Advance Business Centres

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ISSUES & **ANSWERS**

DIRECTOR AND SHAREHOLDER LOANS

Loan Type 1

Directors/Shareholders Loan to Company

To finance activities of operating a business capital often comes from Directors/Shareholders particularly in family business. Usually there is no expectation requirement of the business to pay interest or repay the loan at a particular time.

There is no requirement to be complied with by the Australian Taxation Office or the Australian Securities Commission.

Loan Type 2

Director Loan from Company

Interest at the prescribed Statutory Rate must be paid on a private loan otherwise Fringe Benefits Tax will be payable by the company.
Interest and Fringe Benefits Tax does not apply if the loan is for business purposes where the interest would be deductible by the director.
A loan agreement with the repayment of the principal is required over a 7 year period.

Loan Type 3

Shareholder Loan From Company

If interest is not charged or a repayment document is not in place the Australian Taxation Office regards such a "loan" as a dividend paid to the shareholder. Therefore, the shareholder would be required to declare the sum as assessable income.
The interest payable on a loan should equate the Statutory amount in order to overcome any possible conflict with the Australian Taxation Office.
A loan agreement with the repayment of the principal is required over a 7 year period.