



ASSISTANT TREASURER

<http://assistant.treasurer.gov.au>

**PRESS
RELEASE**

NEW RULES ON NON-COMMERCIAL LOANS IMPROVE FAIRNESS AND INTEGRITY OF THE TAX SYSTEM

The Assistant Treasurer, Senator Nick Sherry, said today's passage of changes to the non-commercial loan rules will improve the integrity and fairness of the tax system.

The non-commercial loan rules are integrity provisions designed to ensure private companies cannot make payments or loans to shareholders disguised as tax-free dividends.

The changes to the non-commercial loan rules in Division 7A of the *Income Tax Assessment Act 1936* were announced in the 2009-10 Budget and were included in the *Tax Laws Amendment (2010 Measures No. 2) Bill 2010* which was passed by the Parliament today.

"The new legislation removes the scope for private companies to allow shareholders and their associates to use company assets – such as real estate, cars and boats – for free, or at less than their arm's length value, without paying tax," said the Assistant Treasurer.

"This legislation will ensure that shareholders of private companies are treated like the shareholders of listed companies and pay their fair share of tax."

"These amendments are fiscally responsible, raising \$30 million over the next three years and assisting in bringing the Budget back to surplus three years earlier than previously predicted."

The law also includes important exemptions to ensure that legitimate farmers and small businesses are not unduly affected, including an exemption for the use of assets that would be otherwise deductible if that use were paid for by the user. The minor use of assets is also exempt.

An additional exemption was incorporated by the Government that applies to the use of certain company title flats and home units to provide equitable treatment for people who own a home unit through the usual strata title arrangements and those who must own their home unit through a company title arrangement.

"The Government has responded to the outcomes of stakeholder consultations undertaken during the drafting of the legislation and as this measure was debated in the Parliament," said the Assistant Treasurer.

The legislation also addresses technical deficiencies that allow Division 7A to be circumvented through the use of interposed entities and corporate limited partnerships.

Upon receipt of Royal Assent, the changes will apply from 1 July 2009.

CANBERRA

17 June 2010

Media contact: Joe Scavo 0413 800 757