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**Australian Government**

**Australian Taxation Office**

# Franking account tax return and instructions 2006

To help you complete the franking account tax return  
for 1 July 2005–30 June 2006



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# WHO MUST LODGE A FRANKING ACCOUNT TAX RETURN?

The *Franking account tax return 2006* must be completed for all Australian corporate tax entities and New Zealand franking companies that have:

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

If there is such a liability or disclosure obligation, the entity is required to complete section A and the remaining labels on the franking account tax return that are relevant to that liability and/or obligation. If there is no such liability or disclosure 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* 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 2006* is for the period 1 July 2005 to 30 June 2006. Please complete the period boxes 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, or
- the entity is a **late balancing** corporate tax entity (see note in next column), or
- the entity ceases to be a franking entity part way through its income year or, in the case of a New Zealand franking company, 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 2005–06 income year end before 30 June 2006, while a **late balancing** corporate tax entity generally has its 2005–06 income year end after 30 June 2006. For more information on SAPs, see *Taxation Ruling IT2360 – Income tax: substituted accounting periods*.

## EXAMPLE 1

MHO Ltd has an approved substituted accounting period ending on 30 September 2006 in lieu of 30 June 2006 – that is, MHO Ltd is a **late balancing** corporate tax entity. MHO Ltd does not elect to have its franking deficit tax liability determined on a 30 June basis. At the end of the day on 30 September 2006, MHO Ltd has a debit balance in its franking account and consequently it has a liability to pay franking deficit tax. MHO Ltd would complete the period boxes as follows:

Day	Month	Year		Day	Month	Year										
0	1	1	0	2	0	0	5	to	3	0	0	9	2	0	0	6

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 01/07/2005 to 30/06/2006.

## 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 franking deficit tax 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: consequential amendments to 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 2006, then it will be required to lodge a *Franking account tax return 2006* to account for this franking deficit tax liability, on or before 31 July 2006. 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 over-franking tax liability, and/or
- disclose any significant variation in its benchmark franking percentage between franking periods.

The over-franking tax 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 over-franking tax and the disclosure obligation, see **Over-franking tax** on page 7 and section C, **Significant variation in benchmark franking percentage** on page 8.

## SECTION A

Complete the entity's name, address and Australian business number and the remaining labels 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 franking deficit tax liability – see **A refund of income tax affecting a franking deficit tax liability** on page 4, or
- the corporate tax entity is a **late balancing** entity that:
  - elected to have its franking deficit tax liability determined on 30 June, and
  - was required to lodge a franking account tax return on or before 31 July 2006 disclosing a franking deficit tax liability, and
  - has an over-franking tax liability and/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 7 and section C, **Significant variation in benchmark franking percentage** on page 8.

### 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, 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, write **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 may incur a liability to pay franking deficit tax (FDT) in an income year for which it is a resident entity for imputation purposes (the relevant year). In such a case, the entity is able to claim the whole or part of the amount of the liability as a tax offset against its income tax for that, or a subsequent, relevant year. The amount of FDT liability that a corporate tax entity is entitled to claim as an offset is the amount of the liability reduced by 30% where the FDT liability is greater than 10% of the total franking credits

that arose in the entity's franking account in the year (or, for certain **late balancing** entities, 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). This reduction is known as the FDT offset penalty.

Amendments to the FDT provisions have recently been enacted to prevent the FDT offset penalty applying if:

- (a) the entity is a private company for the relevant year; and
- (b) the company has not had an income tax liability for any income year before the relevant year; and
- (c) if the company did not have the tax offset (but had all its other tax offsets) it would have had an income tax liability for the relevant year; 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.

Show the letter **P** in the code box if the company is a private company that satisfies the criteria in (a) to (d) above.

In addition to the rules regarding private companies, the government announced as part of the 2005 federal budget that further modifications will be made to remove some unintended consequences resulting from application of the FDT provisions. Essentially the modifications will ensure:

- 1 the FDT offset penalty will only apply to entities that incur certain franking debits in the income year in which the deficit arose, usually as a result of having franked a distribution,
- 2 any franking debits that arose due to the application of a penalty provision in the income tax law will be disregarded when determining if the FDT offset penalty should apply, and
- 3 the FDT offset penalty will not apply where, broadly, events that caused excessive over-franking were outside the control of the company.

Show the letter **F** in the code box if the rules pertaining to private companies do not apply and the corporate tax entity did not frank a distribution in the income year in which the deficit arose.

Otherwise, if the entity wishes to obtain relief from the FDT offset penalty by virtue of modification 3 referred to above, show the letter **C** and provide an attachment to the franking account tax return which outlines the circumstances in which the franking deficit tax liability arose. The attachment must include all relevant information and must be signed and dated by an authorised person. Once the legislation is enacted, the Tax Office will consider each application on a case by case basis and will notify the applicant of our decision.

#### ! NOTE

Legislation to give effect to modifications 1 to 3 above is included in Tax Laws Amendment (2006 Measures No. 2) Bill 2006 which was introduced into parliament on 29 March 2006. At the time of printing, the legislation had not been enacted. Your entitlement to offset the full amount of your FDT liability due to circumstances covered by these changes will only be available once legislation is enacted. However, the Tax Office would prefer that you supplied the relevant information regarding these changes in accordance with these instructions. This will allow the Tax Office to contact you and make the necessary adjustments to ensure your full entitlement is allowed when the law is passed.

For more information on these changes refer to **Changes to FDT offset rules** on page 5.

## 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 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, and*
- *Simplified imputation: consequential amendments 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 franking deficit tax. 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 franking deficit tax 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 is inoperative.

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 2006*. 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 franking deficit tax 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, its election to join the Australian imputation system is revoked or cancelled.
- Just before the entity becomes a subsidiary member of a consolidated group the subsidiary has a franking deficit in its franking account.
- 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 page 4.

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 franking deficit tax determined on a 30 June basis will be liable to pay franking deficit tax 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, its election to join the Australian imputation system is revoked or cancelled. It will also be liable to pay franking deficit tax 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 page 4. 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, 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 page 4), and
- if applicable, just before the entity becomes a subsidiary member of a consolidated group.

This is the amount of franking deficit tax that is payable.

Where a corporate tax entity incurs a franking deficit tax (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 5 for more information.


#### ! NOTE

If you are required to complete **F** – see **A refund of income tax affecting a franking deficit tax liability** on page 4 – then you must include the amount shown at **F** (if any) in the amount at **B**.

**Franking deficit tax 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 franking deficit tax. Include at **B** the amount of franking deficit in the franking account just before the joining time.

Where a corporate tax entity has operated outside the group for more than one period during a particular income year, the amount of franking deficit tax 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, please 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/is a member. We need this information to process your franking account tax return correctly.

**EXAMPLE 2**

ABC Ltd has an income year from 1 July 2005 to 30 June 2006. On 1 October 2005, ABC Ltd became a subsidiary member of a consolidated group and then exited the group on 1 February 2006. On 1 April 2006, ABC Ltd became a member of another consolidated group and, as at 30 June 2006, it was still a member of this other consolidated group.

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

ABC 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 2005 to 30 September 2005	\$500 Dr – a franking deficit	\$200 Cr
1 February 2006 to 31 March 2006	\$400 Dr – a franking deficit	\$100 Cr

ABC 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 franking deficit tax balances (\$900) at **B**. ABC Ltd would also provide the information in the above table as an attachment to the franking account tax return including the name of the head company of each consolidated group of which it was/is a member.

**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 franking deficit tax 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 franking deficit tax 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, and
- 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
- show the amount of the franking deficit tax 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 shown at **F** (if any) in the amount at **B**.

**Amount of franking deficit tax**

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 shown 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 shown 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 shown at that label must be included in the amount shown at **B**. Any franking deficit tax 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 upon 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), and
- 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 franking deficit tax 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), and
- 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 franking deficit tax 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 franking deficit tax or over-franking tax 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 franking deficit tax has to be paid) within 14 days after the refund was received.

### OFFSETTABLE PORTION OF CURRENT YEAR FDT

Where a corporate tax entity incurs a franking deficit tax (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. As a general rule, where the entity's franking deficit tax liability is **greater than** 10% of the total franking credits that arose in the franking account in the income year (or, for certain **late balancing** entities, 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), then the amount of franking deficit tax offset that the corporate tax entity is entitled to because of the franking deficit is calculated as follows:

Franking deficit tax liability – (Franking deficit tax liability x 30%)

Unless the entity is a newly established private company that satisfies the criteria outlined under the heading **Changes to FDT offset rules**, this reduced amount of franking deficit tax offset entitlement equals the portion of franking deficit tax that is offsettable because of the current year's deficit only. This amount should be recorded at **C**. If the letter **P** was shown at the code box in section A, the amount that should be shown at **C** should be equal to the FDT liability shown at **B**.

## ! 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 you are entitled to as an FDT offset against any income tax liabilities arising in the *Company tax return 2006*. See the *Company tax return instructions 2006* (NAT 0669–6.2006) for more information on how to calculate this amount.

### EXAMPLE 3

At the end of its income year, NYC Ltd had a franking deficit of \$30 in its franking account. During the income year NYC Ltd generated total franking credits of \$100. As NYC Ltd's franking account was in a \$30 deficit position at the end of its income year it is liable to pay franking deficit tax of \$30. NYC Ltd will show this amount at **B**.

In addition to this, as the franking deficit tax of \$30 is greater than 10% of the total franking credits that arose in its franking account during the income year (ie  $\$100 \times 10\% = \$10$ ), NYC Ltd's franking deficit tax offset entitlement for the current year must be reduced to \$21 (ie  $\$30 - (\$30 \times 30\%)$ ), assuming that none of the recent amendments or announcements explained in these instructions relating to the FDT offset penalty applies. NYC Ltd must record this amount at **C**.

## ! NOTE

If the franking deficit tax liability is less than or equal to 10% of the total franking credits that arose in the franking account during the income year (or for certain late balancing entities the 12 month period ending on 30 June), then the full amount of franking deficit tax liability recorded at **B** can be used to calculate the franking deficit tax offset that the corporate tax entity is entitled to because of the current year's deficit. This same amount should be recorded at **C**.

### Changes to FDT offset rules

#### Newly established private companies

Enacted on 29 June 2005, *Tax Laws Amendment (2005 Measures No. 2) Act 2005*, which contained amendments to the simplified imputation system, provides that, for the 2004–05 and later income years, a corporate tax entity will not have its current year FDT liability offset reduced if:

- (a) the entity is a private company for the relevant year; and
- (b) the company has not had an income tax liability for any income year before the relevant year; and
- (c) if the company did not have the tax offset (but had all its other tax offsets) it would have had an income tax liability for the relevant year; 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.

If the company satisfies points (a) to (d) above, ensure that the code box in section A of this return has been completed correctly. For more information see **You may be entitled to the full amount of your current year FDT offset**.

#### *Further changes to the FDT offset rules announced in 2005 Budget*

In Press Release 30/2005 of 10 May 2005, the Minister for Revenue and Assistant Treasurer announced that the government will further modify the FDT offset rules to remove some unintended consequences. Legislation to give effect to these modifications is included in Tax Laws Amendment (2006 Measures No. 2) Bill 2006 which was introduced into parliament on 29 March 2006.

Once enacted, the modifications will apply from 1 July 2002 and will ensure that only franking debits arising in a corporate tax entity's franking account under the following items of the table in section 205-30 of the ITAA 1997 will be taken into account when determining whether the FDT offset penalty applies and if so the amount to which the reduction will be applied:

- 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; and
- if any franking debits arose under any of the items above, item **2** – franking debits that arise when the entity receives a refund of income tax

#### **!** NOTE

If no debits arose in the company's franking account for the income year under items **1**, **3**, **5** or **6** of the table in section 205-30 of the ITAA 1997, then the FDT offset penalty will not apply.

If this is the case, ensure the code box in section A of this return is completed correctly. For more information see **You may be entitled to the full amount of your current year FDT offset** on page 2.

#### **EXAMPLE 4**

EKW Ltd has a deficit in its franking account at the end of the 2005–06 income year of \$80,000 and is liable to franking deficit tax (FDT). The balance of its franking account at 1 July 2005 was \$10,000 and the only franking credits to arise in its franking account during the income year to 30 June 2006 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, the FDT attributable to item **2** franking debits will also be taken into account in determining whether the FDT offset penalty 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 per cent franking deficit tax offset reduction will apply to the franking deficit tax that is attributable to the item **1** and **2** franking debits.

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

The FDT offset penalty will not apply in determining the amount of an entity's tax offset arising from its franking deficit tax liability if the Commissioner determines in writing, on application by the entity in the approved form, that events that caused the franking deficit were outside the company's control. If you are applying to the Commissioner to exercise this discretion ensure the code box in section A of this return is completed correctly. For more information see **You may be entitled to the full amount of your current year FDT offset** on page 2.

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 penalty** below.

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.

#### **!** NOTE

At the time of printing, legislation to give effect to these changes had not been enacted. Your entitlement to offset the full amount of your FDT liability due to circumstances covered by these changes will only be available once legislation is enacted. However, the Tax Office would prefer that you supplied the relevant information regarding these changes in accordance with these instructions. This will allow the Tax Office to contact you and make the necessary adjustments to ensure the appropriate entitlement is allowed when the law is passed.

#### **DEBITS NOT SUBJECT TO THE FDT OFFSET PENALTY**

One of the modifications to the FDT offset rules included in Tax Laws Amendment (2006 Measures No. 2) Bill 2006 ensures that franking debits arising under items **4**, **7**, **8**, **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 penalty applies and the amount of the reduction.

Show at **K** the amount of debits that arose in the corporate tax entity's franking account under the following items of the table in section 205-30 of the ITAA 1997 for the period to which this franking account tax return relates:

- item **4** – franking debits that arise when an entity ceases to be a franking entity;



- item 7 – franking debits that arise when the Commissioner makes a determination under paragraph 204-30(3)(a) of the ITAA 1997;
- item 8 – franking debits that arise when the entity is taken to have paid a dividend under Division 7A of Part III of the ITAA 1936; and
- item 9 – franking debits that arise when a company buys a membership interest in an on-market buy back.

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.

### NOTE

At the time of printing, legislation to give effect to this change had been introduced into parliament but had not been enacted. Therefore, when determining if the company's FDT offset entitlement is reduced for the purposes of completing **C**, disregard the amount shown at **K**. Once the legislation is enacted, the Tax Office will use this amount to make the necessary adjustments.

## OVER-FRANKING TAX

Where the franking percentage for a distribution exceeds the benchmark franking percentage, liability for over-franking tax arises unless the Commissioner has made a determination permitting the over-franking.

Show at **D** the amount of over-franking tax 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 5

OFT 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 OFT Pty Ltd has franked the distribution to more than the benchmark percentage it will be liable to over-franking tax calculated as follows:

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

The \$107 over-franking tax will be shown in **D**.

### EXAMPLE 6

#### Late balancing entity that had its franking deficit tax liability determined on 30 June and now has an over-franking tax liability

Felix Ltd is a public company that has an approved substituted accounting period ending on 30 September 2006 in lieu of 30 June 2006. Felix Ltd, being a **late balancing** corporate tax entity, elected to have its franking deficit tax liability determined on a 30 June basis. On 30 June 2006 Felix Ltd had a deficit balance of \$100 in its franking account. Felix Ltd is required to lodge a *Franking account tax return 2006* disclosing this liability on or before 31 July 2006.

In addition to this, Felix Ltd had an over-franking tax liability of \$150 for its first franking period (1 October 2005 to 31 March 2006) and then \$200 for its second franking period (1 April 2006 to 30 September 2006). Felix Ltd is required to lodge a subsequent *Franking account tax return 2006* disclosing this over-franking tax liability of \$350 at **D**, by 31 October 2006. 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 **D Total tax payable**. This is the amount the entity has to pay. See **Payment slip** on page 9 and **Lodgment and payment requirements** on page 9.

### NOTE

The amount completed at section B, **A Credits that arose in your franking account in this return** does not necessarily equal the amount on the *Company tax return 2006* at **J** Franking credits item 7. Amounts in **D** 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 2006*. See the *Company tax return instructions 2006* for information on how to complete **E Franking deficit tax offset**.

For more information on the franking deficit tax offset refer to the fact sheets:

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

These are available on our website.

## SECTION C

### SIGNIFICANT VARIATION IN BENCHMARK FRANKING PERCENTAGE

#### FRANKING PERIOD

Generally, 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*, and
- *Simplified imputation: consequential amendments to the franking period rule 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. 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 x 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 and 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.

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 7

#### Corporate tax entity with two franking periods

XYZ Ltd, a public company, has an income year which started on 1 July 2005 and ended on 30 June 2006. Its franking periods and benchmark franking percentage for the year ended 30 June 2006 were:

	Franking period	Benchmark franking percentage
Franking period 1	1 July 2005 to 31 December 2005	50.455
Franking period 2	1 January 2006 to 30 June 2006	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?** and complete the benchmark franking period boxes as follows:

Benchmark franking period		Benchmark franking percentage
Franking period A	Day Month Year 01 07 2005 to 31 12 2005	<b>G</b> 50.455
Franking period B	Day Month Year 01 01 2006 to 30 06 2006	<b>H</b> 100.000

### EXAMPLE 8

#### Private company

ABC Pty Ltd is a private company that has an income year from 1 July 2005 to 30 June 2006. A private company generally has the same franking period as its income year – therefore ABC Pty Ltd's first franking period was from 1 July 2004 to 30 June 2005. During the 2004–05 income year ABC Pty Ltd's benchmark franking percentage was 60%.

The company's second franking period is 1 July 2005 to 30 June 2006. During this income year ABC Pty Ltd's benchmark franking percentage was 30%. ABC 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 2005–06 income year. ABC Pty Ltd would print **X** in the **yes** box at **Was there a significant variation in benchmark franking percentage between franking periods?** and complete the benchmark franking period boxes as follows:

Benchmark franking period		Benchmark franking percentage
Franking period A	Day Month Year 01 07 2004 to 30 06 2005	<b>G</b> 60.000
Franking period B	Day Month Year 01 07 2005 to 30 06 2006	<b>H</b> 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*, and
- *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 franking deficit tax and/or over-franking tax 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.

### Failure to lodge on time penalty 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 franking deficit tax and/or over-franking tax 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 (GIC) 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:**

**NSW, QLD, ACT:**

PO Box 9102  
Penrith NSW 2740

**WA, SA, NT, VIC, TAS:**

PO Box 327  
Albury NSW 2640

## LODGMENT AND PAYMENT REQUIREMENTS

### WHEN TO LODGE

Generally, the franking account tax return must be lodged and the franking deficit tax liability and/or over-franking tax 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 franking deficit tax 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 franking deficit tax is payable. Please note that there are different lodgment obligations in relation to over-franking tax 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 4.

**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**.

© Registered to BPAY Pty Ltd ABN 69 079 137 518

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

<b>Bank</b>	<b>Reserve Bank of Australia</b>
<b>BSB no.</b>	<b>093 003</b>
<b>Account no.</b>	<b>316 385</b>

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**

### PUBLICATIONS

#### To get a Tax Office publication

##### If you are not a tax agent

- visit our website at **www.ato.gov.au/publications** for publications, taxation rulings, practice statements and forms
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- you may order it through our automated speech recognition system operating all day, every day, phone **13 72 26**

## 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 Australian business number and tax file number)
- **Tax agents** **13 72 86**  
For inquiries 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 want to talk to a tax officer, phone the Translating and Interpreting Service for help with your call.
- **National Relay Service** **13 36 77**  
If you have a hearing or speech impairment and use a TTY or modem, phone the National Relay Service.
- **Speech to Speech Relay Service** **1300 555 727**  
If you have a speech impairment and do not use a TTY or modem, phone the Speech to Speech Relay Service.  
  
For 1800 free call numbers phone **1800 555 727** and quote the number you require.

## FEEDBACK

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

**Tax Time Editor  
Personal Tax  
Marketing and Education – Paper Publishing  
Australian Taxation Office  
PO Box 900  
CIVIC SQUARE ACT 2608**

Your comments on publications will be addressed by the tax time editor. Your feedback on tax matters will be passed on to a specialist technical area. You can also phone our Business Infoline on **13 28 66** for help.



**Australian Government**  
**Australian Taxation Office**

# Franking account tax return

# 2006

Day Month Year to Day Month Year

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

Please print neatly in BLOCK LETTERS with a black or blue ballpoint pen only.  
Do not use correction fluid or tape. Print one letter or number in each box.



This tax return is to be completed for all companies, corporate limited partnerships and corporate trust estates treated as companies for the purposes of Part 3-6 of the *Income Tax Assessment Act 1997* that have a liability to pay franking deficit tax and/or over-franking tax and/or have an obligation to disclose any significant variation to their benchmark franking percentage. Please read the accompanying instructions before completing this tax return. The *Company tax return instructions 2006* may also be helpful regarding debits and/or credits to your franking account.

## Section A

Tax file number (TFN)

Australian business number (ABN)

Name of entity

**Current postal address** If the address has not changed, please print it exactly as shown on the last notice of assessment or the last tax return lodged.

Suburb

Postcode

Is this a subsequent franking account tax return for the income year?

Yes

☐

No

☐

Print X in the appropriate box

What is your franking account balance at the end of the period?

What is your venture capital sub-account balance at the end of the period?

You may be entitled to the full amount of your current year FDT offset. Please record the code from the instructions which represents your circumstances.

Code

## Section B Franking deficit tax (FDT) and over-franking tax

Credits that arose in your franking account

Offsettable portion of current year FDT

FDT attributable to refund

Debits not subject to the FDT offset penalty

Over-franking tax

Total tax payable

FDT

If further return, add **F** and **D**.

If not, add **B** and **D**.

NAT 1382-6.2006

IN CONFIDENCE when completed

Page 1

**Do not separate this payment slip from the return form**

Australian Taxation Office

**Payment slip - 59/60**

**Franking account tax return 2006**

Tax file number

Name of entity and Australian business number (ABN)

Amount payable

If paying by mail, attach your cheque to this payment slip and return to:

Australian Taxation Office  
Locked Bag 1793  
Penrith NSW 1793



**Section C      Significant variation in benchmark franking percentage**

Was there a significant variation in benchmark franking percentage between franking periods?      Yes ☐      No ☐      Print **X** in the appropriate box      

If **yes**, complete the rest of this section.  
If **no**, complete the declaration.

**Benchmark franking period**

Franking period <b>A</b>	Day <input type="text"/> <input type="text"/> Month <input type="text"/> <input type="text"/> Year <input type="text"/> <input type="text"/> <input type="text"/>	to	Day <input type="text"/> <input type="text"/> Month <input type="text"/> <input type="text"/> Year <input type="text"/> <input type="text"/> <input type="text"/>
Franking period <b>B</b>	Day <input type="text"/> <input type="text"/> Month <input type="text"/> <input type="text"/> Year <input type="text"/> <input type="text"/> <input type="text"/>	to	Day <input type="text"/> <input type="text"/> Month <input type="text"/> <input type="text"/> Year <input type="text"/> <input type="text"/> <input type="text"/>
Franking period <b>C</b>	Day <input type="text"/> <input type="text"/> Month <input type="text"/> <input type="text"/> Year <input type="text"/> <input type="text"/> <input type="text"/>	to	Day <input type="text"/> <input type="text"/> Month <input type="text"/> <input type="text"/> Year <input type="text"/> <input type="text"/> <input type="text"/>
Franking period <b>D</b>	Day <input type="text"/> <input type="text"/> Month <input type="text"/> <input type="text"/> Year <input type="text"/> <input type="text"/> <input type="text"/>	to	Day <input type="text"/> <input type="text"/> Month <input type="text"/> <input type="text"/> Year <input type="text"/> <input type="text"/> <input type="text"/>

**Benchmark franking percentage**

<b>G</b>	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	•	<input type="text"/> <input type="text"/>
<b>H</b>	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	•	<input type="text"/> <input type="text"/>
<b>I</b>	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	•	<input type="text"/> <input type="text"/>
<b>J</b>	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>	•	<input type="text"/> <input type="text"/>

**Declaration**

I declare that the information given on this tax return and in the accompanying documents (where applicable) is true and correct, and that I am authorised to make this declaration.

Authorised person's signature

Date      Day      Month      Year

Title

Authorised person's name

Hours taken to prepare and complete this tax return

Daytime phone number

Area code      Number





**Section C      Significant variation in benchmark franking percentage**

Was there a significant variation in benchmark franking percentage between franking periods?      Yes ☐      No ☐      Print **X** in the appropriate box      

If **yes**, complete the rest of this section.  
If **no**, complete the declaration.

**Benchmark franking period**

Franking period **A**      Day Month Year      to      Day Month Year

Franking period **B**      Day Month Year      to      Day Month Year

Franking period **C**      Day Month Year      to      Day Month Year

Franking period **D**      Day Month Year      to      Day Month Year

**Benchmark franking percentage**

**G**      .     

**H**      .     

**I**      .     

**J**      .     

**Declaration**

I declare that the information given on this tax return and in the accompanying documents (where applicable) is true and correct, and that I am authorised to make this declaration.

Authorised person's signature

Date      Day Month Year     

Title

Authorised person's name

Hours taken to prepare and complete this tax return

Daytime phone number

Area code      Number