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You and your shares 2026

Guide for individuals with share or bond investments, declaring income or credits, deductible expenses and records.

Published 30 May 2026

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- You and your shares 2026 (NAT 2632, DOCX 2.8MB)

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About the guide for you and your shares

How this guide will help you if you hold shares or bonds as an investment.

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You and your shares 2026 (NAT 2632) will help you, as an individual if you hold shares or bonds as an investment, find out the following:

- how dividends you receive as an Australian resident or a non-resident individual are taxed
- the type of expenses you may be able to claim against dividend income.

If you acquired shares after 19 September 1985, capital gains tax (CGT) may apply when you dispose of them. For more information, see Capital gains tax personal investors guide 2026.

This guide will also help people who carry on a business of trading in shares. It doesn't deal with the specific tax on shares held as trading stock or with the profits or losses arising from the disposal of such shares. If you need further advice on these aspects of owning shares, see Investing in shares or speak to a registered tax adviser.

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Basic concepts

Basic concepts relating to you and your shares.

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Shares

A company issues shares to raise the money needed to finance its operations. When a company issues shares, it grants shareholders various entitlements, for example, the right to receive dividends or the right to share in the capital of the company upon winding up. A company may issue different classes of shares, so these entitlements may vary between different shareholders.

Non-share equity interests

Certain interests which aren't shares in legal form are treated in a similar way to shares for some tax law purposes. These interests are called non-share equity interests. Examples include some income and stapled securities.

The debt and equity tests help you work out the difference between a debt interest and an equity interest for tax purposes.

Company debentures, bonds and convertible notes

Companies borrow money by issuing debt securities commonly known as ‘debentures’ or ‘bonds’. Bonds can be bought and sold in the stock market in the same way as shares. Usually, the company pays back the money borrowed after a period of time. Sometimes the holder of a bond is given the right to exchange the bond for shares in the borrowing company or another company. Company bonds that can be exchanged for shares are referred to in this publication as ‘convertible notes’.

A company bond or debenture is a promise made by a company to pay back money that it previously borrowed. In addition, the company pays interest until the money it borrowed is paid back. Interest you receive as the holder of a company bond or debenture is included in your tax return as interest income. Special rules apply if you sell a company bond before the company returns the money that it borrowed, or if the bond is exchanged for shares in the borrowing company or another company.

Sometimes a company will issue a bond in return for a sum of money that's less than the face value of the debt the company promises to pay in the future. This is often referred to as a ‘discounted security’. A company may also issue a bond that promises to increase the amount of principal paid back by an amount that reflects changes in a widely published index, such as the consumer price index or a share market index. If you have acquired such a security and are unsure of the tax consequences, you should contact us or a registered tax adviser. Special rules apply to the tax on gains and losses from these securities, both for income earned while you own the securities and when you dispose or redeem them.

Non-equity shares

Under the debt and equity rules, the dividends on some shares are treated in the same way as interest on a loan for some tax law purposes. These shares are called non-equity shares. In some circumstances, a redeemable preference share may be a non-equity share.

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Dividends, distributions and tax on amounts you receive

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Receiving dividends or distributions

What to do if you receive dividends or distributions.

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Dividends

If you own shares in a company, you may receive a dividend or distribution.

In any income year you may receive both an interim and a final dividend. In most circumstances, you'll be liable to pay income tax for that income year on the dividends you're paid or credited.

You must include in your assessable income dividends paid or credited to you. Your shareholder dividend statement or distribution statement should contain details of the date a payment was made to you, which is generally referred to on the statement as the payment date or date paid. It's this date that will determine which income year you include the dividend in your assessable income. Where the dividend is paid by cheque, it's deemed to have been paid to you on the date the cheque was posted to you by the company, not on the date the cheque was received, banked or cleared.

A dividend can be paid to you as money or other property, including shares.

Dividend reinvestment schemes

Most dividends you receive are paid by cheque or direct deposit into a bank account. However, the company may give you the option of reinvesting your dividends in the form of new shares in the company. This is called a dividend reinvestment scheme. If you take this option, you must pay tax on your reinvested dividends. Keep a record of the market value of the new shares acquired through the dividend reinvestment scheme (at the time of reinvestment) to help you work out any potential capital gains or capital losses on the eventual disposal of the shares.

Bonus shares

If you're paid or credited with taxable bonus shares, the company issuing the shares should provide you with a dividend statement or distribution statement indicating the share value that's subject to tax. A company should also inform you if it issued tax-free bonus shares out of a share premium account.

From 1 July 1998, bonus shares are taxed as a dividend if the shareholder has a choice between receiving a dividend or the shares, unless they're issued in certain circumstances by a listed public company which doesn't credit its share capital account. If you make a capital gain when you dispose of bonus shares that you received on or after 20 September 1985, you may have to pay CGT even if they weren't taxed as a dividend.

For more information, see our Guide to capital gains tax 2026.

Amounts treated as dividends

The rules in Division 7A of the Income Tax Assessment Act 1936 (ITAA 1936) ensure that private companies can't make tax-free distributions of profits to shareholders or their associates in the form of payments, loans or forgiven debts.

If you're a shareholder or an associate of a shareholder in a private company which makes a payment or loan to you or forgives a debt that you owe the company, the company will be taken under Division 7A to have paid you a dividend unless the payment or loan came within specified exclusions.

For more information, see:

- Private company transactions treated as dividends
- Trust loans, payments and forgiven debts treated as dividends

Demerger dividends

Dividends paid to you under a demerger are generally not included in your assessable income. This concession will apply automatically to eligible demergers unless the head entity elects that the dividend should be assessable for all shareholders. Where that election is made, you should include the dividend in your tax return as an unfranked dividend.

Generally, the head entity undertaking the demerger will advise you whether a demerger dividend has been paid and whether it's elected that the dividend be assessable. In addition, we may have provided advice in the form of a class ruling specific to the demerger which may have been supplied with the head entity's advice. If you're in any doubt, contact us.

Non-share dividends

Distributions you receive from a non-share equity interest that don't constitute a non-share capital return are called non-share dividends.

Franked dividends from a New Zealand franking company

Under the Trans-Tasman imputation system, a New Zealand franking company that has elected to join the Australian imputation system may pay a dividend franked with Australian franking credits. If you're an Australian shareholder of a New Zealand franking company that has made such an election, you may be entitled to claim the benefits of the franking credits attached to the dividends.

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How dividends are taxed

How dividends are taxed for resident shareholders.

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Tax on dividends

Dividends are taxed differently depending on whether you're a resident or non-resident of Australia.

This section explains the tax implications if you're an Australian resident. If you're a non-resident, see Dividends paid or credited to non-resident shareholders.

Australian resident companies pay tax on dividends they pay to shareholders, this system is known as the 'imputation system'. This is because the company may impute or attribute the tax they pay to you. The tax they allocate to you attaches to the dividends they pay as a franking credit.

The basis of the system is that if a company pays or credits you with dividends that have been franked, you may be entitled to a franking tax offset for the tax the company has paid on its income. The franking tax offset will cover or partly cover the tax you pay on the dividends.

Franked dividends

A resident company, or a New Zealand franking company that elects to join the Australian imputation system, may pay or credit you with a franked dividend. Dividends can be fully franked (meaning that the whole amount of the dividend carries a franking credit) or partly franked (meaning that the dividend has a franked amount and an unfranked amount). The dividend statement or distribution statement you receive from the company paying the franked dividend must state the amount of the franking credit and the amounts of the franked and unfranked parts of the dividend.

Unfranked dividends

A resident company may pay or credit you with an unfranked dividend. There's no franking credit attached to these dividends.

If you receive an unfranked dividend declared to be conduit foreign income on your dividend statement or distribution statement, include that amount as an unfranked dividend in your tax return.

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How non-share dividends are taxed

How non-share dividends are taxed for resident shareholders.

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Imputation system and dividends

The imputation system applies to non-share dividends in the same way that it applies to dividends. A non-share dividend may be franked or unfranked. Any amount of the dividend you receive, whether franked or unfranked, or any amount of franking credit carried by the dividend should be shown in your tax return as if it were a dividend paid on shares.

Dividends on non-equity shares

Under the imputation system, dividends paid on certain shares that are classified as non-equity shares (for example, some redeemable preference shares) are treated as unfrankable distributions for imputation purposes. Therefore, these dividends can't be franked.

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Dividend or distribution statement

Dividends or distribution statement paid from Australian resident companies.

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If an Australian company pays or credits you with a dividend or a non-share dividend, the company must also send you a dividend statement or distribution statement advising:

- the name of the entity making the distribution
- the date on which the distribution was made
- the amount of the distribution
- the amount of any franking credit allocated to the distribution
- the franking percentage for the distribution
- where the distribution is unfranked, a statement to that effect

- where the distribution is franked, the franked part and the unfranked part
- where any or all of the unfranked amount of the distribution has been declared to be conduit foreign income, the portion so declared
- the amount of tax file number (TFN) withholding tax withheld if you haven't quoted your TFN to the company.

Example 1: payment of dividends

On 15 February 2026, an Australian resident company Coals Tyer Ltd paid John, a resident individual, a fully franked dividend of $700 and an unfranked dividend of $200. John received the dividend statement from Coals Tyer Ltd (see example 3).

We'll follow the Coals Tyer Ltd example through the next few sections of this guide to see what John needs to do with the information.

Example 2: assessable dividend income

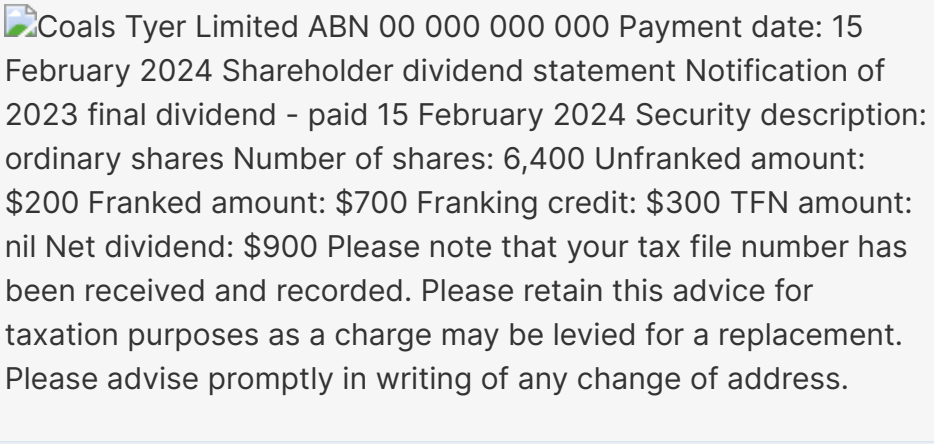
John's assessable income for 2025–26 in respect of the dividend is:

Dividend	Value $
Unfranked dividend received	200
Franked dividend received	700
Franking credit	300
Total assessable dividend income	**1,200**

If these were the only dividends John was paid or credited with for the income year, he can transfer these amounts directly to

Dividends in the Income section of his tax return.

Example 3: shareholder dividend statement


Coals Tyer Limited ABN 00 000 000 000 Payment date: 15 February 2024 Shareholder dividend statement Notification of 2023 final dividend - paid 15 February 2024 Security description: ordinary shares Number of shares: 6,400 Unfranked amount: $200 Franked amount: $700 Franking credit: $300 TFN amount: nil Net dividend: $900 Please note that your tax file number has been received and recorded. Please retain this advice for taxation purposes as a charge may be levied for a replacement. Please advise promptly in writing of any change of address.

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Taxation implications

Tax implications on paid or credited dividends or non-share dividends.

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If you're paid or credited dividends or non-share dividends, you must include all of the following amounts in assessable income in your tax return:

- the unfranked amount
- the franked amount

- the franking credit, provided you're entitled to a franking tax offset for the franking credit (see Your franking tax offset for eligibility).

You can see on the Coals Tyer Ltd statement that John had no TFN amount withheld from the dividends he was paid or credited. If you don't provide an Australian company with your TFN, the company must deduct tax from the unfranked amount of any dividend at the highest income tax rate for individuals (45%) plus the Medicare levy (2%), which makes a total rate for 2025–26 of 47%. As John advised Coals Tyer Ltd of his TFN, no TFN amount was withheld.

If John hadn't advise Coals Tyer Ltd of his TFN, a TFN amount would have been withheld from the unfranked amount of the dividend and shown by John in his tax return. John would then have received a credit for the TFN amount withheld.

If John received more than one dividend statement during the income year, he would need to show the total amounts in his tax return.

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Effect on tax payable

How fully franked dividend and unfranked dividends affect your tax liability.

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Example 4 shows how the fully franked dividend of $700 and the unfranked dividend of $200 from Coals Tyer Ltd affect John’s tax liability. It's assumed that John has other income of $80,000. The Medicare levy isn't included in the calculation.

John’s assessable income includes the franking credit in addition to the franked and unfranked dividends, and John’s tax is based on this higher figure. However, he is able to use the tax already paid at the company level (the franking tax offset) to reduce the amount of tax that he has to pay on his assessment.

Example 4: tax payable on dividend income

John's tax return (extract)

Tax return	Value $
Unfranked dividend received	200
Franked dividend received	700
Franking credit, non-cash	300
Other assessable income	80,000
Total taxable income	**81,200**
Tax on $81,200, assessed at 2025–26 rates	15,148
less franking tax offset	300
Tax payable (see note)	**14,848**

Note: This doesn't include any liability for the Medicare levy.

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Deductions from dividend income

Expenses that may be deductible when you incur certain expenditure in deriving income from shares.

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Management fees

Where you pay ongoing management fees or retainers to investment advisers, you'll be able to claim the expenditure as an allowable deduction. You can only claim a proportion of the fee if the advice covers non-investment matters or relates in part to investments that don't produce assessable income. You can't claim a deduction for a fee paid for drawing up an initial investment plan.

Interest

If you borrow money to buy shares, you'll be able to claim a deduction for the interest you incur on the loan, provided it's reasonable to expect that the dividends you derive from your investment in the shares will produce assessable income. If you also use the loan for private purposes, you'll only be able to claim interest on the part of the loan used to acquire the shares.

Interest on capital protected borrowings

Under a capital protected borrowing arrangement, you acquire listed shares, units or stapled securities using a borrowing that wholly or partly protects you against a fall in their market value.

You can't deduct the interest attributable to capital protection under a capital protected borrowing arrangement for shares, units or stapled securities you enter into or extend, on or after 1 July 2007. You treat the interest as if it were a payment for a put option. This treatment applies to shares, units or stapled securities you hold on capital account for investment purposes.

You work out the amount of interest that's reasonably attributable to the capital protection using the methodology applicable to the type of capital protected borrowing.

Travel expenses

You may be able to claim a deduction for travel expenses where you need to travel to service your investment portfolio – for example, to

consult with a broker or to attend a stock exchange or company meeting. You can claim a deduction for the full amount of your expenses where the sole purpose of the travel relates to the share investment. Where the travel is predominantly of a private nature, only the expenses that relate directly to servicing your portfolio will be allowable.

Cost of journals and publications

You may be able to claim the cost of purchasing specialist investment journals and other publications, subscriptions or share market information services that you use to manage your share portfolio. See Taxation Determination TD 2004/1 *Income tax: are the costs of subscriptions to share market information services and investment journals deductible under section 8-1 of the Income Tax Assessment Act 1997?*

Internet access and computers

You may be able to claim some of the cost of internet access in managing your portfolio. For example, if you use an internet broker to buy and sell shares, the cost of internet access will be deductible to the extent you use the internet for this purpose. You can't claim a deduction for the private use portion.

You can also claim a capital allowance (previously known as depreciation) for the decline in value of your computer equipment to the extent that it's been used for income-producing purposes. You can't claim a capital allowance for the private use portion.

Borrowing expenses

You may be able to claim expenses you incur directly in taking out a loan for purchasing shares that can reasonably be expected to produce assessable dividend income. The expenses may include establishment fees, legal expenses and stamp duty on the loan. If you incur deductible expenses of this kind totalling more than $100, you apportion them over 5 years or the term of the loan, whichever is less. If your expenses are $100 or less, they're fully deductible in the year you incur them.

Dividends that include listed investment company capital gain amounts

If a listed investment company (LIC) pays a dividend to you that includes a LIC capital gain amount, you may be entitled to an income tax deduction.

You can claim a deduction if the following applies:

- you're an individual
- you're an Australian resident when a LIC pays you a dividend
- the dividend is paid to you after 1 July 2001
- the dividend includes a LIC capital gain amount and the capital gain is from a CGT event happening to a CGT asset owned by the LIC for at least 12 months.

The amount of the deduction is 50% of the LIC capital gain amount. The LIC capital gain amount is shown separately on your dividend statement.

You don't show the LIC capital gain amount in your tax return.

Example 8: completion of tax return

Ben, an Australian resident, was a shareholder in XYZ Ltd, a listed investment company. For the 2025–26 income year, Ben received a fully franked dividend from XYZ Ltd of $70,000 including a LIC capital gain amount of $50,000. Ben includes the following amounts in his tax return:

- Franked dividend = $70,000
- Franking credit = $30,000
- Assessable income = $100,000
- Deduction for LIC capital gain (shown as deduction) = $(25,000)
- Net assessable income = $75,000

Other deductions

Any other expenses you incur directly relating to maintaining your portfolio, such as bookkeeping expenses and postage, are also deductible.

Deductions denominated in a foreign currency

You must translate all deductions into Australian dollars that are denominated in a foreign currency before claiming them in your Australian tax return. For more information on the exchange rates you should use in translating foreign currency deductions, see:

- Translation (conversion) rules
- General information on average rates.

Expenses that aren't deductible

Unless you're carrying on a business of share trading, you can't claim a deduction for the cost of acquiring shares (for example, expenses for brokerage and stamp duty). These will form part of the cost base for CGT purposes when you dispose of the shares. Unless you're carrying on a business of share trading, you can't claim a deduction for a loss on the disposal of shares. The loss is a capital loss for CGT purposes. For more information, see Personal investors guide to capital gains tax 2026.

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Dividends, non-resident companies and shareholders

Work out what you need to do for dividends paid or credited by non-resident companies or to non-resident shareholders.

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Dividends paid or credited by non-resident companies

If you're a temporary resident and receive dividends from a non-resident company, you won't need to show the dividend in your Australian tax return. For more information, see Temporary resident foreign income exemption.

If you're a shareholder of a New Zealand franking company that has paid a dividend that's franked with Australian franking credits, you may be able to claim a franking tax offset. For more information on how to claim the franking tax offset, see Trans-Tasman imputation special rules.

Non-resident companies, other than certain New Zealand franking companies, aren't subject to the imputation system and you won't be entitled to claim a franking tax offset for any tax paid by the company.

However, you may find that foreign tax has been withheld from the dividend so that the amount paid or credited to you is reduced.

In most circumstances, you'll be liable to pay Australian income tax on the dividend. You must include the full amount of the dividend in your tax return. This means the amount you're paid or credited plus the amount of any foreign tax that has been deducted. You may be able to claim a foreign income tax offset for the foreign tax paid.

In certain circumstances, foreign dividends may be exempt from tax. For example, they may be exempt to avoid any double taxation, or because the portfolio out of which the dividends have been paid has already been taxed at a comparable rate.

There are special rules that need to be satisfied for you to claim a foreign income tax offset. For more information, see Guide to foreign income tax offset rules 2026.

Example 9: payments by foreign companies

Emma has shares in a company resident in the United States of America. She was entitled to be paid a dividend of $400. Before she was paid the dividend, the company deducted $60 in foreign tax, sending Emma the remaining $340. All amounts have been translated into Australian dollars.

When she completes her Australian tax return, Emma includes $400 as foreign source income and may be able to claim a foreign income tax offset of $60.

Dividends denominated in a foreign currency

You must translate all assessable dividends you receive denominated in a foreign currency into Australian dollars before including them in your Australian tax return.

For more information on the exchange rates that should be used in translating foreign currency amounts, see:

- Translation (conversion) rules
- General information on average rates.

Dividends paid or credited to non-resident shareholders

Non-resident individuals can also be paid or credited franked dividends or unfranked dividends from Australian resident companies. However, they're taxed differently from resident shareholders.

If your residency status changed during the year (for example, you became a resident in the second half of the year) there may be occasions where withholding tax wasn't deducted from payments made to you before you became a resident. If this happens, you should attach a schedule to your tax return explaining your circumstances. We'll work out the amount of withholding tax you have to pay on these dividends and advise you of this amount.

Franked dividends

If you're a non-resident of Australia, the franked amount of dividends you're paid or credited aren't subject to Australian income and withholding taxes. The unfranked amount will be subject to withholding tax.

However, you're not entitled to any franking tax offset for franked dividends. You can't use any franking credit attached to franked dividends to reduce the amount of tax payable on other Australian income and you can't get a refund of the franking credit. You shouldn't include the amount of any franked dividend or any franking credit in your Australian tax return.

Unfranked dividends

A resident company may pay or credit to you an unfranked dividend. There's no franking credit attached to these dividends.

You can declare the whole or a portion of an unfranked dividend to be conduit foreign income on your dividend statement. If you declare an unfranked dividend to be conduit foreign income, it's not assessable income and is exempt from withholding tax.

Any other unfranked dividends paid or credited to a non-resident are subject to a final withholding tax.

Withholding tax is imposed on the full amount of the unfranked dividends. That is, no deductions may be made from the dividends, and a flat rate of withholding tax is applied whether or not you have other Australian taxable income. If you're paid or credited any partly franked dividends, withholding tax is deducted from the unfranked amount.

Before you're paid a dividend, withholding tax is deducted by the company. The company)will only pay or credit you the reduced amount. It's deducted at a rate of 30% unless you're a resident of a country with which Australia has entered into a tax treaty that varies the amount of withholding tax that can be levied on dividends.

Australia has entered into tax treaties with more than 40 countries and the rate of withholding tax on dividends is limited to 15% in most of these agreements. Details of the rates that apply to residents of specific countries can be obtained from us. Dividends paid on shares that are classified as non-equity shares under the debt and equity rules are treated as interest payments for withholding tax purposes.

For the residents of many countries, the rate of withholding tax on these payments is 10%.

The withholding tax on unfranked dividends is a final tax, so you'll have no further Australian tax liability on the dividend income. Therefore, if the only income you earn is dividend income that's a fully franked dividend or an unfranked amount of a dividend which either has withholding tax deducted or declared to be conduit foreign income, you don't need to lodge an Australian tax return.

If you're paid or credited dividends that aren't fully franked and aren't declared to be conduit foreign income (and from which withholding tax isn't deducted), you should attach a separate schedule to your tax return showing details of those dividends. We'll work out the amount of withholding tax you have to pay on these dividends and advise you of this amount.

However, if you receive that dividend under a demerger that happened on or after 1 July 2002 and the head entity hasn't elected for it to be assessable, you don't include it in your tax return. This applies even though it's an unfranked dividend and no withholding tax has been paid on that dividend. If you're in any doubt, contact us.

Deductions

You can't claim any expenses you incur in deriving dividends that aren't assessable in Australia, including any dividend that you don't need to show in your Australian tax return.

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Franking tax offsets and franking credits

Claiming a franking tax offset and franking credits from partnerships or trust distributions.

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Franking tax offsets

When you can and can't claim a franking tax offset.

Franking credits attached to a partnership or trust distribution

How you can claim franking credits attached to a partnership or trust distribution.

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Franking tax offsets

When you can and can't claim a franking tax offset.

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Your franking tax offset

If a company pays or credits you franked dividends or non-share dividends (that is, they carry franking credits for which you're entitled to claim franking tax offsets), your assessable income includes both the dividends you're paid or credited, and the franking credits attached to the dividends. You must include both amounts when you lodge your tax return. Tax is payable at your applicable tax rate on these amounts.

If you include the franking credit in your assessable income, you're then entitled to a franking tax offset equal to the amount included in your income. It's not necessary for you to claim the tax offset. It will appear on your notice of assessment.

You can use the franking tax offset to reduce your tax liability from all forms of income (not just dividends), and from your taxable net capital gain. Example 4 shows you how this works.

You'll receive a refund for any excess franking tax offset amount, if you're an eligible resident individual, after your income tax and Medicare levy liabilities are met.

Example 5: impact of franking tax offsets

John's tax return (extract)

Tax return	Value $
Tax payable on taxable income	2,000
subtract Other tax offsets	1,500
Net tax payable	**500**
add Medicare levy	200
Subtotal	**700**
subtract Franking tax offset	1,000
Refund (of excess franking credits)	**300**

Note: Amounts are for illustrative purposes only.

Claiming your franking tax offset when you don't need to lodge a tax return

If you can claim a franking tax offset for 2025–26 but you're not otherwise required to lodge a tax return, see Refund of franking credits application and instructions 2026.

When you're not entitled to claim a franking tax offset

The holding period rule, the related payments rule or the dividend washing integrity rule may affect your entitlement to a franking tax offset. The general effect of the holding period rule and the related payments rule is that even if a dividend is accompanied by a dividend statement advising that there's a franking credit attached to the dividend, you're not entitled to claim the franking credit. If you or your company undertake a dividend streaming or stripping arrangement, or you enter into a scheme with the purpose of obtaining franking credits (referred to as franking credit trading), your entitlement to a franking tax offset could also be affected.

For more information, see:

- Disclosure in your tax return (all years)
- Application of the rules to interests in partnerships and trusts.

Holding period rule

The holding period rule requires you to continuously hold shares 'at risk' for at least 45 days (90 days for certain preference shares) to be able to claim the franking tax offset. However, under the small shareholder exemption this rule doesn't apply if your total franking credit entitlement is below $5,000. This is roughly equivalent to receiving a fully franked dividend of:

- $11,666 (for companies that aren't base rate entities, with a corporate tax rate of 30%)
- $13,181 (for companies that are base rate entities, with a corporate tax rate of 27.5%)
- $14,230 (for companies that are base rate entities, with a corporate tax rate of 26%)
- 14,999 (for companies that are base entities, with a corporate tax rate of 25%).

This means that you must continuously own shares 'at risk' for at least 45 days (90 days for certain preference shares) not counting the day of acquisition or disposal, to be able to claim any franking tax offset.

You can't count the days which you have 30% or less of the ordinary financial risks of loss and opportunities for gain from owning the shares in determining whether you hold the shares for the required period.

Arrangements such as hedges, options and futures may reduce the financial risk of owning shares.

If you acquire shares, or an interest in shares, and you haven't already satisfied the holding period rule before the day on which the shares become ex-dividend, the holding period rule commences on the day after the day on which you acquired the shares or interest. The shares become ex-dividend on the day after the last day on which acquisition of the shares will entitle you to receive the dividend. You must hold the shares or interest for 45 days (90 days for certain preference shares) excluding the day of disposal. For each of these days you must have 30% or more of the ordinary financial risks of loss and opportunities for gain from owning the shares or interest.

You only have to satisfy the holding period rule once for each purchase of shares. You're then entitled to the franking credits attached to those shares, unless the related payments rule applies.

Example 6: franking credits entitlement greater than $5,000

Matthew acquired a single parcel of shares on 1 March 2026. On 8 April 2026 Matthew received fully franked dividends of $13,066 (which had franking credits attached of $5,600) for 2025–26. On 10 April 2026 Matthew sold that parcel of shares. Because he hadn't held the shares for at least 45 days and didn't qualify for the small shareholder exemption, he failled the holding period test and can't obtain the benefit of the franking credits.

Matthew shows a dividend of $13,066 as a franked amount in his tax return but doesn't show the amount of franking credits.

As Matthew has no entitlement to any part of the $5,600 franking credits, he won't receive a franking tax offset in his assessment.

For the purpose of the holding period rule, if a shareholder purchases substantially identical shares in a company over a period of time, the

holding period rule uses the 'last-in first-out' method to identify which shares will pass the holding period rule.

Example 7: substantially identical shares

Jessica holds 10,000 shares in Mimosa Pty Ltd for 12 months. She purchases an extra 4,000 shares in Mimosa Pty Ltd 10 days before they became ex-dividend (the day after the last day on which acquisition of the shares will entitle you to receive a dividend) and then sells 4,000 shares 20 days after Mimosa Pty Ltd shares became ex-dividend.

Her total franking credit entitlement for the income year is more than $5,000. The shares she sells are deemed to have been held for less than 45 days, based on the last-in first-out method. Jessica can't claim the franking credits on the 4,000 shares sold.

Related payments rule

In certain circumstances, the related payments rule prevents you from claiming the franking credits attached to franked dividends if a related payment is made. This rule applies if you make a 'related payment', for instance you or an associate are under an obligation to pass on the benefit of the franked dividend to someone else.

You must be a 'qualified person' for the payment of each dividend or distribution to claim the franking credits attached to franked dividends.

Where there has been a related payment, to be a 'qualified person' for a dividend or distribution, you must hold the relevant shares 'at risk' for the period beginning on the 45th day before and ending on the 45th day after the day on which the shares became ex-dividend (90 days before and after for preference shares).

Being a 'qualified person' for the payment of current dividends or distributions doesn't mean that you're automatically a 'qualified person' for future dividends or distributions if you or an associate are under an obligation to pass on those dividends or distributions to someone else. The related payments rule must be satisfied for all subsequent dividends and distributions.

Dividend washing integrity rule

The integrity rule prevents you from claiming more than one set of franking credits where you have received a dividend as a result of dividend washing.

Dividend washing occurs where:

- you, or an entity connected to you, sell an interest in shares that you hold while retaining the right to a dividend, then
- by using a special ASX trading market, you purchase some substantially identical shares.

If the dividend washing integrity rule applies, you're not entitled to a tax offset for the franking credits for the second dividend. However, if your interest in the second parcel of shares exceeds the interest in the first parcel, you may be able to claim a portion of these extra franking credits.

If you receive $5,000 or less in franking credits in a year, you're exempt from the integrity rule under the **small shareholder exemption**. The integrity rule generally applies to all other resident taxpayers.

This exemption only applies when you directly receive the dividend as a result of dividend washing. It doesn't apply where the dividend flows indirectly to you through an interest in a trust or partnership.

Individuals who receive $5,000 or less in franking credits in an income year should however be aware that the Commissioner may apply the general anti-avoidance rules if they have entered into a scheme for the purpose of obtaining franking credit benefits.

Disclosure in your tax return (all years)

If you're not entitled to a franking tax offset, show in your tax return the amount of franked dividend received. Don't show the amount of any franking credit.

Application of the rules to interests in partnerships and trusts

If you have interests in partnerships or trusts (other than widely held trusts) which hold shares, the holding period rule and the related payments rule apply to your interests in the shares held by the partnership or trust in the same way that the rules apply to shares you own directly. Therefore, the partner or beneficiary has to hold their interest in the shares held by the partnership or trust ‘at risk’ for the

required period. The related payments rule will apply if they aren't holding their interest in the partnership or trust ‘at risk’ and they have an obligation to pass on their share of net income of the partnership or trust which is attributable to the franked dividend.

If you have interests in a widely held trust, the holding period rule and related payments rule apply to your interest in the trust (rather than in the shares held by the trust).

Continue to: Franking credits attached to a partnership or trust distribution

Return to: Franking tax offsets and franking credits

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Franking credits attached to a partnership or trust distribution

How you can claim franking credits attached to a partnership or trust distribution.

Published 30 May 2026

Claiming franking credits attached to a partnership distribution

When calculating its net income or loss for tax purposes, a partnership that's paid or credited a franked dividend includes both the amount of the dividend and the franking credit in its assessable income. This is subject to the partnership satisfying the holding period rule and other rules contained in the provisions dealing with franked dividends.

If a share of the net income or loss of a partnership is attributable to a franked dividend, you may be entitled to claim a franking tax offset, which is your share of the partnership’s franking credit arising from that dividend.

You're not entitled to a franking tax offset if you don't satisfy the holding period rule or related payments rule for your interest in the shares held by the partnership, or if the partnership doesn't satisfy those rules for the shares.

If the partnership satisfies the rules for the shares and the small shareholder exemption applies to you, you don't have to satisfy the holding period rule.

For more information, see When you're not entitled to claim a franking tax offset.

Example 10: partnerships and trusts

Partnership income

Item	Value $
Franked dividend	700
Franking credit, non-cash	300
Net income of partnership	**1,000**

Individual partner: half share

Item	Value $
Taxable half share of net income of the partnership	500
Other assessable income	80,000
Total taxable income	**80,500**
Gross tax at 2025–26 rates	14,938
subtract half of the total franking tax offset	150

Tax payable (see note)	**14,788**

Note: This doesn't include any liability for the Medicare levy.

Claiming franking credits attached to a trust distribution

A trust that's paid or credited franked dividends includes both the amount of the dividend and the franking credit in its assessable income when calculating its net income or loss for tax purposes.

This is subject to the trust satisfying the holding period rule and other rules contained in the provisions dealing with franked dividends.

If there's any net income of a trust to which no beneficiary is presently entitled, or for which the trustee is assessed on behalf of a beneficiary who is under a legal disability, the trustee is taxed on that income at special rates of tax. The trustee will be entitled to a franking tax offset for any franking credit included in that part of the net income.

If you're the beneficiary of a trust and the trust makes a loss for tax purposes, there's no net income of the trust and any franking credit is lost. Trusts can't distribute losses to beneficiaries.

If a share of the net income of a trust, is attributable to a franked dividend, you may be able to claim a franking tax offset. This is your share of the trust's franking credit arising from that dividend.

If the trust is a widely held trust, you won't be entitled to a franking tax offset if you don't satisfy the holding period rule or related payments rule for your interest as a beneficiary in the trust or the trust doesn't satisfy those rules for the shares. If the trust isn't a widely held trust, you must satisfy the holding period rule and related payments rule for your interest in the shares held by the trust to be entitled to the franking tax offset.

If the trust satisfies the holding period rule and other rules for the shares and the small shareholder exemption applies to you, you don't have to satisfy the holding period rule.

For more information, see When you're not entitled to claim a franking tax offset.

Special rules apply to beneficiaries of trusts (other than trusts that elect to be family trusts within the meaning of the *Income Tax Assessment Act 1936* (ITAA 1936) or deceased estates) to determine whether they hold their interest at risk.

Example 11: trust with loss in 2025–26

Trust information

Item	Value $
Franked dividend	2,100
Franking credit, non-cash	900
Total income of the trust	3,000
subtract deductible expenses of the trust	4,000
Loss	**–1,000**

Trusts can't distribute losses to beneficiaries. Franking credits aren't refundable in this example.

Example 12: trust with net income in 2025–26

Trust information

Item	Value $
Franked dividend	2,100
Franking credit, non-cash	900

Net income of trust	**3,000**

Beneficiary information

Item	Value $
Taxable one-third share of net income of trust	1,000
Other assessable income	80,000
Total taxable income	**81,000**
Gross tax at 2025–26 rates	15,088
subtract one-third of total franking tax offset	300
Tax payable (see note)	**14,788**

Note: This doesn't include any liability for the Medicare levy.

Continue to: Joint ownership of shares

Return to: Franking tax offsets and franking credits

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Share ownership, liquidation, mergers, rights and buy backs

Ownership of shares, rights and options, and what to do for warrants, liquidation, mergers, takeovers or buy backs.

Published 30 May 2026

Joint ownership of shares

Shares held in joint names, with another person or as a custodian on behalf of a minor.

Liquidation, takeovers, mergers and demergers

What to do if you own shares in a company that goes into liquidation, has been taken over or merged with another.

Rights and options

How to treat rights and options in your tax return

Share warrants

Different types of share warrants.

Off-market share buy-backs

Off-market share buy-backs and dividends.

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Joint ownership of shares

Shares held in joint names, with another person or as a custodian on behalf of a minor.

Last updated 30 May 2026

Held in joint names or with another person

Shares may be held in joint names. If you hold shares jointly with another person, such as your spouse, it's assumed that ownership of the shares is divided equally.

You can also own shares in unequal proportions, but you must be able to demonstrate this. For example, with a record of the amount contributed by each party to the cost of acquiring the shares. Dividend income and franking credits are assessable in the same proportion as the shares are owned.

Shares held in children's names

If you're a custodian, such as a parent or grandparent, and holding shares on behalf of minors (under a legal disability), you're the owner of the shares unless the child is considered the genuine beneficial owner.

If a child is the owner of shares, any dividend income should be included on the child's tax return. Note that in some circumstances the income of a minor is subject to the highest marginal rate of tax. Any excess franking credits may also be refundable.

Continue to: Liquidation, takeovers, mergers and demergers

Return to: Share ownership, liquidation, mergers, rights and buy backs

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Liquidation, takeovers, mergers and demergers

What to do if you own shares in a company that goes into liquidation, has been taken over or merged with another.

Published 30 May 2026

If you purchase shares in a company that goes into liquidation, you may need to work out your capital gain or loss, see Guide to capital gains tax 2026.

If you purchase shares in a company that's taken over or merged with another company, see Personal investors guide to capital gains tax

2026.

Continue to: Rights and options

Return to: Joint ownership of shares

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Rights and options

How to treat rights and options in your tax return

Last updated 30 May 2026

Right to buy shares

Companies may periodically issue their shareholders with rights to purchase extra shares. These are otherwise known as call rights or call options.

A particular rights issue might be described as a ‘one-for-four’ issue, meaning that you're entitled to purchase an extra share for every 4 shares you currently own. You can choose to exercise the right, sell it on the stock exchange or allow it to lapse.

You don't have to include in your assessable income the market value of the rights to acquire shares in a company, provided:

- you already own shares in the company
- the rights are issued to you because of your ownership of the shares
- your shares, and the rights, aren't revenue assets or trading stock at the time they're issued
- you don't acquire the rights under an employee share scheme
- your shares, and the rights, aren't traditional securities
- your shares aren't convertible interests.

If all of these conditions are satisfied, the only tax consequences that may arise involve CGT. For information on how CGT measures apply to rights issues, see Personal investors guide to capital gains tax 2026.

In other situations, the issue of the rights may mean that you have derived assessable income, or that the CGT provisions apply.

If you acquire rights to extra shares and are a share trader or hold shares as a revenue asset, and you need further information about the tax treatment of the share rights, contact us.

Right to sell shares

If a company issues you a tradeable right to sell your shares back to a company (otherwise known as a put option), you include the market value of the right in your assessable income at the time the right is issued. Any amount you include in your assessable income will form part of the cost base of your rights.

Options

Companies may also issue you with options. If you receive an option, you have the right to acquire or sell shares in the company at a specified price on a specified date. You may also be able to trade these options on the stock exchange or allow them to lapse.

Options are similar to rights and the terms are often used interchangeably. The main difference between options and rights is that options can usually be held for a much longer period than rights before they lapse or must be exercised. Options may also be issued initially to both existing shareholders and non-shareholders while rights can only be issued initially to existing shareholders.

Exchange traded options are types of options that aren't created by the company but by independent third parties and are traded on the stock exchange. They come in 2 forms:

- a call option, which is a contract that entitles its holder to buy a fixed number of shares in the designated company at a stated price on or before a specified expiry date
- a put option, which is a contract that entitles its holder to sell a fixed number of shares in the designated company at a stated price on or before a specified expiry date.

The information in the above section on rights and options also applies to call and put options that are issued to you as a consequence of your ownership of shares in a company.

Continue to: Share warrants

Return to: Liquidation, takeovers, mergers and demergers

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Share warrants

Different types of share warrants.

Published 30 May 2026

Share warrants come in many different forms – for example, equity warrants, endowment warrants, portfolio warrants, capital plus warrants and instalment warrants.

The income tax and CGT consequences of holding, acquiring and disposing of these financial products can be quite complex.

If you have disposed of any of these products and are unsure of the tax consequences, you should contact us or a registered tax adviser.

Continue to: Off-market share buy-backs

Return to: Rights and options

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Off-market share buy-backs

Off-market share buy-backs and dividends.

Published 30 May 2026

If you dispose of shares to a company under a buy-back arrangement, you may have made a capital gain or capital loss. The time you make

the capital gain or capital loss depends on the particular buy-back offer.

If a listed public company announces an off-market share buy-back, no part of the buy-back price will be treated as a dividend. Instead, the entire buy-back price is treated as capital proceeds. For more information, see Share buy-backs.

Under other off-market buy-backs, where a dividend is paid as part of the buy-back price, the amount excluding the dividend is generally your capital proceeds for the share.

If you're provided insufficient information by the company or any class ruling that has been issued for the buy-back to calculate your capital gain or capital loss, you may need to seek advice from us or a registered tax adviser.

Continue to: Record keeping for share investments

Return to: Share warrants

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Record keeping for share investments

Types of records you need and how long to keep them for share investments.

Published 30 May 2026

Generally, you should keep records of both income and deductions relating to your share investment for 5 years from 31 October 2026 or the date you lodge your tax return, whichever is later.

Remember that your investment in shares (or other assets such as instalment receipts) may also give rise to a capital gain when you dispose of them. For CGT purposes, you'll need to keep detailed records of any shares or other assets you acquired on or after 20 September 1985 or of any other related transaction. You'll need to

keep those records for 5 years after you dispose of the shares or other assets.

You must keep records setting out in English the following:

- the date you acquire the asset
- any amounts that form part of the cost base of the asset
- the date you dispose of the asset
- the capital proceeds from the sale.

You can choose to enter information from your CGT records into an asset register. Keeping an asset register may enable you to discard records that you may otherwise be required to keep for long periods of time. For more information, see:

- Capital gains tax guide 2026
- Taxation ruling TR 2002/10 *Income tax: capital gains tax: asset register*.

Keep all the information that a company gives you about your shares. It may be important when calculating your CGT liability after you dispose of them. You must also keep records relating to your ownership of assets for 5 years from the date you dispose of them.

Continue to: Private company transactions treated as dividends

Return to: Off-market share buy-backs

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Private company transactions treated as dividends

Division 7A and private company transactions treated as dividends.

Published 30 May 2026

Division 7A of the *Income Tax Assessment Act 1936* (ITAA 1936) is an integrity measure aimed at preventing private companies, including non-resident private companies, from making tax-free distributions to shareholders (or their associates).

If you're a shareholder or an associate of a shareholder in a private company which makes a payment or loan to you or forgives a debt that you owe the company, the company will be taken under Division 7A to have paid you a dividend unless the payment or loan came within specified exclusions.

Division 7A doesn't apply to the payment if the payment is made to you in your capacity as an employee.

There are several exclusions which are detailed in Payments and other benefits not affected. For example, the following transactions won't be treated as dividends:

- payments of genuine debts
- loans where the loan is put under a qualifying written agreement (meeting minimum interest rate and maximum term criteria) before the private company's lodgment day – in such cases, however, minimum yearly repayments are required to avoid amounts treated as dividends arising in later years
- payments or loans that are otherwise included in your assessable income or specifically excluded from assessable income, by virtue of some other tax law provision.

In Division 7A there are broad definitions for 'payment' and 'loan'. Payment, for example, is now defined to include the provision of a private company asset for use by you.

Subject to the private company's distributable surplus, the amount of the dividend will generally be equal to the:

- payment made
- amount of the loan that hasn't been repaid before the private company's lodgment day
- amount of the debt which has been forgiven.

If the amounts are treated as dividends, you'll need to include them in your tax return as an unfranked dividend. In certain circumstances, the

dividend may be franked. For example, a dividend paid because of a family law obligation may be franked.

The Commissioner has a discretion to disregard the amount treated as a dividend or allow the dividend to be franked in certain circumstances if it arose because of an honest mistake or inadvertent omission by you, the private company or any other entity whose conduct contributed to that result.

In Division 7A there are also rules relating to payments and loans made through interposed entities and guarantees.

An amount treated as a dividend isn't subject to either withholding tax or PAYG withholding and isn't a fringe benefit.

For more information on whether the Division 7A rules apply to you, see Private company benefits – Division 7A dividends.

From 1 July 2009, Division 7A applies to loans or payments made, or debts that are forgiven by a closely-held corporate limited partnership to partners or the partner's associates. For more information see Division 7A – Closely held corporate limited partnerships.

Continue to: Trust loans, payments and forgiven debts treated as dividends

Return to: Record keeping for share investments

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Trust loans, payments and forgiven debts treated as dividends

Division 7A and trust loans, payments and forgiven debts treated as dividends.

Published 30 May 2026

Division 7A also includes rules in Subdivision EA which are broadly designed to ensure that a trustee can't shelter trust income at the prevailing company rate by creating an unpaid present entitlement to

an amount of net income in favour of a private company whilst making loans, payments or forgiving debts to a stakeholder (or their associate) of a private company.

You may include an amount in your assessable income as if it were a dividend if:

- you're a shareholder or an associate of a shareholder of a private company
- the private company has an unpaid present entitlement from a trust estate
- the trustee of the trust estate does one or more of the following
  - makes a payment to you that discharges or reduces a present entitlement to an amount that's attributable to an unrealised gain
  - makes a loan to you
  - forgives a debt in your favour.

In applying Subdivision EA to payments, loans and forgiven debts, the trust is treated as a private company for the purpose of determining whether an amount treated as a dividend arises. To enable this, there's a modified application of the general Division 7A provisions.

The amount included as an unfranked dividend in your assessable income is the lesser of the:

- actual amount of the payment, loan or forgiven debt
- amount of the unpaid present entitlement less any amounts that have been treated as dividends because of previous applications of Subdivision EA or amounts taken to be loans under section 109UB of ITAA 1936 which is the predecessor of Subdivision EA
- distributable surplus of the private company with the unpaid present entitlement.

However, Subdivision EA doesn't apply in circumstances where the trust entitlement is considered to be either:

- discharged by reason of the settling of a sub-trust
- the provision of financial accommodation between the private company and trust (and therefore subject to the general Division 7A loan rules).

For more information on whether the Division 7A rules apply to you, see:

- Private company benefits – Division 7A dividends
- Division 7A – Interposed entities
- Taxation ruling TR 2010/3W *Income tax: Division 7A loans: trust entitlements*
- Taxation determination TD 2022/11 *Income tax: Division 7A: when will an unpaid present entitlement or amount held on sub-trust become the provision of 'financial accommodation'?*
- Taxation determination TD 2025/5 *Income tax: disregarding certain payments under section 109R of the Income Tax Assessment Act 1936 in determining how much of a loan has been repaid in situations where notional loans are involved*

Continue to: Sale or disposal of company bonds and convertible notes

Return to: Private company transactions treated as dividends

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Sale or disposal of company bonds and convertible notes

Check what to do on the sale or disposal of bonds and convertible notes issued by a company or in a foreign currency.

Published 30 May 2026

Company bonds

When you purchase a company bond from someone else, the price you pay for the bond is the cost to you of the bond. This cost to you may be different from the amount of money the company originally borrowed and will have to pay when it redeems the bond.

When a company redeems a bond by paying back the money it borrowed, you make a profit if the amount you paid for the bond is less than the amount the company paid you to redeem the bond. You include that profit in your tax return. See Example 13. That profit isn't treated as a capital gain.

When a company redeems a bond by paying back the money it borrowed, you make a loss if you paid more for the bond than the amount the company paid you when the company redeemed the bond. In most instances you can claim a deduction equal to the amount of the loss in your tax return. It's not usually treated as a capital loss.

If you sell a company bond to someone else before the company repays the money that it borrowed and you make a profit, you include that profit in your tax return. That profit isn't treated as a capital gain.

If you sell a company bond to someone else before the company repays the money it borrowed and you make a loss, in most instances you can claim a deduction equal to that loss in your tax return. It's not usually treated as a capital loss.

You're not entitled to claim a deduction for a loss you made on the disposal or redemption of a bond that's a traditional security to the extent that the loss is a capital loss or is of a capital nature if:

- in the case of a bond that's a marketable security
  - you didn't acquire the bond in the ordinary course of trading on a securities market and, at the time you acquired it, you couldn't acquire an identical security in the ordinary course of trading on a securities market, and
  - you disposed of the bond outside the ordinary course of trading on a securities market
- at the time of disposal or redemption, there was an apprehension or belief that the issuer of the bond would fail to pay all of the amounts that it owed to investors.

Capital losses may be able to be applied against capital gains this income year or in a future income year in calculating your net capital gain included in assessable income.

Example 13: company bonds

Company X borrows $1,000,000 from investors by issuing 10,000 bonds for $100 each. These bonds pay interest at 8% per annum until the bonds mature in 5 years and Company X pays back the money it borrowed.

Terry buys 100 Company X bonds for $98.75 each on the market and holds the bonds until they mature. On maturity, Company X pays Terry $100 each to redeem the bonds.

Terry made a profit in the year in which the bonds were redeemed by Company X. The profit, $125, is equal to the proceeds paid to Terry on redemption less the money Terry paid to purchase the bonds, calculated as follows:

> 100 bonds × $100.00 each = $10,000 redemption proceeds paid to Terry
>
> 100 bonds × $98.75 each = $9,875 cost to Terry
>
> $10,000 − $9,875 = $125 profit

Terry includes the $125 in his tax return.

Convertible notes issued by a company before 11 May 1989

Some company bonds give you the choice, at some point during the duration of the loan, of receiving a share or shares in the borrowing company or another company instead of being paid back the money lent to the company. These bonds are referred to here as ‘convertible notes’.

There may be CGT consequences for investors when a convertible note that was issued by the company before 11 May 1989 is exchanged for shares. For more information, see Guide to capital gains tax 2026.

Convertible notes issued by a company after 10 May 1989 and before 15 May 2002

If you exchange a convertible note for a share or shares a company issued after 10 May 1989 and before 15 May 2002, there's a profit if the shares are worth more (at the time of the exchange) than the

amount you paid for the convertible note. You include this profit in your tax return. This amount is income to you whether or not you sell the shares. It's not treated as a capital gain.

If you exchange a convertible note for a share or shares a company issued before 15 May 2002, there's a loss if the company share or shares have a lower value (at the time of the exchange) than the amount that you paid for the convertible note. In most instances you may claim a deduction equal to that loss in your tax return. It's not usually treated as a capital loss.

An exception to your entitlement to claim a loss as a deduction is made for a disposal or redemption of a convertible note that takes place:

- outside the ordinary course of trading on a securities market
- at the time of disposal or redemption, there's an apprehension or belief that the issuer of the convertible note will fail to pay all of the amounts that it owes to investors.

In these circumstances, you can't deduct the loss you made to the extent that it's a capital loss or the loss is of a capital nature.

You treat the sale or disposal of the shares you acquire through the convertible note the same way as the sale or disposal of any other share you may own. If you ordinarily treat shares as an investment and show the gains and losses as capital gains and capital losses, then you should do the same when you sell the shares you acquired through your previous investment in a convertible note.

Special rules govern the cost base of shares acquired in exchange for a convertible note and your entitlement to the CGT discount in respect of those shares. For information on these rules, see Guide to capital gains tax 2026.

Convertible notes issued by a company after 14 May 2002

If you exchange a convertible note for a share or shares in a company that was issued after 14 May 2002, there's a profit if the shares are worth more at the exchange date than the cost of the convertible note. Alternatively, there's a loss if the shares are worth less at the exchange date than the cost of the convertible note. As long as the criteria below are met, that profit or loss isn't recognised for tax

purposes until the shares into which the notes were converted are disposed of.

Special rules govern the cost base of shares acquired in exchange for a convertible note and your entitlement to the capital gains tax discount in respect of those shares. For information on these rules, see Guide to capital gains tax 2026.

To be eligible for this treatment the convertible note must meet **all** of the following criteria:

- The company must have issued the convertible note after 7:30 pm (by legal time in the Australian Capital Territory) on 14 May 2002. The date you acquire the convertible note isn't relevant, only the date the convertible note was issued by the company.
- Before its conversion, the convertible note was a traditional security. That is, a debt security not issued at a substantial discount to face value, and without deferred income features such as indexation of invested capital.
- After conversion, the shares into which the note converts are ordinary shares of a company. The shares don't have to be shares in the company that issued the convertible note. The note can be exchanged for shares in an unrelated company, but they must be ordinary shares of a company.

If the convertible notes don't meet all of the above criteria, they will be treated the same way as convertible notes issued by a company after 10 May 1989 and before 15 May 2002.

Sale or disposal of company bonds and convertible notes in a foreign currency

You must translate all gains and losses made on disposal of foreign currency denominated notes and bonds into Australian dollars for your Australian tax return. You include both the acquisition cost of the bond or note and the disposal proceeds should be in Australian dollars, and a comparison be made between the 2 amounts to work out the gain or loss for tax purposes.

An example of such a calculation is provided in Taxation Determination TD 2006/30 *Income tax: foreign exchange: when calculating the amount of any gain or loss on disposal or redemption of a traditional security denominated in a foreign currency, should the amounts*

relevant to the calculation be translated (converted) into Australian dollars when each of the relevant events takes place?

For more information on whether the rules will apply to you and on the exchange rates that you should use in translating foreign currency amounts, see:

- Foreign exchange gains and losses
- Translation (conversion) rules.

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QC 106666

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.

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