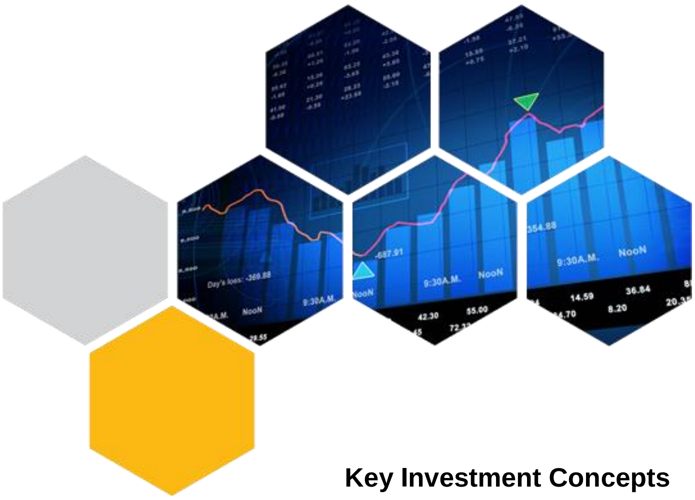

Key Investment Concepts

Franking Credits

Aon Hewitt Financial Education Series

What is a franking credit?

A franking credit is effectively a tax credit. It isn't cash; you won't physically receive the franking credit as part of your dividend. It is used to reduce the tax you pay on the dividend income. You can also use it to reduce the tax payable on your other income. In some cases, if you haven't used all of the franking credits, you can receive them back as a tax refund after lodging your income tax return. If your only income is in the form of dividends, there is a special form you can complete to get your excess franking credits back without having to complete an income tax return.

How does it work?

A company generates taxable income of $1,000. It then pays tax of $300 (the company tax rate is 30%). This then means that the company can pay out $700 as a cash dividend ($1,000 - $300). But along with the $700 cash it also pays a franking credit of $300. The table below shows the tax benefits:

Tax Rate	**0%**	**19%**	**32.5%**	**37%**	**45%**
Dividend	$700	$700	$700	$700	$700
Franking Credit	$300	$300	$300	$300	$300
Taxable Income	$1,000	$1,000	$1,000	$1,000	$1,000
Tax Payable	$0	$190	$325	$370	$450
Less Franking Credit	($300)	($300)	($300)	($300)	($300)
Tax Payable (Refund)	($300)	($110)	$25	$70	$150

As you can see if your tax rate was 0%, you receive the full franking credit back when you lodge your tax return. For someone on the 32.5% tax rate you pay very little tax on a fully franked dividend, and for someone on the highest marginal tax bracket you effectively pay tax at 15%.

This makes investing in Australian companies that pay fully franked dividends very tax-effective.

Your financial adviser can provide you with more information on how the Australian Imputation system works, and how to invest to take advantage of franking credits.

Aon Hewitt Financial Advice Limited | ABN 13 091 225 642 AFSL No 239183

This document, including all tax and super calculations, has been prepared using legislation in place as at 1 July 2018.

Empower Results®