Transferring franking credits

Key points

On consolidation:

- the franking surpluses of subsidiary members are transferred to the head company, and
- the head company operates a single franking account for the group.

At consolidation

If the subsidiary member's franking account is in:

- surplus – the balance is transferred to the head company, setting the subsidiary member's franking account balance to zero
- deficit – the subsidiary member becomes liable for franking deficit tax, with a corresponding credit in the franking account setting its franking account balance to zero.

While it is part of a consolidated group, the subsidiary member's franking account continues to exist but is inoperative.

After consolidation

After consolidation, the head company operates a single franking account for the group. Activities that would otherwise have caused a franking credit or debit to arise in the franking account of a subsidiary member will instead give rise to a franking credit or debit in the franking account of the head company.

Distributions by a subsidiary member

Generally, a subsidiary member cannot frank frankable distributions to entities outside the group – only the head company can.

However, a subsidiary member can make frankable distributions in relation to disregarded employee shareholdings and non-share equity interests as well as membership interests held in it by a non-resident. Such distributions are treated as having been made by the head company – this gives rise to a franking debit in the head company's franking account.

Note

MEC groups

Special rules apply in relation to frankable distributions made by certain subsidiary members in a multiple entry consolidated (MEC) group.
→ 'Multiple entry consolidated (MEC) groups', C10-1

More information

More detailed technical information on the treatment of franking credits under consolidation is provided in Part C of this manual. → 'Treatment of franking credits', C5-1