



Passive investor guide for Top 500 private groups

A guide for Top 500 private groups whose income is sourced predominantly from passive investment activity.

Last updated 26 June 2025

Income from leasing of real property



Guidance relating to passive investment income from the leasing of real property.

Interest income



Guidance relating to interest income from passive investments.

Tax governance guidance for passive investors



Guidance to help Top 500 private groups with passive investments to develop effective tax governance.

Income from shares in listed companies



Guidance for passive investment income from shares in listed companies.

Income from leasing of real property

Guidance relating to passive investment income from the leasing of real property.

Last updated 26 June 2025

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Tax issues for consideration

The following table provides a list of tax issues requiring assurance that arise in relation to real property leasing activities carried out by Top 500 groups who hold real property for investment purposes (on capital account). The table also provides examples of processes and procedures that could be developed to demonstrate that they have effective tax governance in place when managing those tax issues.

Tax issues requiring assurance

Tax issue	Tax assurance considerations	Tax governance considerations
Record keeping – source documents	Good record keeping supports the ATO’s ability to assure that Top 500 groups are paying, and will continue to pay, the correct amount of tax.	The tax governance policy of the group should include procedures for maintaining a central repository for documentation that records:

	Record keeping is also a requirement under Division 121 and section 262A.	<ul style="list-style-type: none"> the acquisition and disposal of real property investments held by the group (including dates of acquisition and disposal, cost of acquisition, proceeds on sale) income derived and expenses incurred by the group from leasing real property.
Completeness of leasing income disclosures	Has all income from leasing real property been identified and disclosed in the entity's tax returns?	The tax governance policy of the group should include procedures for correctly capturing and recording income from leasing of real property.
Deductibility of outgoings	Have allowable deductions from holding and leasing real property been correctly characterised and quantified?	<p>The tax governance policy of the group should include procedures for:</p> <ul style="list-style-type: none"> explaining, reviewing and recording outgoings typically incurred by the group in deriving income from leasing real property ensuring that any expenditure on the property is correctly characterised (deductible maintenance or capital additions/works)

		<ul style="list-style-type: none"> • calculating capital allowances on depreciating assets • quantifying any capital works deductions that may be available.
Leasing income and allowable deductions are reported in the correct period	Has all income derived and expenditure incurred from the group's activities in leasing real property been properly referred to the correct income year?	<p>The tax governance policy of the group should include procedures for:</p> <ul style="list-style-type: none"> • ensuring that functionaries within the group understand how and when income and expenses associated with real property leasing activities should be recognised for both accounting and tax purposes • ensuring any timing differences between the accounting and tax treatments applied to typical income and expenses associated with the group's property leasing activity are documented and captured on the relevant group entity's tax reconciliation • correctly recognising tax adjustments for any lease incentive

		arrangements that are in place.
Characterisation and calculation of capital gains and losses on the disposal of investments in real property.	Has the vendor entity correctly characterised and calculated gains and losses made on the sale of investments in real property?	<p>The tax governance policy of the group should include procedures for:</p> <ul style="list-style-type: none"> • correctly characterising and calculating capital gains or losses made on the sale of real property, including (but not limited to) <ul style="list-style-type: none"> – whether gains or losses are on capital (or revenue) account – the accuracy of cost base and proceeds calculations – the vendor entity's eligibility for the CGT discount – cost base adjustments (for example Division 43 exp.) – current and prior year capital losses (if available) – making adjustments for 'mark-to-market' accounting • seeking advice to help ensure that the calculation

		and timing of any capital gain or loss that the group has made is correct.
Correct reporting	Has the entity who derived the income, or who made the capital gain or loss, correctly reported the income or capital gain or loss?	The tax governance policy of the group should include procedures for ensuring income and capital gains tax information is migrated across from the working papers and correctly disclosed in the relevant entity's tax return.

Governance framework example

To help in developing a written tax governance framework, we have prepared an example guide that may be easily evolved into a checklist that can be used to help Top 500 groups with simple affairs in managing tax issues arising from activities involving leasing real property principle 2 of the 7 principles of effective tax governance).

Passive investors with simple affairs – checklist

Group head: Mr John Simple

Entity name: John Simple Property Trust No.X

Checklist: Income from leasing real property

Year end: 30 June 2022

Record keeping – investments in real property and leasing real property

Item	Activity	Responsibility	Purpose
1	The John Simple group shall maintain a	Bill Bookkeeper informed by the Simple group's	To support good record keeping

	<p>central repository for documentation concerning:</p> <ul style="list-style-type: none"> • acquisitions and disposals of real property assets and related costs • leasing and other income • expenditures incurred • in the course of the Simple group's real property leasing activities. <p>Acquisitions and disposals of real property investments will be recorded in the Excel spreadsheet entitled "Real Property Investment Register" within 7 days of contract completion for the acquisition or sale.</p> <p>The spreadsheet will record:</p> <ul style="list-style-type: none"> • address • date of acquisition • cost of acquisition 	lawyers and tax agent.	practices over all of Mr Simple's investments in real property and to ensure that the Simple group is compliant with its record keeping obligations.
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	<ul style="list-style-type: none"> • ancillary costs of acquisition (such as stamp duty, legal fees) • sale price (plus any ancillary costs) • date of sale. 		
2	At the time of any changes to the Simple group's real property portfolio (additions, disposals, capital works, major maintenance), or at the end of each 3 month period, back up electronic copies of documentation in the central repository and the Real Property Investment Register to a hard drive, or memory stick.	Bill Bookkeeper	Ensure records of Mr Simple's investments in real property are not lost in the event primary information sources are compromised.

Correct reporting of income from leasing real property

Item	Activity	Responsibility	Purpose
3	As well as each monthly report prepared by the property	Bill Bookkeeper as informed by the property manager	Summarises leasing income earned for the financial year and outgoings

	manager, the property manager will provide an annual summary of income and expenses for each property investment as at the end of the financial year.		paid to the agent for their services. Allows for reconciliation back to monthly data and bank statements.
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Correct reporting of deductions from leasing real property

Item	Activity	Responsibility	Purpose
4	<p>Repairs and maintenance (R&M)</p> <p>Receipts to be retained and maintained (by property) for all R&M expenditure. Where repairs are managed through the property manager, receipts to be furnished, downloaded and stored.</p> <p>R&M expenditure will be recorded in the Excel spreadsheet entitled 'Rental property financial accounts' and be referenced to the relevant</p>	Bill Bookkeeper	Ensure records of Mr Simple's investments in real property are not lost in the event primary information sources are compromised.

	<p>property, within 3 days of payment of the invoice.</p> <p>Accumulated totals should be maintained within the spreadsheet.</p>		
5	<p>Interest expense</p> <p>Documentation regarding any external financing obtained to acquire or improve real property assets is to be retained. Documentation should include points explaining:</p> <ul style="list-style-type: none"> • the date the finance was obtained • the purpose of obtaining finance • how the finance was applied, and • the applicable interest rate or other terms upon which the finance was obtained. <p>Interest expenses are recorded in the Excel</p>	<p>Bill Bookkeeper as informed by Simple groups lawyers or tax agents</p>	<p>Support the John Simple property trust's claim for interest deductions that are associated with the debt funding of its property portfolio (where and when required).</p>

	spreadsheet entitled 'Rental property financial accounts'. Accumulated totals should be maintained within the spreadsheet.		
6a	<p>Depreciation (Division 40)</p> <p>On initial acquisition of real property, a tax depreciation schedule will be obtained from a qualified valuer or quantity surveyor.</p>	Bill Bookkeeper and Simple group's tax agents/advisors	To help ensure that the John Simple property trust is using the correct tax cost bases when determining the amount it can claim as capital allowance
6b	<p>The costs of existing and new depreciable assets held by the John Simple Property Trust are to be recorded on an Excel spreadsheet entitled 'tax fixed asset register' that includes:</p> <ul style="list-style-type: none"> • a description of the asset • the date asset was ready for use • a calculation of the assets tax cost 	Bill Bookkeeper and Simple group's tax agents/advisors	To support the John Simple property trust's claim for capital allowance deductions in the year of income in which the claim is made.

	<ul style="list-style-type: none"> • the method and rate of depreciation applied to the asset • the capital allowance claim for the year • the assets closing cost. <p>For purpose of calculating depreciation, use the Commissioner's effective lives for depreciating assets guidance as published each year in the ATO's Taxation Ruling.</p> <p>For all new depreciable capital assets that are acquired, receipts are to be maintained and referenced against the tax fixed asset register (including low value pools).</p>		
6c	<p>Where depreciable assets are disposed of, the tax fixed asset register will record:</p> <ul style="list-style-type: none"> • the date of the disposal 	Bill Bookkeeper and Simple group's tax agents/advisors	To help ensure that gains or losses on disposal of depreciable capital assets by the John Simple property trust are calculated

	<ul style="list-style-type: none"> • sale price • the balancing income/loss recognised on disposal. 		correctly for tax purposes.
7a	<p>Capital works (Division 43)</p> <p>Upon acquisition of an existing real property asset that's not vacant land, a determination will be made about the percentage rate at which capital works deductions can be claimed.</p> <p>On initial acquisition of an existing real property, a tax depreciation or capital works schedule will be obtained from the property's previous owners or obtained from a qualified quantity surveyor.</p> <p>Upon incurring new expenditure on capital works, a determination will be made about the percentage rate at which capital works</p>	Bill Bookkeeper and Simple group's tax agents/advisors	Ensure that the John Simple property trust's is eligible to claim capital works deductions in respect to a particular property, the cost base by reference to which capital works deductions can be claimed and the percentage to be used when claiming capital works deductions each year.

	<p>deductions can be claimed.</p> <p>Note: Generally, the Simple group acquires assets for which the 2.5% rate is applied.</p>		
7b	<p>For new capital works, receipts should be retained and referenced against the tax fixed asset register.</p> <p>Details of new capital works are recorded on an Excel spreadsheet entitled 'tax fixed asset register' that includes a</p> <ul style="list-style-type: none"> • description of the capital works • date the capital works were completed • cost of the capital works • percentage deduction rate applied (for example 2.5%) • deduction claimed for the year • closing balance of unclaimed 	Bill Bookkeeper and Simple group's tax agents/advisors	<p>Substantiate capital works deductions for the year. Help ensure compliance with the Simple group's record keeping obligations.</p> <p>Support the John Simple property trust's claim for capital works deductions.</p> <p>Accessing sophisticated levels of advice helps ensure complex issues with capital works claims are treated correctly.</p>

	<p>construction expenditure at year end.</p> <p>Any complex issues concerning the application of, or calculations required by Division 43, should be escalated to the Simple group's tax advisors.</p>		
8	<p>Other expenses</p> <p>A list has been (or should be) prepared and retained that outline and explains typical expenses incurred by the John Simple property trust in the course of its property leasing activities.</p> <p>Accounting expenses should be recorded (by property) in the Excel spreadsheet entitled 'Rental property financial accounts for the year ended 30 June 20XX', within 3 days of the supplier invoice being received. Accumulated totals should be</p>	Bill Bookkeeper	<p>Ensuring typical expenses associated with each property portfolio are understood and explained – for succession planning.</p> <p>Support John Simple property trust's claims for allowable deductions.</p>

	maintained within the spreadsheet.		
9	<p>Prepaid expenses</p> <p>Where eligible expenditure has been prepaid, maintain records of prepayments. Prepare an accompanying note that explains the nature of the prepaid expenditure and relevant time period to which the expenditure relates (more or less than 12 months).</p>	Bill Bookkeeper	<p>Help with preparation of the John Simple property trust's draft tax reconciliation.</p> <p>Support John Simple property trust's claims for allowable deductions.</p>
10	<p>Before forwarding information to the Simple group's tax agent, review the following spreadsheets and resources against a sample of documentation to sense check that income and expenses have been captured and correctly recorded.</p> <ul style="list-style-type: none"> Real Property Investment Register 	Bill Bookkeeper	Helping ensure that Mr Simple's income and expense disclosures are complete.

	<ul style="list-style-type: none"> • List of typical expenses • Tax and accounting fixed asset register 		
11	<p>At least 4 weeks before the due date for lodgment of the John Simple property trust's tax return, provide the Simple group's tax agent with:</p> <ul style="list-style-type: none"> • a summary narrative about the John Simple property trusts typical and atypical activities during the year • real property investment register • the property manager's end of financial year summary statement for each property investment • excel rental property financial accounts • tax and accounting 	Bill Bookkeeper	<p>Ensuring the John Simple property trust's tax return is lodged on time.</p> <p>Helping the tax agent with the process of preparing the John Simple property trust's tax return.</p>

	<p>fixed asset registers</p> <ul style="list-style-type: none"> • related source documents as required by the tax agent • notes concerning any prepaid expenses. 		
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Mutual responsibilities

Item	Activity	Responsibility	Purpose
12	Tax agent to provide an annual engagement letter to Mr Simple that specifies the tax agent and Mr Simple's responsibilities under the engagement with the Simple group.	TAG & Mr Simple	<p>To provide clarity around Mr Simple's responsibility for providing complete and accurate information, and the tax agents responsibility for:</p> <ul style="list-style-type: none"> • preparing the John Simple property trusts special purposes financial accounts, and • ensuring that all leasing income, allowable deductions and any

			capital gain (losses) are correctly recorded in the John Simple property trust's income tax return.
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Tax agent's responsibilities – preliminary

Item	Activity	Responsibility	Purpose
13	Perform a logic check over the quantum of leasing income, expenses and any balancing adjustments for the John Simple property trust.	Tax agent	Integrity check over primary data source from which leasing income and related expense information is obtained.
14	Prepare financial accounts, including accruals. The accounts should be prepared in accordance with relevant accounting standards.	Tax agent	Maintenance of accurate financial records for the John Simple property trust.
15	Review expenses, capital allowances, capital works, and prepaid expenses for tax deductibility, including whether an apportionment of any expenditure is required (for example, property not available for	Tax agent	Correct characterisation and quantification of expenses as allowable deductions.

	<p>lease at all times throughout the year, or where property has been used for private purposes).</p>		
16	<p>Calculate capital gains and losses on any disposals of real property assets that occurred during the year.</p> <p>As a competent professional Mr Simple's tax Agent is across the issues that are relevant to the correct calculation of gains and losses arising from the disposal of real property.</p>	Tax agent	<p>Correct calculation of the John Simple property trust's capital (or revenue) gains and losses.</p>
17	<p>Tax reconciliation</p> <ul style="list-style-type: none"> • Prepare John Simple property trust tax reconciliation including taking steps to add back <ul style="list-style-type: none"> – non-deductible repairs and maintenance outgoings – current year's closing balance of each accrued expenditures (CY BS). The previous year's 	Tax agent	<p>The tax reconciliation for the John Simple property trust has been prepared correctly and the adjustments can be easily explained.</p>

closing
balance of
accrued
expenditures
(PY BS) are
to be
subtracted
on the tax
reconciliation

- Deduct the current year's closing balance of each eligible prepaid expenditure (CY BS). The previous year's closing balance of prepaid expenditures (PY BS) should be added back on the tax reconciliation.
- Add-back accounting depreciation and subtract tax depreciation and capital works deductions
- Subtract (add-back) any M2M accounting gains (losses) on real property assets.
- Recognise (add-back) any realised net capital gains on sale of real property.

Note: Capital
works that have
been claimed as

	an allowable deduction should be deducted from the cost base of the real property when calculating any capital gain or loss.		
18	Retain and file working papers	Tax agent	Retention of records that support the John Simple property trust's tax return disclosures.

Tax agent's responsibilities – Income tax return preparation

Item	Activity	Responsibility	Purpose
19	Leasing income received during the year is migrated across from the real estate property lease summary and the rental property financial accounts to Mr Simple's income tax return.	Tax Agent	Correctly capture leasing income in the John Simple property trust's tax return.
20	Expenditures incurred during the year are migrated across from the rental property financial accounts, and the necessary book-to-tax adjustments are recorded in the	Tax Agent	Correctly capture allowable deductions and required adjustments in the John Simple property trusts tax return.

	appropriate tax reconciliation label fields within the John Simple property trust's income tax return.		
21	Capital gains tax calculations carried out by the tax agent are migrated from working papers across to the John Simple property trust's tax return.	Tax Agent	Ensure capital gains and losses are correctly reported.

QC 101546

Interest income

Guidance relating to interest income from passive investments.

Last updated 26 June 2025

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Tax issues for consideration

Governance framework example

Tax issues for consideration

The following table provides a list of tax issues requiring assurance that arise in relation to interest income derived by a Top 500 group from deposits with financial institutions, or from investments in traditional securities (such as government and corporate bonds).

The table also provides examples of processes and procedures that could be developed by the Top 500 group to demonstrate that they have effective tax governance in place when managing those tax issues.

The list of tax issues is not exhaustive and the processes and procedures for each Top 500 Private Group may differ depending on the commercial circumstances around which investment in interest bearing investments are carried out.

Tax issues requiring assurance

Tax issue	Tax assurance considerations	Tax governance considerations
Record keeping – source documents	Good record keeping underpins our ability to assure that Top 500 groups are paying, and will continue to pay, the correct amount of tax. It is also a requirement under section 262A.	<p>The tax governance policy of the group should include procedures for:</p> <ul style="list-style-type: none">• maintaining a central repository for documentation that records details of<ul style="list-style-type: none">– accounts held by the group with financial institutions– investments in term deposits– the acquisition and disposal of traditional securities

		<p>held by the group</p> <ul style="list-style-type: none"> • maintaining a central repository for documentation that records <ul style="list-style-type: none"> – interest received by the group from general account and term deposits with financial institutions or other entities – interest (coupon) income from traditional securities.
Completeness of interest income disclosures	Has all interest income derived by the group been captured?	<p>The tax governance policy of the group should include procedures for:</p> <ul style="list-style-type: none"> • correctly capturing and recording all the interest income derived by the group • reconciling interest income recorded in the group's general ledger with deposits into the relevant bank accounts.
Interest income is reported in the correct period	Has interest income been reported in the correct income year?	<p>The tax governance policy of the group should include procedures for:</p> <ul style="list-style-type: none"> • recognising when interest

		<p>income is to be recognised for both accounting and tax purposes</p> <ul style="list-style-type: none"> ensuring any timing differences between accounting and tax treatments is captured on the recipient entity's tax reconciliation.
Characterisation and calculation of gains and losses on the disposal of traditional securities	Have gains and losses on the disposal of traditional securities been correctly characterised and reported on revenue account?	The tax governance policy of the group should include procedures for correctly calculating gains or losses on sale of traditional securities.
Correct reporting	Has the entity who derived the interest income or who made the gain or loss, reported correctly?	<p>The tax governance policy of the group should include procedures for:</p> <ul style="list-style-type: none"> ensuring that interest income and any gain/loss on sale of traditional securities information is migrated across from the working papers and correctly disclosed in the relevant entity's tax return adjusting tax payable for any TFN withholding withheld by the

		entity paying the interest.
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Governance framework example

To help in developing a documented tax governance framework, we have prepared an example of guidance that could be easily evolved into a checklist that may help Top 500 groups with simple affairs in ensuring they are correctly reporting interest income (under principle 2 of the 7 principles of effective tax governance).

Passive investors with simple affairs – checklist

Group head: Mr John Simple

Entity name: Mr John Simple

Checklist: Interest income and sale of traditional securities

Year end: 30 June 2022

Record keeping – interest income

Item	Activity	Responsibility	Purpose
1	Maintenance of a central repository for documentation concerning statements recording interest income.	Bill Bookkeeper	Good record keeping practices.
2	At the end of each month back up electronic copies of documentation in the central repository to a plug-in hard drive, or memory stick.	Bill Bookkeeper	Ensure records of Mr Simple's are not lost in the event primary information sources are compromised.

Correct reporting of interest income

Item	Activity	Responsibility	Purpose
3	Financial institutions or other entities paying interest are notified of Mr Simple's TFN and the bank account to pay interest.	Bill Bookkeeper	Remove TFN withholding risk. Ensure interest received into the correct bank account.
4	The timing and amount of the interest income should be recorded in the Excel spreadsheet entitled 'interest income register', within 3 days of interest being received. Accumulated totals should be maintained within the spreadsheet.	Bill Bookkeeper	Ensuring Mr Simple's interest income disclosure is complete and referable to the correct year of income.
5	Reconcile cash interest payments deposited to investment bank account with interest income statements.	Bill Bookkeeper	Helping ensure Mr Simple's interest income disclosure is complete.
6	Before forwarding information to tax Agent, review spreadsheet, bank accounts and term deposit confirmations, to sense-check	Bill Bookkeeper	Helping ensure that Mr Simple's interest income disclosure is complete.

	interest income has been captured and correctly recorded as expected.		
7	<p>At least 4 weeks before the due date for lodgment of Mr Simple's tax return, provide Mr Simple's tax agent with:</p> <ul style="list-style-type: none"> • Mr Simple's interest income register spreadsheet for the income year • related source documents as required by the tax agent. 	Bill Bookkeeper	<p>Ensuring Mr Simple's tax return is lodged on time.</p> <p>Helping the tax agent with the process of preparing Mr Simple's tax return.</p>

Mutual responsibilities

Item	Activity	Responsibility	Purpose
8	Tax agent to provide an annual engagement letter to Mr Simple that specifies the tax agents and Mr Simple's responsibilities under the engagement.	TAG & Mr Simple	<p>To provide clarity around:</p> <ul style="list-style-type: none"> • Mr Simple's responsibility for providing complete and accurate information • tax agents responsibility for ensuring that all interest income is correctly

			recorded in Mr Simple's income tax return.
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Tax agent's responsibilities – preliminary

Item	Activity	Responsibility	Purpose
9	Logic check interest income calculations in Mr Simple's interest income register spreadsheet.	Tax agent	Integrity check over primary data source from which interest income information is obtained.
10	Retain and file working papers	Tax agent	Retention of records that support tax return disclosures.

Tax agent's responsibilities – Income tax return preparation

Item	Activity	Responsibility	Purpose
11	Interest income received during the year is migrated across from the interest income register spreadsheet across to Mr Simple's income tax return.	Tax agent	Correctly capture interest income in the return.

Tax governance guidance for passive investors

Guidance to help Top 500 private groups with passive investments to develop effective tax governance.

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Purpose of this guide

Tax governance for passive investment activity

Purpose of this guide

As part of the Top 500 program for privately owned and wealthy groups, the ATO has developed guidance to help private groups who undertake passive investment with developing tax governance over the material tax issues they have to manage.

In particular, this guide will help with principle 2 of the 7 principles of effective tax governance – recognise tax issues and risks.

Tax governance for passive investment activity

This guide is not intended to identify every tax issue that might arise from the passive investment activities carried out by **Top 500 private groups**. For the purposes of this guide, the term ‘passive investment activity’ may have a different meaning to the ordinary meaning of ‘passive investment’.

The 3 classes of passive investment activity that are considered in this guide are:

1. Income from shares in listed companies

2. Income from leasing of real property

3. Interest income

This guide provides an example of what tax governance could look like for:

- groups who take a simple approach to investing in each of the 3 asset classes
- more complex approaches to managing investments in listed shares.

We recognise that this guide may have limited application to groups who have large portfolios of diversified investments and sophisticated controls in place to govern their investment activities.

The guide shows how well designed (and tailored) tax governance processes and procedures can be put into place. However, Top 500 private groups also need to ensure that those well-designed processes and procedures are carried out.

These examples are not reflective of any specific private group. Its purpose is only to highlight the tax issues that arise and level of detail that should be considered when developing effective tax governance.

The list of tax issues is not exhaustive, and the processes and procedures required by each Top 500 group may be different depending on their circumstances.

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Income from shares in listed companies

Guidance for passive investment income from shares in listed companies.

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Tax issues for consideration

Governance framework example

Tax issues for consideration

The following table provides a list of tax issues requiring assurance in relation to income derived by a Top 500 group from investments in shares in listed companies. The table also provides examples of processes and procedures that could be developed by a Top 500 group to show that they have effective tax governance in place to manage each tax issue.

Tax issues requiring assurance

Tax issue	Tax assurance considerations	Tax governance considerations
Record keeping – source documents	Good record keeping supports the ATO's ability to assure that Top 500 groups are paying, and will continue to pay, the correct amount of tax. Record keeping is also a requirement for under Division 121 and section 262A.	<p>The tax governance policy of the group should include procedures for:</p> <ul style="list-style-type: none">maintaining a central repository for documentation that records the acquisition and disposal of listed share investments held by the group (including dates of acquisition and disposal, cost of acquisition, proceeds on sale)maintaining a central repository for

		<p>documentation that records</p> <ul style="list-style-type: none"> – dividend statements received by the group from its investments in listed shares – other corporate actions such as share splits, rights issues.
Completeness of dividend income disclosures	Has all dividend income from listed shares been identified and disclosed in the entity's tax returns?	<p>The tax governance policy of the group should include procedures for:</p> <ul style="list-style-type: none"> • ensuring that, when listed shares are acquired, that the relevant share registry services are notified of the holding entities TFN • correctly capturing and recording dividend income • where dividends are paid in cash, reconciling dividend payment advices with deposits into the group's bank accounts • sense or cross-checking the completeness and accuracy of the group's

		<div>dividend income calculations</div> <ul style="list-style-type: none"> differentiating unfranked, partially franked and franked dividends recording and adjusting (tax payable) for any TFN withholding withheld by the company paying the dividend.
Dividend income is reported in the correct period	Has dividend income from listed share investments been reported in the correct income year?	<div>The tax governance policy of the group should include procedures for:</div> <ul style="list-style-type: none"> specifying when dividend income is to be recognised for both accounting and tax purposes ensuring any timing differences between accounting and tax treatments is captured on the recipient entity's tax reconciliation.
Franking credits are correctly reported	Have franking credits attached to dividends from listed shares been correctly reflected in the recipient entity's tax returns?	<div>The tax governance policy of the group should include procedures for:</div> <ul style="list-style-type: none"> ensuring the group entity that is in receipt of franked dividends satisfies the

		<p>qualified person test (45 day holding and 'at risk' rules) with respect to the dividend</p> <ul style="list-style-type: none"> • including franking credits in the relevant group entity's assessable income • taking into account franking credits when calculating the recipient entity's tax payable • ensuring that the balance of the group's franking accounts correctly reflects franking debits and franking credits arising during the year • where required, and the eligibility requirements are met, converting excess franking credits into tax losses.
Characterisation and calculation of capital gains and losses on the disposal of investments in listed shares.	Has the vendor entity correctly characterised and reported gains and losses on the sale of investments in listed shares?	<p>The tax governance policy of the group should include procedures for:</p> <ul style="list-style-type: none"> • classifying listed share investments held in the central repository as held on either revenue or capital account

		<ul style="list-style-type: none">• correctly calculating capital gains or losses on sale of listed shares, including (but not limited to) the recognition of<ul style="list-style-type: none">– whether gains or losses are on capital (or revenue) account– cost base and proceeds– the vendor entity's eligibility for the CGT discount– cost base adjustments from capital returns– brokerage fees– current and prior year capital losses• conducting a sample verification process of the numeric logic embedded in the books, software or spreadsheets used to do CGT calculations, to ensure that the logic is producing the correct outcomes.
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Correct reporting	Has the entity who derived the dividend income or who made the capital gain or loss, reported correctly in their tax return?	The tax governance policy of the group should include procedures for ensuring that dividend and capital gains tax information is migrated across from the working papers and correctly disclosed in the relevant entity's tax return.
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Governance framework example

To help in developing a written tax governance framework, we have prepared 2 examples that could be used to develop checklists that may help in managing dividend income as required under principle 2 of the 7 principles of effective tax governance

Passive investors with simple affairs – checklist

Group head: Mr John Simple

Entity name: Mr John Simple

Checklist: Dividend income and capital gains/losses

Year end: 30 June 2022

Record keeping – investments in listed shares and dividend income

Item	Activity	Responsibility	Purpose
1	<p>The John Simple group shall maintain a central repository for documentation concerning:</p> <ul style="list-style-type: none"> the acquisition 	Bill Bookkeeper	Good record keeping practices over all of Mr Simple's investments in listed shares.

	<p>(including acquisition of shares through a Dividend Reinvestment Plan (DRP) or similar) and disposal of listed share investments held by Mr Simple</p> <ul style="list-style-type: none">• dividends received by Mr Simple from investments in listed shares• other corporate actions such as share splits and rights issues associated with Mr Simple's investments in listed shares. <p>Acquisitions (including acquisition of shares through a DRP or similar) and disposals of listed share investments including dates, number of shares acquired or sold, prices, and brokerage fees, should be recorded in the Excel spreadsheet entitled 'Share</p>		
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	Investment Register' within 3 days of the date of acquisition or sale.		
2	At the end of each month back up electronic copies of documentation in the central repository and the share investment register to a plug-in hard drive, or memory stick.	Bill Bookkeeper	Ensure records of Mr Simple's investments in listed shares are not lost in the event primary information sources are compromised.

Correct reporting of dividend income

Item	Activity	Responsibility	Purpose
3	Share registries are to be notified of Mr Simple's TFN and custodians are provided with details of the bank account through which Mr Simple finances his investments.	Bill Bookkeeper	Remove TFN withholding risk. Ensure cash dividends are received into the correct bank account.
4	The timing and amount of the dividend (including franking credits and dividends re-invested through a DRP) paid on each listed share investment held	Bill Bookkeeper	Ensuring Mr Simple's dividend income disclosure is complete and referable to the correct year of income.

	<p>by Mr Simple should be recorded in the Excel spreadsheet entitled 'Share Investment Register', within 3 days of dividend statements being received. Accumulated totals should be maintained within the spreadsheet.</p>		
5	<p>The “Share Investment Register” is updated to include additional shares issued as part of Mr Simple’s choice to participate in a DRP.</p>	Bill Bookkeeper	<p>Ensuring new shares issued as part of a DRP are recorded as an asset acquired by Mr Simple.</p>
6	<p>Reconcile cash dividend payments deposited to Mr Simple’s investments bank account with dividend statements.</p>	Bill Bookkeeper	<p>Helping ensure Mr Simple’s dividend income disclosure is complete.</p>
7	<p>Before forwarding information to tax agent, review spreadsheet to sense-check listed share investments held against dividend statements received to verify that dividends</p>	Bill Bookkeeper	<p>Helping ensure that Mr Simple’s dividend income disclosure is complete.</p>

	and franking credits have been captured and correctly recorded as expected.		
8	<p>At least 4 weeks prior to the due date for lodgment of Mr Simple's tax return, provide Mr Simple's tax agent with:</p> <ul style="list-style-type: none"> • Mr Simple's share investment register spreadsheet for the income year • related source documents as required by the tax agent. 	Bill Bookkeeper	<p>Helping ensure that Mr Simple's tax return is lodged on time.</p> <p>Helping the tax agent with the process of preparing Mr Simple's tax return.</p>

Mutual responsibilities

Item	Activity	Responsibility	Purpose
9	Tax agent to provide an annual engagement letter to Mr Simple that specifies the tax agents and Mr Simple's responsibilities under the engagement.	TAG & Mr Simple	<p>To provide clarity around:</p> <ul style="list-style-type: none"> • Mr Simple's responsibility for providing complete and accurate information • tax agents' responsibility for ensuring that all dividend income, franking

			credit entitlements, and capital gains (losses) are correctly recorded in Mr Simple's income tax return.
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Tax agent's responsibilities – preliminary

Item	Activity	Responsibility	Purpose
10	Logic check dividend income and franking credit calculations in Mr Simple's Share Investment Register spreadsheet.	Tax agent	Integrity check over primary data source from which dividend income information is obtained.
11	Verify that Mr Simple's franking credit entitlements satisfy the 45 day holding period rule	Tax agent	Confirm Mr Simple's eligibility to claim franking credits.
12	Calculate capital gains and losses on the disposal of listed share investments that occurred during the year. As a competent professional Mr Simple's tax agent is across the method statement in	Tax agent	Correct calculation of capital (or revenue) gains and losses made by Mr Simple during the income year.

	section 102-5 and the issues that are relevant to the correct calculation of gains and losses arising from the disposal of investments in listed shares.		
13	Retain and file working papers	Tax agent	Retention of records that support tax return disclosures.

Tax agent's responsibilities – Income tax return preparation

Item	Activity	Responsibility	Purpose
14	Dividend income and franking credits derived by Mr Simple during the year are migrated across from the Share Investment Register spreadsheet across to Mr Simple's income tax return.	Tax agent	Correctly capture dividend income in Mr Simple's tax return.
15	Dividend income totals in Mr Simple's final return are checked back to the Share Investment Register spreadsheet.	Tax agent	Ensure calculations align with information included in the tax return.

16	Capital gains tax calculations carried out by the tax agent are migrated from the tax agent's working papers across to Mr Simple's tax return and accompanying schedules.	Tax agent	Ensure capital gains and losses are correctly reported.
17	Verify that the correct amount of franking credit offsets are included in the calculation of Mr Simple's tax payable.	Tax agent	Helps ensure that the calculation of tax payable by Mr Simple is correct.

Passive investors with complex affairs – checklist

Group head: Ms Joan Complex

Entity name: Complex Investments Pty Ltd (Complex Co)

Checklist: Dividend income and capital gains/losses

Year end: 30 June 2022

Record keeping – investments in listed shares and dividend income

Item	Activity	Responsibility	Purpose
1	<p>Complex Co shall maintain a central database repository for documentation concerning:</p> <ul style="list-style-type: none"> confirmations of the acquisition – including 	Investment Management team	Good record keeping practices over the source documents that record Complex Co's direct investments in listed shares.

	<p>acquisition of shares through a Dividend Reinvestment Plan (DRP) or similar – and disposal of listed share investments carried out directly by Complex Co</p> <ul style="list-style-type: none"> • dividends statements received by Complex Co from investments in listed shares • notifications of other corporate actions such as share splits, rights issues associated with Complex Co's investments in listed shares. <p>Information is to be captured in Complex Co's tailored investment management software package.</p>		
2	Complex Co will record acquisitions (including acquisition of shares through a	Investment Management team	Good record keeping practices over the ongoing management of Complex

	<p>DRP or similar) and disposals of listed share investments including:</p> <ul style="list-style-type: none"> • whether the share was acquired on revenue or capital account • the date of acquisition or sale • the number of shares acquired or sold • the price at which the shares have been acquired or sold • brokerage fees • in the management software on the date of the transaction. 		Co's portfolio of direct investments in listed shares.
3	Summary transactional information captured in the management software is migrated to Finance Department's accounting software each day.	Investment Management team/Finance team	Ensures transactional activities of the investment management team can be reconciled to bank and integrated into Complex Co's daily P&L and Balance Sheet.

4	At the end of each week back up in the management software files to Complex Co's cloud repository.	Investment Management team	Ensure records of Complex Co's investments in listed shares are not lost in the event primary information sources are compromised.
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Correct reporting of dividend income

Item	Activity	Responsibility	Purpose
5	Share registries are notified of Complex Co's TFN and provided with its bank account details.	Investment Management team	Remove TFN withholding risk. Ensure cash dividends are received into the correct bank account.
6	The timing and amount of the dividend (including franking credits and dividends re-invested through a DRP) paid on each listed share investment held by Complex Co should be recorded in the management software on the same day as dividend	Investment Management team	Ensuring Complex Co's dividend income disclosure is complete and referable to the correct year of income.

	statements being received.		
7	Dividend information captured in the management software is migrated to Complex Co's Finance Department's accounting software each day.	Investment Management team/Finance team	Ensures dividends received can be reconciled to bank and integrated into Complex Co's daily P&L.
8	The management software is updated to include additional shares issued as part of participation in a DRP.	Investment Management team	Ensuring new shares issued as part of a DRP are recorded as an asset.
9	Reconcile cash dividend payments deposited to Complex Co's bank account with dividend statements.	Financial accounting team	Helping ensure Complex Co's dividend income disclosure is complete
10	Dividend information is analysed to verify whether Complex Co satisfies the 45 day holding period rule in relation to the franking credits attached to each dividend	In-house tax accountant	Helping ensure that Complex Co's franking credit entitlements are accurate and correctly disclosed.

	<p>that has been paid to it.</p> <p>The balance of Complex Co's franking credit entitlements are to be maintained on an on-going basis with the annual total included as a preparatory note to the tax return working file. This is to ensure that franking credits are recognised (added back) in Complex Co's tax reconciliation and final tax calculation.</p>		
11	Franking account to be maintained	In-house tax accountant	Assign accountability for ensuring that Complex Co's franking account is accurate and correctly disclosed.
12	At year-end dividend information is analysed to identify any final dividend entitlements that have been declared but which remain unpaid. Any differences are	In-house tax accountant	To help ensure that timing differences are taken into account when income is recognised for accounting and tax.

	included as a preparatory note to the tax return working file to ensure that they are recognised in Complex Co's tax reconciliation.		
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Correct reporting of capital gains and losses

Item	Activity	Responsibility	Purpose
13	<p>Extract trading information from the management software and:</p> <ul style="list-style-type: none"> quantify and prepare tax reconciliation adjustments for (unrealised M2M) accounting gains and losses prepare draft calculations of realised capital gains and losses on the disposal of listed share investments that occurred during the year. <p>Complex Co's in-house tax accountant should have the capability to carry out capital gains tax</p>	In-house tax accountant	<p>Adjustments for accounting gains and losses are captured on the tax reconciliation.</p> <p>Correct calculation of capital (or revenue) gains and losses.</p>

	<p>calculations for disposals of listed shares and to apply the method statement in section 102-5. Where required the in-house tax accountant will refer complex issues across to Complex Co's tax agent/advisors.</p>		
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Mutual responsibilities

Item	Activity	Responsibility	Purpose
14	<p>Tax agent to provide an annual engagement letter to Complex Group that specifies the tax agents and Complex Co's responsibilities under the Complex Co tax return preparation engagement.</p>	TAG & Complex Co's group CFO	<p>To provide clarity around:</p> <ul style="list-style-type: none"> • Complex Co's responsibility for providing complete and accurate information • tax agent's responsibility for ensuring that all dividend income, franking credit entitlements and capital gains (losses) are correctly recorded in Complex Co's income tax return.

Information transfer from complex company to tax agent

Item	Activity	Responsibility	Purpose
15	<p>At least 4 weeks prior to the due date for lodgment of Complex Co's tax return, the Financial Controller will need to provide their tax agent with:</p> <ul style="list-style-type: none"> • Statutory Financial Statements • trial balance • dividend income figures and supporting calculations • notes and working papers that were prepared in support of accrual adjustments and Complex Co's franking credit entitlements • capital gains tax calculations and working papers • related source documents as 	Financial Controller supported by in-house tax accountant	<p>Helping ensure Complex Co's tax return is lodged on time.</p> <p>Helping the tax agent with the process of preparing Complex Co's tax return.</p>

	required by the tax agent.		
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Tax agent's responsibilities – Income tax return preparation

Item	Activity	Responsibility	Purpose
16	Review Complex Co's dividend income, franking credit, and capital gains tax working papers and draft calculations. Make inquiries of Complex Co as required and adjust calculations as necessary.	Tax agent	Integrity check over primary data source from which dividend income information for Complex Co is obtained.
17	Reconcile calculations back to Complex Co's trial balance.	Tax agent	Integrity check over primary data source from which dividend income information for Complex Co is obtained.
18	Prepare Complex Co's tax reconciliation including taking steps to: <ul style="list-style-type: none"> • add back franking credit entitlements • adjust for prior and current year accrued 	Tax agent	Given that the tax reconciliation is a working paper that is central to the tax return preparation process for Complex Co it's important that accounting and tax differences

	<div>dividend income</div> <ul style="list-style-type: none"> • subtract (add-back) current year accounting gains (losses) on investments in listed shares • recognise (add-back) realised net (revenue or) capital gains • include a note showing Company tax return label field disclosures for each line item. 		are correctly captured and that the source of each adjustment is traceable.
19	Migrate dividend income total from the working papers to Complex Co's income tax return.	Tax agent	Correctly capture dividend income in Complex Co's return.
20	Prepare capital gains tax schedule and migrate net capital gain figure across to income tax return.	Tax agent	Ensure capital gains and losses are correctly reported in Complex Co's return.
21	Verify that the correct amount of franking credit offsets are included in the calculation	Tax agent	Ensure calculation of Complex Co's tax payable is correct.

	of Complex Co's tax payable.		
22	Retain and file Complex Co's tax return working papers	Tax agent	Retention of records that show how Complex Co's tax return disclosures and tax payable have been determined.

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