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Australian Government

Australian Taxation Office

Franking account tax return and instructions 2008

To help you complete the franking account tax return
for 1 July 2007 – 30 June 2008



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This publication was current at **May 2008**.

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PUBLISHED BY

Australian Taxation Office
Canberra
May 2008
JS 9267

WHO MUST LODGE A FRANKING ACCOUNT TAX RETURN?

The *Franking account tax return 2008* must be completed for all Australian corporate tax entities and New Zealand franking companies that have:

- a liability to pay franking deficit tax (FDT)
- a liability to pay over-franking tax (OFT), or
- an obligation to notify the Commissioner of Taxation in relation to any significant variation in their benchmark franking percentage between franking periods.

If there is such a liability or notification obligation, the entity is required to complete section A and the remaining items on the franking account tax return that are relevant to that liability and/or obligation. If there is no such liability or notification obligation, lodgment of this tax return is not necessary.

An entity is a corporate tax entity for the purposes of Part 3-6 of the *Income Tax Assessment Act 1997* (ITAA 1997) at a particular time if the entity is a company at that time, or a corporate limited partnership, corporate unit trust or a public trading trust in relation to the income year in which that time occurs.

A company is a New Zealand franking company if the company:

- is a New Zealand resident company, and
- has made an election to join the Australian imputation system.

The Australian imputation rules generally apply to a New Zealand franking company in the same way as they apply to an Australian corporate tax entity.

PERIOD BOXES 'OR SPECIFY IF PART YEAR OR APPROVED SUBSTITUTE PERIOD'

The *Franking account tax return 2008* is for the period 1 July 2007 to 30 June 2008. Please complete the period boxes at the top of the return with the start of the period covered by this tax return to the end of the period if the entity:

- is an **early balancing** corporate tax entity
- is a **late balancing** corporate tax entity (see below), or
- ceases to be a franking entity part way through its income year or, in the case of a New Zealand franking company, when its election to join the Australian imputation system is revoked or cancelled part way through its income year.

An early or late balancing corporate tax entity is one that has obtained the Commissioner's permission to use an income year that ends on a date other than 30 June. These companies are granted an approved substituted accounting period (SAP) which is in lieu of an income year ending on 30 June (the standard income year).

Generally, an early balancing corporate tax entity is one that has its 2007–08 income year end before 30 June 2008, while a late balancing corporate tax entity generally has its 2007–08 income year end after 30 June 2008. For more information on SAPs, see *Taxation Ruling IT 2360 – Income tax: substituted accounting periods* and *Taxation Ruling IT 2360A – Addendum*.

EXAMPLE 1

MHO Ltd has an approved substituted accounting period ending on 30 September 2008 in lieu of 30 June 2008 – that is, MHO Ltd is a late balancing corporate tax entity. MHO Ltd does not elect to have its FDT liability determined on a 30 June basis. At the end of the day on 30 September 2008, MHO Ltd has a debit balance in its franking account and consequently it has a liability to pay FDT. MHO Ltd would complete the period boxes as follows:

Day	Month	Year	Day	Month	Year
0	1	0	2	0	0
7			3	0	9

or specify period if part year or **approved** substitute period

! NOTE

A late balancing corporate tax entity that has elected to have its FDT liability determined on a 30 June basis must complete the period boxes with 01/07/2007 to 30/06/2008.

Important messages for late balancing corporate tax entities that elect to have their FDT liability determined on 30 June

A late balancing corporate tax entity has the option to choose to have its FDT liability, if any, determined on a 30 June basis, rather than at the end of its income year. For more information, see the fact sheet *Simplified imputation: franking deficit tax liability for late balancing corporate tax entities*, available on our website.

If a late balancing corporate tax entity makes this choice and it has a debit balance in its franking account on 30 June 2008, then it will be required to lodge a *Franking account tax return 2008* to account for this FDT liability, on or before 31 July 2008. This same entity will also be required to lodge a subsequent franking account tax return within one month after the end of its income year if it has to:

- account for any OFT liability, or
- notify any significant variation in its benchmark franking percentage between franking periods.

The OFT liability, if any, must be paid by the last day of the month immediately following the end of the income year. For more information on OFT and the disclosure obligation, see **Over-franking tax** on page 8 and section C, **Significant variation in benchmark franking percentage** on page 9.

SECTION A

Complete the entity's name, address and Australian business number, and the remaining items in section A. All parts of section A must be completed for this franking account tax return to be complete.

IS THIS A SUBSEQUENT FRANKING ACCOUNT TAX RETURN FOR THE INCOME YEAR?

Only answer yes if this is a subsequent franking account tax return that is being lodged because either:

- the corporate tax entity has received a refund of income tax that affects its FDT liability – see **A refund of income tax affecting a franking deficit tax liability** on page 5, or
- the corporate tax entity is a late balancing entity that
 - elected to have its FDT liability determined on 30 June
 - was required to lodge a franking account tax return on or before 31 July 2008 disclosing an FDT liability, and
 - has an OFT liability or an obligation to disclose a significant variation in its benchmark franking percentage.

If this is a subsequent franking account tax return for the income year, print **X** in the **Yes** box at this question; otherwise print **X** in the **No** box.

For more information, see **Over-franking tax** on page 8 and section C, **Significant variation in benchmark franking percentage** on page 9.

WHAT IS YOUR FRANKING ACCOUNT BALANCE AT THE END OF THE PERIOD?

Write the amount of your entity's franking account balance (including nil balances) at the end of the income year (or the 12-month period ending on 30 June) or immediately before it ceased to be a franking entity or, in the case of a New Zealand franking company, when its election to join the Australian imputation system is revoked or cancelled. In the code box next to the amount, print **S** if you have a surplus or **D** if you have a deficit.

WHAT IS YOUR VENTURE CAPITAL SUB-ACCOUNT BALANCE AT THE END OF THE PERIOD?

If your entity is a pooled development fund (PDF) or it ceased to be a PDF during the income year, write the amount of your venture capital sub-account balance (including nil balances) at the end of the income year (or the 12-month period ending on 30 June) or immediately before the entity ceased to be a PDF. In the code box next to the amount, print **S** if you have a surplus or **D** if you have a deficit. If your entity is not a participating PDF and you do not know the balance of your venture capital sub-account, print **UNKNOWN** instead of the amount.

YOU MAY BE ENTITLED TO THE FULL AMOUNT OF YOUR CURRENT YEAR FDT OFFSET

A corporate tax entity which satisfies the residency requirement for imputation purposes for an income year (the relevant year) is able to claim the whole or part of the amount of its FDT liability incurred in that year as a tax offset against its income tax for that, or a subsequent, relevant year.

The maximum offset that an entity is entitled to claim is the amount of the FDT liability. However, this is reduced where the FDT liability attributable to certain debits that arose in the franking account for the relevant year is greater than 10% of the total franking credits that arose in the franking account for the relevant year. This is known as the 'FDT offset reduction rule'. There are some exceptions. See below.

For certain late balancing entities the relevant year is the 12-month period ending on 30 June – note that special provisions apply to these entities which may affect the calculation of the offset. See the fact sheet *Simplified imputation: FDT offset for late balancers* for more information.

The FDT offset reduction rule was amended by *Tax Laws Amendment (2006 Measures No. 2) Act 2006*, which received royal assent on 22 June 2006 and applies from 1 July 2002. For more information on the amendments to the FDT offset reduction rule, refer to the fact sheet *Simplified imputation: franking deficit tax offset*, which is available on our website.

Which franking debits trigger the application of the FDT offset reduction rule?

The FDT offset reduction will only apply for an income year in which the franking deficit is attributable to certain franking debits ('attributable debits'). Principally, these are debits that arise under items 1, 3, 5 and 6 of the table in section 205-30 of the ITAA 1997. These debits arise in circumstances where an entity has, directly or indirectly, made a franked distribution.

Item 1	franking debits that arise when an entity franks a distribution
Item 3	franking debits that arise when an entity franks a distribution in contravention of the benchmark rule
Item 5	franking debits that arise when a distribution by one entity is substituted for a distribution by another entity
Item 6	franking debits that arise when a tax exempt bonus share is issued in substitution for a franked distribution

If an entity has one or more of these debits, then the attributable debits also include debits arising under item 2 of the table (franking debits that arise from a refund of income tax).

Print **F** in the code box if the entity had a franking deficit but did **not** have any item 1, 3, 5 or 6 franking debits in the franking account in the income year in which the deficit arose. The FDT offset reduction will not apply in this case.

Exception for private companies with no previous income tax liability

The FDT offset reduction will not apply if:

- (a) the entity is a private company for the relevant year
- (b) the company has not had an income tax liability for any income year before the relevant year
- (c) the company would have had an income tax liability for the relevant year if it did not have the tax offsets (but had all its other tax offsets) **and**
- (d) the amount of the liability referred to in paragraph (c) is at least 90% of the amount of the deficit in the company's franking account at the end of the relevant year.

Print **P** in the code box if the entity had item 1, 3, 5 or 6 debits and is a private company that satisfies all the criteria in (a) to (d) above.

Commissioner's discretion where deficit arose due to circumstances beyond entity's control

The Commissioner has a discretion not to apply the FDT offset reduction where events that caused the deficit were outside the control of the company. The Commissioner will generally consider a franking deficit to have arisen due to circumstances that were outside the entity's control if the events that gave rise to the deficit were not readily foreseeable and could not be influenced by the company, and no broader exploitation of the imputation system is involved.

For example, a company franks a distribution part way through an income year in the reasonable expectation that its future quarterly pay as you go (PAYG) instalment payments in the income year would be sufficient to ensure that it would not have a deficit in its franking account at the end of the income year. An unexpected downturn in business results in the company's future quarterly PAYG instalment payments being less than expected. In these circumstances, it would be expected that the Commissioner would make a determination to allow the full tax offset.

Print **C** in the code box if the entity wishes to apply for the discretion referred to above, and provide an attachment to the franking account tax return which outlines the circumstances in which the FDT liability arose. Ensure that the attachment is clearly titled **Franking deficit tax – request for exercise of Commissioner's discretion**. The attachment must include the following information:

- entity name and tax file number
- income year in which the FDT liability arose and the amount of the franking deficit, and
- detailed reasons why the deficit arose due to circumstances that were unanticipated or outside the control of the entity.

The attachment must be signed by the public officer of the company or an agent duly authorised by the company. We will consider each application on a case-by-case basis and will notify the applicant of our decision.

SECTION B

FRANKING DEFICIT TAX AND OVER-FRANKING TAX

CREDITS THAT AROSE IN YOUR FRANKING ACCOUNT

Show at **A** the total franking credits that arose in the franking account for the period to which this franking account tax return relates. This amount is the total of all franking credits that arose in the franking account during the income year (or the 12-month period ending on 30 June for certain late balancing corporate tax entities).

The total amount of franking credits that arose in the franking account in an income year:

- does not include the opening balance of the franking account for the income year, but
- does include a credit that arises at the beginning of the income year as a result of an FDT liability that is incurred at the end of the previous income year.

The amount at **A** should reflect a 'tax paid' basis. As a result of the introduction of the simplified imputation system on 1 July 2002, all corporate tax entities are required to maintain a franking account that reflects a 'tax paid' basis. Consequently, the former class C franking account balance, which reflected a 'taxed income' basis, had to be converted on 1 July 2002. For more information on how to convert the class C franking account balance, see the following two fact sheets:

- *Simplified imputation – the franking account*
- *Simplified imputation: instructions for an early balancing corporate tax entity to convert its franking account to a tax paid basis.*

These are available on our website.

Total franking credits for subsidiary members moving in and out of the consolidation regime

When a corporate tax entity becomes a subsidiary member of a consolidated group, it must determine its franking account balance just before the time of entry (the 'joining time'). If the subsidiary has a deficit balance in its franking account just before the joining time, it is liable to pay FDT. The period during the income year before the joining time or after exit from the consolidated group is a 'non-membership period'. If there is a liability to pay FDT, the subsidiary must show at **A** the total franking credits that arose during the non-membership period ending immediately before the joining time.

During the period in which a corporate tax entity is a subsidiary member of a consolidated group, its franking account continues to exist but is inoperative. While the subsidiary member's franking account is inoperative, any franking credits or debits that would have arisen in the subsidiary's franking account if the subsidiary were not a member are instead attributed to the franking account of the head company. This includes entries relating to a non-membership period but which came about during the membership period.

Where a corporate tax entity has operated outside the group for more than one non-membership period during a particular income year, the amount of franking credits that arose for that year is worked out by calculating the amount of franking credits that arose for each non-membership period. The subsidiary member's total franking credits received for the income year, shown at **A**, is the total of the credits that arose in each non-membership period.

! NOTE

The amount shown at **A Credits that arose in your franking account** for the period in this franking account tax return does not necessarily equal the amount shown at **J Franking credits** item 7 on the *Company tax return 2008*. Amounts at **A** relate to all the franking credits that arose in the franking account during the period to which this franking account tax return relates. By contrast, **J** item 7 on the company tax return relates only to franking credits that arose because of franked distributions received during the income year.

FRANKING DEFICIT TAX

Under the simplified imputation system a liability to pay FDT will arise where one of the following occurs:

- A corporate tax entity has a franking deficit in its franking account at the end of its income year or at the time it ceases to be a franking entity or, in the case of a New Zealand franking company, when its election to join the Australian imputation system is revoked or cancelled.
- The subsidiary has a franking deficit in its franking account just before the entity becomes a subsidiary member of a consolidated group.
- A corporate tax entity receives certain refunds of income tax within three months after the end of the income year or within three months after it ceases to be a franking entity, and a franking deficit (or an increase in a franking deficit) would have arisen if the refund had been received in the income year. For more information, see **A refund of income tax affecting a franking deficit tax liability** on the next page.

A franking entity is a corporate tax entity that is not a mutual life insurance company. Where the entity is a company that is a trustee of a trust, it will be a franking entity at a particular time if it is not acting in its capacity as trustee of the trust at that time.

A late balancing corporate tax entity that elects to have its FDT determined on a 30 June basis will be liable to pay FDT where a franking deficit exists at the end of 30 June or immediately before it ceases to be a franking entity or, in the case of a New Zealand franking company, when its election to join the Australian imputation system is revoked or cancelled. It will also be liable to pay FDT if it receives certain refunds of income tax within three months of the period ending on 30 June – see **A refund of income tax affecting a franking deficit tax liability** on the next page. See also **Important messages for late balancing corporate tax entities that elect to have their FDT liability determined on 30 June** on page 1.

A franking deficit exists where the total franking debits exceed the total franking credits.

Show at **B** the sum of the amounts of the franking deficit in the franking account:

- at the end of the income year (or the 12-month period ending on 30 June) or at the time the entity ceased to be a franking entity or, in the case of a New Zealand franking company, when its election to join the Australian imputation system is revoked or cancelled, taking into account any refunds taken to have been received in that period (see **A refund of income tax affecting a franking deficit tax liability** on the next page), and
- if applicable, just before the entity becomes a subsidiary member of a consolidated group.

This is the amount of FDT that is payable.

Where a corporate tax entity incurs an FDT liability, it is generally able to claim the whole or part of that amount as a tax offset against its future income tax liabilities. See **Offsettable portion of current year FDT** on page 6 for more information.

! NOTE

If you are required to complete **F** – see **A refund of income tax affecting a franking deficit tax liability** on the next page – then you must include the amount shown at **F** (if any) in the amount at **B**.

FDT liability for subsidiary members moving in and out of the consolidation regime

Where a corporate tax entity becomes a subsidiary member of a consolidated group it must determine its franking account balance just before the time of entry (the 'joining time'). If the subsidiary has a franking deficit in its franking account just before the joining time, it is liable to pay FDT. Include at **B** the amount of franking deficit in the franking account just before the joining time.

The period during the income year before the joining time or after exit from the consolidated group is a 'non-membership period'. There could be multiple exits and entries within one income year. Where a corporate tax entity has operated outside the group for more than one period during a particular income year, the amount of FDT liability that arose for that year is worked out by calculating the amount of franking deficit balance that was in the franking account just before each of the joining times. Include at **B** the total of the deficit balances that were in the subsidiary member's franking account just before each of the joining times.

! NOTE

Where a corporate tax entity has more than one non-membership period during a particular income year, attach a letter to the franking account tax return detailing the amount of credits that arose in your franking account and the franking tax liability for each non-membership period. Also provide the name of the head company of each consolidated group of which your company was or is a member. We need this information to process your franking account tax return correctly.

EXAMPLE 2

Melmott Ltd has an income year from 1 July 2007 to 30 June 2008. On 1 October 2007, Melmott Ltd became a subsidiary member of a consolidated group and then exited the group on 1 February 2008. On 1 April 2008, Melmott Ltd became a member of another consolidated group and at 30 June 2008 was still a member of this other consolidated group.

In calculating its FDT liability for the income year, Melmott Ltd must determine the deficit balances that it had in its franking account just before it joined each of the consolidated groups.

Melmott Ltd's non-membership periods, the franking deficit balances and the total franking credits that arose during each non-membership period are as follows:

Non-membership period	Balance in franking account just before the joining time	Total franking credits during non-membership period
1 July 2007 to 30 September 2007	\$500 Dr – a franking deficit	\$200 Cr
1 February 2008 to 31 March 2008	\$400 Dr – a franking deficit	\$100 Cr

Melmott Ltd would show the total franking credits that arose in the franking account for each non-membership period (\$300) at **A** and the total of the FDT balances (\$900) at **B**. Melmott Ltd would also provide the information in the above table, as well as the name of the head company of each consolidated group of which it was or is a member, as an attachment to the franking account tax return.

A REFUND OF INCOME TAX AFFECTING A FRANKING DEFICIT TAX LIABILITY

An entity is taken to have received an income tax refund for an income year immediately before the end of the income year or immediately before it ceased to be a franking entity if:

- the refund is paid within three months after the end of the income year or within three months after it ceased to be a franking entity (and it is attributable to a period in the year during which the entity was a franking entity), and
- the franking account would have been in deficit, or in deficit to a greater extent, at the end of that income year or immediately before it ceased to be a franking entity, had the refund been received during the income year or before the entity ceased to be a franking entity.

This rule ensures that an entity does not avoid FDT by deferring the time at which a franking debit occurs in its franking account.

Some late balancing corporate tax entities may elect to have their FDT liability determined on 30 June. If a late balancing corporate tax entity makes this election it will be taken to have received an income tax refund immediately before 30 June or immediately before it ceased to be a franking entity if:

- the refund is received either within three months after 30 June, or within three months immediately after it ceased to be a franking entity
- the refund is attributable to the 12-month period ending on 30 June, or is attributable to a period within that 12 months during which the entity was a franking entity, and
- the franking account would have been in deficit, or in deficit to a greater extent, at the end of 30 June or immediately before it ceased to be a franking entity, had the refund been received immediately before 30 June, or immediately before it ceased to be a franking entity.

If you receive a refund of the kind explained above and you are already obliged to lodge (and have not yet lodged) a franking account tax return, then you can account for the refund and your other liabilities or obligations in a single return. If you do not account for the refund in that single return, then you need to account for it in a further return. If you do account for the refund in a further return:

- print **X** in the **Yes** box at section A, **Is this a subsequent franking account tax return for the income year?**, and
- write the amount of the FDT attributable to the refund of income tax in section B, **F FDT attributable to refund**. Do not complete **F** unless this franking account tax return is a **further return**. Remember, you must include the amount at **F** (if any) in the amount at **B**.

Amount of FDT

If, before receipt of the refund, there is a franking deficit at the end of the income year (or the 12-month period ending on 30 June) or immediately before the entity ceased to be a franking entity, then the amount of the franking deficit that should be written at **B** is that deficit plus the refund.

If, before receipt of the refund, there is no franking deficit at the end of the income year (or the 12-month period ending on 30 June) or immediately before the entity ceased to be a franking entity, then the franking deficit that should be written at **B** is the amount of the refund reduced by the franking surplus (if any) existing at that time.

! NOTE

If you have completed **F** then the amount written at that item must be included in the amount at **B**. Any FDT that you have already paid will be taken into account.

Lodgment and payment date

The time for lodgment of a franking account tax return that accounts for a refund of income tax will depend on whether a franking account tax return is outstanding at the time the refund is received.

A franking account tax return is an **outstanding return** at the time a refund of income tax is received if:

- you are required to lodge a franking account tax return (for example, because the entity's franking account was in deficit at the end of its income year or immediately before it ceased to be a franking entity)
- the time for lodging its franking account tax return has not yet passed, and
- the franking account tax return has not yet been lodged.

For certain late balancing corporate tax entities that elect to have their FDT liability determined on a 30 June basis, a franking account tax return is outstanding if:

- you are required to lodge a franking account tax return (for example, because the entity's franking account was in deficit at the end of 30 June or immediately before it ceased to be a franking entity)
- the time for lodging its franking account tax return has not yet passed, and
- the franking account tax return has not yet been lodged.

If there is no outstanding return when a refund is received, then the franking account tax return that accounts for the refund must be lodged and any FDT liability must be paid no more than 14 days after the refund has been received.

If there is an outstanding return when the refund is received, then the outstanding return has to be lodged and any FDT or OFT paid by the last day of the month following the end of the income year (or the 12-month period ending on 30 June). The refund may or may not be accounted for in the outstanding return. If it is not accounted for in that return then an additional return is required. This additional return has to be lodged (and the additional FDT has to be paid) within 14 days after the refund was received.

OFFSETTABLE PORTION OF CURRENT YEAR FDT

Where a corporate tax entity incurs an FDT liability in a year for which it is a resident entity for imputation purposes, it is able to claim the whole or part of that amount as a tax offset against its income tax liability for that year or a subsequent year for which it is a resident entity for imputation purposes.

The maximum amount of the offset is the amount of the FDT liability. However, this is reduced where an entity has, directly or indirectly, made a franked distribution, and the deficit attributable to franking debits that arose in the franking account under items 1, 2, 3, 5 and 6 of the table in section 205-30 of the ITAA 1997 is greater than 10% of the total credits that arose in the franking account for the year. This is called the 'FDT offset reduction rule'.

For certain late balancing entities, the year is the 12-month period ending on 30 June – note that special provisions apply to these entities which may affect the calculation of the offset. See the fact sheet *Simplified imputation: FDT offset for late balancers* for more information.

Where the offset reduction rule applies, the tax offset is reduced by an amount equal to 30% of the portion of the deficit attributable to items 1, 2, 3, 5 and 6 franking debits (see the table in the next column).

The amount of FDT liability able to be offset will not be reduced where:

- the entity is a private company with no previous income tax liability that satisfies certain criteria
- the Commissioner's discretion is exercised to allow the full offset because the deficit was due to circumstances beyond the entity's control, or
- the entity did not have any item 1, 3, 5 or 6 debits in the franking account for the year the deficit arose.

! NOTE

If the letter **P** or **F** was shown at the code box in section A of this return, the offset will not be reduced and the amount that should be shown at **C** should be equal to the FDT liability shown at **B**.

If the letter **C** was shown at the code box in section A of this return, the reduced offset should be shown at **C**. However, the full amount of the offset will be allowed to a corporate tax entity that satisfies the residency requirement for imputation purposes if the Commissioner exercises discretion to allow it.

More information on the situations where the offset reduction rule does not apply is available under the heading **You may be entitled to the full amount of your current year FDT offset** on page 2.

How to calculate the amount to include at

C Offsettable portion of current year FDT

If the FDT liability attributable to items 1, 2, 3, 5 and 6 of the table below is less than or equal to 10% of the total franking credits that arose in the franking account for the income year, then the full amount of FDT liability recorded at **B** by a corporate tax entity that is a resident entity for imputation purposes for the relevant year can be used to calculate its FDT offset because of the current year's deficit. This same amount should be recorded in Section B at **C** **Offsettable portion of current year FDT**.

Debits in the franking account from section 205-30 of the ITAA 1997

- | | |
|----------------|--|
| Item 1 | franking debits that arise when an entity franks a distribution |
| Item 2 | franking debits that arise when the entity receives a refund of income tax |
| Item 3 | franking debits that arise when an entity franks a distribution in contravention of the benchmark rule |
| Item 4 | franking debits that arise when an entity ceases to be a franking entity |
| Item 5 | franking debits that arise when a distribution by one entity is substituted for a distribution by another entity |
| Item 6 | franking debits that arise when a tax exempt bonus share is issued in substitution for a franked distribution |
| Item 7 | franking debits that arise when the Commissioner makes a determination under paragraph 204-30(3)(a) of the ITAA 1997 |
| Item 7A | franking debits that arise under subsection 197-45(1) of the ITAA 1997 when an amount is transferred to an entity's share capital account in contravention of the share capital tainting rules |
| Item 7B | franking debits that arise under subsection 197-65(2) of the ITAA 1997 because an entity chooses to untaint its share capital account |
| Item 9 | franking debits that arise when a company buys a membership interest in an on-market buy back. |

! NOTE

Item 8 – franking debits that arise when an entity is taken to have paid a dividend under Division 7A of Part III of the *Income Tax Assessment Act 1936* was repealed with effect from 1 July 2006 by *Tax Laws Amendment (2007 Measures No. 3) Act 2007* (79 of 2007).

Subject to the exceptions mentioned above and the special rule for late balancing entities, the amount that should be shown at **C Offsetable portion of current year FDT** is calculated using the following method.

- STEP 1** Work out the amount of FDT liability that the entity has incurred in the income year.
- STEP 2** Did any franking debits arise in your franking account under items 1, 3, 5 or 6 of section 205-30 of the ITAA 1997?
- If yes, go to step 3.
- If no, the FDT offset reduction does not apply. As a result the amount of FDT liability from step 1 is the amount that should be shown at **C Offsetable portion of current year FDT** on the franking account return. This is the amount that can be claimed as a tax offset by a corporate tax entity that satisfies the residency requirement for imputation purposes.
- STEP 3** Work out the amount of FDT liability attributable to items 1, 3, 5 and 6, plus any item 2 franking debits. To do this, add together the opening credit balance (if any) of the franking account and any franking credits that arose in the account for the year (see **A Credits that arose in your franking account**). Subtract from this amount the total of the items 1, 2, 3, 5 and 6 debits.
- If the result is zero or positive, the FDT offset reduction does not apply and the amount of FDT liability from step 1 can be claimed as a tax offset by a corporate tax entity that satisfies the residency requirement for imputation purposes. This is the amount that should be shown at **C Offsetable portion of current year FDT** on the franking account return.
- If the result is negative, this is the amount of FDT attributable to items 1, 2, 3, 5 and 6. Go to step 4.
- STEP 4** If the step 3 amount for the year is negative and is less than or equal to 10% of the total franking credits that arose in the franking account for the same year, the FDT offset reduction does not apply and the amount of FDT liability from step 1 can be claimed as a tax offset by a corporate tax entity that satisfies the residency requirement for imputation purposes. This is the amount that should be shown at **C Offsetable portion of current year FDT** on the franking account return.
- If the step 3 amount for the year is negative and is greater than 10% of the total franking credits that arose in the franking account for the same year, the FDT offset reduction applies as follows:
- Work out 30% of the step 3 amount. This is the reduction amount.
- Take the reduction amount away from the amount of FDT liability at step 1.
- The result is the amount that can be claimed as a tax offset by a corporate tax entity that satisfies the residency requirement for imputation purposes. This is the amount that should be shown at **C Offsetable portion of current year FDT** on the franking account return.

! NOTE

The amount shown at **C** of this franking account tax return is only step 1 in the calculation to determine the whole amount that a corporate tax entity that satisfies the residency requirement for imputation purposes is entitled to as an FDT offset against any income tax liabilities arising in the *Company tax return 2008*. See the *Company tax return instructions 2008* (NAT 0669) for more information on how to calculate this amount.

Corporate tax entities that do not satisfy the residency requirement for imputation purposes are not entitled to the offset. However, they should include at **C** the amount calculated in accordance with the above method.

EXAMPLE 3

EKW Ltd has a deficit in its franking account at the end of the 2007–08 income year of \$80,000 and is liable to FDT. The balance of its franking account at 1 July 2007 was \$10,000 and the only franking credits to arise in its franking account during the income year to 30 June 2008 were PAYG instalments of \$500,000 that were paid by the company. The company made the following franking debits to its franking account:

- \$510,000 of franking credits on distributions (item 1 franking debits)
- \$60,000 as a consequence of a refund of tax (item 2 franking debits), and
- \$20,000 as a consequence of the Commissioner making a determination under the streaming provisions (item 7 franking debits).

Because franking debits arose in the company's franking account under item 1 of the table in section 205-30 of the ITAA 1997 (see the list on page 6), the FDT attributable to item 2 franking debits will also be taken into account in determining whether the FDT offset reduction applies and if so the amount of the reduction.

The FDT attributable to items 1 and 2 franking debits is \$60,000 (\$10,000 + \$500,000 – \$510,000 – \$60,000) which exceeds 10% of the franking credits that arose in the company's franking account for the income year. Therefore, the 30% FDT offset reduction will apply to the FDT that is attributable to the items 1 and 2 franking debits.

Consequently, the company is entitled to a tax offset of \$62,000 (ie, \$80,000 – (\$60,000 × 30%)).

! NOTE

If debits arose in the company's franking account under items 1, 3, 5 or 6 of the table in section 205-30 of the ITAA 1997, ensure you have completed **K**. For more information see **Debits not subject to the FDT offset reduction** on the next page.

For more information on how franking debits and franking credits are recorded in a corporate tax entity's franking account, refer to the fact sheet *Simplified imputation – the franking account*, available on our website.

DEBITS NOT SUBJECT TO THE FDT OFFSET REDUCTION

Franking debits arising under items 4, 7, 7A, 7B, 9 and in some circumstances item 2 of the table in section 205-30 of the ITAA 1997 will not be taken into account when determining whether the FDT offset reduction applies and the amount of the reduction. Refer to the table on page 6 for details of the debits relating to these items.

Show at **K** the amount of debits that arose in the corporate tax entity's franking account under items 4, 7, 7A, 7B or 9 of the table in section 205-30 of the ITAA 1997 for the period to which this franking account tax return relates.

If no franking debits arose in the corporate tax entity's franking account under items 1, 3, 5 or 6 of the table in section 205-30 of the ITAA 1997, also show at **K** any franking debits that arose under item 2 – franking debits that arise when the entity receives a refund of income tax.

OVER-FRANKING TAX

Where the franking percentage for a distribution exceeds the benchmark franking percentage, liability for OFT arises unless the Commissioner has made a determination permitting the over-franking (or the corporate tax entity is a listed public company that satisfies certain criteria so that it is not subject to the benchmark rule, or is a 100% subsidiary of such a company).

Show at **D** the amount of OFT worked out using the following formula:

$$\text{franking \% differential} \times \text{amount of the frankable distribution} \times \frac{30}{70}$$

where the franking % differential is the difference between the franking percentage for the frankable distribution and either:

- the entity's benchmark franking percentage for the franking period in which the distribution is made, or
- the franking percentage permitted by the Commissioner in a determination allowing the corporate tax entity to depart from the benchmark rule.

For more information, see the fact sheet *Simplified imputation – the benchmark and anti-streaming rules*, available on our website.

EXAMPLE 4

Salomon Pty Ltd made a distribution of \$500 to its members and allocated franking credits of \$214 resulting in a franking percentage of 100%. The benchmark franking percentage for the franking period was 50%. As Salomon Pty Ltd has franked the distribution to more than the benchmark percentage it will be liable to OFT calculated as follows:

$$100\% - 50\% \times \$500 \times \frac{30}{70} = \$107$$

The \$107 OFT will be shown in **D**.

EXAMPLE 5

Late balancing entity that had its FDT liability determined on 30 June and now has an OFT liability

Felix Ltd is an unlisted public company that has an approved substituted accounting period ending on 30 September 2008 in lieu of 30 June 2008. Felix Ltd, being a late balancing corporate tax entity, elected to have its FDT liability determined on a 30 June basis. On 30 June 2008 Felix Ltd had a deficit balance of \$100 in its franking account. Felix Ltd is required to lodge a *Franking account tax return 2008* disclosing this liability on or before 31 July 2008.

In addition to this, Felix Ltd had an OFT liability of \$150 for its first franking period (1 October 2007 to 31 March 2008) and then \$200 for its second franking period (1 April 2008 to 30 September 2008). Felix Ltd is required to lodge a subsequent *Franking account tax return 2008* disclosing this OFT liability of \$350 at **D**, by 31 October 2008. In addition, Felix Ltd must print **X** in the **Yes** box at section A, **Is this a subsequent franking account tax return for the income year?**

TOTAL TAX PAYABLE

After completing section B, add up the amounts shown at **B** (or, if the franking account tax return is a further return, **F**) and **D** and write the total at **E Total tax payable**. This is the amount the entity has to pay. See **Payment slip** on page 10 and **Lodgment and payment requirements** on page 10.

NOTE

The amount completed at section B, **A Credits that arose in your franking account** does not necessarily equal the amount on the *Company tax return 2008* at **J Franking credits** item 7. Amounts in **A** relate to all the franking credits that arose in the franking account during the income year. By contrast, **J** item 7 in the company tax return relates only to franking credits you received that were attached to franked distributions received during the income year.

The amount completed at section B, **C Offsettable portion of current year FDT** in this return will not necessarily be the same as the amount shown at **E Franking deficit tax offset** in the **Calculation statement** of the *Company tax return 2008*. See the *Company tax return instructions 2008* for information on how to complete **E Franking deficit tax offset**.

For more information on the FDT offset refer to the fact sheets:

- *Simplified imputation: franking deficit tax offset*
- *Simplified imputation: FDT offset for late balancers*.

These are available on our website.

SECTION C

SIGNIFICANT VARIATION IN BENCHMARK FRANKING PERCENTAGE

FRANKING PERIOD

A franking period for a corporate tax entity that is a private company is the same as its income year.

For corporate tax entities that are not private companies there are generally two franking periods in an income year. The first franking period is the first six months beginning at the start of the entity's income year and the second franking period will be the remainder of the income year.

For more information on the franking period rules refer to the fact sheets:

- *Simplified imputation – the benchmark and anti-streaming rules*
- *Simplified imputation: franking period rules for early and late balancing corporate tax entities.*

These are available on our website.

WAS THERE A SIGNIFICANT VARIATION IN BENCHMARK FRANKING PERCENTAGE BETWEEN FRANKING PERIODS?

Where a corporate tax entity has a significant variation in its benchmark franking percentage between franking periods it has an obligation to disclose this information to the Commissioner (unless it is a listed public company that satisfies certain criteria, or is a 100% subsidiary of such a company). A significant variation will occur where the benchmark franking percentage for the current franking period has increased or decreased by more than the following amount:

number of franking periods starting immediately after the last franking period in which a frankable distribution was made (**the last relevant franking period**) and ending at the end of the current franking period × 20 percentage points

For a corporate tax entity that makes a frankable distribution in every franking period, the effect of the above formula is that a significant variation will occur where the benchmark franking percentage increases or decreases between franking periods by more than 20 percentage points.

Examples 6 and 7 on this page will help you to work out if there was a significant variation in your entity's benchmark franking percentage between franking periods.

If there was a significant variation, print **X** in the **Yes** box at **Was there a significant variation in benchmark franking percentage between franking periods?** on the *Franking account tax return 2008*. Complete the rest of section C.

NOTE

For the purposes of recording the benchmark franking percentage at **G** to **J**, the value stated should be worked out to two decimal places, rounding up if the third decimal place is 5 or more.

Listed public companies that satisfy the criteria set out in subsection 203-20(1) of the ITAA 1997, and 100% subsidiaries of such companies, do not need to complete section C.

If there was no significant variation, print **X** in the **No** box at **Was there a significant variation in benchmark franking percentage between franking periods?** You do not have to complete the rest of section C.

EXAMPLE 6

Corporate tax entity with two franking periods

XYZ Ltd, an unlisted public company, has an income year which started on 1 July 2007 and ended on 30 June 2008. Its franking periods and benchmark franking percentage for the year ended 30 June 2008 were:

	Franking period	Benchmark franking percentage
Franking period 1	1 July 2007 to 31 December 2007	50.455
Franking period 2	1 January 2008 to 30 June 2008	100.000

Franking period 1 is the **last relevant franking period** and franking period 2 is the **current franking period**.

The entity's franking percentage for franking period 2 is 100%. This is an increase in the benchmark franking percentage for franking period 1 by an amount that is greater than 20 percentage points, resulting in a significant variation in the benchmark franking percentage. XYZ Ltd has an obligation to disclose this information on the franking account tax return. It would print **X** in the **Yes** box at **Was there a significant variation in benchmark franking percentage between franking periods?** XYZ Ltd would complete the benchmark franking period boxes as follows:

Benchmark franking period		Benchmark franking percentage	
Franking period A	Day Month Year to Day Month Year	G	50.455
Franking period B	Day Month Year to Day Month Year	H	100.000

EXAMPLE 7

Private company

Dombey Pty Ltd is a private company that has an income year from 1 July 2007 to 30 June 2008. A private company has the same franking period as its income year – therefore Dombey Pty Ltd's first franking period was from 1 July 2006 to 30 June 2007. During the 2006–07 income year Dombey Pty Ltd's benchmark franking percentage was 60%.

The company's second franking period is 1 July 2007 to 30 June 2008. During this income year Dombey Pty Ltd's benchmark franking percentage was 30%. Dombey Pty Ltd would have to complete section C in the franking account tax return as its benchmark franking percentage decreased by more than 20 percentage points in the franking period for the 2007–08 income year. Dombey Pty Ltd would print **X** in the **Yes** box at **Was there a significant variation in benchmark franking percentage between franking periods?** Dombey Pty Ltd would complete the benchmark franking period boxes as follows:

Benchmark franking period		Benchmark franking percentage	
Franking period A	Day Month Year to Day Month Year	G	60.000
Franking period B	Day Month Year to Day Month Year	H	30.000

For more information on the benchmark franking percentage and the disclosure rule, see the fact sheets:

- *Simplified imputation – the benchmark and anti-streaming rules*
- *Simplified imputation – franking a distribution.*

These are available on our website.

PAYMENT SLIP

On the payment slip provided, print your entity's name, tax file number and Australian business number. In the **Amount payable** box, write the amount you recorded at section B, **E Total tax payable**. This is the amount of FDT and/or OFT that is to be paid. See **Lodgment and payment requirements** on this page for details on how to pay this amount.

DECLARATION AND OTHER INFORMATION

SIGNING THIS TAX RETURN

The law requires that an authorised person sign this tax return. An authorised person for this purpose may be the public officer of the company or an agent duly authorised by the company.

Where an agent provides this tax return and accompanying information (where applicable), the company must prepare, and give to the agent, a signed declaration stating that:

- the company authorises the agent to give this tax return and accompanying information (where applicable) to the Commissioner, and
- the information provided to the agent for preparation of the tax return is true and correct.

The company must retain such a declaration or a copy of it for a period of five years after it is made.

Penalties for failing to lodge documents on time and general interest charge

The law imposes a penalty on a corporate tax entity that does not lodge this tax return by the due date. It also imposes a general interest charge on an entity that fails to pay FDT and/or OFT by the due date.

The Commissioner has the discretion to remit any penalty in whole or in part. If the entity considers the penalty should be remitted, a statement should be attached to this tax return explaining why remission should be granted.

The Commissioner also has the discretion to remit any general interest charge in whole or in part.

A request for the remission of the general interest charge should be made:

- in writing, and
- outlining fully the circumstances that led to the delay in payment.

Send the request to:

Fax: All states **1300 139 045**

Mail: All states

Australian Taxation Office
PO Box 327
ALBURY NSW 2640

LODGMET AND PAYMENT REQUIREMENTS

WHEN TO LODGE

Generally, the franking account tax return must be lodged and the FDT liability and/or OFT liability must be paid on the last day of the month following the end of the income year.

Late balancing corporate tax entities that elect to have their FDT liability determined on 30 June each year must lodge a franking account tax return by 31 July each year. This date is the date by which the FDT is payable. Please note that there are different lodgment obligations in relation to OFT liabilities and disclosure obligations for these entities. For more information, see **Important messages for late balancing corporate tax entities that elect to have their FDT liability determined on 30 June** on page 1.

There are some different lodgment and payment rules that arise in relation to certain refunds received within three months after:

- the end of the income year (or the period ending 30 June for certain late balancing corporate tax entities), or
- a corporate tax entity ceases to be a franking entity.

For more information on these different lodgment and payment rules, see **A refund of income tax affecting a franking deficit tax liability** on page 5.

Subsidiary members of a consolidated group, where the head company has not notified the Tax Office of the group's formation, may still be obliged to lodge a franking account tax return and pay any franking tax liability. Until the Tax Office receives notification of the group's formation this obligation will still exist. If the subsidiary member believes it will not have an obligation to lodge a franking account tax return because it will be a member of a consolidated group for the full income year, it may request a deferral of time to lodge.

If the company does not subsequently form part of a consolidated group, the company will have to lodge a return and pay any franking tax amount owing. General interest charges may be applied back to the original due date.

If the company lodges a return and pays its franking tax liability on the due date and subsequently the head company notifies the Tax Office that the company was a subsidiary member for the full year, the subsidiary member will need to contact the Tax Office to amend the return to zero and request a refund of any franking tax amount paid for this return.

WHERE TO LODGE

Post your franking account tax return with your payment to:

Australian Taxation Office
Locked Bag 1793
PENRITH NSW 1793

HOW TO PAY

Payments cannot be made at Australia Post using the payment slip on this tax return. However, you can make payments as follows:

By post: Send your payment, together with the completed tax return, to the above address. Do not send cash or use pins or staples. Make cheques or money orders payable to the Deputy Commissioner of Taxation, crossed 'Not negotiable'.



By BPAY®

Pay by phone or internet from your cheque or savings account. Quote 'Biller code 75556' and your EFT code as the customer reference. Your EFT code can only be obtained by phoning **1800 815 886**.

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By direct credit: Use your internet banking third party/pay anyone option or banking software package to pay into:

Bank Reserve Bank of Australia
BSB no. 093 003
Account no. 316 385

Record your EFT code in the lodgment reference field.
To obtain your EFT code or for more details phone **1800 815 886**.

! NOTE

If you choose to pay by BPAY or direct credit you must still lodge your completed franking account tax return at:

**Australian Taxation Office
Locked Bag 1793
PENRITH NSW 1793**

MORE INFORMATION

INTERNET

- For general tax information and to download publications and rulings, visit **www.ato.gov.au**

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- visit our website at **www.ato.gov.au/publications** for publications, taxation rulings, practice statements and forms
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INFOLINES

- **Business** **13 28 66**
General business tax enquiries including GST rulings, pay as you go (PAYG) instalments and withholdings (from interest, dividends and royalties), business deductions, activity statements (including lodgment and payment), accounts and business registration (including ABN and TFN)
- **Tax agents** **13 72 86**
For enquiries from registered tax agents
- **Super Choice** **13 28 64**
For information about choice of superannuation funds and the role of the employer
- **Tax reform** **13 24 78**
For information about new measures for business
- **Account management** **13 11 42**
For information about outstanding lodgment or payment obligations for activity statements, PAYG withholding, income tax or fringe benefits tax
- **Personal tax** **13 28 61**
Individual income tax and general personal tax enquiries
- **Superannuation** **13 10 20**
- **Fax** **13 28 60**
To get information about business, tax reform, superannuation, excise duty, fuel schemes, non-profit organisations or personal tax sent to your fax machine, phone **13 28 60** and follow the instructions.

OTHER SERVICES

■ Translating and Interpreting Service 13 14 50

If you do not speak English well and need help from the Tax Office, phone the Translating and Interpreting Service.

■ Hearing or speech impairment

If you are deaf or have a hearing or speech impairment, you can phone us through the **National Relay Service**:

- If you are a TTY or modem user, phone **13 36 77** and ask for the number you want. For 1800 free call numbers, phone **1800 555 677** and ask for the number you want.
- If you are a voice-only (speak and listen) user, phone **1300 555 727** and ask for the number you want. For 1800 free call numbers, phone **1800 555 727** and ask for the number you want.

FEEDBACK

Reader feedback helps us to improve the information we provide. If you have any feedback about this publication, please write to:

Editor
Publishing Coordination
Marketing and Education
Micro Enterprises and Individuals
Australian Taxation Office
PO Box 900
CIVIC SQUARE ACT 2608

As this is a publications area only, any tax matters will be passed on to a specialist technical area. Alternatively, you can phone our Business Infoline on **13 28 66** for help.

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