Taxation of Pooled Development Funds and their shareholders

A company registered as a Pooled Development Fund (PDF), and its shareholders, are entitled to certain tax concessions on income derived from investments.

Taxation treatment of dividends paid by PDFs to their shareholders

Unfranked dividends paid by a PDF are tax exempt in the hands of shareholders. Franked dividends paid by a PDF are also tax exempt in the hands of shareholders, unless the shareholder elects to be taxed. Where shareholders elect to be taxed, they can use the imputation credits attached to the franked dividend to offset other tax obligations.

Taxation treatment of capital gains made on the sale of shares in PDFs

The capital gains on realisation of shares held in a PDF are tax exempt.

Taxation treatment of PDF income

The income derived by PDFs from investments in companies, whether dividend, capital gains or other income, is taxed at 15 per cent rather than the full corporate tax rate. PDFs credit their franking accounts for tax paid but may frank a distribution up to the general corporate rate of 30 per cent. This enables them to pass on a greater franking benefit to their shareholders than would otherwise be warranted by the tax they have paid, where they have a surplus in their franking account.

When a company ceases to be a PDF

The company is treated as if it was an ordinary company for that entire income year.
Its shareholders are deemed to have:

- **sold their shares immediately before the company ceased to be a PDF; and**
- **re-bought the shares immediately after the company so ceased.**

For a consideration equal to the market value of the shares immediately after the company so ceased. *[Income Tax Assessment Act 1936 - Section 124ZR]*

Further information

For advice about the tax concessions which may be available to PDFs and shareholders in PDFs, you should contact the Australian Taxation Office at innovationtax@ato.gov.au

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