

## **REFUNDING EXCESS IMPUTATION CREDITS**

The Government will legislate to refund excess imputation credits. This will be fairer to low income earners and remove investment distortions for superannuation funds.

### **Key features**

Excess imputation credits will be refunded to resident individuals, complying superannuation funds and to registered charities where imputation credits are attached to donations by way of trust distributions.

### **Commencement**

1 July 2000. For the first year (the 2000-01 year) the refund will only be paid on assessment. From 1 July 2001 an early refund mechanism will be introduced so that the refunds will be available to members of closely held trusts, closely held companies and all co-operatives on distribution via the distributing entity. The early refund mechanism has been deferred because its primary purpose is to reduce for members the cash flow impact of taxing trusts and co-operatives like companies, which has been deferred to 1 July 2001 (see Attachment K).

### **Current arrangements**

A taxpayer with imputation credits in excess of their income tax liability receives no benefit from the excess credits which are therefore 'wasted'.

### **Why change is needed**

Refunding excess imputation credits will ensure that eligible taxpayers are taxed at their appropriate marginal rates of tax on assessment. As a result, self-funded retirees, and other low income resident individuals, will no longer face an effective rate of tax on their investments in entities greater than their marginal rate. For superannuation funds, the non-refundability of imputation credits can distort investment decisions.