BOYD INTERNATIONAL PTY LTD

INTERNATIONAL TAXATION SPECIALISTS

A C N 007 336 067

SUBMISSION

TO: **BOARD OF TAXATION**

FROM: **KELVIN BOYD / CRAIG VAN WEGEN / DENISE HONEY**

DATE: **31 OCTOBER 2002**

RE: **REVIEW OF INTERNATIONAL TAXATION ARRANGEMENTS**

---

1. We have reviewed the Consultation Paper prepared by the Commonwealth Department of Treasury regarding the Review of International Taxation Arrangements and we have identified the following main issues that affect our clients:

   1.1 Provision of domestic shareholder tax relief for unfranked dividends paid out of foreign source income (Option 2.1(A));

   1.2 Consideration of whether to exempt Australian managed funds that follow widely recognised indices from the foreign investment fund rules (Option 4.3); and

   1.3 Consideration of whether to amend the foreign investment fund rules to allow fund management services to be an eligible activity for the purposes of the foreign investment fund rules (Option 4.5).

2. We will deal with 1.1 above in detail since this is the main issue that we believe requires the Government's immediate attention. The remaining issues we briefly address in turn.

Option 2.1(A)

The Issues

3. Firstly, we express herein the concerns of this firm and our clients as to the inadequacies of Australia's dividend imputation system in dealing with foreign sourced income derived by Australian companies and the flow through of foreign tax credits, concessions and the tax sparing arrangements contained in numerous double tax agreements (**'DTA's'**).

4. In this regard, we wish to address the following issues:

   4.1 the dividend imputation system and the flow on effect of tax paid by companies in the hands of the ultimate taxpayer, being the shareholders.

   4.2 the dividend imputation system, Sections 23AH and 23AJ of the Act and the foreign tax credit system.

   4.3 the interaction between Sections 23AH and 23AJ of the Act and the tax sparing arrangements in DTA's.

5. The Australian Government has consistently over recent years been attempting to encourage investment and expansion overseas, whether by existing Australian business or new Head Quarter business, and predominantly within the Australasian region. However, in view of the current application of the dividend imputation system, there appears to be little incentive to invest offshore and repatriate the income back to Australian shareholders.

6. Alternative structures, that is, trusts and partnerships, pass on tax sparing, foreign income exemptions and foreign tax credits to the ultimate taxpayer. Shareholders of companies are being prejudiced by investing in companies rather than trusts or partnerships.

7. We question whether the current proposal at Option 2.1(A) of the Paper goes far enough to alleviating any form of double taxation that works to deter investments by Australian entities offshore – an in fact encourages the use of predicated structures.

8. We raise the notion of using two franking accounts. The current 'C' class franking account would remain. An additional franking account, 'D' class, would be implemented to account for tax deemed to have been paid on exempt foreign

income, spared income pursuant to the DTA's and income on which foreign tax has been paid.

9. While the broader issue of the inefficiencies of the system is politically sensitive, we recommend that the more narrow issue of Australia taxing underlying shareholders on other countries tax sparing provisions, exempt foreign income and income on which foreign tax has been paid, should be addressed immediately by the Australian government from both an economic and equity perspective.

Australia's Corporate Tax Imputation System

10. Australia's corporate tax imputation system came into effect on 1 July 1987. This was introduced to impute to shareholders the Australian tax paid on income derived by a resident company in which they held shares so as to relieve the so called 'double tax' on such dividend income.

11. The central aspect of Australia's imputation system is that a company which is a resident of Australia will be required to maintain a franking account which will record the company's franking credits and franking debits. Franking credits will arise in the franking account primarily when the company pays tax at the corporate level. A franking debit will usually arise in a franking account when franked dividends are paid to shareholders.

12. The extent to which a franked dividend can be paid will depend on the current state of the franking account. That is, a franked dividend can generally only be paid to the extent that there is a franking surplus in the account at that time, and this broadly implies that the company has paid tax on this income. A franking surplus arises when the total of franking credits exceeds the total of franking debits.

13. If the company pays a franked dividend, the shareholder (assuming in this case that the shareholder is a resident individual shareholder) will be required to include not only a dividend received but also the franking credit attached to the dividend in his or her assessable income. This grossing-up effect ensures that the individual is taxed on company profits before tax. After applying the appropriate rates of tax to determine the tax payable by the shareholder on the grossed up dividend, a credit in the shareholder's assessment will be available for the amount of the franking credit. This will ensure that the shareholder will receive the dividend with full credit for company tax paid, and thus avoiding 'double tax'.

14. Tax on company profits is paid at the ultimate taxpayer's marginal rate of tax. If the shareholder pays tax at less than the corporate rate there will be an excess credit which will be available to be utilised against tax payable on other income.

15. One of the features of Australia's corporate tax imputation system is that to the extent that a resident company does not pay tax on its corporate profits the company will not be in a position to pay a franked dividend. A company may not pay tax on all of its corporate profits because of various reasons. For example a company will not pay tax on all its corporate profits if it is in receipt of dividends from a non resident company or is in receipt of foreign branch profits, both of which may be exempt from Australian tax pursuant to Sections 23AH and 23AJ of the Act. The effect of the Section 23AH and 23AJ exemptions, if applicable, will be to eliminate the Australian tax payable on that foreign income in the hands of the company. Should a resident Australian company derive such exempt foreign income, and in turn, pass that income onto its ultimate resident individual shareholders, then the shareholders will be in receipt of an unfranked dividend. Therefore, although the Act specifically grants an exemption on certain foreign income under Section 23AH and 23AJ, the benefit of these exemptions is wholly or totally eliminated in the hands of the ultimate individual shareholder when they receive this income in the form of an unfranked dividend. This result is due to the shortcoming in the workings of the dividend imputation system.

16. The taxing of such exempt foreign income works against the spirit of the tax sparing provisions contained within a number of Australia's DTA's.

Sections 23AH & 23AJ of the Income Tax Assessment Act 1936 and the Foreign Tax Credit System

17. Pursuant to Section 23AJ of the Act, Australian resident companies are exempt from Australian tax on 'non-portfolio dividends' paid to them after 1 July 1990 by a foreign company (whether that foreign company is resident in a listed or unlisted jurisdiction), if the dividend is an 'exempting receipt' of the Australian company.

18. 'Non-portfolio dividend' is defined in Section 317 of the Act. It means a dividend paid by the non resident company to a company shareholder having a 10% or greater voting interest in it.

19. Similarly, under Section 23AH of the Act, Australian companies are exempt from Australian tax on foreign branch income paid to them after 1 July 1990 which is

not ‘eligible designated concession income’ or ‘adjusted tainted income’ in relation to any listed country.

20. Australia operates a foreign tax credit (FTC) system to allow a taxpayer a FTC on foreign income, but only to the extent that foreign tax has been paid on that foreign income. The amount of the FTC is limited to so much as would be payable on the income in Australia or the tax actually paid, whichever is lesser.

21. Section 23AH and Section 23AJ, together with the FTC system are designed to effectively prevent double taxation. In the case of companies, double taxation is only avoided at the corporate level. FTC’s applied by companies do not flow to the shareholders. The FTC reduces the amount of tax paid by the company and consequently the amount of franked dividends that are available to be paid to shareholders. Foreign income in a company to which foreign tax has been paid is, therefore, paid to shareholders as unfranked dividends. The shareholders are taxed on the entire unfranked dividend at their respective marginal tax rate.

22. The tax sparing provisions of Australia’s DTA's interact with Sections 23AH and 23AJ in that the tax sparing provisions apply to treat the income as having been effectively subject to tax in the foreign jurisdiction to the extent of the tax foregone.

23. Whilst the provisions of Sections 23AH and 23AJ and the tax sparing provisions interact to eliminate tax at the Australian company level, Australia’s corporate tax imputation system does not allow for the tax spared to be passed on to the underlying shareholders of the Australian company. As the Australian company will not have suffered Australian tax on such exempt foreign income, the company will not be able to pass on a fully franked dividend to its shareholders in respect of this income. This inadequacy in Australia’s corporate tax imputation system effectively means that the tax sparing provisions of Australia’s DTA's are not preserved at the underlying shareholder level.

24. Take, for example, a resident Australian company in receipt of net income of A$150,000 (A$50,000 dividend to which section 23AJ applies, A$50,000 foreign branch profits to which section 23AH applies and A$50,000 income which is sourced in China, but exempt from tax in that country and does not qualify for exemption under Sections 23AH and 23AJ). The entire A$150,000 would not be subject to Australian tax in the hands of the company. Therefore the company would not be required to make an entry into its franking account. The retained earnings of the company would increase by A$150,000 which is likely to be paid

out to shareholders as an unfranked dividend. The ultimate shareholder would therefore pay tax on the entire A$150,000 at their marginal rate of tax.

Tax Sparing

25. The double taxing concept extends to tax concessions provided in foreign countries and spared in Australia. Although Australia's imputation system does not 'double tax' in this instance, it has the effect of taxing what should be regarded as already taxed income.

26. It is common place for developing countries to encourage foreign investment by offering various tax incentives to foreign investors, such as pioneer status concessions. The authorities in these developing countries are anxious to ensure that any incentives that they do offer are preserved and that they are not simply giving up tax which will ultimately be collected by the foreign investors' home government revenue authority.

27. The way in which these developing countries seek preservation of tax incentives is by the inclusion of tax sparing provisions within their DTA's. These tax sparing provisions provide that the home jurisdiction recognises, for the purpose of computing credits or allowing exemptions to the foreign investor, the amount of tax spared in the foreign jurisdiction.

28. Australia has embraced these tax sparing provisions in a number of its DTA's with developing countries particularly in the South East Asian region.

29. We note, however, that the Treasurer has outlined a proposal to cease entering into further tax sparing arrangements and not to renew existing arrangements (Treasurers' Press Release No 134, 24 December 1996).

30. In light of this announcement, the inclusion of tax sparing in this submission may be seen to be no longer relevant. However, when we consider that recent tax sparing arrangements (eg Vietnam double tax agreement - Treasurers' Press Release No 117, 22 November 1996) put in place will apply to residents of Australia for a period of 10 years from the date of effect, the subject of tax sparing will continue to be relevant for some time. Therefore, it is not only relevant, but it is essential that tax sparing be included in this submission.

31. Certain countries with which Australia has a double tax agreement that provides for tax sparing often provide incentives to Australian residents to invest in those countries. They do so with the understanding that the Australian Taxation

authorities will maintain the tax incentives offered by the foreign country through their tax sparing arrangements. Whilst this may be the case in the hands of the Australian company, it most certainly is not the case in the hands of the ultimate individual shareholder as outlined above.

32. The first major implication of the inability to pass on tax sparing benefits to underlying Australian shareholders under our current corporate tax imputation regime is that Australia's domestic tax system is working against the spirit of certain DTA's which provide that tax spared or foregone should be treated as having been paid. In this regard, the foreign jurisdiction is effectively giving up taxation revenue through the provision of various tax incentives so that the Australian revenue authorities can ultimately collect tax revenue from the underlying shareholders of the foreign investor. This is clearly not the intention behind the inclusion of tax sparing arrangements in Australia's DTA's with its trading partners.

33. A second issue is that by not passing on tax sparing benefits to the underlying Australian corporate shareholders, the Australian revenue authorities are not encouraging the net export of capital to foreign markets which therefore has a detrimental impact on Australia's balance of payments account.

34. This problem is compounded by the fact that to the extent that Australian companies do export capital to foreign markets there is no incentive for the repatriation of profits to Australia given that the tax sparing provisions cannot be passed on to the underlying shareholders of the Australian investor company.

35. The current inadequacies of Australia's imputation system also prejudice corporate Australia in relation to their competitiveness in the world market. Taxation is really just another cost of doing business and is factored into investors' profit margins accordingly. Therefore, if Australian business cannot ultimately avail themselves of concessions specifically granted in other countries tax jurisdiction whilst their foreign competitors can, Australian business will be less competitive than they should otherwise be. The effect of this is to stifle Australian business in their efforts to branch out abroad. This result would appear to contradict the Australian Government's current intention of encouraging Australian business to branch out into the Asian region.

Trusts & Partnerships

36. It is interesting to briefly analyse the prejudices placed upon investors in companies as opposed to beneficiaries of a trust or a partner in a partnership.

37. The income of both trusts and partnerships maintains its characteristics when distributed to the beneficiary or partner. The effect being that the ultimate taxpayer retains any exemptions held by the trust or partnership, as allowed to them.

38. As discussed above, the same relief is not extended to the shareholders of companies as a result of an inadequate imputation system.

39. Various legislative changes have expressed the Australian Government's intention to discourage taxpayers from using trust structures. However, in view of the inequities of operating through a company at the present time, the Government's attempts are in vain.

40. The theory behind the Australian taxation system is that it should not bias any one taxpayer. The current company dividend imputation system operates contrary to this principle, whereas a complete dividend imputation system detailed in this report would compliment this principle.

The Proposed Solution

41. We outline below a suggested modification to the dividend imputation system and company franking account requirement. The modification attempts to overcome the inefficiencies as outlined in this report and deals exclusively with tax sparing income and foreign income to which sections 23AH and 23AJ apply.

42. In order to pass-on the foreign income tax concessions in the simplest manner, we suggest companies make an entry to their franking account. The amount of the entry will be the amount of deemed tax. Deemed tax is the amount of tax that, but for the specific exemption, would have been paid on that income. For example, on the basis of deemed tax paid, foreign exempt income of $100,000 will result in a franking account credit entry of $70,000 ($100,000 x 30% x 70/30).

43. Upon processing this entry, the company has the ability to pay franked dividends to shareholders. The effect to the individual shareholder on the highest marginal tax rate is as follows:

Franked dividend	$ 70,000
Imputation credit	30,000
Taxable income	$100,000
Tax payable thereon (47%[1])	$ 47,000
Less imputation credit	(30,000)
Total tax payable	$ 17,000

44. The total tax payable is $17,000 as opposed to the current treatment whereby the taxpayer's tax liability would be $47,000, resulting from an unfranked dividend. It must also be remembered that if tax has already been paid in a foreign country, the effective tax rate is generally in vicinity of 67%.

45. We do however, foresee an inequitable result from this approach from the Australian revenue perspective. That is, individual taxpayers with a marginal tax rate of less than 30% (the current company tax rate) have the ability to reduce tax on other income by the excess of imputation credits.

46. Franking credits arising from concessional tax treatments are deemed credits and have not been physically paid. It would be inequitable to allow individual taxpayers to obtain a tax benefit on other income or a refund of the excess credit from tax that has not been paid, but rather merely foregone. The principle is that the concession granted under the Act should be restricted to the income specifically contemplated.

47. It may, therefore, be appropriate to implement a second franking account, being a 'D' class franking account. This D class franking account would record deemed tax paid on concessionally treated foreign income only. A deemed tax entry would be made to the account as previously mentioned. The franking account would be maintained in the same way as the current 'C' class franking account and dividends would be paid in the same manner.

[1] 47% does not include the Medicare Levy of 1.5% for the income year ended 30 June 2002.

48. The main difference is at the individual taxpayer level. Franked dividends paid from the C class franking account would be recorded in the taxpayer's income tax return in the usual manner. Franked dividends from the D class franking account would be treated quite differently.

49. The franked dividend amount and deemed imputed credit would be included at Item 19 of the taxpayer's income tax return (2002 income tax return) (see Appendix I).

50. The gross amount of dividends would be included in taxable income, and the deemed imputation credit would be included in the ATO's calculation of FTC's, thereby restricting the application to foreign source income. An excess of credits over and above that actually payable by the taxpayer would be forfeited or alternatively, available to be carried forward and offset against future foreign income. In this way, the taxpayer obtains a relief of tax only to the extent of tax payable on that foreign sourced income (see Appendix II). This would not involve a substantial change to the current computer programs.

Conclusion

51. Australia's corporate dividend imputation system, introduced in 1987, is designed to avoid the double taxing of company income in the hands of its shareholders. The current dividend imputation system is failing to achieve this goal in respect of the application of Sections 23AH and 23AJ and the foreign tax credit system and also in respect of the operation of tax sparing arrangements contained within certain DTA's.

52. Foreign income pursuant to Sections 23AH and 23AJ is exempt from Australian tax at the corporate level. However, due to an inadequate dividend imputation system, the exemption is not passed on to shareholders as the ultimate taxpayer. This same inadequacy applies to companies in receipt of foreign tax credits, being income to which foreign tax has already been paid.

53. Certain countries with which Australia has DTA's, and that offer Australian residents various investment incentives via tax concessions, are oblivious to the fact that the Australian revenue authorities are effectively collecting tax on income that they have spared.

54. The tax sparing arrangements entered into are not flowing to shareholders as the ultimate taxpayers.

55. The result is that individual taxpayers are paying tax on income which is theoretically specifically exempt from tax or has had the tax paid on it in a foreign jurisdiction.

56. The economic effect of this inadequacy is detrimental on Australia's balance of payments account. Particularly SME companies are not willing to invest offshore to generate capital growth in Australia, or if so willing, find it penalising to repatriate profits back to Australia.

57. Exemptions, concessions and FTC's are passed on to beneficiaries of trusts and partners of partnerships. The same concession is not extended to shareholders of companies. Each structure is merely a different vehicle for investment. Yet the taxing of the ultimate taxpayer in the company scenario differs significantly and prejudicially compared to the other alternatives.

58. This submission deals with the aspect of foreign income and its relationship with the dividend imputation system.

59. We have outlined a suggested solution to the inadequacy of Australia's current dividend imputation system. That solution is to implement a second franking account which will record deemed tax paid on foreign income which is exempt or has had foreign tax paid. The approach is equitable to both taxpayer and the revenue authorities. The proposal will not result in the immediate requirement to substantially change computer systems.

60. The inadequacies of Australia's dividend imputation system are inappropriate in an economy attempting to stimulate growth.

Recommendation

61. We therefore recommend that the solution as herein or a system similar in operation be implemented immediately.

Options 4.3 & 4.5

62. We strongly support the following options which advocate amendments to the foreign investment fund ('**FIF**') rules:

    62.1 Option 4.3 which advocates exempting Australian managed funds that follow widely recognised indices from the foreign investment fund rules; and

62.2 Option 4.5 which suggests that the FIF rules be amended to allow fund management services to be an eligible activity for the purposes of the foreign investment fund rules

63. The FIF rules were introduced in 1992, with effect from 1 January 1993. At the time of introduction they were designed to prevent Australian taxpayers by deferring Australian taxation on their worldwide income (or turning income into capital receipts) via the use of offshore accumulation vehicles.

64. In order to achieve this goal the legislation was drafted extremely broadly. However, given the high taxation and compliance costs associated with the provisions, a number of exemptions were provided to ensure that investments in vehicles which were unlikely to be utilised as accumulation vehicles were exempted from the operation of the FIF rules. Examples of the types of investments that were exempted at the time of introduction because of consumer investment trends are as follows:

64.1 Interest in a foreign company carrying on an active business;

64.2 Interest in a foreign company that is listed on a approved stock exchange and undertakes two or more types of business activities (as long as not 'black list' activities); and

64.3 Interests in certain trusts, on stock exchanges in countries that prohibit direct investment.

65. However, the investment pattern of many Australian residents has changed enormously since 1992. The current trend is for Australian investors to achieve diversification and exposure to a variety of offshore markets, by investing in mutual funds or funds management entities.

66. These types of investments are typically made to minimise risk for any given level of targeted return.

Managed Funds following Widely Recognised Indices

67. As discussed in the Consultation Paper, many Australian managed funds that follow widely recognised indices, would be unlikely to be used for tax deferral purposes. This is on the basis that:

67.1 the index itself is likely to contain FIFs that are companies with active business subject to entity-level taxation; and

67.2 fluctuations in the index would also give rise to a re-weighting of the index fund, with assets acquired and sold to match the index.

68. Therefore, on this basis Australian managed funds that follow widely recognised indices should be exempted from the FIF rules.

69. We note for completeness that given that the object of such an exemption would be to minimise the compliance burden to such funds, it will be important to ensure that rules setting out which funds qualify for such an exemption are straightforward and easy to understand. If the provisions which set out the ambit of the exemption are enormously complex, the advantages of the compliance savings from gaining the exemption will be wiped out by the compliance costs incurred in obtaining the exemption itself.

Funds Management Services included as an Eligible Activity

70. Given the enormous growth of the funds management industry, Australians are increasingly investing in offshore companies which derive revenue from funds management services. Funds management entities are becoming increasingly publicly owned, rather than historically very much privately owned – eg. Goldman Sachs & Co.

71. However, while the companies may be dealing in passive assets, they are really generating income from an active business. If we look at the original aim of the FIF rules (as discussed above), it was the intent of the legislation to exempt investments in such entities from the FIF regime. We would suggest that the only reason that such an exemption was not specifically provided for was that in 1992 very few investment managers were publicly listed and owned. However, now it is clearly appropriate that Funds Management Services be included in the FIF rules as an eligible activity.

Additional Option

72. While this is not mentioned specifically in any of the options suggested in the Consultation Paper, we believe that any change to the Foreign Investment Fund rules also needs to include an extension of all of the relevant FIF exemptions to include interests in unit trust/mutual funds (i.e. not just interests in companies). This would reflect investor trends to invest in diversified mutual funds.

73. Currently, even if an interest in a unit trust meets all the requirements for an exemption from the FIF rules (e.g. listed unit trust - see Division 13 of the FIF rules) if the interest is in a unit trust it will not qualify for the exemption because most exemptions in the FIF rules apply specifically only to companies.

74. It is difficult to see why a differentiation and bias would need to be made as between unit trusts and companies even if the unit trusts/mutual funds are not listed on a recognised stock exchange, but sufficiently widely enough held, and in all other respects qualify for the various FIF exemptions.

75. Therefore, in order to expand the ambit of investment opportunities for Australians we would strongly recommend that the FIF exemptions be specifically expanded to include interests in unit trusts as well as companies.

76. In conclusion we ask that the Board of Taxation gives serious consideration not only to big business, ie public companies and large private organisations, but also have due regard for the serious issues impacting business for the SME market.

77. We would welcome the opportunity to represent the SME market in consultation with the Board of Taxation during the further round of consultation shortly after 31 October 2002. Our firm is dedicated to representing the interests of small and medium business. In this regard, please note that Sue Prestney of our Melbourne office is the national spokesperson of the Institute of Chartered Accountants ("the Institute") for small and medium business and represents the Institute at the Small Business Coalition and Small Business Forum.

78. Should you have any queries in relation to the above, please do not hesitate to contact Craig van Wegen, Denise Honey or myself.

BOYD INTERNATIONAL PTY LTD

31 OCTOBER 2002

APPENDIX I

INCOME TAX RETURN DETIAL

ITEM 19 – FOREIGN SOURCE INCOME AND FOREIGN ASSETS PROPERTY

Extract from 2002 income tax return tax agent input form:

19 Foreign source income and foreign assets property

Assessable foreign source income **E** .00

Net foreign employment and net foreign pensions or annuity income WITHOUT undeducted purchase price **L** .00 Type

Net foreign pension or annuity income WITH an undeducted purchase price **D** .00

Other net foreign source income **M** .00

Exempt foreign employment income **N** .00

Foreign tax credits **O**

During the year did you own, or have an interest in, assets located outside Australia which had a total value of AUD$50 000 or more? **P** Print Y for yes Or N for no

APPENDIX I

INCOME TAX RETURN DETIAL (Cont)

Extract from proposed 2002 income tax return tax agent input form:

19 Foreign source income and foreign assets property

Item	Label	Amount	Type
Assessable foreign source income	E	.00	
Net foreign employment and net foreign pensions or annuity income WITHOUT undeducted purchase price	L	.00	
Net foreign pension or annuity income WITH an undeducted purchase price	D	.00	
Other net foreign source income	M	.00	
D class franked amount	N	.00	
D class imputation credit	O	.00	
Exempt foreign employment income	P	.00	
Foreign tax credits	Q		
During the year did you own, or have an interest in, assets located outside Australia which had a total value of AUD$50 000 or more?	R	Print Y for yes Or N for no	

APPENDIX ii

D CLASS FRANKED DIVIDEND EXAMPLE

ASSUMPTIONS:

The example is based on a year end of 30 June 2002

XYZ Ltd

Australia resident
Exempt foreign sourced income A$23,500
[Tax has been paid in the foreign country in excess of 30%]
Foreign tax credit A$nil
Tax rate 30%

Mr X

Australian resident
2002 income tax rates
100% shareholder in XYZ Ltd
Other income – interest A$10,000

D Class Company Franking Account – XYZ Ltd

Date	Detail	Dr	Cr	Balance
01/07/20XX	Opening Balance			0
15/12/20XX	100% company tax payment ($23,500 x 30% x 70/30)		16,450	16,450
30/06/20XX	Closing balance			**$16,450**

Company dividend paid 01/09/20XX $16,450
(Imputation credit $7,050)

APPENDIX II (CONT'D)

Mr X's Income Tax Return for the Year Ended 30 June 20XX

Item 10 - Gross interest	
Interest received	$10,000
Item 19 -General net foreign source income	
D class franked amount	$16,450
D class imputation credit	$7,050
Taxable income	**$33,500**

Mr X's Tax Assessment for the Year Ended 30 June 20XX

Tax payable thereon (excluding Medicare Levy)	$6,430
Less: D class imputation credit	$4,510
Total tax payable	**$1,920**

** D class imputation credit calculation*		
Average tax payable	=$6,430/$33,500	
	=19.19%	
D class imputation credit allowable ($23,500 x 19.19%)		$4,510

NOTE

D class imputation credits received	$7,050
Less: D class imputation credits allowed	$4,510
D class imputation credits forfeited	$2,540