



# Franking credits & your SMSF

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You may have noticed significant media coverage recently regarding the Australian Labor Party's proposed policy to stop SMSFs from receiving tax refunds for the franking credits they receive in conjunction with the dividends paid from Australian companies they own.

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.

Labor, if elected, propose to change the law so that SMSFs and other low tax paying entities will no longer be able receive a tax refund for the franking credits they receive after 1 July 2019. This will affect all SMSFs that own Australian shares.

This could have a significant impact on the retirement income of many SMSF members in retirement. For example, an SMSF with \$200,000 held in Australian shares could lose around \$4,285 per year in tax refunds from their franking credits. This impact could be a significant hit to your annual retirement income.

## **How can we help?**

Please contact us if you would like to discuss how this may impact you in more detail.

You should, before acting on this information, consider the appropriateness of this information having regard to your personal objectives, financial situation or needs. We recommend you obtain financial advice specific to your situation before making any financial investment decision.