Australian Government
Australian Taxation Office

Managing Division 7A risks, and corrective action

The operation of Division 7A as an integrity measure means that the most effective way to distribute retained profits to shareholders may be to pay the amount in the form of a dividend (with a franking credit if available) and for the shareholder to report it as such (as assessable income with or without a franking credit).

Apart from anything else, a Division 7A dividend generally isn't frankable even though it's taken to be paid out of the company's profits. This means that the whole amount of the dividend is taxed in the hands of the shareholder, without any accompanying tax credit (as would apply with a franked dividend).

On this page:

Avoiding issues in the first place

Division 7A dividends may inadvertently arise as a consequence of a failure to keep private expenses separate from company expenses.

To avoid this:

- don't pay private expenses from a company account
- keep proper records for your company that record and explain all transactions, including payments to and receipts from associated trusts and shareholders and their associates
- if you lend money to shareholders or their associates make sure it's on the basis of a written agreement with terms that ensure it's treated as a complying loan – so the loan amount isn't treated as a Division 7A dividend.

Repay or convert dividend amount by lodgment day

A payment or other benefit that's potentially subject to Division 7A isn't treated as a Division 7A dividend if it's repaid or converted to a complying loan by the company's lodgment day for the income year in which the payment occurs. A company's lodgment day is the actual day on which the company lodges its income tax return or the due date for lodgment, whichever is earlier.

This means that you can take corrective action after the income year is ended but before you need to finalise your tax affairs and lodge your return. Note, however, that the underlying transaction must occur by the lodgment day.

ATO relief

The law allows the Commissioner to disregard a deemed dividend outcome or allow the dividend to be franked in certain circumstances.

This means that if you've made a mistake or circumstances have changed beyond your control, you can apply to us for relief from the consequences of having Division 7A apply to a payment or loan.

See also:

- Division 7A - exercise of Commissioner's discretion under section 109RB (/Business/Private-company-benefits---Division-7A-dividends/In-detail/Division-7A---Exercise-of-Commissioner-s-discretion-under-section-109RB/)

Last modified: 14 May 2015 QC 45061

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.