receive a cash refund from franking credits. This could negatively impact any income you might rely on from investing in Australian shares that pay fully franked income.

We're concerned low income earners and retirees will be hit especially hard by the proposed changes, particularly those who have self-managed super funds (SMSFs) in pension phase. An SMSF with an annual fully franked income of \$35,000 could realistically receive an additional \$15,000 from the refund of the franking credits (producing an annual income of \$50,000). Labor's proposed changes would mean the loss of the \$15,000 refund received from the ATO, a reduction of 30 per cent in annual income.

What are we doing to fight the proposed removal of franking credits?

We believe the proposed policy is an attack on one of the cornerstones of Australia's retirement systems – that of voluntary savings for retirement. The inequitable structure of the policy will have a negative financial impact on many of our shareholders and, as such, we've taken proactive steps to support you.

Since Labor proposed the changes in March 2018, we've worked hard to communicate with our shareholders via our shareholder meetings and our website, and we've encouraged and supported you in voicing your opinions to your Federal parliamentary representative by providing you with a template letter on our website.

We have joined the public debate in opposition to the change, raising the profile of the impact to investors via significant media commentary. Additionally, we have lobbied on your behalf with various industry groups and provided a submission and briefing to the House of Representatives Economics Committee Inquiry regarding this policy.