Franking deficit tax liability for late balancing corporate tax entities

The special rules for calculating your franking deficit tax (FDT) liability if you are a late balancer.

Last updated 1 August 2023

A late balancing corporate tax entity is one that has obtained permission from the Commissioner of Taxation to use an approved substituted accounting period (SAP) where the SAP balance date is in lieu of the preceding 30 June. **PS LA 2007/21** *Substituted accounting periods (SAPs)* gives more detail on SAPs.

If you are an eligible entity, you may haves the option to have your FDT liability determined at 30 June.

As a late balancer, when you are calculating your FDT offset if you have:

- elected to have your FDT liability determined on 30 June, special rules apply
- not elected to have your FDT liability determined on 30 June, the normal rules apply.

The Commissioner has the discretion not to apply the 30% FDT offset reduction. This is if it is determined that the deficit was caused by events outside the control of the entity.

Option to have franking deficit tax liability determined at 30 June

The option to have your franking deficit tax (FDT) liability

Late balancer calculating an FDT offset

How you calculate your franking deficit tax (FDT) as a late balancer.

Commissioner's discretion not to apply the reduction

Describes when the Commissioner of Taxation has the discretion not to apply the 30% FDT offset reduction.

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Option to have franking deficit tax liability determined at 30 June

The option to have your franking deficit tax (FDT) liability determined at 30 June and what happens with refunds.

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General rule

If you're eligible, you may have the option to have your franking deficit tax (FDT liability) determined at 30 June.

Generally, a late balancing corporate tax entity will have its liability to FDT determined at the end of its income year, or when it ceases to be a franking entity.

Option for FDT liability to be determined on a 30 June basis

However, there is an option for certain late balancing corporate tax entities to have their FDT liability determined on a 30 June basis rather than at the end of their income year. This choice is only available if:

- the entity was in existence at the end of 30 June 2002
- the entity's 2001–02 income year ended after 30 June 2002
- the entity made a valid election on or before 30 June in 2003 and every year thereafter, to have its FDT liability determined on a 30 June basis. This is even if its franking account had a deficit balance at 30 June.

To be valid, your election must be made in writing on or before 30 June. The entity must not have previously determined its FDT liability at the end of its income year (that is, not on a 30 June basis). You do not need to lodge your election with us.

If a late balancing corporate tax entity does not make a valid election it will have its FDT liability determined at the end of its income year. It **will not** be allowed to subsequently choose the option of having its FDT liability determined on a 30 June basis in later income years.

Example: Company did not elect to balance early

Tan Ltd is a public company whose 2012–13 income year ends on 30 September 2013 in lieu of 30 June 2013. Tan Ltd finds that on 30 June 2013, it has a debit balance in its franking account of $15,000.

Tan Ltd did not make a valid election to have its FDT liability determined on 30 June 2013. This means that any FDT liability it may have will now be determined at the end of its income year, which is 30 September 2013.

Because Tan Ltd did not make a valid election for its FDT liability to be determined on a 30 June basis, Tan Ltd will never be allowed to make this election in future income years. They are now locked into having any future FDT liability determined at the end of its income year.

Refunds received within 3 months of 30 June

If a late balancing corporate tax entity chooses 30 June to determine its FDT liability and receives an income tax refund within 3 months after 30 June in that year, the refund is taken to have been received immediately before 30 June if:

- the refund relates to the 12 months ending 30 June in that year
- the franking account of the entity would have been in deficit, or in deficit to a greater extent, at 30 June if the refund had been received before that time.

As a result, the corporate tax entity will need to recalculate its FDT liability. This rule ensures that the entity does not avoid FDT by deferring the time at which a franking debit would occur in its account.

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Late balancer calculating an FDT offset

How you calculate your franking deficit tax (FDT) as a late balancer.

Last updated 1 August 2023

Options for calculating

If you have elected to have your franking deficit tax (FDT) liability determined on 30 June, there are special rules to calculate your FDT offset.

If you have not elected, the normal rules apply to calculate your FDT offset. This is in place for the 2003–04 and later income years. See **Franking deficit tax offset calculations, reduction rule and exclusions.**

Late balancers with a 30 June FDT election

For late balancers who elected to have their FDT liability determined on 30 June, there are special rules to calculate your FDT liability.

These special rules (see calculation method below) for late balancers who have made a 30 June election take into account FDT liabilities incurred on or before 30 June. They then consider FDT liabilities that are incurred after 30 June in the income year. The method statement is set out in section 205-70(4) of the *Income Tax (Transitional Provisions) Act 1997*.

Calculation method for late balancers with a 30 June election

Step	Calculation
Step 1	Work out the amount of FDT the entity has incurred a liability to pay in the income year, incurred on or before 30 June in that income year. Reduce this amount by 30% if it exceeds 10% of the total amount of franking credits that arose in the entity's franking account during the 12 months immediately preceding that 30 June.
Step 2	Work out the amount of FDT the entity has incurred as a liability to pay in the income year, incurred after 30 June in that income year. Reduce this amount by 30% if it exceeds 10% of the total amount of franking credits that arose in the entity's franking account after 30 June and before the end of the last day on which the entity incurred a franking deficit tax liability in the relevant year.
Step 3	Work out the amount of FDT liability that the entity incurred in a previous income year where it did not satisfy the residency requirement and the liability has not been taken into account in working out a tax offset under section 205-70 ITAA 1997 that was incurred on or before 30 June in that previous year. Reduce this amount by 30% if it exceeds 10% of the total amount of franking credits that arose in the entity's franking account during the 12 months immediately preceding that 30 June.
Step 4	Work out the amount of FDT liability that the entity incurred in a previous income year for which it did not satisfy the residency requirement, and that a liability has not been taken into account in working out a tax offset under section 205-70 ITAA 1997 that was incurred after 30 June in that previous year. Reduce this amount by 30% if it exceeds 10% of the total amount of franking credits that arose in the

	entity's franking account after 30 June, and before the end of the last day on which the entity incurred a franking deficit tax liability in that previous year.
Step 5	Add up the results of steps 3 and 4 for all the previous years in which it incurred a liability for FDT that has not been taken into account in working out a tax offset, and did not satisfy the residency requirement.
Step 6	Work out the amount of any FDT offset that the entity was entitled to in a previous income year under section 205-70 ITAA 1997 that remains unused..
Step 7	Add up the results of steps 1, 2, 5 and 6. The result is the FDT offset to which the entity is entitled for the income year.

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Commissioner’s discretion not to apply the reduction

Describes when the Commissioner of Taxation has the discretion not to apply the 30% FDT offset reduction.

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The Commissioner of Taxation has the discretion not to apply the 30% FDT offset reduction. This is if it is determined that the deficit was caused by events outside the control of the entity.

For example, an entity may pay a fully franked dividend part way through the income year on the expectation that its future quarterly PAYG instalment payment will be sufficient to bring its franking account into surplus. However, an unexpected downturn in business results in its future quarterly PAYG instalment payments being less than anticipated, leaving its franking account in deficit. It would be expected that the Commissioner would exercise his discretion to allow the full tax offset because of the unexpected circumstances.

If the Commissioner exercises the discretion, the 30% reductions in steps 1 and 2 of the method statement do not apply when working out the amount of tax offset the entity is entitled to receive for the relevant year.

Details on how to apply for the Commissioner's discretion are in Section A of the **Franking account tax return instructions**.

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