How Franking Credits Work to Avoid Double Taxation

Companies distribute their tax paid profits to their owners (shareholders) by way of dividends. Prior to the Franking Credit regime, all dividends received by shareholders were also taxable to them when they were received.

The Franking Credit regime works to provide shareholders with credits for the tax the company has paid so the effective double taxation doesn't occur.

Here is an Example

	Pre Franking Credits	Post Franking Credits
A - Company Profit	$ 100	$100
B - Company Tax Paid	$ 30	$ 30
C - Net Available for Shareholders	$ 70	$ 70
D - Dividend Paid	$ 70	$ 100
E - Tax Payable by Shareholder (Presume 37%)	$ 26	$ 37
F – Credit for Franking Credit	$ 0	$ 30
G - Net Tax Paid by Shareholder	$ 26	$ 7
Total Tax Paid on $100 Company Profit (B+G)	**$ 66**	**$ 37**
Net Dividend Received by Shareholder (A-B-G)	**$ 34**	**$ 63**

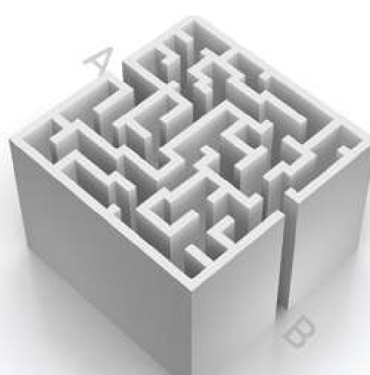
Conclusion

The Franking Credit regime means the investor receives a tax paid return of $63 from the $100 company profit.

Prior to Franking Credits, the investor was taxed on the post-tax profit of the company effectively meaning they received only $34 from the $100 company profit.

For more information give me a call in the office on (07) 5448 9600 or drop me a message.

The best path
forward
in Business
isn't always clear



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