

Franking credits: the quiet winner of the budget

Author: Michael Bell

They say every cloud has a silver lining, and for this Federal Budget, that silver lining is franking credits.



While the Budget delivered sweeping changes to how Australians invest and build wealth, one part of the system emerged untouched: **franking credits**.

For income-focused investors, that matters. **A lot.**

The franking system remains fully intact. Fully franked dividends still carry a 30% corporate tax credit, helping eliminate the double taxation of company profits. Unlike interest from term deposits or bonds, which arrives fully taxable and without credits attached (as the issuer has already claimed a 'tax deduction' on expense), dividends are paid from profits that have already been taxed at the company level.

And in a Budget that has made capital gains more heavily taxed, the value of franked income now stands out more clearly against the clouds.

The after-tax maths is straightforward.

A fully franked 5% dividend yield grosses up to around 7.1% including the franking credit.

For retirees in pension phase paying 0% tax, those franking credits remain fully refundable.

For investors on lower marginal tax rates, the credits can significantly reduce, or even eliminate, tax payable on income.

Importantly, that income stream is now being compared to growth assets facing a tougher tax regime.

There are some technical changes to how franking credits flow through family trusts, but for most direct investors and SMSFs holding ASX-listed shares, the silver lining remains firmly in place.

Potential beneficiaries

- High-yielding ASX companies paying sustainable fully franked dividends
- Income-focused Listed Investment Companies (LICs)
- Businesses likely to benefit from capital shifting away from established residential property

Potential headwinds

- High-growth, low-yield companies reliant on capital appreciation
- Residential property-exposed businesses such as agents and mortgage brokers
- Investment structures heavily dependent on discretionary trusts

This isn't a call to abandon growth investing altogether. But it is a reminder that after-tax returns matter. And after this Budget, the hurdle rate for growth investing has risen, while the relative appeal of franked income has brightened.

What it means for portfolios

For tax-aware investors, particularly those approaching or already in pension phase, the playing field has shifted. Property tax advantages have narrowed. Bond and term deposit income still carries no franking benefits. Growth strategies now face a heavier after-tax burden from FY28 onwards.

Australian equity income, by contrast, retains the structural advantages it held on Budget night:

- Fully franked dividends
- Refundable franking credits for low-tax investors
- A deep pool of established, cash-generative ASX-listed companies returning profits to shareholders.

At Solaris, our Income Strategy is built around exactly this opportunity set, actively managed portfolios focused on companies delivering sustainable fully franked dividend income.

The Budget didn't create the case for income investing in Australian equities.

It simply made the silver lining impossible to ignore.

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