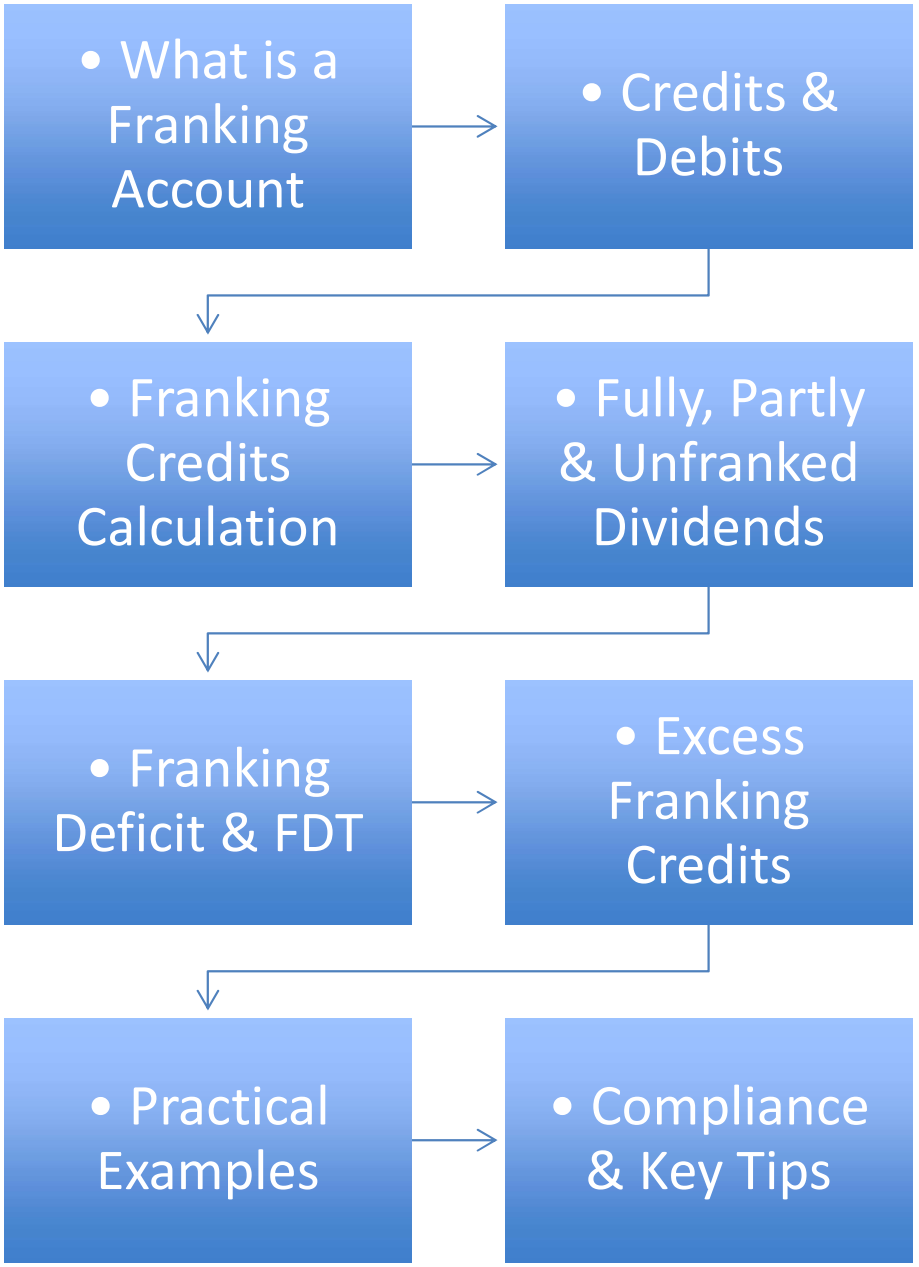
Franking Account

Prepared by – Balaji A

Contents


• What is a Franking Account
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What is a Franking Account?



A RECORD MAINTAINED BY A COMPANY TO TRACK TAX PAID.



ALLOWS COMPANY TAX TO BE PASSED TO SHAREHOLDERS AS CREDITS.



HELPS AVOID DOUBLE TAXATION OF PROFITS.

Who Maintains a Franking Account?



AUSTRALIAN RESIDENT COMPANIES



CERTAIN TRUSTS AND CORPORATE TAX ENTITIES



EACH COMPANY MAINTAINS ONLY ONE FRANKING ACCOUNT.

Franking Account – Credits

Increase the balance:

- Income tax paid
- PAYG instalments
- Franked dividends received

Credits arise only when tax is actually paid.

Franking Account – Debits



REDUCE THE BALANCE:



- FRANKED DIVIDENDS PAID



- TAX REFUNDS RECEIVED



DEBITS ARISE AT THE TIME DIVIDENDS ARE PAID.

Franking Credits – Explained Simply



FRANKING CREDIT = TAX ALREADY PAID BY COMPANY.

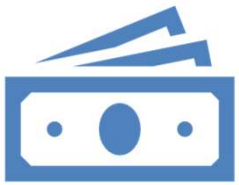


ATTACHED TO DIVIDENDS WHEN PAID TO SHAREHOLDERS.



SHAREHOLDER USES CREDIT TO REDUCE PERSONAL TAX.

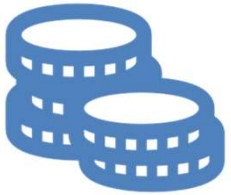
How Franking Credits are Calculated



Company tax rate assumed: 25% or 30%



Formula:



Franking credit = Cash dividend × 25 / 75 or 30 / 70

Example – Franking Credit Calculation

Cash dividend paid: $70

Franking credit: $30

Total taxable income for shareholder: $100

Types of Dividends

- Fully franked – 100% credits attached
- Partly franked – partial credits attached
- Unfranked – no credits attached

Fully Franked Dividend – Example

Franking account balance: $30,000

Dividend declared uses credits: $30,000

Dividend can be fully franked.

Partly Franked Dividend – Example

Credits available: $15,000

Credits required: $30,000

Dividend must be partly franked.

Unfranked Dividend – Example

No franking credits available.

Dividend paid without any tax credits.

What is a Franking Deficit?

Occurs when franking debits exceed credits.

Results in a negative franking account balance.

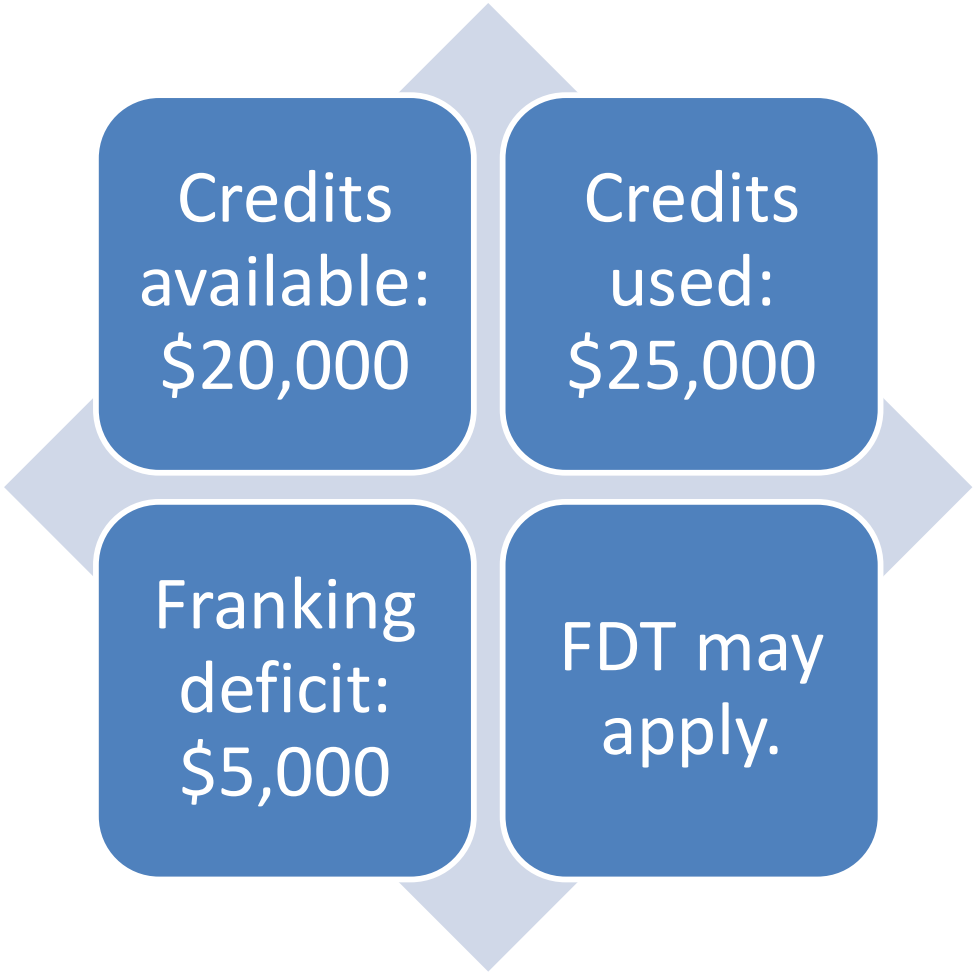
Franking Deficit Tax (FDT)

Tax imposed by ATO when deficit exists.

Ensures companies do not over-distribute credits.

Can sometimes be offset by future tax payments.

Example – Franking Deficit



Excess Franking Credits

Occurs when credits exceed dividends paid.

Credits are carried forward for future dividends.

Example – Excess Credits

Credits available: $50,000

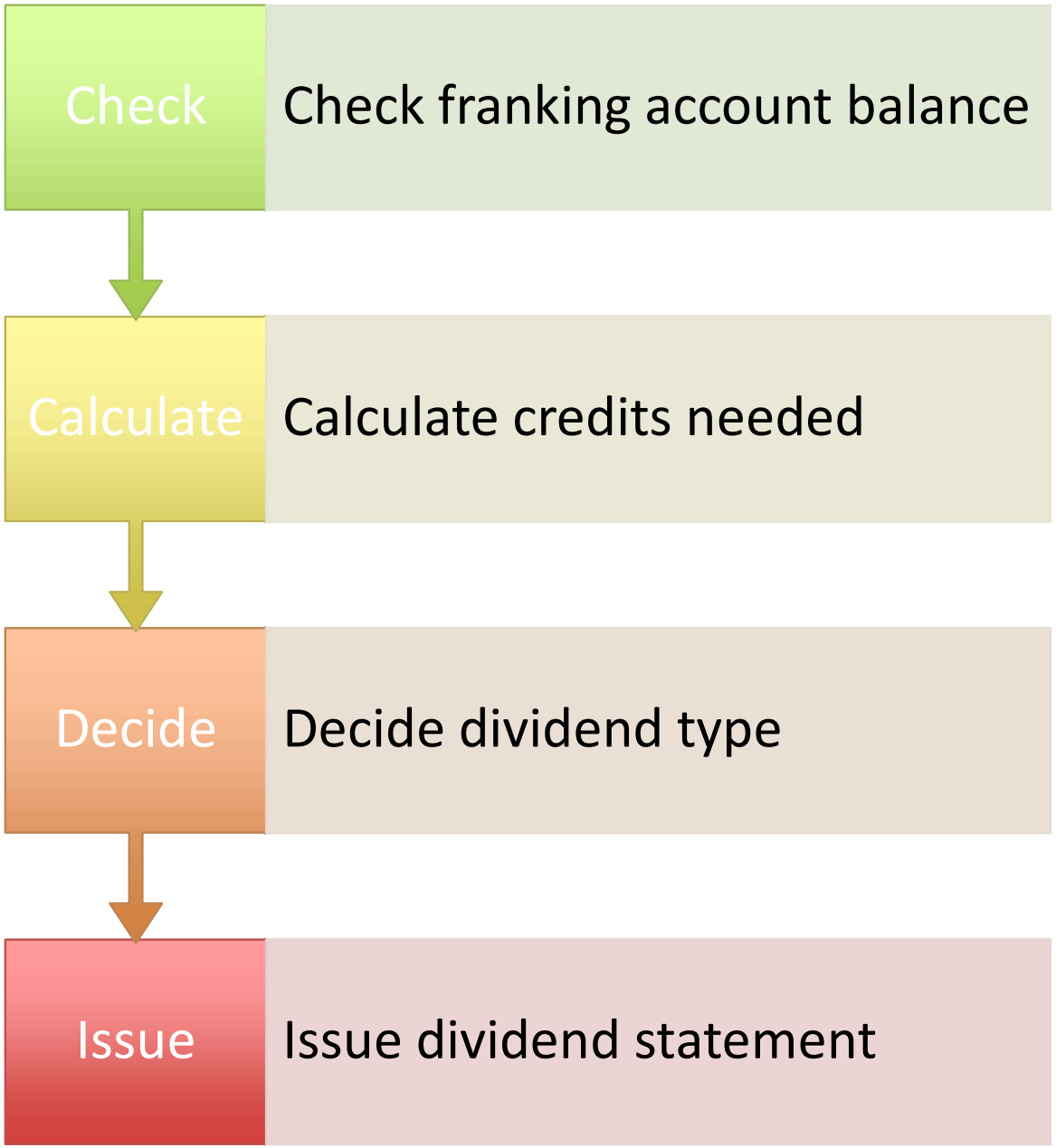
Credits used: $20,000

Excess carried forward: $30,000

Template

FRANKING ACCOUNT RECONCILIATION			
		Debit	Credit
		$	$
01-Jul-23	Opening balance		
	June Quarter PAYG Instalment	-	-
11-Oct-23	September Quarter PAYG Instalment	-	-
17-Jan-24	December Quarter PAYG Instalment	-	-
16-Apr-24	March Quarter PAYG Instalment	-	-
07-May-24	Income Tax Payable for FY - 2023	-	-
01-Jul-23	Imputation Credits on Dividends Paid	-	-
	Imputation Credits on Dividends Received	-	-
30-Jun-24	Closing balance		
CALCULATION OF MAXIMUM FRANKED DIVIDEND PAYABLE			
Dividend Payable based on franking account balance		($0 / 25 x 75)	
Balance of Retained Profits			
Maximum Franked Dividend payable at 30 June			
FRANKING ACCOUNT BALANCE RECONCILIATION			
Closing Balar	30-Jun-24		
Add: Balance of tax payable for 2024			
Add: June 2024 PAYG			
Adjusted Franking Account Balance			
Maximum full franked dividend available to be paid after tax payment for 2024			
Limited to Balance of Retained Profits			
Difference			
If Material please provide explanation:			

Issuing Franked Dividends – Step Process





Thank You