Attachment F

DIVIDEND STREAMING AND FRANKING CREDIT TRADING RULES

Measures will be introduced to amend the dividend streaming and franking credit trading rules to reduce the holding period for the ‘45-day’ rule (the length of the reduced holding period will be decided after further analysis and consultation) and to raise the exemption for small transactions from $2000 to $5000. The rules applying to trusts will also be simplified and clarified.

Key features

Within the constraint of deterring franking credit trading and hence, leakage of revenue, the period for holding shares at risk should impose as few restrictions upon capital markets as possible. The length of the reduced holding period will be decided after further analysis and consultation. In particular, this analysis will assess whether a 15-day holding period, as recommended in *A Tax System Redesigned*, is sufficient to deter franking credit trading.

Increasing the exemption threshold for franking rebates ensures that small investors are not adversely affected.

Commencement date

The reduction to the holding period is to have effect from 1 July 2000. The increase in the exemption threshold is to apply for the 1999-2000 and subsequent income years. Simplified rules for trusts are to have effect from 1 July 2001 in conjunction with reforms to the operation of franking accounts and the taxation of trusts.

Current arrangements

The 45-day rule aims to eliminate franking credit trading where franking benefits are received by someone other than the true economic owner of the underlying shares. The rule requires resident taxpayers to hold shares, at risk, for at least 45 days to be eligible to receive franking benefits from dividends paid on shares and specifies a minimum level of ownership risk (that is, 30 per cent).

Why the change is needed

The 45-day rule may deter what would otherwise be legitimate commercial transactions because of prohibitive holding costs.

Simplification and clarification of the rules applying to trusts and determination of the ‘at risk’ requirement will reduce compliance costs and promote increased certainty for investors.