CARISMA SOLUTIONS

DISTRIBUTION AND DIVIDEND INCOME

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Distribution-Introduction

A managed fund generates income from its investments – for example, through share dividends, interest on cash or fixed interest investments in the fund, or any gains made when fund investments (like shares) are sold.

So, in short, a distribution is profit or income made by a fund and paid to investors.

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How are Distributions Paid?

Managed investment funds are required to pay all realised income and capital gains to investors for the financial year.

Income can be paid monthly, quarterly, half-yearly or yearly, depending on the fund.

The fund may receive distribution as a cash payment – for instance, as a payment to your designated bank account – or as an amount that is reinvested back into the fund.

As an investor, you should also receive a statement that outlines the amounts (and types) of income generated by the fund and distributed to you, which may be helpful at tax time.

How are Distributions Calculated?

A distribution can be calculated as follows:

The income of all individual investments in a fund for a given period is calculated – considering things like share dividends or interest payments.

The fund's deductible expenses (things like management fees and other payables) are then subtracted, leaving the total amount of income that can be paid out.

That amount is then divided by the total number of units in the fund to provide an amount of distribution per unit. For example, if the distribution for a fund was $1 per unit and an investor owned 100 units in the fund, they would receive a distribution of $100.

Components of Distribution

- Australian Income
- Distributed Capital Gains
- Non-Assessable Income

Australian Income

Interest and Other Income

Other income means that does not come from a company's main business, such as interest. Examples of other income include income from interest, rent, and gains resulting from the sale of fixed assets.

Australian Income

Franked Distributions

A fully franked dividend is when a dividend carries a franking credit against the whole amount of the dividend. This occurs when a company has paid a dividend from fully taxed retained earnings.

The difference between a fully franked dividend and a partly franked dividend comes down to the amount of tax paid by the company paying the dividend.

The amount of taxes paid by the company is what determines whether a dividend is fully franked or partly franked.

Australian Income

Franking Credits

The franking credit is a kind of tax credit attached to dividends paid to shareholders that represents the amount of tax paid on profits generated in Australia by the company issuing the dividend.

Investors can receive franking credits in addition to the actual dividend amount paid by the company they have invested in.

During tax time, investors include the tax credits and dividend payments on their individual tax returns to avoid double taxation of their income.

This ensures fairness between dividends and other forms of investment income, such as interest earnings from term deposits, which are only taxed once.

Australian Income - Calculation and Illustration

Formula to calculate Franking Credits

Franking credit = (Dividend amount ÷ (1 – Company tax rate at the time)) – Dividend amount.

Illustration showing Franking Credits Calculation:

For a company paying a dividend of $2,000 on a company tax rate of 30%:

Franking credit = ($2000 ÷ (1 – 0.30)) – $2000

= ($2000 ÷ 0.70) – $2000

= a franking credit of $857.14

As part of their dividend statement, the shareholder would receive a dividend of $2,000, which is fully franked, along with a franking credit of $857.14.

Australian Income –Unfranked Distributions

An unfranked dividend is a dividend which has not had any tax paid on it, and as a result, income received from an unfranked dividend is taxed like any other kind of taxable income.

Most dividends received from non-Australian companies will be unfranked dividends with no franking credits attached.

Distributed Capital Gains -Introduction

An SMSF capital gain is basically any profit an SMSF makes from selling an asset. It's classed as income and taxed as such.

Similarly, any loss made from selling an asset is called a capital loss. Both need to be included in the SMSF's annual return to the ATO.

Because capital gains are treated as regular income, and an SMSF's income is taxed at the concessional rate of 15% while the SMSF is in the accumulation phase.

But there are two additional, and very handy rules to remember, which apply to any super fund.

If an asset has been held for more than 12 months before it is sold, its capital gain may be eligible for a tax discount of 33%. That means, only two-thirds of the capital gain will be taxed, and at a 10% rate.

If the capital gain is used to fund an income stream (i.e. a member's pension) then zero tax will be applied to the proportion of capital gain funding the pension payout.

Discounted Capital Gains

Gains made on the disposal of investments that have been held for at least 12 months. The gain has been reduced by 50% because of the CGT concession.

For example, if you bought a property for $400,000 and a year later sold it for $500,000, you have made a capital gain of $100,000.

The discount percentage is 50% for individuals and trusts, and 33⅓% for complying superannuation entities and eligible life insurance companies.

If the discounted capital gain has been received from a managed fund, you will need to gross up the amount before you apply any capital losses and the CGT discount.

CGT Concession

The capital gains tax discount means that if you buy an asset (often a house), hold it for 12 months and then sell it, you only pay tax on half the profit you made.

The most significant advantages of the capital gains tax (CGT) discount are often realised by individuals who sell their assets after surpassing the 12-month holding period. This is particularly beneficial if they sell them at substantially higher prices than their purchase costs, as it can lead to significant tax savings.

Companies

Capital gains made in a company or trust capital gains distributed to a company cannot enjoy the 50% CGT discount.

Indexed Capital Gains

Gains made on the disposal of investments acquired before 21 September 1999 where the costs of the investments have been adjusted for inflation up to 30 September 1999.

This adjusted price is then used to calculate capital gains, which is the profit made from selling the asset.

Calculation for Indexed Capital Gains

- Add up both the indexed and non-indexed elements of the cost base together.
- Then subtract the indexed cost base from the capital proceeds.
- Subtract any current year capital losses or net capital losses from previous income years from the gain, to work out your net capital gain.



Other Capital Gains

The 'other' method to calculate your capital gain if you have bought and sold your asset within 12 months or generally for CGT events that do not involve an asset.

In these cases, the indexation and discount methods do not apply.

Foreign Income

The SMSF's gross assessable foreign income includes income from foreign sources and any foreign tax paid on that income and without reducing it for any expenses related to that income.

Foreign income includes business income. foreign employment income. most pensions and annuities (including from managed funds).

There may be a question as “Are **Foreign Dividends Assessable In Australia**?”

Resident individuals are generally taxable on foreign-source dividend income but are eligible for a tax offset for foreign taxes paid on such income.

Foreign Income -Illustration

In 2022–23, SMSF D held shares that were listed on a foreign stock exchange. SMSF D received $20,000 dividends, $5,000 foreign franking credits and has deductible expenses of $200 that relate solely to the dividends.

SMSF reports at labels:

- **Gross foreign income** – $20,000
- **Net foreign income** – $19,800

Foreign Income Tax Offset - Credits

To claim a foreign income tax offset (FITO) for foreign tax paid in another country. The offset provides relief from paying double tax on your foreign and worldwide income.

Foreign income tax offset reduces your tax payable for an income year. It applies in the income year in which your foreign income or gain forms part of your income in Australia.

Foreign Income Tax Offset - Credits

FITO up to $1000

To claim a foreign income tax offset of up to $1,000, you only need to record the actual amount of foreign income tax paid that counts towards the offset (up to $1,000).

FITO more than $1000

If we are claiming a foreign income tax offset of more than $1,000, must work out your foreign income tax offset limit.

This may result in your tax offset being reduced to the limit.

Any foreign income tax paid more than the limit is not available to be carried forward to a later income year and cannot be refunded.

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Non-Assessable Income

Non-assessable amounts such as tax-free and tax-deferred amounts are not directly relevant to determining cost base adjustments for a member's interests in AMITs, although they should broadly be reflected in the AMIT cost base net amount.

Non-Assessable Income

Tax Free , Tax Exempt and Tax Deferred:

Non-assessable amounts such as tax-free and tax-deferred amounts are not directly relevant to determining cost base adjustments for a member's interests in AMITs, although they should broadly be reflected in the AMIT cost base net amount.

Tax Free, Tax Exempt and Tax Deferred Components

Exempt income is income that you don't pay tax on (that is, it's tax-free). You may still need to include this income in your tax return for use in other tax calculations. Examples of exempt income can include: some government pensions and payments, including the invalidity pension.

Non-Assessable Income

Tax Deferred

Generally non-taxable when received by investors. Instead, these amounts are applied as a reduction to the tax cost base of the investor's investment in the property fund, which is relevant when calculating any Capital Gains Tax (CGT) liability upon disposal of the investment units or once the tax cost base has been reduced to nil.

Therefore, any tax liability in relation to these amounts is 'deferred', typically until the sale or redemption of an investor's units in the fund when CGT may arise.

Example: Suppose a trust earns rental income of $100 and has building allowance deductions of $20. Then the net taxable income is $80, which is distributed to unitholders to be included in their taxable income. The remaining $20 of cash is distributed to the unitholders too, but for tax purposes it is regarded as a reduction in cost base of the units invested in the fund by the unitholder

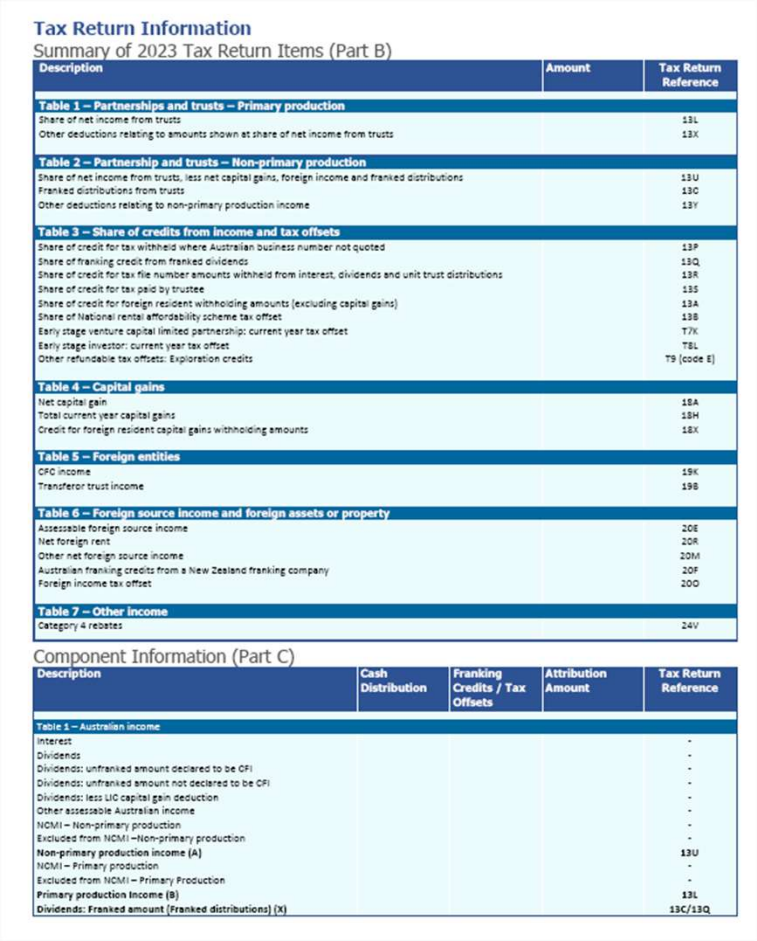
AMIT

Attribution managed investment trusts (AMITs) are required to report to the ATO and their members for each income year they are an AMIT.

The AMIT cost base net amount broadly represents any difference between amounts that are included in your assessable income (or NANE income) for the AMIT and actual distributions you receive from the AMIT.

Effectively, the cost base of your membership interests is increased by any assessable income (including amounts of trust capital gains) and non-assessable non-exempt (NANE) income you are attributed from the trust, while your cost base is reduced by any actual payments you receive (or are entitled to receive) and any tax offsets you have for amounts attributed.

Format of a Distribution Annual Tax Statement



Tax Return Information

Summary of 2023 Tax Return Items (Part B)

Description	Amount	Tax Return Reference
Table 1 – Partnerships and trusts – Primary production		
Share of net income from trusts		13L
Other deductions relating to amounts shown at share of net income from trusts		13X
Table 2 – Partnership and trusts – Non-primary production		
Share of net income from trusts, less net capital gains, foreign income and franked distributions		13U
Franked distributions from trusts		13C
Other deductions relating to non-primary production income		13Y
Table 3 – Share of credits from income and tax offsets		
Share of credit for tax withheld where Australian business number not quoted		13P
Share of franking credit from franked dividends		13Q
Share of credit for tax file number amounts withheld from interest, dividends and unit trust distributions		13R
Share of credit for tax paid by trustee		13S
Share of credit for foreign resident withholding amounts (excluding capital gains)		13A
Share of National rental affordability scheme tax offset		13B
Early stage venture capital limited partnership: current year tax offset		T7K
Early stage investor: current year tax offset		T8L
Other refundable tax offsets: Exploration credits		T9 (code E)
Table 4 – Capital gains		
Net capital gain		18A
Total current year capital gains		18H
Credit for foreign resident capital gains withholding amounts		18X
Table 5 – Foreign entities		
CFC income		19K
Transferor trust income		19B
Table 6 – Foreign source income and foreign assets or property		
Assessable foreign source income		20E
Net foreign rent		20R
Other net foreign source income		20M
Australian franking credits from a New Zealand franking company		20F
Foreign income tax offset		20O
Table 7 – Other income		
Category 4 rebates		24V

Component Information (Part C)

Description	Cash Distribution	Franking Credits / Tax Offsets	Attribution Amount	Tax Return Reference
Table 1 – Australian income				
Interest				-
Dividends				-
Dividends: unfranked amount declared to be CFI				-
Dividends: unfranked amount not declared to be CFI				-
Dividends: less LIC capital gain deduction				-
Other assessable Australian income				-
NCMI – Non-primary production				-
Excluded from NCMI –Non-primary production				-
Non-primary production income (A)				**13U**
NCMI – Primary production				-
Excluded from NCMI – Primary Production				-
Primary production income (B)				**13L**
Dividends: Franked amount (Franked distributions) (X)				**13C/13Q**

Format of a Distribution Annual Tax Statement

Description	Cash Distribution	Franking Credits / Tax Offsets	Attribution Amount	Tax Return Reference
Table 2 – Capital gains				
Capital gains discount – Taxable Australian property				-
Capital gains discount – Non-taxable Australian property				-
Capital gains other – Taxable Australian property				-
Capital gains other – Non-taxable Australian property				-
NCMI capital gains				-
Excluded from NCMI capital gains				-
Net capital gain				**18A**
AMIT CGT gross up amount				-
Other capital gains distribution				-
Total current year capital gains (C)				**18H**
Table 3 – Foreign income				
Other net foreign source income				20M/20O
Net foreign rent				20R
Assessable foreign source income				**20E**
Australian franking credits from a New Zealand franking company				20F
CFC income				19K
Transferor trust income				19B
Total foreign income (D)				-
Table 4 – Tax offsets				
Franking credit tax offset				13Q
Foreign income tax offset				20O
Total tax offsets (E)				-
Table 5 – Other non-assessable amounts and cost base details				
Net exempt income				
Non-assessable non-exempt amount (F)				
Other non-attributable amounts	$1,712.87			
Gross cash distribution (G)	$1,712.87			
AMIT cost base net amount – excess (decrease)	**$1,712.87**			
AMIT cost base net amount – shortfall (increase)				
Table 6 – Other amounts deducted from trust distributions				
TFN amounts withheld	$0.00			13R
Other expenses				13Y
Credit for foreign resident capital gains withholding amounts				18X
Other income Category 4: Rebates				24V
Net cash distribution	**$1,712.87**			-
Table 7 – Reporting for the purposes of non-resident withholding tax and income tax				
Table 1 – Interest exempt from withholding				-
Table 6 – Non-resident withholding amount				-
Table 6 – Non-resident member para 276-105(2)(a) or (b) assessable amount				-
Table 6 – Non-resident member para 276-105(2)(c) assessable amount				-
Table 6 – Managed investment trust fund payments				-
Deemed payment – Dividend				-
Deemed payment – Interest				-
Deemed payment – Royalties				-
Deemed payment – Fund payment				-

Dividend Income - Introduction

A dividend is a distribution of profits by a corporation to its shareholders.

When a corporation earns a profit or surplus, it can pay a portion of the profit as a dividend to shareholders. Any amount not distributed is taken to be re-invested in the business (called retained earnings).

45 Day Rule

SMSF will not obtain the benefit of the Franking Credits for the Financial Year in which the shares in the Fund were not held for at least 45 days. However, if your SMSF holds the shares for more than 45 days in the next Financial Year, SMSF will then be entitled to the benefits of Franking Credits.

Dividend Income - Components

Fully Franked Dividend -

When the company issuing the dividend has paid tax, the investor who holds the shares will receive a franked dividend with a franking credit attached to it.

If the dividend is fully franked, it means the company has paid 30% tax on the amount you are receiving.

Partially Franked Dividend -

If the payment is only partially franked, it means the dividend has a franked proportion and unfranked proportion.

Unfranked Dividends -

If the dividend is not franked at all, you will not get any tax credits and must pay tax on the payment basis on your personal tax rate.

Dividend Income - Franking Credits

Franking credits arise for shareholders when certain Australian-resident companies pay income tax on their taxable income and distribute their after-tax profits by way of franked dividends.

These franked dividends have franking credits attached. Franked dividends are received either directly as a shareholder or indirectly as a beneficiary of a trust**.**

New Zealand Credits

New Zealand franking credits cannot be claimed.

If the New Zealand company that paid the dividend has not specified that the franking credit is Australian, you should contact the company to work out whether the franking credit is an Australian or New Zealand franking credit.

In most cases, if it is not specified as Australian, it will be a New Zealand franking credit.

Dividend Income - TFN Withheld

TFN amounts are amounts of tax withheld from dividends and some distributions by investment bodies because they did not provide the TFN or ABN.

TFN amounts are shown on your dividend statement. These amounts must be included in the amount of unfranked dividends in your tax return.

The amount of tax you withhold depends on the payee's income and their tax-free threshold.

TFN withholding tax also applies to dividends, interest and royalties paid to non-residents of Australia.

The withholding tax rates for these payments vary depending on the type of payment and the recipient's country of residence.

The payer must withhold the tax from the payment and remit it to the ATO.

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Dividend Income - NRWT

Non-resident withholding taxes are a final tax on certain Australian sourced income that is not subject to income tax.

Australian expatriates or foreign investors who are non-resident for Australian tax purposes pay these rates of withholding tax on certain Australian sourced interest and investment income.

Dividend Income - LIC Deductions

If a listed investment company (LIC) pays a dividend that includes a LIC capital gain amount, a shareholder who is an Australian resident at the time will be entitled to an income tax deduction.

A LIC paying a dividend will advise its shareholders how much of the dividend is attributable to a LIC capital gain (the attributable part).

Dividend Income - LIC Deductions

Individual taxpayer

An individual can deduct 50% of the attributable part advised by the LIC.

Example: Resident individual

Ben, an Australian resident, is a shareholder in XYZ Ltd, a LIC. For the 2023–24 income year, Ben received a fully franked dividend from XYZ Ltd of $70, with an eligible capital gain amount (attributable part) of $50. Ben includes in his tax return the following amounts:

Franked dividend	$70
plus franking credit	$30
Assessable income	$100
less 50% deduction for LIC capital gain	$25
Taxable income	$75

Dividend Income - LIC Deductions

Complying superannuation entity or life insurance company

A complying superannuation entity or life insurance company can deduct 33.33% of the attributable part advised by the LIC.

Trust or partnership

A trust or partnership can deduct 50% of the attributable part advised by the LIC.

Dividend Income – Dividend Reinvestment Plan

A dividend reinvestment plan (DRP) is an equity investment option offered directly from the underlying company.

The investor does not receive dividends directly as cash; instead, the investor's dividends are directly reinvested in the underlying equity.

Example of a DRP :

Security Description	Dividend Rate per Share	Participating Shares	Unfranked Amount	Franked Amount	Total Payment	Franking Credit
WOW - FPO	$0.46	27	$0.00	$12.42	$12.42	$5.32

	Less Withholding Tax	$0.00
	Net Amount	AUD 12.42
	Represented By:	
	Dividend Reinvestment Plan amount	AUD 12.42

DIVIDEND REINVESTMENT PLAN	Cash balance brought forward:	$36.53
	Amount available from this payment:	$12.42
	Total amount available for reinvestment:	$48.95
	Cost of shares allotted at $37.14 / share:	$37.14
	Number of shares allotted:	1
	Cash balance carried forward:	$11.81
HOLDING BALANCE	Total shares after allotment:	28

These shares were allotted under the terms and conditions of the Reinvestment Plan.

Note: The shares after allotment detailed above does not include any ex dividend transactions registered after the ex dividend date or any transactions registered since the record date. Neither the Issuer nor Link Market Services Limited will be liable for any losses incurred by any person who relies on the holding shown without making their own adjustments for any transactions.

FRANKING INFORMATION	Franked Rate per Share	$0.46
	Franking Percentage	100%
	Company Tax Rate	30%

The total amount together with the franking credit (if any) should be disclosed as assessable income in your Australian tax return.


THANK YOU!