



RICHARDS FINANCIAL

FRANKING CREDITS AND YOUR SMSF

First of all, what are franking credits and how do they benefit SMSFs?

Under the Australian tax system companies pay 30 per cent tax on their profits. When these profits are then passed on to their shareholders in the form of dividends, the company also hands the shareholders a credit for the tax the company has already paid (the “franking credit”). The individual shareholder then pays tax on the profit they received from the company less the credit for the tax the company has already paid. The franking credit ensures that the company profits are taxed at a shareholder’s marginal tax rate.

For SMSFs in retirement phase which generally have a zero tax rate, this means they can receive a full refund of the tax already paid by the company on their behalf.

SMSFs who have members in accumulation phase benefit from franking credits reducing the tax they pay on their SMSF’s earnings and may receive partial refunds of their franking credits depending on the fund’s overall tax liability.

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