

Franked Investment Income

Part 06-07-01

This document should be read in conjunction with sections 156, 129 and 25(2)(a) of the Taxes Consolidation Act 1997

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Executive Summary

This manual outlines the treatment of distributions received from companies who are resident in the State and summarises the definition of franked investment income provided in section 156 TCA 1997. The manual also outlines the interaction between the close company surcharge provisions and the joint election provisions and their impact on franked investment income [sections 440 and 434(3A) TCA 1997 refer].

1 Background

A distribution received from a company resident in the State is income for the purposes of income tax:

- Where a distribution goes to an **individual** beneficially entitled to it the normal consequences follow. If the individual is resident in the State, the amount treated as income of the individual is the amount or value of the distribution.
- Where the recipient is a **company resident** in the State, the company **is not** chargeable to income tax or corporation tax in respect of the distribution, but the distribution forms part of the franked investment income of the company. **Franked investment income** is not within the charge to corporation tax [section 129 TCA refers].
- Where the recipient is a **company not resident** in the State but carrying on a trade in the state through or from a branch or agency, the distribution **is not within the charge** to corporation tax. Such distributions are specifically excluded from the charge to corporation tax by section 25(2)(a) TCA.

2 Franked Investment Income

Section 156 defines franked investment income and franked payments. Franked investment income consists of the amount or value of a distribution which is received by an Irish resident company from another resident company. When an Irish resident company makes a distribution, the amount or value of the distribution is known as a franked payment.

3 Franked Investment Income and Close Company Surcharge

Whilst franked investment income is liable to the close company surcharge imposed by section 440 TCA 1997, section 434(3A) TCA allows a close company paying a dividend and its close company recipient to **jointly elect** that the dividend is not to be treated, for the purposes of section 440, as a distribution.

The effect of making the election is that for the purposes of the definition of 'estate and investment income' the dividend will not be regarded as franked investment income, thus removing the close company surcharge liability thereon.