TRINITY ACCOUNTING PRACTICE

Division 7A Loan Checklist

Director and shareholder loan compliance to avoid deemed unfranked dividends.

Identify potential Division 7A events

- Cash advances or transfers to shareholders or associates
- Personal expenses paid by the company
- Use of company assets for private purposes
- Forgiveness of debts owed to the company
- Trust unpaid present entitlements (UPEs) treated as loans under recent ATO guidance

Loan documentation

- Written loan agreement signed before the company's lodgement day
- Loan term — unsecured 7 years or less; secured by real property 25 years or less
- Interest rate at or above the Division 7A benchmark rate (8.77% for 2024-25)
- Minimum yearly repayments calculated and scheduled

Annual compliance

- Minimum yearly repayment paid by 30 June
- Interest charged and credited to income
- Loan balance reconciled in the financial statements
- Director or shareholder loan account reviewed for unintended advances

Distributable surplus check

- Deemed dividend cannot exceed the company's distributable surplus
- Calculation — net assets + Div 7A amounts – non-commercial loans – paid-up capital – repayments of non-commercial loans

Remedies if non-compliant

- Section 109RB Commissioner's discretion (honest mistake or inadvertent omission)
- Put-in-place loan agreement prior to lodgement day
- Make the minimum repayment from after-tax funds