


TD 98/22A2 - Addendum - Income tax: under Division 7A of Part III of the Income Tax Assessment Act 1936 ('the Act'), how is the benchmark interest rate used for private company loans to shareholders or associates?

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Addendum

Taxation Determination

Income tax: under Division 7A of Part III of the *Income Tax Assessment Act 1936* ('the Act'), how is the benchmark interest rate used for private company loans to shareholders or associates?

This Addendum amends Taxation Determination TD 98/22 as follows:

At paragraph 6, Example 2

Replace:

6. *If the amount of a loan not repaid at 30 June 1998 is \$100,000, the term of the loan is five years, the remaining term of the loan is also five years, the repayments made for the 1998-99 year of income were \$26,000 and the current year benchmark interest rate is 6.7%, the minimum yearly repayment for the 1998-99 year of income is calculated as follows:*

$$\frac{\text{Amount of the loan not repaid by the end of the previous year of income} \times \text{Current year's benchmark interest rate}}{\text{remaining term of loan} \times [1 - (1 \div (1 + \text{current year's benchmark interest rate})^{\text{remaining term of loan}})]}$$

$$\begin{aligned} & \frac{100,000 \times 0.067}{[1 - (1 \div (1 + 0.067))^5]} \\ & = 24,193. \end{aligned}$$

With the following:

6. *If the amount of a loan not repaid at 30 June 1998 is \$100,000, the term of the loan is five years, the remaining term of the loan is also five years, the repayments made for the 1998-99 year of income were \$26,000 and the current year benchmark interest rate is 6.7%, the minimum yearly repayment for the 1998-99 year of income is calculated as follows:*

$$\frac{\text{Amount of the loan not repaid by the end of the previous year of income} \times \text{Current year's benchmark interest rate}}{1 - \left(\frac{1}{1 + \text{Current year's benchmark interest rate}} \right)^{\text{Remaining term}}}$$

$$= \frac{100,000 \times 0.067}{1 - \left(\frac{1}{1 + 0.067} \right)^5}$$
$$= 24,193$$

Commissioner of Taxation

31 January 2001

ATO references:

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