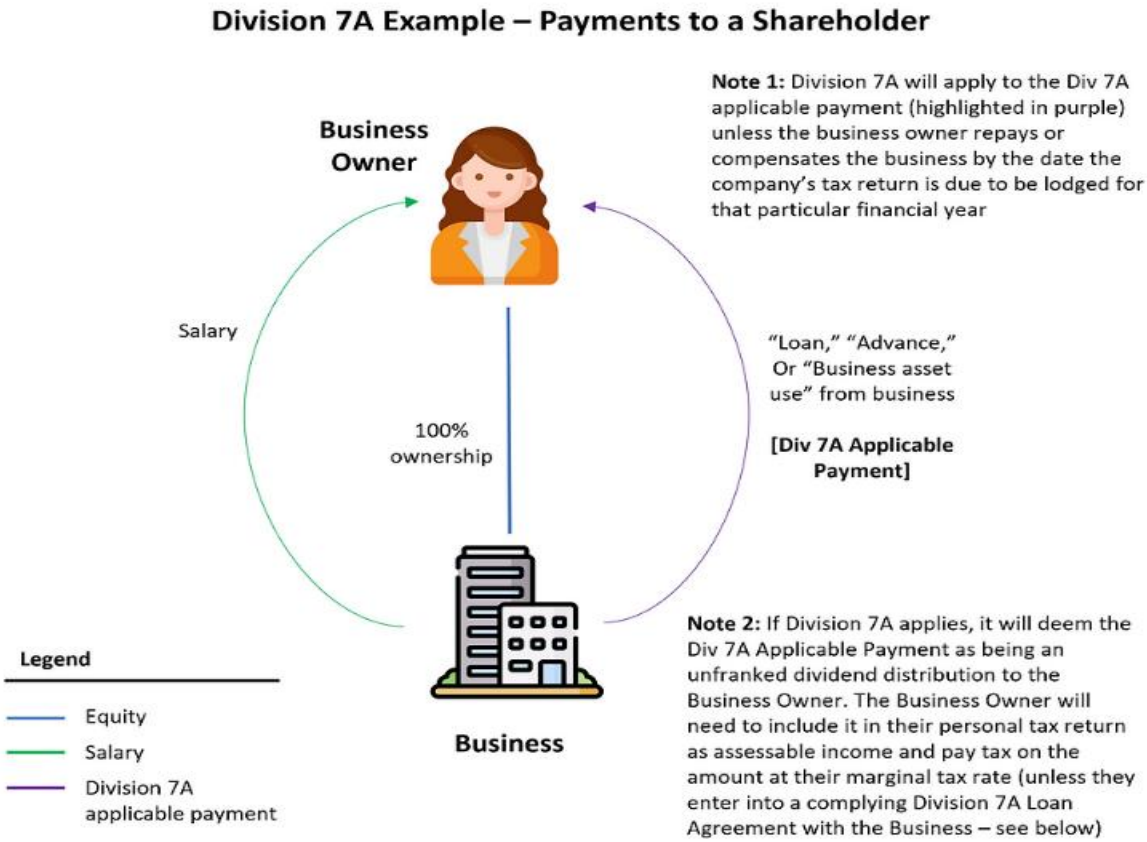
Division 7A Loan

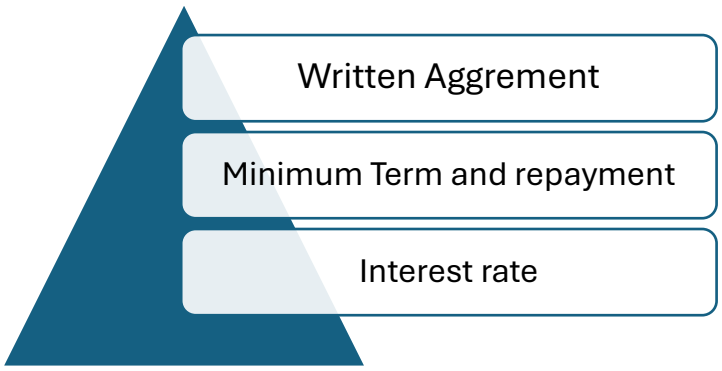
Meaning of 'LOAN under Division 7A:

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.
- If a loan is made by way of a promissory note, it is a provision of credit or a form of financial accommodation, and Division 7A may apply.



How a division 7A compliant loan works:



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. There is no prescribed form for the written agreement. However, as a minimum, the agreement should:

- identify the parties
- set out the essential terms of the loan, that is the - amount and term of the loan, the requirement to repay, the interest rate payable, be signed and dated by the parties
- A written agreement can be drafted to cover loans which will be made to a shareholder or their associate for a few income years in the future.

To avoid incurring additional tax we must make a complying Division 7A loan.

- **Unsecured loans**: These have a maximum term of 7 years.
- **Secured loans**: These can have a term of up to 25 years, depending on the security used.

Minimum Term and Repayment:

Borrowing money from a private company might appear straightforward but it's crucial to consider the Division 7A rules. To avoid it, loans from a private company to its shareholders or their associates must be either repaid in full or placed on a Division 7A complying loan agreement before the company's lodgment day.
Your minimum yearly loan repayment covers both the principal and interest. This is the amount you need to pay back to the company by 30 June 2023. The Repayments can be made by the following.

- Credit transactions made in the financial year.
- Salary to the Director
- Dividend Declaration.

To calculate the repayment manually, the following formula can be used:

$$\frac{\left(\begin{array}{c}\text{Amount of the loan not repaid by}\\ \text{the end of the previous income year}\end{array}\right)\times\left(\begin{array}{c}\text{Current year's}\\ \text{benchmark interest rate}\end{array}\right)}{1-\left(\frac{1}{1+\text{Current year's benchmark interest rate}}\right)^{\text{Remaining term}}}$$

Minimum interest rate:

The interest rate for each year of the loan must at least equal the Division 7A – benchmark interest rate. The benchmark interest rates are updated annually.

- For 2023/24 the deemed dividends benchmark interest rate is 8.27%.
- For 2022/23 the deemed dividends benchmark interest rate is 4.77%.

Amount of compliant division 7A loan borrowed in 2021-22	Minimum repayment in 2022-23	Minimum repayment in 2023-24	Increase in repayments $	Interest component in 2022-23	Interest component in 2023-24	Increase in interest $
100,000	17,138	19,111	1,973	4,768	7,243	2,475
200,000	34,276	38,222	3,946	9,536	14,485	4,949
300,000	51,415	57,333	5,918	14,303	21,728	7,425
400,000	68,553	76,445	7,892	19,071	28,971	9,900

DIVISION 7A CALCULATOR - We can find ATO calculator for division 7A on google
https://www.ato.gov.au/single-page-applications/calculatorsandtools?anchor=DIV7A#DIV7A/questions

1. Select Calculator to calculate minimum repayment.
2. Enter the income year of the loan (loan taken year) then,
3. Select whether loan is secured or unsecured based on the loan agreement made.
4. Fill in the amalgamated loan in years
5. Select the year in which minimum year to be computed.
6. Enter loan amount and select “yes” to calculate the principal and interest amount
7. Add repayment amount to meet minimum repayment

