

FSC GUIDANCE NOTE 39



Guidance Note 39: Equity Trusts - Quotation of Dividend Imputation Credits

March 2021

FSC Membership this Guidance is relevant to:	This Guidance is relevant to all FSC Members; however it is of particular relevance to FSC Members who are Managers of Schemes in receipt of dividend income.
Date of this version:	16 March 2021
History (prior versions) of this Guidance	Previous Versions were issued as FSC Standard 2 dated 19 July 1999 and September 2006. FSC Standard 2 was converted to Guidance Note 39 in this version of the document.
Main Purpose of this Guidance:	This Guidance details the following matters: (a) the formats Managers may choose to adopt when reporting to investors on dividend imputation credits derived from investments in Australian shares; (b) the formula for calculating the franking level of distributed Income; (c) the basis for quoting Franking Credits.

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1 Title

- 1.1 This Guidance may be cited as FSC Guidance No. 39 'Equity Trusts - Quotation of Dividend Imputation Credits'.

2 Date of Issue

- 2.1 Originally issued 19 July 1999; updated September 2006 as FSC Standard 2 Equity Trusts – Quotation of Dividend Imputation Credits. This revision was issued on 16 March 2021. The purpose of this revision is to make certain minor amendments to update this document and to convert it from a Standard to a Guidance Note.

3 Effective Date

- 3.1 This Guidance may be applied in relation to the quotation of dividend imputation credits on or after 1 March 2021.

4 Application

- 4.1 When a Manager reports the dividend imputation credits derived from its investments in Australian shares, the Manager may choose to report the credits in one of the following formats:

(i) as franking levels, being expressed as a percentage of Income; or

(ii) as a separate item.

- 4.2 A Manager may elect to report Franking Credits as a franking level. The percentage franked format is intended to permit an improved comparison between Income received from unit trusts and the dividends received from direct investment in shares. While the Manager may have received Franking Credits from different classes of dividends which have resulted from changes to the general company tax rate, the individual credits have lost their character by the time they are distributed by Managers. Accordingly, franking levels are expressed in terms of the general company tax rate prevailing at the time the Income is distributed.

5 Definitions

'Franking Credit' has the same meaning as defined in FSC Guidance Note No. 5.00 'Industry Terms and Definitions'.

'Income' has the same meaning as defined in FSC Guidance Note No. 5.00 'Industry Terms and Definitions'.

'Manager' has the same meaning as defined in FSC Guidance Note No. 5.00 'Industry Terms and Definitions'.

'Investor' has the same meaning as defined in FSC Guidance Note No. 5.00 'Industry Terms and Definitions'.

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6 Franking Level of Distributed Income

- 6.1 The Franking Level of distributed Income is calculated in accordance with the formula:

Franking Level % =

$$\frac{A}{B} \times \frac{(1 - t)}{t} \times 100\%$$

where:

A is the amount of Imputation Credit

B is the amount of the Income distributed, which includes dividends received, and interest less any tax deductible fees and costs deducted from the Income less realised capital gains; exempt income; and other non-assessable income and amounts.

t is the actual tax rate applying to the credit, expressed in decimal notation

- 6.2 A Manager may elect to report Franking Credits as a separate item in the following format:

an Effective Distribution of \$x.xx, comprising \$y.yy of net distribution plus \$z.zz by way of Franking Credits.

7 Basis for Quoting Franking Credits

- 7.1 For advertising purposes, it is recommended that Managers quote the figure pertaining to the last full financial year.
- 7.2 For existing unitholders, Managers may quote the figure applicable to any distribution on which a tax break up has been carried out.