



## Trusts and franking credit integrity rules

---

To be entitled to a franking credit tax offset, a taxpayer must be a '[qualified person](/Business/Imputation/Integrity-rules/Franking-credit-trading/?anchor=Qualifiedpersonstest#Qualifiedpersonstest)' in relation to a franked dividend.

For shares acquired by a trustee after 31 December 1997, a trustee must be a qualified person and considered the true economic owner of the shares (so that the shares are held at risk) to distribute the franking credits they've received to beneficiaries.

The beneficiary must also be a qualified person to claim the franking credit tax offset from any franked distribution they're entitled to. The trustee and the beneficiary can meet this test by satisfying the [holding period rule](/Business/Imputation/Integrity-rules/Franking-credit-trading/?anchor=Holdingperiodrule#Holdingperiodrule) and the [related payments rule](/Business/Imputation/Integrity-rules/Franking-credit-trading/?anchor=Relatedpaymentsrule1#Relatedpaymentsrule1).

An individual beneficiary can be a qualified person if they receive less than \$5,000 in franking credits (from all sources) in an income year. This is called the [small shareholder exemption](/Individuals/Investments-and-assets/Investing-in-shares/Owning-shares/Refunding-franking-credits---individuals/?&anchor=Holdingperiodrule#Holdingperiodrule).

A discretionary trust can make a [family trust election](/General/Trusts/In-detail/Family-trusts---concessions/?anchor=FamilyTrustElections#FamilyTrustElections) (FTE) for its beneficiaries to be considered a qualified person. This excludes them from having to pass the holding period rule.

The FTE entitles the trust to access certain tax concessions such as franking credits. The trade-off is that [family trust distribution tax](/General/Trusts/In-detail/Family-trusts---concessions/?page=1#FamilyTrustDistributionTax) (FTDT) is imposed when distributions are made outside the [family group](/General/Trusts/In-detail/Family-trusts---concessions/?page=1#Familygroup).

## **Our commitment to you**

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

## **Copyright notice**

© Australian Taxation Office for the Commonwealth of Australia

You are free to copy, adapt, modify, transmit and distribute this material as you wish (but not in any way that suggests the ATO or the Commonwealth endorses you or any of your services or products).