



Memorandum

To:	AASB & FRSB members	Date:	8 March 2010
From:	Angus Thomson & Chris Neame	Agenda Item:	B5.3
Subject:	NZ/Australia convergence – dividend imputation disclosure	File:	--

Action

Determine whether it is feasible to have common disclosure requirements relating to dividend imputation and, if so, agree on proposed converged wording.

Background

AASB 101 *Presentation of Financial Statements* and NZ IAS 12 *Income Tax* each include disclosure requirements connected with the dividend imputation tax regimes in each jurisdiction. These disclosure requirements are in addition to those in IFRSs.

At the October 2009 meeting the Boards agreed that disclosures about dividend imputation are useful to existing and potential equity investors and should be retained. The manner in which the regimes function in each jurisdiction is essentially the same and staff have endeavoured to identify common disclosures that can satisfy needs in both jurisdictions.

The staff recommendations below are directed at having common wording for disclosure requirements for imputation credits in both jurisdictions.

1. Should New Zealand and Australian imputation credits be aggregated?

Staff understand that only Australian franking credits can be used by an Australian taxpayer, and New Zealand imputation credits on dividends paid to an Australian shareholder cannot be used against that shareholder's Australian taxes. Similarly, only New Zealand imputation credits can be used by a New Zealand taxpayer.

New Zealand companies can apply to join the Australian dividend imputation system, allowing them to attach Australian franking credits to their dividends, for Australian tax they have paid. Those credits can then be used by shareholders who are Australian taxpayers, in the same manner as dividends from an Australian company.

Australian companies can elect to maintain an Imputation Credit Account in relation to New Zealand tax they have paid.

Given that the franking/imputation credits of each jurisdiction are available only to taxpayers of each jurisdiction, to be most useful, they would need to be separately disclosed.

Staff recommend proposing that entities in each jurisdiction provide disclosures about imputation credits in each jurisdiction. That is, for example, when an Australian company has Australian imputation credits and New Zealand imputation credits, it should be required to make separate disclosures about each.

2. Terminology

NZ IAS 12 includes the definitions of 'imputation credits' and 'withholding taxes'. These are also included in New Zealand Tax legislation. A number of annual reports of New Zealand entities have been reviewed and practice seems to be to refer only to 'imputation credits' or the 'imputation credit account'.

AASB 101 refers to 'franking credits', but does not define the term. Australian tax legislation refers to 'franking credits', 'franking account' and 'imputation system'.

Staff believe that it would be feasible to have one set of words and to converge on the term 'imputation credits' even though the term is not formally used in Australian legislation. Furthermore, staff recommend not including definitions in the Standards, but relying on the legislation.

3. Disclosure of movements

NZ IAS 12 requires the disclosure of movements in the 'Imputation Credit Account' and 'Dividend Withholding Payments Account', which based on a limited review of New Zealand entity annual reports is shown as one reconciliation.

AASB 101 does not have a requirement for a reconciliation of the franking account. However, in 2007, the AASB received a presentation from an analyst who argued that a reconciliation would be useful to users to have transparency in relation to the manner in which franking credits are used up.

Staff recommend proposing a requirement to show a reconciliation in both jurisdictions.

4. More than one class of share

AASB 101 contemplates there being more than one class of share and requires disclosures for each class.

Staff recommend proposing that separate disclosures be required for each class of share.

5. Per share disclosure

AASB 101 requires aggregate and per share disclosures. The manner in which the number of shares should be determined for the purposes of per share disclosures is not made entirely clear. This is in contrast to the detail in AASB 133 (IAS 33) *Earnings per Share* for determining the weighted average number of shares to use in calculating EPS amounts.

Staff recommend proposing to require only aggregate disclosures.

6. Separate disclosure for parent and subsidiaries

NZ IAS 12 requires separate disclosures for credits available to the shareholders of the parent company (i) through shareholdings in that parent company; and (ii) through their indirect interests in subsidiaries. This is apparently relevant in New Zealand because a change of ownership of subsidiaries can deny the parent shareholders access to imputation credits in those subsidiaries.

AASB 101 does not contemplate separate disclosure, and staff understand that there are few restrictions on the flow of franking credits through subsidiaries. In the case of consolidated tax groups in Australia, franking credits may be transferred from subsidiaries to the 'head entity' and remain there even though the relevant subsidiaries leave the group.

Staff recommend proposing to require separate disclosure where this is relevant to an understanding of the value of imputation credits to shareholders.

7. *Franked dividends versus unfranked dividends*

Paragraph Aus138.3 requires disclosure of the extent to which dividends are franked (have imputation credits attached to them), while NZ IAS 12 does not.

Information about the extent to which dividends are franked is generally available from sources other than the financial statements, at least in relation to listed entities (for example, in stock exchange announcements). However, this is not necessarily a good reason to exclude useful information from the financial statements.

Staff recommend proposing to require this form of disclosure.

8. *Forward-looking information*

Paragraph Aus138.4 requires disclosure of the impact on the franking account of transactions that will give rise to franking credits, and paragraph Aus138.5 requires disclosure of the impact on the franking account of dividends proposed or declared but not recognised as a distribution to equity holders during the period. These disclosures are intended to provide some indication of the extent to which further imputation credits will be available or are already committed for future use.

Staff recommend proposing to require this form of disclosure.



NZ IAS 12 text	AASB 101 text	Recommended wording
<p>Paragraph NZ 5.1</p> <p>The following terms are used in this Standard with the meanings specified:</p> <p><i>Imputation credits</i> are credits attached to the gross amount of dividends. Examples include New Zealand imputation credits and foreign dividend withholding payments.</p> <p><i>Withholding taxes</i> are deductions from the gross amount of income. Examples include New Zealand’s resident withholding taxes on interest, dividends and other income (PAYE) and foreign non-resident withholding taxes. New Zealand’s foreign dividend withholding payments are not a withholding tax.</p> <p>Paragraph NZ 81.1</p> <p>With regard to imputation credits and dividend withholding payment credits available to shareholders the following shall be disclosed;</p> <p>(a) the movements during the period in the Imputation Credit Account and Dividend Withholding Payments Account of the parent company.</p> <p>(b) the credits available to the shareholders of the parent company at balance date:</p> <p>(i) through their shareholdings in that parent company; and, separately</p> <p>(ii) through their indirect interests in subsidiaries.</p>	<p>Paragraph Aus138.3</p> <p>An entity shall disclose for each class of shares included in equity, where either dividends payable were first recognised as a liability during the reporting period or dividends were paid during the reporting period without previously being recognised as a liability:</p> <p>(a) the amount, in aggregate and per share, of those dividends that have been or will be franked and the tax rate at which those dividends have been or will be franked; and</p> <p>(b) the amount, in aggregate and per share, of those dividends that have not been or will not be franked.</p> <p>Paragraph Aus138.4</p> <p>An entity shall disclose the amount of franking credits available for subsequent reporting periods to the equity holders in the entity if it is not a group or the parent in a group, by disclosing the balance of the franking account as at the reporting date, adjusted for:</p> <p>(a) franking credits that will arise from the payment of the amount of the provision for income tax;</p> <p>(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and</p> <p>(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.</p> <p>Paragraph Aus138.5</p> <p>An entity shall disclose the impact on the franking account of dividends proposed or declared before the financial</p>	<p>The disclosures in paragraphs X to Y shall be made separately in respect of any New Zealand imputation credits and any Australian franking credits. The term ‘imputation credits’ is used in paragraphs X to Y to also mean ‘franking credits’.</p> <p>An entity shall disclose for each class of shares included in equity, where either dividends payable were first recognised as a liability during the reporting period or dividends were paid during the reporting period without previously being recognised as a liability:</p> <p>(a) the amount in aggregate of those dividends that have or will carry imputation credits and the tax rate at which those dividends have carried, or will carry, imputation credits; and</p> <p>(b) the amount in aggregate of those dividends that have not carried, or will not carry, imputation credits.</p> <p>An entity shall disclose the amount of imputation credits available for subsequent reporting periods to the equity holders in the entity if it is not a group or the parent in a group, by disclosing the balance of imputation credits as at the reporting date, adjusted for:</p> <p>(a) imputation credits that will arise from the payment of the amount of the provision for income tax;</p> <p>(b) imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and</p> <p>(c) imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.</p> <p>An entity shall disclose the impact on the amount of imputation credits of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to equity holders during the period.</p>

	<p>statements were authorised for issue but not recognised as a distribution to equity holders during the period.</p>	<p>An entity shall disclose the balance of imputation credits as at the reporting date and the movements during the period of the amount of imputation credits available for subsequent reporting periods to the equity holders in the entity if it is not a group or the parent in a group.</p> <p>Where relevant to an understanding of the balance of imputation credits as at the reporting date, separate disclosures shall be made about imputation credits available:</p> <ul style="list-style-type: none">(a) directly through shareholdings in the parent; and(b) through indirect interests in subsidiaries.
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