DIVISION 7A LOAN

-- and the things to look out for

- Division 7A only applies to private companies, all loans, advances and other credits made by private companies to shareholders (or their associates).

- The provisions of Division 7A are extremely complicated. Over the years these provisions have been progressively amended (and made even more complicated) to stamp out loopholes devised by enterprising taxpayers. Company shareholders and associates should be alert to Division 7A's potential application and seek technical advice where appropriate

MEANING OF ‘LOAN’ UNDER DIVISION 7A

- Division 7A extends the meaning of 'loan' to include:
- An advance of money
- A provision of credit, or any other form, of financial accommodation
- A payment for a shareholder or their associate.



SECURED & UNSECURED LOAN

Secured loan - a Division 7A loan that is secured by a mortgage over real property, and with a maximum term of 25 years.

Unsecured loan - an unsecured Division 7A loan, and with a maximum term of 7 years.

WRITTEN AGREEMENT

- Before the private company's lodgment date for the income year in which the loan amount was given to the shareholder or associate, a written agreement must be in existence.

How to Identify Div 7A Loan

- The Loan made to the Individual (Associated Person/ Director) is having a debit figure in the Balance sheet in the Prior year.

Non-Current Assets		
Property, Plant and Equipment		
Motor Vehicle	69,903	69,903
Less Accumulated Depreciation on Motor Vehicle	(44,929)	(36,604)
STS General Pool	40,406	40,406
Less Accumulated Deprecation STS General Pool	(40,406)	(40,406)
Total Property, Plant and Equipment	**24,974**	**33,299**
Division 7A Loan 2018	7,865	26,815
Division 7A Loan 2019	12,669	16,725
Division 7A Loan 2021	22,163	27,077
Division 7A Loan 2022	8,378	9,561
Division 7A Loan 2023	48,730	-
Total Non-Current Assets	**124,778**	**113,477**
Total Assets	**163,704**	**146,810**

Div 7A Loan

- The Loan amount from Prior Years should not have any movement in Current year. All the transactions made in Current financial year should be accounted to new Chart of account with the Year.

Non-current Assets		
Division 7A Loan 2018	7,864.66	7,864.66
Division 7A Loan 2019	12,668.70	12,668.70
Division 7A Loan 2021	22,162.95	22,162.95
Division 7A Loan 2022	8,377.69	8,377.69
Division 7A Loan 2023	48,729.80	48,729.80
Division 7A Loan 2024	5,689.21	-

Div 7A Loan

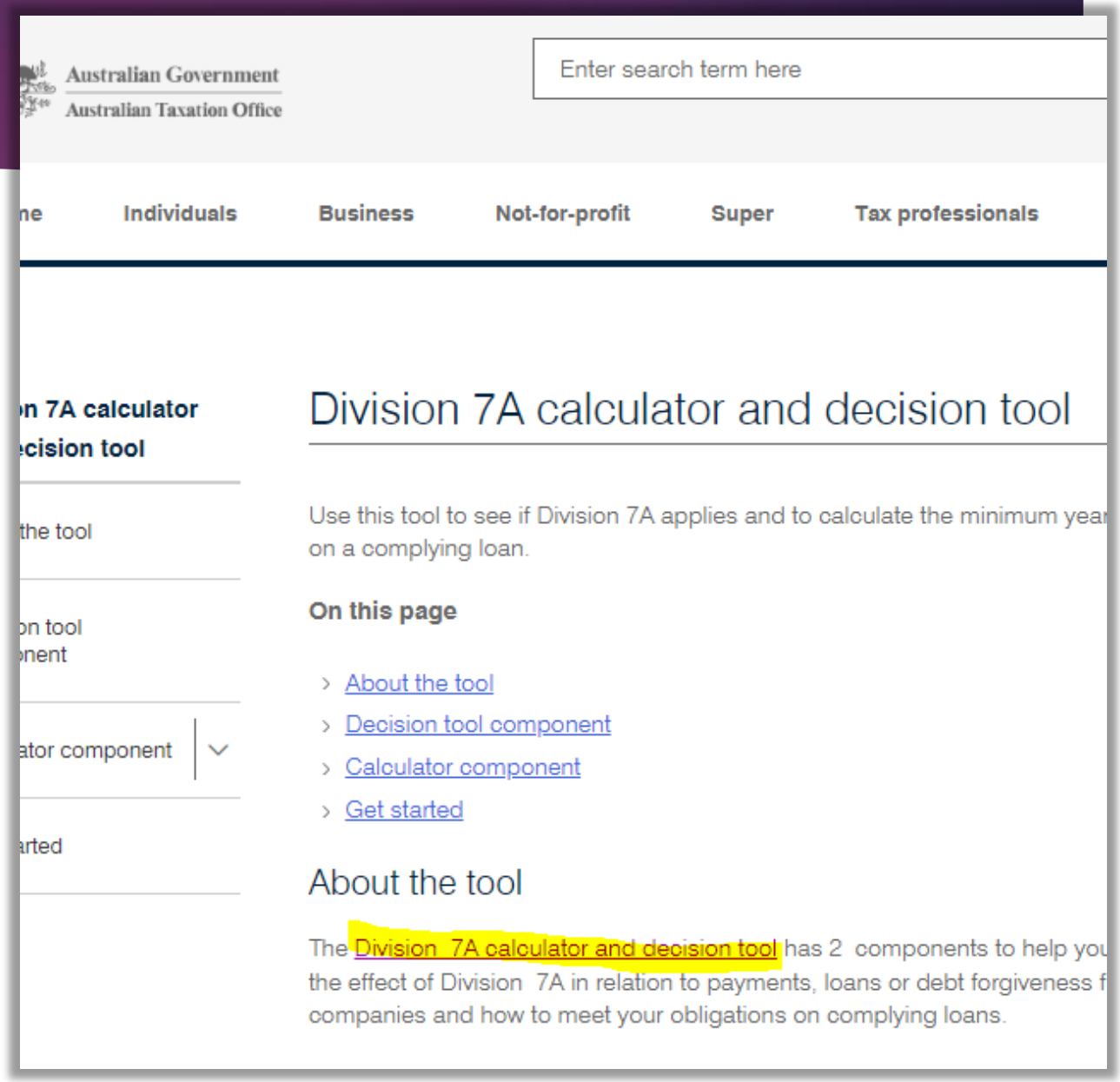
- If the retained earning of the current year is negative, the Div 7A rule is not applicable.

Non-Current Assets		
Shareholders Loan	43,737	30,104
Total Non-Current Assets	**43,737**	**30,104**
Total Assets	**89,647**	**68,425**
Liabilities		
Current Liabilities		
ATO Integrated Client Account	54,098	40,123
GST	4,386	4,274
PAYGW Payable	7,241	8,429
Superannuation Payable	38,541	31,217
Sundry Creditors	1,584	463
Total Current Liabilities	**105,850**	**84,504**
Non-Current Liabilities		
Chattel Mortgage on Nissan Navara	13,106	25,204
Unexpired Interest Charges on Nissan Navara	(1,292)	(4,357)
Total Non-Current Liabilities	**11,814**	**20,847**
Total Liabilities	**117,664**	**105,352**
Net Assets	**(28,017)**	**(36,927)**
Equity		
Current Year Earnings	8,910	63,734
Retained Earnings	(37,027)	(100,760)
Share Capital	100	100
Total Equity	**(28,017)**	**(36,927)**

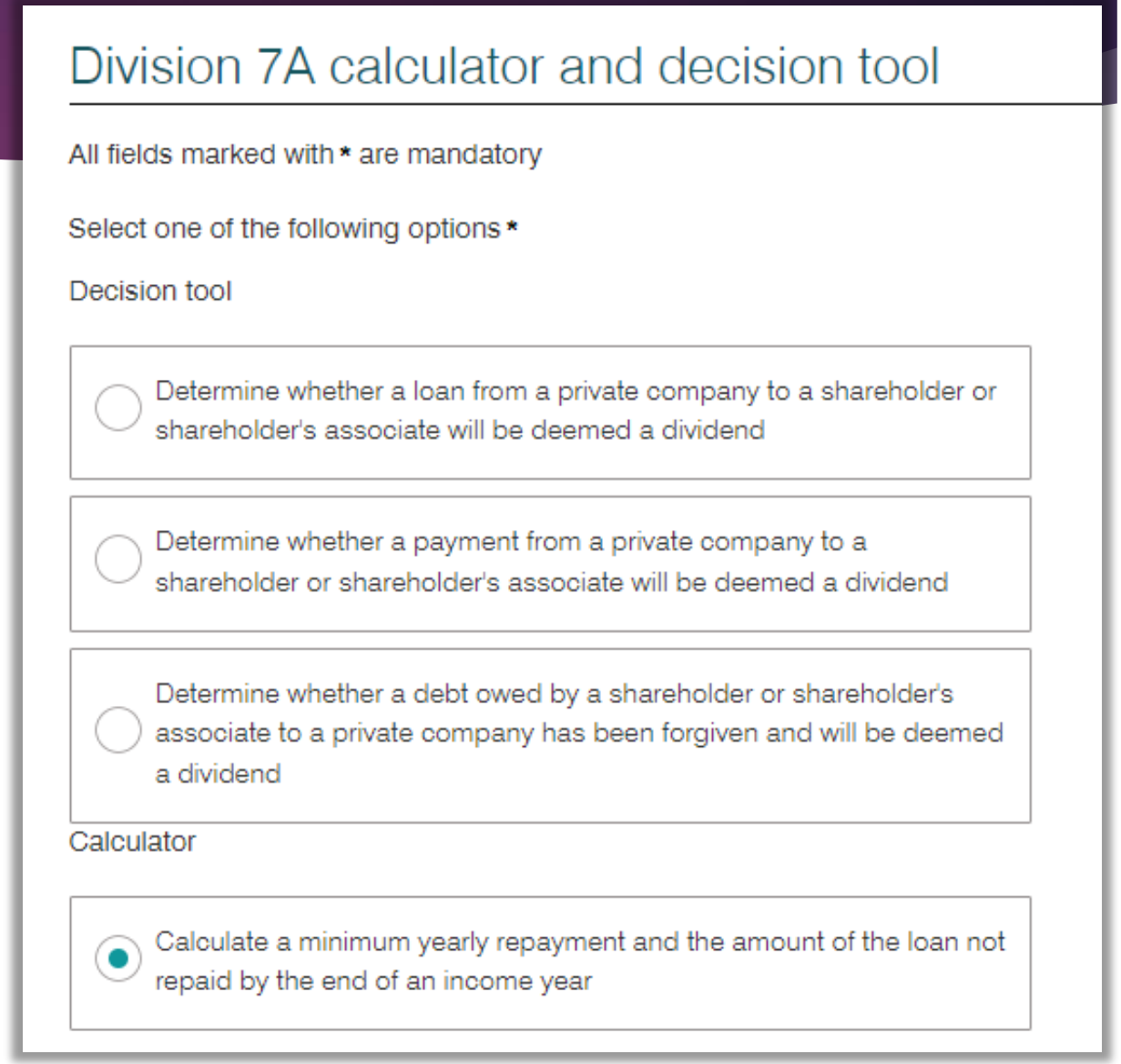
Div 7A Loan – ATO calculator

- Steps to calculate a minimum yearly repayment and the amount of the loan not repaid by the end of an income year through ATO Division 7A calculator

Step 1 –
We can find ATO calculator for division 7A on google

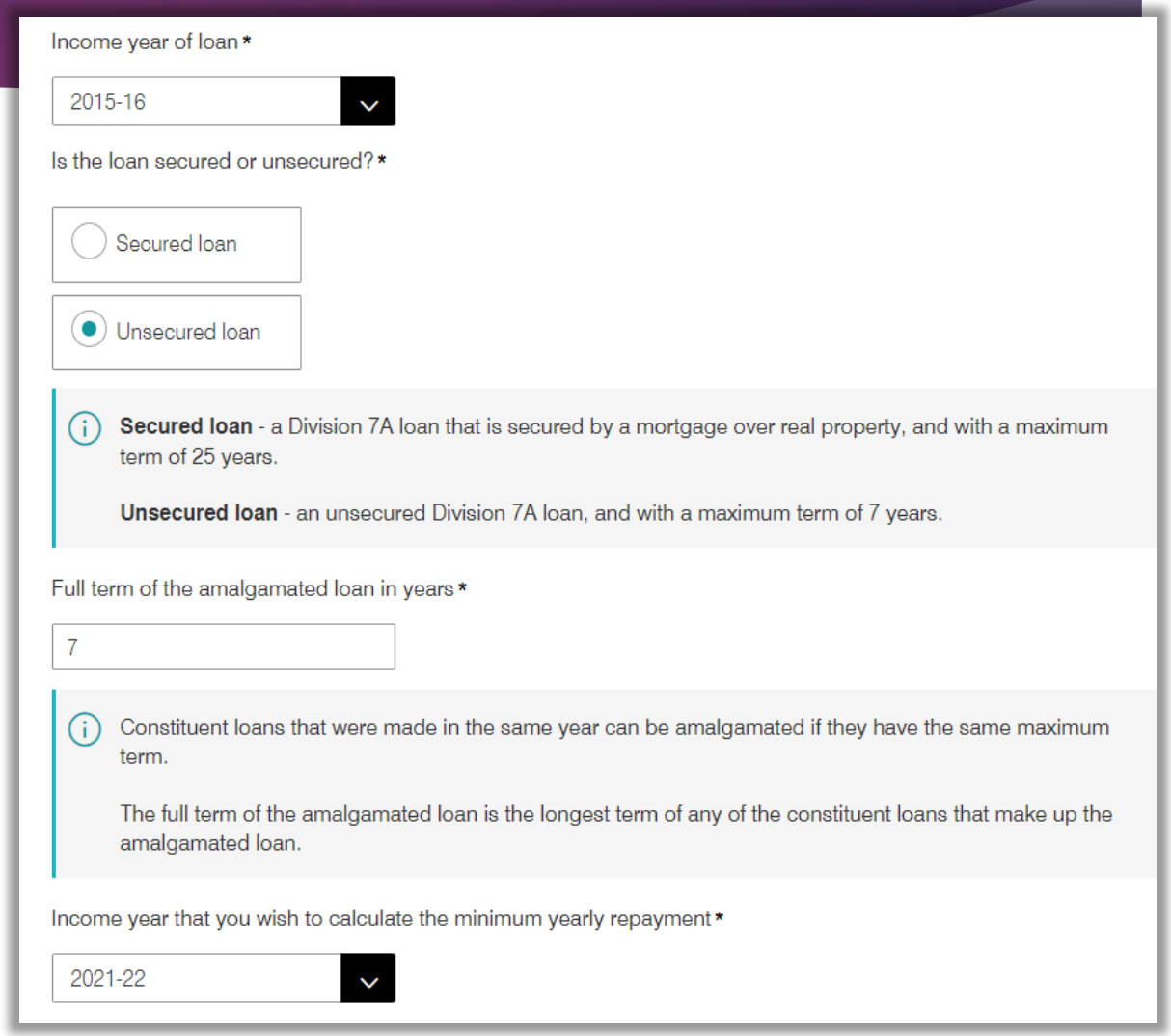


Step 2 –
Select Calculator to calculate minimum repayment

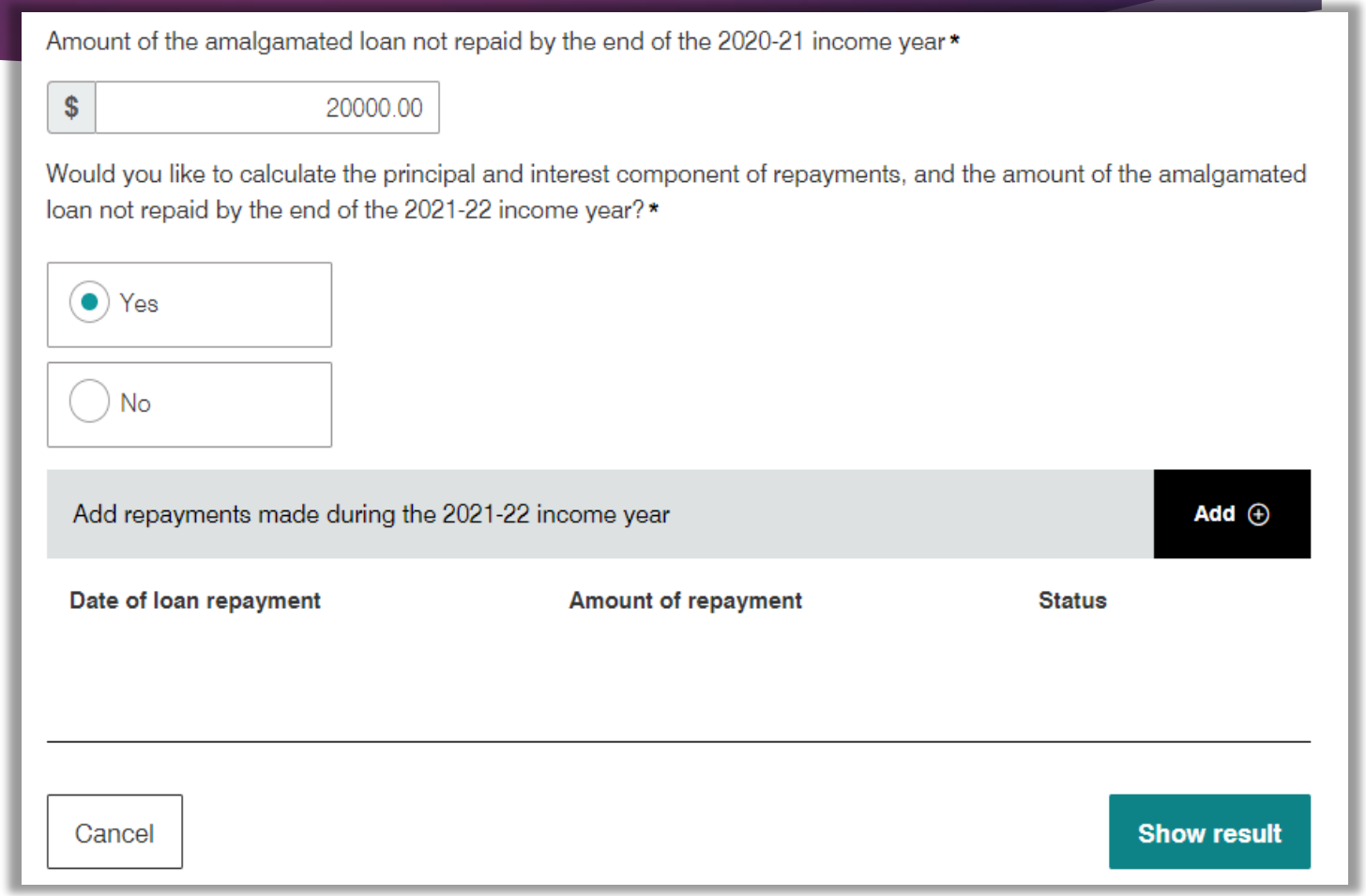


Step 3 –

- ✓ Enter the income year of the loan (loan taken year) then,
- ✓ Select whether loan is secured or unsecured based on the loan agreement made.
- ✓ Fill in the amalgamated loan in years
- ✓ Select the year in which minimum year to be computed



Step 4 –
Enter loan amount and select “yes” to calculate the principal and interest amount



Step 5 –
You will get the minimum repayment to be made for the loan

Result

Minimum yearly repayment not met.

The amount of the loan not repaid at the end of income year 2022-23 is $26,815.15.

The private company may be taken to pay a dividend under Division 7A to the shareholder or shareholder's associate because the amount repaid during income year 2022-23 in relation to the amalgamated loan is less than the minimum yearly repayment required.

Interest received by the private company must be included in the income tax return for 2022-23.

Minimum yearly repayment

$9,804.00

Div 7A Loan – Repayment Method

There are 3 popular methods to repayment the Debit Loan:

- Actual Credit repayment made in current Financial year
- Dividend declared by the company
- Salary made to the individual

1. Actual Credit repayment made in current Financial year

Check the General ledger transactions for the credit (repayment) current year Loan movement.

Date ↑	Source	Description	Reference	Debit	Credit	Running Balance	Gross	GST
Division 7A Loan 2023								
Opening Balance				-	-	-	-	-
1 Jul 2022	Spend Money	APPLE ITUNES	POS	1.49	-	1.49	1.49	-
1 Jul 2022	Spend Money	APPLE ITUNES	POS	39.98	-	41.47	39.98	-
3 Jul 2022	Receive Money	Rob CommBank app TFR D E		-	20.00	21.47	(20.00)	-
4 Jul 2022	Receive Money	Transfer to Director	873	-	500.00	(478.53)	(500.00)	-
7 Jul 2022	Receive Money	Transfer to Director	873	-	490.00	(968.53)	(490.00)	-
9 Jul 2022	Spend Money	LIQUORLAND 3093 DE Card xx4752		55.00	-	(913.53)	55.00	-
12 Jul 2022	Receive Money	Transfer to Director	873	-	500.00	(1,413.53)	(500.00)	-
13 Jul 2022	Spend Money	DELAWARE NORTH VEN		9.20	-	(1,404.33)	9.20	-
13 Jul 2022	Spend Money	APPLE ITUNES	POS	11.99	-	(1,392.34)	11.99	-
13 Jul 2022	Spend Money	COLES 0613 - COLES 0613 DERRIMU Card xx4752		18.00	-	(1,374.34)	18.00	-
13 Jul 2022	Receive Money	Transfer to Director	873	-	200.00	(1,574.34)	(200.00)	-
13 Jul 2022	Spend Money	COLES 0613 - COLES 0613 DERRIMU Card xx4752		59.79	-	(1,514.55)	59.79	-

2. Dividend declared by the company

Check the Franking Account balance. We need to calculate the maximum dividend based on the Credit balance X {(100-tax rate) / tax rate}

21,678.78 X 75 / 25 = 65,036

Franking account balance

Date	Description	Dr	Cr	Balance
10/08/2021	2021 CTR refund	$ 812.00		$ 25,873.79
30/06/2022	2022 Franked Dividend (Paid $12,000)	$ 4,000.00		$ 21,873.79
3/06/2023	2022 CTR Refund	$ 195.00		$ 21,678.79
				$ 21,678.79

3. Salary made to the Individual

If we are processing payroll, you need to look at the Net profit as of 30 June and check the director loan balance and run the payroll to meet the minimum repayment.

Payroll Employee Summary

From 1 July 2021 to 30 June 2022

Employee	Earnings	Deductions	Tax	Super	Net Pay	Reimb.
	73,242.27	-	15,782.00	7,324.23	57,460.27	-
	73,242.27	-	15,782.00	7,324.23	57,460.27	-

How to make Repayments to Loans

After the choosing a repayment method, we could get an aggregate repayment amount.

Allocate the total repayment available to the Minimum repayment in FIFO Method.

Example :

The total repayment available is $25,000, then the repayment will be as follows

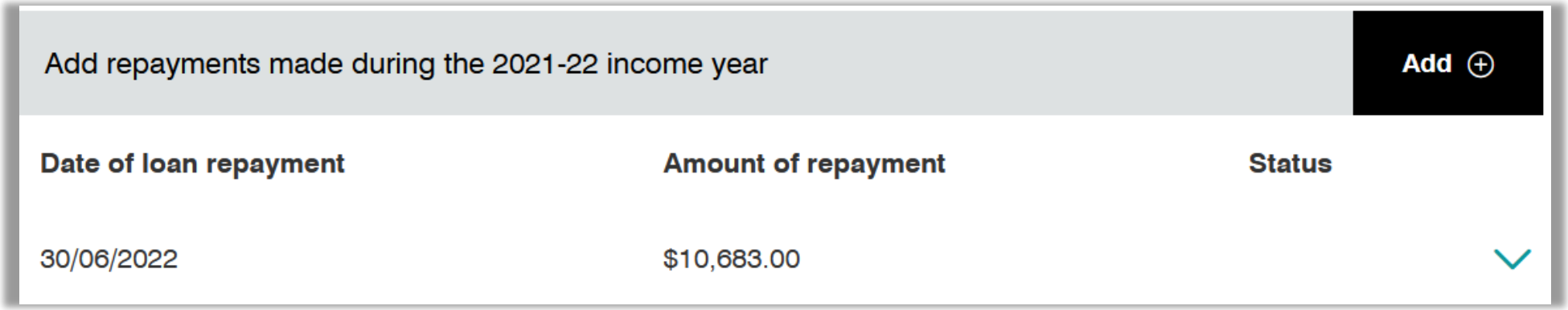
	Minimum Repayments	FIFO	25,000.00
2018	$ 9,804.00	25,000 - 9,804 =	15,196.00
2019	$ 4,692.00	15,196 - 4,692 =	10,504.00
2021	$ 5,295.00	10,504 - 5,295 =	5,209.00
2022	$ 1,639.00	5,209 - 1,639 =	3,570.00

Additional repayment available

After paid out the minimum repayments, the additional repayment available (e.g. 3,570) will be utilized to the older Loan i.e. 2018 Loan.

	Minimum Repayments	FIFO	25,000.00
2018	$ 9,804.00	25,000 - 9,804 =	15,196.00
2019	$ 4,692.00	15,196 - 4,692 =	10,504.00
2021	$ 5,295.00	10,504 - 5,295 =	5,209.00
2022	$ 1,639.00	5,209 - 1,639 =	3,570.00

Step 6 –
You need to update the minimum repayment in the ATO Calculator to be made for the loan



RESULT

Australian Government
Australian Taxation Office

Division 7A calculator and decision tool

Result

Minimum yearly repayment met.

The amount of the loan not repaid at the end of income year 2021-22 is $10,219.67.

The amalgamated loan will not be taken to be a dividend because the total repayments made are equal to or greater than the minimum yearly repayment required for income year 2021-22.

Interest received by the private company must be included in the income tax return for 2021-22.

Minimum yearly repayment

$10,683.00

Benchmark interest rate

4.52%

Opening balance:

Date: 30/06/2021

Balance: $20,000.00

Days: 364

Interest: $901.52

Payments

Date: 30/06/2022

Amount: $10,683.00

Balance: $9,317.00

Days: 1

Interest: $1.15

Total repayments

$10,683.00

Total interest

$902.67

Total principal

$9,780.33

Closing balance

Date: 30/06/2022

Balance: $10,219.67

Disclaimer

This result is based on the information you have provided.

Select one of the following options

Calculate a minimum yearly repayment and the amount of the loan not repaid by the end of an income year

Journals for Div 7 A

- **Repayments paid via Dividend:**

	Dr.	Cr.
Dividend paid A/c Dr.	XXX	
Division 7 Loan A/c		XXX
Interest Income A/c		XXX

Journals for Div 7 A

- **Repayments made in the Current year:**

	Dr.	Cr.
Current year loan / Bank A/c Dr.	XXX	
Division 7 Loan A/c		XXX
Interest Income A/c		XXX