FRANKING

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What Is a Franked Dividend?

A franked dividend is an arrangement in Australia that eliminates the double taxation of dividends.

The shareholder can reduce the tax paid on the dividend by an amount equal to the tax imputation credits.

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Key Takeaways

- A franked dividend is paid with a tax credit attached and is designed to eliminate the issue of double taxation of dividends for investors.
- The shareholder submits the dividend income plus the franking credit as income but will only be taxed on the dividend portion.
- Franked dividends can be fully franked or partially franked.
- Franked dividends help to create more stable and competitive markets by lowering the tax burden on dividends.

Understanding Franked Dividends

Dividends are paid by companies to their shareholders out of profits. These payments are often monthly, quarterly, semi-annually or annually, but can also be paid out through special distributions.

Since these payments are drawn from profits, it implies dividends have already been subject to tax at the corporate level, the individual doesn't need to pay the tax.

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Franked dividends eliminate this double taxation by giving investors a tax credit, commonly known as a franking credit, for tax the business paid on that dividend.

Franked dividends can be **fully franked (100%)** or **partially franked (less than 100%)**.

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Companies use of Franking

Since the company has already paid corporate tax on the profits distributed, shareholders receive a tax credit, reducing their tax liability on the dividend income and preventing double taxation.

This leads to higher after-tax returns. Franked dividends signal a company's profitability and stability, boosting investor confidence.

Benefits of Franked Dividends

The tax advantages of franked dividends for investors are apparent, but there are additional benefits for markets and society.

Fully franked
Provide large companies price stability investors hold the stock.

Partially franked
Offer some stability, but less tax is paid and can reinvested in operations.

No dividend
Stock price is more speculative, and profits are invested in operations and growth.

Bottom Line

Franked dividends offer significant benefits to shareholders, primarily through tax advantages. Shareholders receive a tax credit for the tax already paid, reducing their tax liability on the dividend income.

Frank dividends signal a company's profitability and stability. For Australian investors, franked dividends can be advantageous due to the country's taxation system, optimizing tax outcomes and boosting investment attractiveness.