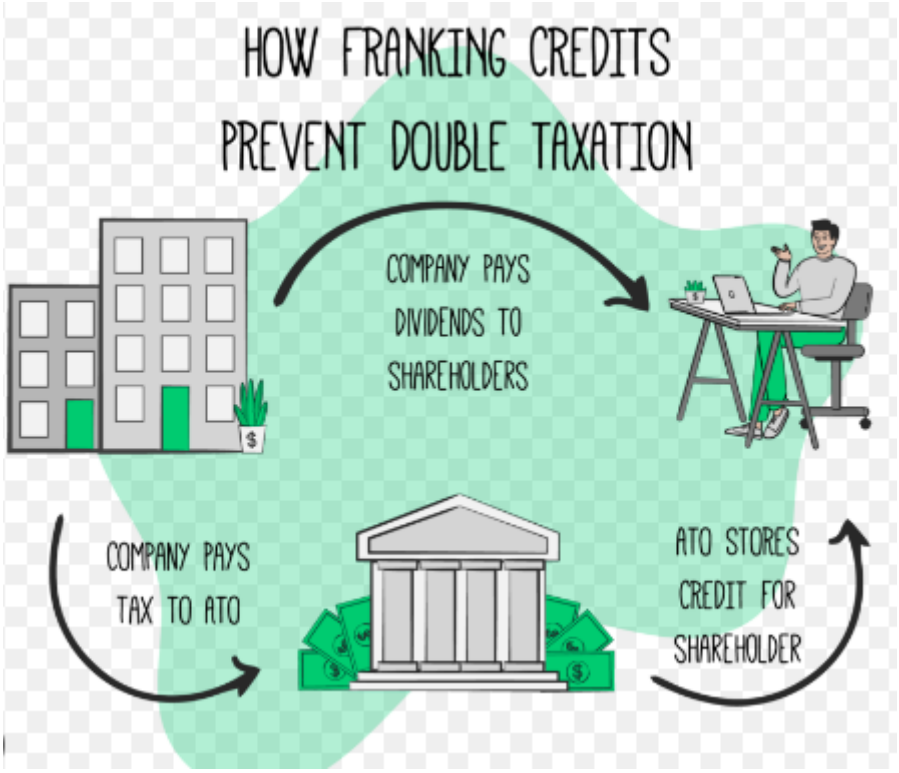
Franking Account

Franking Credits:

A franking credit, also known as an imputation credit, is a tax credit that Australian companies distribute to their shareholders along with dividends. These credits represent the tax the company has already paid on its profits, ensuring that the shareholders do not have to pay tax again on the same income. Essentially, franking credits prevent the double taxation of dividends.



Benefits of Franking Credits:

1. **Tax Efficiency:** Franking credits allow shareholders to reduce their tax liability by offsetting the tax already paid by the company. This is particularly beneficial for shareholders in higher tax brackets.

2. **Increased After-Tax Income:** Shareholders can receive a higher after-tax income from dividends because the franking credits reduce their overall tax payable.

3. **Refundable Credits:** For some shareholders, especially those with lower taxable incomes, franking credits can be refundable, resulting in a tax refund.

Franking Account:

A franking account records the amount of tax paid that a franking entity can pass on to its members as a franking credit.

Each entity that is, or has ever been, a corporate tax entity has a franking account.

A franking account is maintained by Australian companies to track their franking credits and debits. It will be prepared based on cash basis. This account records:

- **Credits:** Franking credits that arise from company tax payments and franked dividends and franked distributions received.
- **Debits:** Franking debits that arise from the distribution of franked dividends to shareholders.

How to Prepare a Franking Account

Step1 - Identify Opening Balance - Determine the opening balance of franking credits at the start of the tax year.

Step 2 - Record Transactions - Log all relevant transactions, including tax payments, tax refunds, distribution received with franking credits attached and dividends paid and received with franking credits attached.

The below are **added to opening balance:**

- Tax payments i.e., PAYG Instalments Payments and Final Tax Payments made by the company during the income year.
- Franked Credits on dividends received and distribution received.

The below are **deducted from the balance:**

- Franking credits on dividends paid to shareholders.
- Any tax refunds received.

Step 3 - Calculate Closing Balance - Determine the closing balance of franking credits at the end of the tax year.

Example:

Date	Description	Debits ($)	Credits ($)	Balance ($)
01/07/2023	Opening Balance	-	-	10,000
28/07/2023	PAYG Instalment June 2023	-	5,000	15,000
30/10/2023	PAYG Instalment Sep 2023	-	5,000	20,000
28/01/2024	PAYG Instalment Dec 2023	-	5,000	25,000
30/04/2024	PAYG Instalment Mar 2024	-	5,000	30,000
18/05/2023	2023 Final Tax Payment	-	8,000	38,000
25/04/2023	2022 Final Tax Refund	6,000	-	32,000
30/06/2024	Franked Dividend Received	-	7,000	39,000

Date	Description	Debits ($)	Credits ($)	Balance ($)
30/06/2024	Franked Distribution Received	-	8,000	47,000
30/06/2024	Franked Dividend Paid	15,000	-	32,000

Franking Credit Deficit and its consequences will be discussed in next week.