



ATO NOTE

Issue date: 11 December 2018

To: Warwick Anderson, General Manager Network Finance and Reporting,
Australian Energy Regulator

Subject: Australian Energy Regulator - Franking account reconciliation

Tax payable - Taxation Statistics

The tax payable figure in *Taxation Statistics* is an accrual figure relating to the financial year. Obviously, this is different to company cash collections.

Official collections figures – Final Budget Outcome

Company tax cash collections for each financial year are published in the Final Budget Outcome¹. These figures include not only income tax but also the penalties and general interest charge relating to failures to meet tax obligations. The penalties and general interest charge do not give rise to franking credits.

	<i>Final Budget Outcome (\$m)</i>
2011	56,262
2012	66,584
2013	66,911
2014	67,273
2015	66,174
2016	62,897

Moreover, as per the ATO Note of 17 August 2018, we are of the opinion that the discrepancy in the reconciliation of the franking account balance is mainly due to other factors. The difference between the cash and accrual estimate only accounts for a small fraction of the discrepancy.

Company income tax return data

To support the view that the discrepancy in the reconciliation is partially attributable to volatility in the data arising from companies entering and leaving the system, we looked at companies which lodged company income tax returns each year between 2010-11 and 2015-16. We looked at yearly franking account elements, instead of aggregating the elements over time, to reduce the accumulation of errors. The gap in the reconciliation of the franking account balance from data volatility is estimated to be less than 1.5% per year.

¹ Final Budget Outcome 2011-2012, Final Budget Outcome 2012-2013, Final Budget Outcome 2013-2014, Final Budget Outcome 2014-2015, Final Budget Outcome 2015-2016.

Credits leaving the imputation system or 'wastage'

Companies leaving the system

As noted previously and suggested above, a time series reconciliation of the franking account balance is also flawed because of the 'wastage' of franking credits locked up in companies which no longer lodge (because they were absorbed into a consolidated group, went into administration or were wound up etc.). Using income tax return lodgement data, we think there are approximately 1% -2.5% of total available franking credits for distribution lost each year by companies who no longer lodge income tax returns. This impact accumulates over time, producing a more pronounced error effect with attempt to reconcile the franking account balance.

Distribution to non-residents

Franking credits distributed to non-residents are not claimed back through the imputation system.

We estimate 35-40% of total franking credits paid out by companies per year are going to non-residents. Of the net franking credit distribution (net of franking credits received by companies) we estimate that 40-50% are going to non-residents.

Net distribution (actual credits claimed, not including companies, vs distributions to entities who can use credits, not companies)

<i>Income Year</i>	<i>Net franking credit usage</i>
2012	50%
2013	56%
2014	53%
2015	59%
2016	51%

This net franking credit usage is the proportion of *franking offset used* by individuals, superannuation funds, Self-Managed Super Funds and charities compared to the **net** franking credits distributed². (This includes cash refunds where the taxpayer does not have sufficient tax owing to offset against).

Assumed imputation credits distributed to residents vs non-residents as a percentage of imputation credits distributed

<i>Income Year</i>	<i>Residents</i>	<i>Non-residents</i>
2012	61%	39%
2013	62%	38%
2014	62%	38%
2015	65%	35%
2016	63%	37%

² The same method for calculating **net** franking credits distributed was used here as above in 'Distribution to non-residents'

This split of franking credits distributed between residents and non-residents is the proportion of franking credits received by individuals, superannuation funds, self-managed super funds, charities and companies to the **total** franking credits distributed.³

Distribution to non-lodgers/non-claimants

The amount of franking credits distributed to non-lodgers or non-claimants is difficult to estimate due to the nature of the data but we consider this number to be relatively small compared to the other franking credit distributions of the system.

³ The same method for calculating **total** franking credits distributed was used here as above in 'Distribution to non-residents'