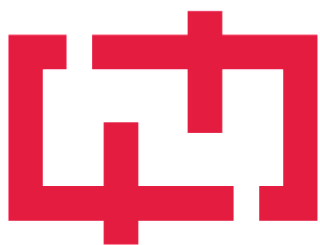


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Australian Thin Capitalisation Rules

Thin Capitalisation relates to the funding of business enterprises, where such funding is done by way of debt. The Australian Taxation Office [ATO] view is that where the debt to equity ratios are not within accepted bands, the interest deduction claimable on the debt will be restricted.

Please note where no interest is charged thin capitalisation rules do not apply. For example, a ratio of 3:1 means that for every \$3 of debt, the entity is funded by \$1 of equity.

Purpose of the rules

Under the thin capitalisation rules, the amount of interest and debt associated deductions claimable on debt used to fund the Australian operations of both foreign entities investing into Australia and Australian entities investing overseas is limited. The rules apply when the entity's debt-to-equity ratio exceeds certain limits.

Acceptable Limits [Debt to equity ratios]

Non- Finance Entities	3:1
Finance Entities	5:1

Are You Affected?

You will not be affected by the thin capitalisation rules for any given income year if you satisfy one of the following tests:

- you are an Australian resident entity that is not an inward investing entity nor an outward investing entity
- you are a foreign entity that has no investments (such as assets) or permanent establishment in Australia
- you meet any of the three threshold tests
 - your debt deductions, together with those of any associate entities, are \$250,000 or less for the income year
 - you are an outward investing entity that is not also foreign controlled and you meet the assets threshold test
 - you are a special purpose entity established to manage certain risks.