Franking Credits and Tax

Definitions:

Dividend (D)	Dividend on shares
Franking Credit (F)	Credit for tax already paid by company, given to shareholder in addition to the dividend.
Grossed-up dividend (G) –	Dividend plus Franking Credit

Relationships:

G = D+F

F = 0.3 * G

D = 0.7 * G

Tax calculation

Initially when calculating an individual's tax, the grossed-up dividend is used; that is both the dividend and the franking credit are subject to tax.

The full amount for the franking credit is then subtracted from the initially calculated tax.

Examples using 2017-2018 tax rates (and ignoring other deductions).

Example 1.

Person has taxable salary of $50,000, and $10,000 grossed up dividends ($7,000 dividends and $3,000 franking credits).

Total income declarable = $50,000 + $10,000 = $60,000

Tax on $60,000 = $11047

Deduct franking credits of $3,000

Tax = $11,047 - $3,000 =$8,047.

Example 2.

Person has taxable salary of $40,000, and $10,000 grossed up dividends ($7,000 dividends and $3,000 franking credits).

Total income declarable = $40,000 + $10,000 = $50,000

Tax on $50,000 = $7,797

Deduct franking credits of $3,000

Tax = $7,797 - $3,000 = -$4,797.

Example 3.

Person has taxable salary of $30,000, and $10,000 grossed up dividends ($7,000 dividends and $3,000 franking credits).

Total income declarable = $30,000 + $10,000 = $40,000

Tax on $40,000 = $4,547

Deduct franking credits of $3,000

Tax = $4,547 - $3,000 = $1,547.

Example 4.

Person has taxable salary of $20,000, and $10,000 grossed up dividends ($7,000 dividends and $3,000 franking credits).

Total income declarable = $20,000 + $10,000 = $30,000

Tax on $30,000 = $2,242

Deduct franking credits of $3,000

Tax = $2,242 - $3,000 = -$758. Person receives refund of $758

Example 5.

Person has taxable salary of zero, and $10,000 grossed up dividends ($7,000 dividends and $3,000 franking credits).

Total income declarable = $0 + $10,000 = $10,000

Tax on $10,000 = $0

Deduct franking credits of $3,000

Tax = $0- $3,000 = -$3,000. Person receives refund of $3,000

Example 6.

Person has taxable salary of zero, and $37,000 grossed up dividends ($25,900 dividends and $11,100 franking credits).

Total income declarable = $0 + $37,000 = $37,000

Tax on $37,000 = $3,572

Deduct franking credits of $11,100

Tax = $3,572 - $11,100 = -$7,528. Person receives refund of $7,528

Example 7.

Person has taxable salary of zero, and $40,000 grossed up dividends ($28,000 dividends and $12,000 franking credits).

Total income declarable = $0 + $40,000 = $40,000

Tax on $40,000 = $4,547

Deduct franking credits of $12,000

Tax = $4,547 - $12,000 = -$7,453. Person receives refund of $7,453