

Treatment of franking credits

While a group is consolidated, the head company maintains a single franking account for the group as a whole, and the franking accounts of subsidiary members are inoperative.

When a subsidiary member joins a consolidated group, any surplus in its franking account is transferred to the head company's franking account. The franking credit resulting from the transferred surplus remains with the head company even if the subsidiary member subsequently leaves the group. If a subsidiary member's franking account is in deficit when it joins a consolidated group, the subsidiary is liable to pay franking deficit tax.

While a subsidiary is a member of a consolidated group, any franking credits or debits that would have arisen in its franking account if it were not a member of the group are attributed to the franking account of the head company.

For an example of how these rules operate in practice see → 'Franking accounts in consolidated groups', C5-2-110.

The special imputation rules that apply to consolidated groups are contained in Subdivision 709-A of the *Income Tax Assessment Act 1997* (ITAA 1997). They allow the franking of distributions made by a subsidiary member:

- on disregarded employee shareholdings
- on non-share equity interests
- whose membership interests are held by a non-resident.

A frankable distribution made by a subsidiary member in relation to such shares or interests will be treated as a frankable distribution by the head company for the purposes of the imputation rules.

Special rules apply in relation to multiple entry consolidated (MEC) groups and are contained in Subdivision 719-H of the ITAA 1997. They provide for:

- the transfer of the franking account balance from a provisional head company (PHC) that ceases to be the PHC of a group to a newly appointed PHC of the group
- frankable distributions made by eligible tier-1 companies to be taken to have been made by the provisional head company of the group, and
- frankable distributions made by a foreign held subsidiary member of a MEC group to an entity that is not a member of the MEC group, to be taken to have been made by the provisional head company of the group.

Existing anti-avoidance measures that counter franking credit trading have been extended to accommodate consolidated groups. → section 177EB, ITAA 1936 and Subdivision 709-B, ITAA 1997

References

Income Tax Assessment Act 1997, Subdivision 709-A; as amended by *New Business Tax System (Consolidation) Act (No. 1) 2002* (No. 68 of 2002), Schedule 1

Income Tax Assessment Act 1936, section 177EB; as amended by *New Business Tax System (Consolidations) Act (No.1) 2002* (No. 68 of 2002), Schedule 3, item 40

Income Tax Assessment Act 1997, Subdivision 719-H; as amended by *New Business Tax System (Consolidation and Other Measures) Act 2003 (No. 16 of 2003)*, Schedule 5, item 5

Income Tax Assessment Act 1997, section 709-90; as amended by *New Business Tax System (Consolidation and Other Measures) Act 2003 (No. 16 of 2003)*, Schedule 5, item 2

Income Tax Assessment Act 1997, Subdivision 709-B; as amended by *New Business Tax System (Consolidation and Other Measures) Act 2003 (No. 16 of 2003)*, Schedule 5, item 4

Income Tax Assessment Act 1997, Subdivisions 707-A and 709-B; as amended by *New Business Tax System (Consolidation and Other Measures) Act 2003 (No. 16 of 2003)*, Schedule 5, item 3

Income Tax Assessment Act 1936, section 177EB; as amended by *New Business Tax System (Consolidation and Other Measures) Act 2003 (No. 16 of 2003)*, Schedule 5, item 1