Who must lodge a franking account tax return?

The franking account tax return must be completed for all corporate tax entities 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.

Period boxes 'or specify if part year or approved substitute period'

The *Franking account tax return 2003* is for the period 1 July 2002 to 30 June 2003. Only complete the **period boxes** if:

- the entity is an early balancing corporate tax entity, or
- the entity is a **late balancing** entity and it **has not** elected to have its FDT liability determined on a 30 June basis, or
- the entity ceases to be a franking entity 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 2002–03 income year end before 30 June 2003, while a late balancing corporate tax entity generally has its 2002–03 income year end after 30 June 2003. For more information on SAPs refer to *Taxation Ruling IT 2360—Income tax: substituted accounting periods*.

Example 1

MHO Ltd has an approved substituted accounting period ending on 30 September 2003 in lieu of 30 June 2003. 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 2003 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
01	10	2002	to	30	09	2003

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 refer to the fact sheet *Simplified imputation: consequential amendments to franking deficit tax liability for late balancing corporate tax entities*. This fact sheet is available on the Australian Taxation Office (ATO) website at **www.ato.gov.au**

If a **late balancing** corporate tax entity makes this choice and it has a debit balance in its franking account on 30 June 2003, then it will be required to lodge a *Franking account tax return 2003*, to account for this franking deficit tax liability, on or before **31 July 2003**. 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 5 and **Section C Significant variation in benchmark franking percentage** on page 6 in these instructions.

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?

This question should only be answered **Y** for 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 2003 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 **Y** for yes in the box at this question; otherwise print **N** for no.

For more information see **Over-franking tax** on page 5 and **Section C Significant variation in benchmark franking percentage** on page 6 in these instructions.

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

Print 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. 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, print 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, write **UNKNOWN** instead of the amount.

Section B Franking deficit tax and over-franking tax

Total franking credits for the period

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

The amount at label **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 refer to 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 the ATO website at **www.ato.gov.au**

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 label **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 label **A**, is the total of each of the credits that arose in each non-membership period.

Note: **The amount shown at label A—Total franking credits for the period in this franking account tax return does not necessarily equal the amount shown at item 7, label J—Franking credits on the *Company tax return 2003*. Amounts at label 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, item 7, label J in 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.
- 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 in these instructions.

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. 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 in these instructions. Refer also to **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 label **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, 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 in these instructions), 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.

Note: **If you are required to complete label F—see A refund of income tax affecting a franking deficit tax liability on page 4—then you must include the amount shown at label F (if any) in the amount at label 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 label **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 label **B** the total of the deficit balances that were in the subsidiary member's franking account just before each of the joining times.

Example 2

ABC Ltd has an income year from 1 July 2002 to 30 June 2003. On 1 October 2002, ABC Ltd becomes a subsidiary member of a consolidated group and then exited the group from 1 February 2003. On 1 April 2003, ABC Ltd became a member of another consolidated group and, as at 30 June 2003, 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 2002–30 September 2002	$500 Dr—a franking deficit	$200 Cr
1 February 2003–31 March 2003	$400 Dr—a franking deficit	$100 Cr

ABC Ltd would show the total franking credits for each non-membership period ($300) at label **A** and the total of the franking deficit tax balances ($900) at label **B**.

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 **Y** in the 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, label **F—FDT attributable to refund**. **Do not complete label F unless this franking account tax return is a further return**.

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 label **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 label **B** is the amount of the refund reduced by the franking surplus (if any) existing at that time.

> **Note: If you have completed label F then the amount shown at that label must be included in the amount shown at label 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.

Creditable portion of franking deficit tax

In press release C134/02 of 20 December 2002, the Government announced that the imputation system will be further simplified and streamlined by replacing the current franking additional tax provisions with a more efficient set of rules. Payment of the franking deficit tax may entitle the entity to an offset against its future income tax liabilities. It is proposed that the entity's franking deficit tax offset will be reduced by 30% in certain circumstances.

The press release indicated that these amendments will generally apply in respect of franking deficit tax liabilities arising at the end of the 2002–03 income year and later years.

At the time of printing, legislation to support this announcement had not been introduced into Parliament. The entitlement to offset your franking deficit tax liability will be possible once legislation has passed. Do not complete label **C—Creditable portion of franking deficit tax** unless, at the time you complete this franking account tax return, further information is published on the ATO website at **www.ato.gov.au** which provides instructions on how to complete this label. For further information contact the ATO Business Tax Reform Infoline on **13 24 78**.

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 label **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 refer to the fact sheet *Simplified imputation: the benchmark and anti-streaming rules* which is available on the ATO website at **www.ato.gov.au**

Example 3

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 label **D**.

Example 4
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 2003 in lieu of 30 June 2003. 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 2003 Felix Ltd had a deficit balance of $100 in its franking account. Felix Ltd is required to lodge a *Franking account tax return 2003* disclosing this liability on or before 31 July 2003.

In addition to this, Felix Ltd had an over-franking tax liability of $150 for its first franking period (1 October 2002 to 31 March 2003) and then $200 for its second franking period (1 April 2003 to 30 September 2003). Felix Ltd is required to lodge a subsequent *Franking account tax return 2003* disclosing this over-franking tax liability of $350 at label **D**, by 31 October 2003. In addition, Felix Ltd must print **Y** in the 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 labels **B** (or, if the franking account tax return is a **further return**, label **F**) and **D** and write the total at label **E**—**Total tax payable**. This is the amount the entity has to pay. See **Payment advice** on page 7 and **Lodgment and payment requirements** on page 8 in these instructions.

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 the ATO website at **www.ato.gov.au**

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 20 percentage points from the last franking period in which a frankable distribution was made (the '**last relevant franking period**').

Examples 5 and 6 on the next 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 **Y** in the 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,** (labels **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 **N** in the 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 5
Corporate tax entity with two franking periods

XYZ Ltd, a public company, has an income year which started on 1 July 2002 and ended on 30 June 2003. Its franking periods and benchmark franking percentage for the year ended 30 June 2003 were:

	Franking period	*Benchmark franking percentage*
Franking period 1	1 July 2002 to 31 December 2002	50.455
Franking period 2	1 January 2003 to 30 June 2003	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 **Y** in the 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

	Day / Month / Year		Day / Month / Year		Benchmark franking percentage
Franking period A	01 07 2002	to	31 12 2002	**G**	50.46
Franking period B	01 01 2003	to	30 06 2003	**H**	100.00

Example 6
Private company

ABC Pty Ltd is a private company that has an income year from 1 July 2002 to 30 June 2003. This is also its first franking period because a private company generally has the same franking period as its income year. During the 2002–03 income year ABC Pty Ltd's benchmark franking percentage was 60%.

The company's second franking period is the **next income year**—1 July 2003 to 30 June 2004. On its *Franking account tax return 2003* ABC Pty Ltd would print **N** in the box at **Was there a significant variation in benchmark franking percentage between franking periods?**.

ABC Pty Ltd would not be required to complete the rest of Section C as it has only a single franking period. However, it would have to complete Section C in its 2004 franking account tax return if its benchmark franking percentage increases or decreases by more than 20 percentage points in the franking period for the 2003–04 income year.

For more information on the benchmark franking percentage and the disclosure rule refer to the fact sheets:

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

These are available on the ATO website at **www.ato.gov.au**

Payment advice

On the payment advice 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, label **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** 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 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.

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 in these instructions.

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 in these instructions.

Where to lodge

Post your franking account tax return with your payment to:

Australian Taxation Office
Locked Bag 1936
Albury NSW 1936

How to pay

Payments **cannot** be made at Australia Post using the payment advice form on this tax return. However, you have the option to 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**.

EFT direct credit

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

Bank: Reserve Bank of Australia
BSB: 093 003
Account number: 316 385
Account name: ATO EFT deposits trust account

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 EFT direct credit **you must still lodge** your completed franking account tax return at:
Australian Taxation Office
Locked Bag 1936
Albury NSW 1936