

## REMOVING THE INTERCORPORATE DIVIDEND REBATE ON UNFRANKED DISTRIBUTIONS

The integrity of the entity tax system will be improved, and complexity reduced, by removing the intercorporate dividend rebate on unfranked distributions.

### Key features

All unfranked distributions between resident entities will be taxed to the recipient, except if the distribution is within a wholly owned group (or a consolidated group from 1 July 2001), by removing the intercorporate dividend rebate on those distributions.

Provision will be made for relief of tax on certain unfranked dividends received by resident entities that are 100 per cent owned by a non-resident.

### Commencement

1 July 2000.

### Current arrangements

Distributions between resident companies currently benefit, with some exceptions, from an intercorporate dividend rebate that offsets any tax liability that might arise in respect of dividends received.

### Why change is needed

Removing the intercorporate dividend rebate will close the unintended loopholes created by the intercorporate dividend rebate freeing from tax unfranked dividends between entities. It will also reduce the need for the added complexity of a wide range of associated and other specific anti-avoidance provisions relating to the availability of the rebate, such as rules against dividend stripping and rules specifying differential treatment of unfranked dividends paid to private companies.

As recommended by the Review of Business Taxation — see Section 11 of *A Tax System Redesigned* — this measure takes the place of the deferred company tax proposed in *A New Tax System*.