Reacco.

CHARTERED ACCOUNTANTS

PERTH, WESTERN AUSTRALIA

FREE SELF-ASSESSMENT TOOL

Division 7A Loan Health Check

Twelve questions to find out whether money you've taken out of your own company is about to be taxed as an unfranked dividend — and what to do about it before your return is lodged. Updated for the 2026–27 income year.

Why this matters. If your private company has lent you money, paid a personal expense for you, or let you use a company asset, Division 7A may treat that amount as a **deemed unfranked dividend**. You pay tax on it at your full marginal rate — with no franking credit to offset the tax the company already paid. It is one of the most expensive and most common mistakes in Australian small business.

BENCHMARK RATE — FY2027	BENCHMARK RATE — FY2026	MAX UNSECURED TERM
8.77%	**8.37%**	**7 yrs**
Year ending 30 June 2027	Year ending 30 June 2026	25 yrs if properly secured

Part 1 — The Twelve Questions

Tick every box that is true for your company. Each ticked box is a potential Division 7A exposure. Be honest — this is for you, not the ATO.

TICK	QUESTION
☐	**1.** The company has lent money to you, a family member, or a related trust that has not been fully repaid. CORE RISK
☐	**2.** You have paid personal expenses — school fees, holidays, private vehicle costs, home renovations — directly from the company bank account or company card.
☐	**3.** There is a debit balance in your shareholder loan account (a "director's loan account" showing you owe the company).
☐	**4.** There is **no written loan agreement** in place, or you are not certain one was signed. HIGH RISK
☐	**5.** A written agreement exists but you cannot confirm it charges at least the ATO benchmark rate for each year.
☐	**6.** You did not make a minimum yearly repayment by 30 June, or you are not sure the amount paid was enough. HIGH RISK
☐	**7.** The repayment you made was funded by a new drawing, dividend or loan from the same company. TRAP
☐	**8.** You or a family member use a company-owned asset — a holiday house, boat, car or artwork — without paying market rent.
☐	**9.** The company has forgiven, written off, or simply stopped chasing a debt owed by you or an associate.
☐	**10.** A loan was made through an interposed entity — the company lent to a trust or second company, which then lent to you.
☐	**11.** Your trust has an unpaid present entitlement owing to a corporate beneficiary, and the trust has since lent money to, or paid amounts for, a shareholder of that company.
☐	**12.** Your loan has been rolling on for more than seven years, or has been refinanced or "reset" at some point.

YOUR SCORE

Total boxes ticked: ____________ out of 12

0 ticked — Clear. No obvious Division 7A exposure. Re-run this check each year before your return is lodged, and any time you take money out of the company.

1–3 ticked — Review needed. You likely have a live loan that is manageable if documented and repaid correctly. Fixing it now is cheap; fixing it after lodgement is not.

4 or more ticked — Act now. There is a real prospect of a deemed dividend in the current or a prior year. Get advice before your company return is lodged — the lodgement date closes several of your best options.

The deadline most owners miss. A written loan agreement must be in place by the company's **lodgement day** — the earlier of the due date for the company's tax return and the date it is actually lodged. Once that date passes, you can no longer retrospectively paper the loan. This single deadline is the difference between a compliant loan and an unfranked dividend.

Part 2 — What a Complying Loan Looks Like

If you tick any box in Part 1, the fix is usually to put the amount on complying loan terms. Three conditions must all be met:

- **In writing, in time.** A written agreement signed before the company's lodgement day for the year the money was lent.
- **Interest at or above the benchmark rate.** 8.77% for the year ending 30 June 2027; 8.37% for the year ending 30 June 2026. The rate is set annually and applies to the whole year.
- **Repaid within the maximum term.** Seven years unsecured. Twenty-five years only if the loan is secured by a registered mortgage over real property, and the property's market value less any prior liabilities is at least 110% of the loan.

You must then make a **minimum yearly repayment** by 30 June every year for the life of the loan. Miss it, and the shortfall is treated as a dividend in that year.

Worked example — what a shortfall actually costs

A company lends its director **$100,000** on complying seven-year terms. In year three the director makes no repayment. The minimum yearly repayment for that year was approximately **$19,716**.

WHAT HAPPENS	AMOUNT
Shortfall treated as an unfranked dividend	$19,716
Tax at 47% marginal rate (incl. Medicare levy)	$9,266
Franking credit available to offset	Nil
Cash cost of one missed repayment	**$9,266**

Illustrative only. The dividend is also capped by the company's distributable surplus, and interest and penalties may apply on top. The point stands: a repayment you forgot to make in June can cost five figures.

Trusts and unpaid present entitlements — what changed in 2026. On 10 June 2026 the High Court decided *Commissioner of Taxation v Bendel*, confirming that a trust's unpaid present entitlement to a corporate beneficiary is **not a loan** for Division 7A purposes. The ATO has accepted the decision and is withdrawing its contrary ruling.

This is welcome news, but it is not a green light. Subdivision EA, section 100A and Part IVA can still apply — particularly where the trust on-lends the funds to a shareholder. If your group has accumulated UPEs, this is the year to review the position properly.

Part 3 — If You've Already Slipped

A missed repayment or an undocumented loan is not automatically fatal. Options may include:

- **Repay before lodgement day.** If the amount is repaid in full before the company's lodgement day, it is generally not treated as a dividend at all — provided the repayment is genuine and not funded by a fresh loan from the same company.

- **Distributable surplus cap.** A deemed dividend cannot exceed the company's distributable surplus. If the company has little or no surplus, the exposure may be smaller than you fear.
- **Commissioner's discretion.** Where a shortfall or breach arose from an honest mistake or inadvertent omission, the Commissioner has discretion to disregard the deemed dividend or allow it to be franked. This is not automatic — it must be applied for, with evidence.
- **Declare a franked dividend to fund the repayment.** Often the cleanest long-term fix, but it needs to be modelled against your marginal rate and the company's franking account before you commit.

> **Do not simply "clean up" prior year accounts.** Backdating an agreement or reclassifying a loan as wages or a dividend after the fact creates a far more serious problem than the original breach. Deal with it properly and on the record.

Your Next Three Steps

- **1. Pull the shareholder loan account balance** from your accounting file for each of the last three years, not just the current one.
- **2. Locate the signed loan agreement.** If you cannot find it in ten minutes, assume it does not exist and act accordingly.
- **3. Diarise your minimum yearly repayment for 30 June** — and calculate it in May, not June, so the cash is there.

Important: This health check is general information only and does not take into account your particular objectives, financial situation or needs. It is not tax, legal or financial advice and should not be relied on as such. Division 7A is a complex area and outcomes turn on the specific facts of each arrangement. Rates and thresholds are current as at July 2026 and are subject to change. You should obtain advice from a registered tax agent before acting. Liability limited by a scheme approved under Professional Standards Legislation.