Australian Government
Australian Taxation Office

Small business:

Using business money and assets



This information will help you if you are involved in running a business through a company or a trust and you are receiving financial or other benefits through the business.

Key points

- There may be tax consequences if you take or use money or assets from your company or trust for private purposes.
- You need to
  - report these transactions correctly in the company, trust and individual tax return
  - keep accurate records.

How to record and report the use of business money or assets

There are different ways to take or use money or assets from a company or trust. It's important to understand the reporting and record-keeping requirements for these transactions.

Salary, wages and directors' fees

You can be an employee, shareholder and director of the company that operates your business. You can also be an employee, trustee and a beneficiary of the trust that operates your business.

You must include any salary, wages or directors' fees you receive from your business as assessable income in your individual tax return.

The **company or trust** that operates your business can generally claim a deduction for any salaries, wages or director's fees paid if it complies with the pay as you go (PAYG) withholding and reporting obligations for each payment.

Your **business** (company or trust) must:

- register for PAYG withholding and withhold an amount from salary, wages and directors' fees
- report PAYG withholding information in its business activity statement (BAS)
- report the payment information to the ATO using Single Touch Payroll (STP), unless covered by a deferral exemption
- pay the amount withheld to the ATO and pay superannuation contributions for eligible employees to the right super fund account on time.

For more information about employer obligations, see ato.gov.au/employers

Example

Taking money as salary or wages

Daphne is the sole director of a private company that sells speciality gift hampers to customers. She and her partner Jo are equal shareholders in the company. Before this income year, Daphne ran the business as a sole trader.

As a sole trader, Daphne paid $1,500 a month out of her business account and into her personal account for personal expenses. Regardless of the amounts transferred to her personal account, all the income Daphne earned as a sole trader is included as business income in the Business and professional items schedule on her Individual tax return.

Daphne decides to change business structures and sets up a private company to run her business. Daphne is an employee, shareholder and director of the company.

Daphne's registered tax agent explains to her that there are different tax consequences now that the business is run through a company, which is a separate legal entity.

As an employee of the company, Daphne is paid $1,500 a month as a salary. Daphne now reports the $1,500 a month she receives from her employment as salary in her individual tax return.

The tax agent helps Daphne set up PAYG withholding and STP reporting, as well as meet her company's superannuation guarantee obligations.

The company lodges a separate annual tax return. It reports the business income and claims a deduction for the salary paid to Daphne in the company tax return.

Fringe benefits tax and allowances

Fringe benefits tax (FBT) applies when an employer, for example a company or trust provides certain benefits to its employees, directors, employees families or other associates. These benefits can include a payment or reimbursement of private expenses or being allowed to use the business assets for private purposes, such as the business's car.

Your **business** (company or trust):

- may be entitled to claim a deduction for the cost of providing fringe benefits
- can generally claim GST credits for items provided as fringe benefits
- must lodge an FBT return and pay any FBT that applies to the fringe benefits provided to the employees or their associates
- must keep all records relating to the fringe benefits it provides, including how the taxable value of benefits was calculated.

You don't need to report the value of fringe benefits that you (or your associate) receive in your individual tax return, unless they are included as reportable fringe benefits on your income statement.

For information about exemptions, concessions and reducing FBT liability, see ato.gov.au/FBT

There are also rules that address when Division 7A and FBT could both apply to a payment, loan or debt forgiven by a private company.

Example

Reporting a fringe benefit

Sameera is the sole director and shareholder of a small tourism company that runs tours and owns 3 coastal holiday houses. Sameera is also one of 3 employees of the private company.

Each employee of the company is given the opportunity to stay in one of the holiday houses for up to 4 weeks each year during the off-peak season.

This year, Sameera and her family take up this offer and stay at their favourite holiday house for 2 weeks at no cost.

This is an employee's private use of one of the company's business assets. The company is providing Sameera, in her capacity as an employee, with a fringe benefit.

The company reports the fringe benefit in its FBT return and pays FBT on the benefit.

Distribution of income and profits

Dividends

If your business is run through a company, the company can distribute its profits by paying dividends to its shareholders, which can include you.

The dividend may include a franking credit (the amount of tax already paid by the company) which can be used by shareholders to offset their income tax liability.

The **company**:

- must issue a distribution statement to each shareholder who receives a dividend, showing the franking credit on the dividends paid
- may need to lodge a franking account tax return
- can't claim a deduction for dividends paid as these are a distribution of company profit and not a business expense.

You must report any dividends you receive (and the franking credits on them) in your individual tax return.

For more information about paying dividends and other distributions to shareholders, see ato.gov.au/dividends

Trust distributions

If your business is operated through a trust, the trustee may make the beneficiaries presently entitled to a share of trust income by the end of the income year according to the terms of the trust deed.

The **trustee** should advise and document in the trustee resolution:

- details of the beneficiaries
- their share of the net income of the trust.

If the trustee resolution is not made according to the terms of the trust deed, default beneficiaries or the trustee may be assessed on the relevant share of the trust's income at the highest marginal tax rate.

Details of the trust distribution should be included in the statement of distribution which is part of the trust tax return. The trust can't claim a deduction for distributions paid as it is a distribution of trust income and not a business expense.

For more information, see ato.gov.au/trusts

If the beneficiary of a trust is a company, and the trust doesn't pay the amount the company is entitled to, there may be tax implications.

For more information, see ato.gov.au/division7Atrusts

If you have a trust within your family group, you may need to include a trustee beneficiary statement as part of the tax return lodged.

For further guidance, see ato.gov.au/closelyheldtrusts

Lending money or assets

Companies lend money or assets to shareholders and their associates

When a private company lends money or assets to you, and you are a shareholder of the company or shareholder's associate, you may be taken to have received a Division 7A deemed dividend if certain conditions are not met.

If this happens, you will need to report an unfranked dividend in your individual tax return. The company also needs to report the unfranked dividend paid and the loan balance in its tax return.

To avoid a Division 7A deemed dividend, before the company tax return is due or lodged (whichever comes first), loans must either be repaid in full or put on complying terms.

To be put on complying terms, the loan must:

- be made subject to a written agreement, signed and dated by the lender and loan recpient
- has an interest rate for each year of the loan that at least equals the benchmark interest rate
- not exceed the maximum term of 7 years, or 25 years in certain circumstances when the loan is secured by a registered mortgage over real property.

The **company** must include any interest earned from the loan in its company tax return and complete the Division 7A company tax return labels.

You (the shareholder or shareholder's associate):

- must make the required minimum yearly repayment on the complying loan each year (use the Division 7A calculator to work this out)
- can't repay a loan or make a minimum yearly repayment with another loan from the same company
- can make repayments on the loan by offsetting against your entitlement to a dividend declared by the company. This dividend must be reported in your individual tax return.

For more information, see ato.gov.au/Division7A

Example

Loan received from the company and put on complying terms

Amir is the sole director of a private company that provides administration services to other businesses. He and his partner Aiesha are equal shareholders in the company.

Amir and Aiesha's daughter is about to start high school and they have to pay $2,000 in school fees. Amir decides to use money from the company to pay for the fees.

Amir knows that he can't pay for a private expense using the company's money without properly accounting for it. As the director, he decides that the company will lend them the $2,000.

He draws up a written loan agreement for the loan to be repaid over 2 years, with an interest rate equal to the benchmark interest rate. The loan agreement identifies the company, Amir and Aiesha as the parties, and the repayment terms. It's signed by all parties.

The loan agreement is made on complying terms under Division 7A.

The company lends Amir and Aiesha the money, which they pay back to the company with interest each year according to the agreement over the next 2 years.

When Amir prepares the company tax return, he declares the:

- interest as income of the company
- loan balance, as at the end of the income year.

Trustees lend money or assets to beneficiaries and their associates

If you borrow money from a trust, **you** need to keep a record of it. If the loan is on commercial terms, **you** need to repay the principal and interest as per the loan agreement. The **trust** needs to report the interest in its tax return.

For more information on an integrity rule that may apply to certain loans by trustees, see ato.gov.au/trusttaxreimbursement

Repayments of loans made to companies and trusts

If you have lent money to your company or trust, it will generally make replayments to you.

Your company or trust can't claim a deduction for any repayments of principal it makes.

However, it may be able to claim a deduction for interest it pays to you on the loan if it incurred the interest expense for an income-producing purpose. The company or trust should keep records of any loan agreements and documents explaining these payments being made to you.

You don't have to declare the principal repayments, but any interest you receive from your company or trust is assessable income to you and must be included in your individual tax return.

When you take your business's money or assets in another way

If you take money out of your company or trust or use its assets for private purposes in a way not described above, you or your company or trust may have unintended tax consequences.

To ensure your business transactions are transparent, you should:

- consider setting up a separate bank account for your business to pay business expenses from, and don't use it for private expenses
- keep records that explain all your business transactions, including income, payments and loans to you and your associates from the business, and loans from you to the business
- if your private company lends money to its shareholders or their associates, make sure the loan complies with Divison 7A
- report transactions correctly for tax purposes.

If you make an honest mistake when trying to comply with these obligations, tell us or your registered tax agent as soon as possible.

Example

Repaying private expenses

Jian is the sole director and shareholder of a private company, that he uses to run his plumbing business.

Jian decides to have his home repainted, which he pays for using his company's bank account.

Jian meets regularly with his bookkeeper, who notices the unusual transaction.

The bookkeeper advises Jian that the transaction will be treated as a Division 7A deemed dividend if he doesn't pay the money back or make it a complying loan before the earlier of when the company tax return is due or lodged for the income year (the company lodgment day). Jian has enough money in his personal bank account, so he decides to repay the company the full amount.

As he repays the full amount before the company's lodgment day, there are no Division 7A consequences for Jian.

He also takes his bookkeeper's advice and makes sure he stops paying his private expenses from the company bank account.

This is a general summary only.
For more information, go to ato.gov.au/businessmoney or speak to a tax professional.

NAT 75273-05.2026 DE-81739