



Refunding franking credits - individuals

- <http://www.ato.gov.au/Business/Imputation/In-detail/Refunding-franking-credits/Refunding-franking-credits---individuals/>
- Last modified: 19 Jun 2015
- QC 16183

Refunding excess franking credits - individuals

Dividends paid to shareholders by Australian resident companies are taxed under a system known as imputation. It is called an imputation system because the tax the company pays is imputed, or attributed, to the shareholders. The tax paid by the company is allocated to shareholders by way of franking credits attached to the dividends they receive.

You include an amount equal to the franking credit attached to your dividend in your assessable income. If you are an Australian resident, you are also entitled to a tax offset equal to the amount of franking credit included in your income. (There are some exceptions to this rule, see [Anti-avoidance rules](#).)

The franking tax offset can be used to reduce your tax liability from all forms of income (not just dividends), and from your taxable net capital gain.

We will refund any excess franking tax offset amount to you, after any of your income tax and Medicare levy liabilities have been met.

Eligibility for a refund

Subject to satisfying anti-avoidance rules, you are eligible for a refund of excess franking credits if:

- you receive franked dividends, either directly or through a trust or partnership, and
- your basic tax liability is less than your franking credits after taking into account any other tax offsets you are entitled to.

Dividends the refund applies to

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The refund applies to franking credits attached to franked dividends paid on or after 1 July 2000 to a:

- resident individual
- trust or partnership if a resident individual receives franked dividends indirectly through the trust or a partnership.

Franked dividends are payments made out of profits by an Australian resident company to its shareholders that carry franking credits (that is, the company paid tax on its taxable income at the rate of 30%).

When you receive franked dividends directly, you include both the amount of the dividends and the franking credits in your assessable income. Subject to satisfying anti-avoidance rules, you can then claim the franking credits as a franking tax offset. The franking tax offset will reduce your tax liability for the income year from all forms of income, not just from dividend income.

If you have received a dividend that has Australian franking credits attached from a New Zealand franking company, you may be eligible to claim the Australian sourced franking credits.



Find out more

- [Applying for a refund of franking credits for individuals](#)
- [Foreign source income and foreign assets or property](#).

Dividends received through a partnership or trust

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Generally, beneficiaries of a trust who are presently entitled to a part of the trust income that is attributable to franked dividend income and partners of a partnership who have received franked dividend income are entitled to a tax offset for this income. (There are some exceptions to this rule, see [Anti-avoidance rules](#).)

If you are a beneficiary of a trust, the tax offset is:

- available only if there is some positive amount of trust income (as determined under section 95 of the *Income Tax Assessment Act 1936*) that you are presently entitled to
- the portion of the franking credit attached to the franked dividend equivalent to your share of the net trust income attributable to the franked dividend.

If you are a partner in a partnership, the tax offset is:

- available even where the partnership has sustained a loss
- the portion of the franking credit attached to the franked dividend equivalent to your interest in the partnership.

Because both the trust income and partnership income has been grossed up to include the franking credit at the trust and partnership level, you do not need to gross up the amounts received in your own tax return.

Anti-avoidance rules

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You are not eligible for the tax offset or a refund of excess franking credits if the anti-avoidance rules are triggered.

The anti-avoidance rules include the:

- holding period rule
- related payments rule.

Holding period rule

The holding period rule generally applies to shares bought on or after 1 July 1997. It requires you to hold the shares 'at risk' for at least 45 days (90 days for preference shares and not counting the day of acquisition or disposal) to be eligible for a tax offset for the franking credit. The holding period rule only needs to be satisfied once for each purchase of shares.



This rule does not apply if your total franking credits entitlement for the year of income is below \$5,000.

Related payments rule

The related payments rule applies to arrangements entered into after 7.30pm (Australian Eastern Standard Time) on 13 May 1997. It applies to you if you make, are under an obligation to make, or are likely to make, a related payment. A related payment is a payment that passes on the benefit of the franked dividend to someone else.

If the rule applies, and you do not hold the shares 'at risk' for a period of 45 days (90 days for preference shares), you are prevented from receiving a tax offset for the franking credits. The related payments test must be satisfied for each dividend payment and distribution.



This rule applies even if your total franking credits entitlement for the year is below \$5,000.

These two rules also apply to beneficiaries of trusts and partners of partnerships.

If you are a partner in a partnership or a beneficiary of a trust, both you and the partnership or trust must satisfy the two rules to be eligible for the franking tax offset or refund of excess franking credits.

Small shareholder exemption

The small shareholder exemption allows you to ignore the holding period rule if all of your franking tax offset entitlements in a given year (whether received directly from a shareholding, or indirectly through a trust or partnership) total less than the maximum franking tax offset ceiling of \$5,000.

If you qualify for the small shareholder exemption, you may still be entitled to a franking tax offset (provided that the related payments rule does not apply to you).

If you have a total of less than \$5,000 in franking credits (whether from one parcel of shares or from more than one), you are entitled to a franking tax offset for all shares that satisfy the related payments rule. In other words, the holding period rule does not prevent you claiming the franking tax offset in this case.

If you have more than \$5,000 in franking credits from a single parcel of shares and did not satisfy the holding period rule for those franking credits, you have no entitlement to a franking tax offset for the entire franking credits. In other words, you cannot claim the small shareholder exemption and restrict your claim of franking credits to a maximum of \$5,000. Because you cannot claim a franking tax offset, you do not include the affected franking credits in your assessable income.

If you have a total of more than \$5,000 of franking credits from a portfolio of shares made up of several parcels, you are entitled to a franking tax offset only for those shares that satisfy the holding and related payments rules. Therefore, you cannot claim the franking tax offset for any parcels of shares that fail either the holding or the related payments rule. If you cannot claim a tax offset for any dividends, you do not include those franking credits in your assessable income.



Find out more

[You and your shares.](#)

Applying for a refund of franking credits for individuals

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If you are required to lodge a tax return, you can include your claim for a refund of any franking credits that exceed your tax payable. You do not have to lodge a separate claim form.

If you are not required to lodge a tax return, you can claim a refund by lodging an application for a refund of franking credits for individuals.

You will need to retain in your records the dividend statements from the:

- company that paid the franked dividend, or
- trust or partnership that made the distribution containing the franking credit.

These statements should show the amount of the net dividend, the franked amount, unfranked amount and the franking credit, together with the date of payment.

Lodgment options

Online

You can now apply for a refund of your franking credits online.

Lodging online allows us to complete your form with your personal details and the dividend records that have been reported to us. This will save you time and make your claim more accurate.

If you don't already have one, you will need a myGov account.

A myGov account gives you access to a range of government services online, all in one place. Go to www.my.gov.au<https://my.gov.au/LoginServices/main/login>, complete the simple registration process, and link to the ATO.

Once you have logged into your ATO online account, select Tax', 'Income tax' and then 'Refund of franking credits' from the menu.

Your personal details will automatically download for you making the process very streamlined.

The dividend records that have been reported to us will also automatically download for you. All you need to do is check the information, add any missing details and submit your form. The majority of dividend records are usually available by late-July so if you wait until then, most of the work will be done for you.

Forms submitted online are usually processed within 12 business days.

Over the phone

You can complete an Application for refund of franking credits for individuals and then follow a series of automated questions to lodge your form over the phone.

You will need to complete an [Application for refund of franking credits for individuals](#).

When you have completed your application, you can phone 13 28 65 to lodge it – make sure you have the completed application with you when your phone. Enter your tax file number (TFN), and then press 2.

After you have verified your identity you will hear a series of automated questions asking you for the information on your application. Simply provide your answers by speaking into the phone.

At the end of the lodgment you will be given a receipt number. Write this number in the space provided on page 2 of your form.

Do not send your completed application to us. Keep it with your other financial records.

Most forms lodged over the phone are processed within 12 business days.

Paper

You can complete a paper [Application for refund of franking credits for individuals](#). Lodgement instructions are provided in the form.

Paper claims will take up to 50 business days to process.



Find out more

- [You and your shares](#)

For help applying this to your own situation, phone us on **13 28 61**.

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

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