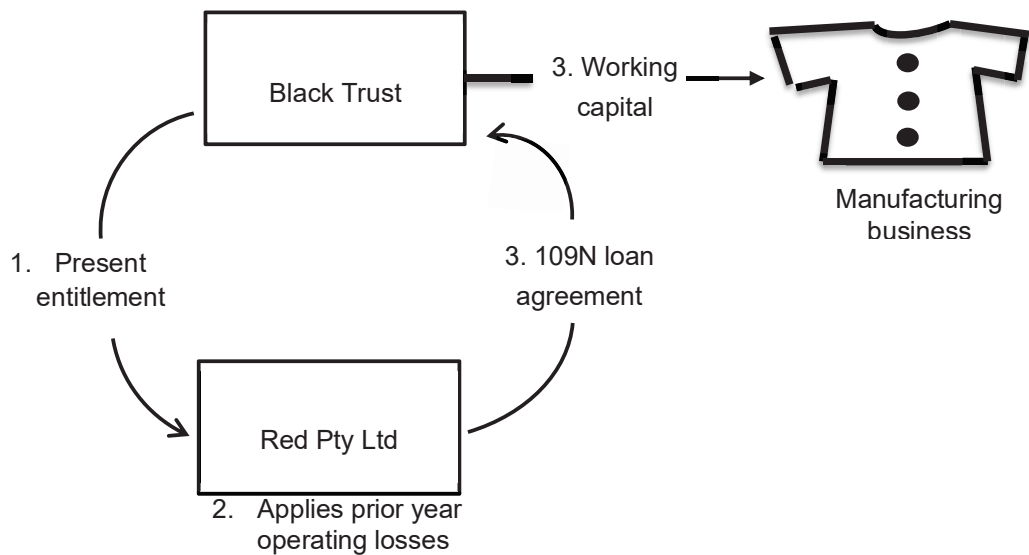


New green zone scenario 3B – distributions to a loss company

17. Ms Willow controls the Black Trust and her spouse Mr Willow controls Red Pty Ltd.
18. The trustee of the Black Trust carries on a manufacturing business.
19. Red Pty Ltd has prior year tax losses as a result of operating a business venture that continues to operate.
20. On 30 June 2023, the trustee of Black Trust makes a determination to appoint 100% of the trust income to Red Pty Ltd, being \$300,000.
21. Red Pty Ltd includes \$300,000 in its assessable income, being the net income of the Black Trust. After deducting tax losses of \$300,000 the taxable income of Red Pty Ltd is nil.
22. The funds representing Red Pty Ltd's trust entitlement were retained by the trustee of the Black Trust for the purpose of funding the working capital for the manufacturing business. The trustee of the Black Trust and Red Pty Ltd subsequently enter into a loan agreement in respect of the \$300,000 that meets the requirements of section 109N of the ITAA 1936.
23. The diagram below illustrates the circumstances in this example.



24. The trustee of Black Trust uses the receipts from the business to make interest and principal payments to Red Pty Ltd in fulfilling its obligations in complying with Division 7A.

25. The arrangement does not have any features that excludes it from the green zone under paragraph 26. We would not dedicate compliance resources to this arrangement as it meets the conditions in green zone scenario 3B of this Guideline.