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# Inward investment vehicle (financial)

How an inward investment vehicle (financial) calculates whether they have met the thin capitalisation rules.

### Step 1: Calculate the adjusted average debt

How to calculate the adjusted average debt for an inward investment vehicle (financial).

### Steps 2 and 3: Calculate the safe harbour debt amount

How to calculate the safe harbour debt amount for an inward investment vehicle (financial).

### Step 5: Calculate the worldwide gearing debt amount

How to calculate worldwide gearing debt amount for an inward investment vehicle (financial).

### Step 6: Calculate the debt deductions disallowed

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QC 48266

# Step 1: Calculate the adjusted average debt

How to calculate the adjusted average debt for an inward investment vehicle (financial).

Last updated 24 July 2024

### Before you begin

The calculation used by an inward investor (financial) will depend on the method chosen for their thin capitalisation calculation. A inward investment vehicle (financial) can either calculate its maximum allowable debt or choose to apply the third part debt test.

If you make a choice to apply the third party debt test, calculate whether you have **met the thin capitalisation rules**.

If you're not using the TPDT, follow these steps to calculate the maximum allowable debt.

- Step 1: Calculate the adjusted average debt
- Steps 2 and 3 Calculate the safe harbour debt amount1
- Step 45: Calculate the worldwide gearing debt amount
- Step 56: Calculate debt deductions disallowed using the maximum allowable debt methods.

A financial entity that elects to use the thin capitalisation rules that apply to ADI entities will need to refer to **ADI inward investing entity**.

For more information, see Electing to use the ADI rules.

### Step 1

Broadly, the adjusted average debt of an inward investment vehicle (financial) is the debt capital used in its Australian operations that gives rise to debt deductions. It does not matter whether the debt deductions arise in the year the debt interest was issued or in any other income year.

Debt that does not give rise to any deductible expenditure at any time is generally not included in adjusted average debt. However, it is included if the debt interest is **cost-free debt capital** – see step 1.4.

The adjusted average debt also includes assets that comprise securities loan arrangement amounts where those amounts do not otherwise qualify as debt interests – see step 1.3.

Table 17: Inward investment vehicle (financial)'s step 1 and Worksheet 10: Inward investment vehicle (financial)'s step 1 explains how an inward investment vehicle (financial) calculates its adjusted average debt.

For more information, see subsection 820-185(3) of the ITAA 1997.

Steps	Comments
<b>Step 1.1:</b> Calculate the average value, for the income year, of all the entity's debt capital that gives rise to its debt deductions for that year or any other income year. Insert this amount at <b>A</b> on <i>Worksheet 10: Inward investment vehicle (financial)'s step 1.</i>	The entity's debt capital is the average value of all the debt interests issued by the entity that give rise to debt deductions in any year of income. This includes debt interests that do not initially give rise to debt deductions but will do so in the future.
<b>Step 1.2:</b> Calculate the average value, for that year, of all the entity's associate entity debt.	The average debt capital is then reduced by associate entity debt.
Insert this amount at <b>B</b> on Worksheet 10: Inward investment vehicle (financial)'s step 1.	
<b>Step 1.3:</b> Calculate the average value, for that year, of the entity's borrowed securities amount.	The amounts included in an entity's borrowed securities amount are explained in <b>Borrowed securities amount</b> .

#### Table 17: Inward investment vehicle (financial)'s step 1

Insert this amount at <b>C</b> on Worksheet 10: Inward investment vehicle (financial)'s step 1.	Broadly, they include the entity's liabilities incurred under a repurchase agreement, sell-buy-back arrangement or securities loan arrangement.
<ul> <li>Step 1.4: Calculate the average value, for that year, of any of the entity's cost-free debt capital.</li> <li>Insert this amount at D on Worksheet 10: Inward investment vehicle (financial)'s step 1.</li> </ul>	Cost-free debt capital is included in adjusted average debt for integrity reasons.
<b>Step 1.5:</b> Calculate the adjusted average debt. Adjusted average debt is the result of <b>A</b> – <b>B</b> + <b>C</b> + <b>D</b> .	Adjusted average debt represents total debt ( <b>A</b> ) less associate entity debt ( <b>B</b> ), increased by certain securities loan arrangement amounts ( <b>C</b> ) and cost-free debt capital ( <b>D</b> ).

### Worksheet 10: Inward investment vehicle (financial)'s step 1

Steps	\$
Step 1.1: Average debt capital	(A)
Step 1.2: Average associate entity debt	(B)
<b>Step 1.3:</b> Average borrowed securities amount	(C)
Step 1.4: Average cost-free debt capital	(D)
<b>Step 1.5:</b> Adjusted average debt ( <b>A – B + C + D</b> )	=

If the adjusted average debt is zero or a negative amount, the entity has not exceeded its maximum allowable debt and it is not disallowed any debt deductions under the thin capitalisation rules. You do not have to complete any further calculations.

If adjusted average debt is a positive amount, you need to calculate the entity's maximum allowable debt amount, which is the greater of the:

- safe harbour debt amount steps 2 and 3
- worldwide gearing amount step 4.

For more information, see Worked example of calculations for an inward investment vehicle (financial).

#### QC 48270

# Steps 2 and 3: Calculate the safe harbour debt amount

How to calculate the safe harbour debt amount for an inward investment vehicle (financial).

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### How to apply steps 2 and 3

The safe harbour debt amount for a financial entity is the lesser of the following 2 amounts:

- the total debt amount step 2
- the adjusted on-lent amount step 3.

Both amounts must be calculated. The adjusted on-lent amount contains a concession in respect of the entity's on-lending business. It applies a 1.5:1 ratio to the part of the entity's business that does not constitute on-lending and then increases this amount by the value of the entity's on-lending business.

However, the safe harbour debt amount is capped at 15:1 by the total debt amount, which applies a ratio of 15:1 to the entity's total business.

The total debt amount contains a further concession for certain assets called **Zero-capital amount**. These amounts can be wholly funded by debt capital.

These resources explain how to work out the total debt amount and adjusted on-lent amount:

- Table 18: Inward investment vehicle (financial)'s step 2
- Table 20: Inward investment vehicle (financial)'s step 3
- Worksheet 11: Inward investment vehicle (financial)'s step 2
- Worksheet 13: Inward investment vehicle (financial)'s step 3.

If the entity has any associate entities, you also need to work through:

- Table 19: Inward investment vehicle (financial)'s step 2A and Worksheet 24: Inward investment vehicle (financial)'s step 2A for the total debt amount
- Table 21: Inward investment vehicle (financial)'s step 3A and Worksheet 26: Inward investment vehicle (financial)'s step 3A for the adjusted on-lent amount.

For more information, see section 820-200 of the ITAA 1997.

Table 18: Inward investmen	t vehicle	(financial)'s	step 2
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Steps	Comments
<b>Step 2.1:</b> Calculate the average value, for the income year, of all the entity's assets.	The first step is to work out the average value of the entity's assets.
Insert this amount at <b>E</b> on Worksheet 11: Inward investment vehicle (financial)'s step 2.	
<b>Step 2.1A:</b> Calculate the average value of the entity's excluded equity interest for that year.	Certain short-term equity interests reduce the safe harbour debt amount for
Insert this amount at <b>MM</b> on Worksheet 11: Inward investment vehicle (financial)'s step 2.	See excluded equity interests.

<b>Step 2.2:</b> Transfer the amount from <b>B</b> on Worksheet 10: Inward investment vehicle (financial)'s step 1 to <b>B</b> on Worksheet 11: Inward investment vehicle (financial)'s step 2.	This is the average associate entity debt and is the same amount calculated at <b>B</b> on <i>Worksheet 10: Inward</i> <i>investment vehicle</i> <i>(financial)'s step 1</i> (step 1.2) and can be transferred directly in from there. Associate entity debt is a loan asset of the lender that broadly represents the debt interests issued to the lender by the associate entity.
<b>Step 2.3:</b> Calculate the average value, for that year, of all the entity's associate entity equity. Insert this amount at <b>F</b> on <i>Worksheet 11: Inward investment vehicle (financial)'s step 2.</i>	Broadly, associate entity equity is the sum of the equity invested in, and interest-free loans granted to, associate entities. Associate entity equity is an asset of the investing entity and the value is what the investing entity has valued its investment at under the accounting standards.
<b>Step 2.4:</b> Calculate the average value, for that year, of all the entity's non-debt liabilities. Insert this amount at <b>G</b> on Worksheet 11: Inward investment vehicle (financial)'s step 2.	N/A
<b>Step 2.5:</b> Calculate the average value of the entity's zero-capital amount. Insert this amount at <b>ZC</b> on <i>Worksheet 11: Inward investment vehicle (financial)'s step 2.</i>	N/A
<b>Step 2.6:</b> Calculate net Australian assets funded by debt and equity.	This step reduces total assets <b>E</b> by the amounts worked out in

This is the result of <b>E – MM – B – F – G – ZC</b> . Insert the result at <b>H</b> on Worksheet 11: Inward investment vehicle (financial)'s step 2.	steps 2.2 to 2.5. The amount at <b>H</b> represents the net Australian assets funded by debt and equity.
<b>Step 2.7:</b> Multiply the amount at <b>H</b> by (15 ÷ 16). Insert the result at <b>J</b> on <i>Worksheet 11: Inward investment vehicle (financial)'s step 2.</i>	Multiplying the amount at <b>H</b> (net assets) by (15 ÷ 16) reflects the debt to equity ratio of 15:1.
<b>Step 2.8:</b> Add back the average value of the zero-capital amount from step 2.5. Insert this amount at <b>ZC</b> on <i>Worksheet 11: Inward investment vehicle (financial)'s step 2.</i>	The zero-capital amount was taken out at step 2.6 and is now added back so that the total debt amount is increased by the average value of the zero- capital amount.
Step 2.9: If the entity does not have any associate entities that are non-ADIs and subject to the thin capitalisation rules, insert 0 (zero) at K on Worksheet 11: Inward investment vehicle (financial)'s step 2. Otherwise, calculate the entity's average associate entity excess amount (see Worksheet 12: Inward investment vehicle (financial)'s step 2A). Transfer the amount at K on Worksheet 12: Inward investment vehicle (financial)'s step 2A and insert at K on Worksheet 11: Inward investment vehicle (financial)'s step 2.	Broadly the average associate entity excess amount is the excess borrowing capacity of any associate entity that is either a non-ADI inward investment vehicle or a non-ADI inward investor. It also recognises any premium paid for the investment in an associate entity. This is worked out in step 2A ( <b>K</b> on <i>Worksheet 12: Inward</i> <i>investment vehicle</i> <i>(financial)'s step 2A)</i> . If the entity does not have any associate entities that are non-ADIs and subject to the thin capitalisation rules, this amount is zero.
<b>Step 2.10:</b> Calculate the entity's total debt amount by adding the amounts at <b>J</b> , <b>ZC</b> and <b>K</b> .	N/A

### Worksheet 11: Inward investment vehicle (financial)'s step 2

Steps	\$
Step 2.1: Average assets	(E)
<b>Step 2.1A:</b> Average excluded equity interests	(MM)
<b>Step 2.2:</b> Average associate entity debt from <b>B</b> on <i>Worksheet 10: Inward investment vehicle (financial)'s step 1</i>	(B)
Step 2.3: Average associate entity equity	(F)
Step 2.4: Average non-debt liabilities	(G)
Step 2.5: Average zero-capital amount	(ZC)
Step 2.6: E – MM – B – F – G – ZC	( <b>H</b> ) If <b>H</b> is negative, it is taken to be zero.
<b>Step 2.7: H</b> × (15 ÷ 16)	(J)
<b>Step 2.8:</b> Average zero-capital amount from step 2.5	(ZC)
<b>Step 2.9:</b> Average associate entity excess from <b>K</b> on <i>Worksheet 12: Inward investment vehicle (financial)'s step 2A</i>	(K)
<b>Step 2.10:</b> Total debt amount ( <b>J</b> + <b>ZC</b> + <b>K</b> )	=

This is the entity's total debt amount. You must now work out the entity's adjusted on-lent amount at step 3. The lesser of the total debt amount and the adjusted on-lent amount is the entity's safe harbour debt amount.

For more information, see Worked example of calculations for an inward investment vehicle (financial).

### Calculating K: The average associate entity excess amount for the total debt amount

Table 19: Inward investment vehicle (financial)'s step 2A and Worksheet 12: Inward investment vehicle (financial)'s step 2A set out how to calculate the amount at **K** in Worksheet 11: Inward investment vehicle (financial)'s step 2 – the average associate entity excess amount. If the entity does not have any associate entities that are non-ADI inward investment vehicles or inward investor (financial)s, do not complete this step and show zero at **K** on Worksheet 11: Inward investment vehicle (financial)'s step 2.

The associate entity excess amount is the sum of 2 amounts:

- a premium excess amount see steps 2A.1 to 2A.3
- an attributable safe harbour excess amount see steps 2A.4 to 2A.10.

The associate entity excess amount is calculated on each of the investing entity's measurement days for each associate entity. For example, if the investing entity uses the opening and closing balances measurement method, it must calculate its associate entity excess amount as at the opening day and closing day of the income year.

The positive amounts are added together and divided by the number of measurement days to calculate the average associate entity excess amount. Negative amounts are disregarded because a negative associate entity excess amount for one associate entity does not reduce a positive associate entity excess amount for another associate entity.

For more information, see section 820-920 of the ITAA 1997.

## Explanation: Calculate the associate entity excess amount – for the total debt amount

If the entity has more than one associate entity, repeat steps 2A.1 to 2A.12 for each associate entity on each of the investing entity's measurement days. The associate entity must be a non-ADI subject to the thin capitalisation rules.

Steps	Comments
Step 2A.1: Calculate, on a particular measurement day, the value of the entity's associate entity equity attributable to the associate entity, less the value of any debt interests issued to the investing entity by the associate entity. Insert this amount at L on Worksheet 12: Inward investment vehicle (financial)'s step 2A.	This is the value, on a measurement day, of the equity the entity has invested in its associate entity. This excludes debt interests that may be included in associate entity equity.
<b>Step 2A.2:</b> Calculate, on the measurement day, the value of the associate entity's equity capital attributable to the entity, less the value of equity interests held by the investing entity that are controlled foreign entity equity for the investing entity. Insert this amount at <b>M</b> on <i>Worksheet 12: Inward investment vehicle (financial)'s step 2A.</i>	This is the value, on a measurement day, of the associate entity's equity capital attributable to the investing entity. This is measured by the associate entity in accordance with the accounting standards.
<ul> <li>Step 2A.3: Calculate the premium excess amount by deducting the amount at M from the amount at L and multiplying the result by (15 ÷ 16).</li> <li>Insert the result at N on Worksheet 12: Inward investment vehicle (financial)'s step 2A.</li> </ul>	N/A
Step 2A.4: Calculate the associate entity's safe harbour debt amount on the measurement day as if the period consisted of one day only. Insert this amount at <b>P</b> on <i>Worksheet 12: Inward investment</i> <i>vehicle (financial)'s step 2A.</i>	The safe harbour debt amount must be calculated for the associate entity on a measurement day.

### Table 19: Inward investment vehicle (financial)'s step 2A

<b>Step 2A.5:</b> Calculate, on the measurement day, the value of the associate entity's adjusted average debt as if the period consisted of one day only. Insert this amount at <b>Q</b> on <i>Worksheet 12: Inward investment vehicle (financial)'s step 2A.</i>	You must also work out the associate entity's adjusted average debt on a measurement day.
<b>Step 2A.6:</b> Deduct the amount at <b>Q</b> from the amount at <b>P</b> . Insert the result at <b>R</b> on Worksheet 12: Inward investment vehicle (financial)'s step 2A.	Deducting the adjusted average debt ( <b>Q</b> ) from the safe harbour debt amount ( <b>P</b> ) gives the associate entity's excess borrowing capacity on a measurement day. If the associate entity has exceeded its safe harbour debt amount, this amount will be negative and is treated as zero.
<ul> <li>Step 2A.7: Calculate, on the measurement day, the sum of all of the following:</li> <li>The value of the associate entity's equity capital attributable to the investing entity.</li> <li>The value of the debt interests issued to the investing entity by the associate entity by the associate entity by the associate entity's cost-free debt capital</li> <li>that do not give rise to costs covered by paragraph 820-40(1)(a).</li> <li>The value of the debt interests issued to the investing entity by the associate entity that are on issue</li> <li>give rise to costs covered in paragraph 820-40(1)(a) but</li> </ul>	This works out the value of the associate entity's equity capital (including certain debt interests) attributable to the investing entity on a measurement day.

those costs are not deductible from the associate entity's assessable income in any income year. Insert the result at <b>S</b> on Worksheet 12: Inward investment vehicle (financial)'s step 2A.	
<ul> <li>Step 2A.8: Calculate, on the measurement day, the sum of all of the value of all the following:</li> <li>The associate entity's equity capital.</li> <li>The debt interests issued by the associate entity <ul> <li>that are on issue</li> <li>of which no part forms part of the associate entity's cost-free debt capital</li> <li>that do not give rise to costs covered by paragraph 820-40(1)(a).</li> </ul> </li> <li>The debt interests issued by the associate entity that <ul> <li>are on issue</li> <li>give rise to costs covered by paragraph 820-40(1)(a).</li> </ul> </li> <li>The debt interests issued by the associate entity that <ul> <li>are on issue</li> <li>give rise to costs covered by paragraph 820-40(1)(a).</li> </ul> </li> <li>The state entity that <ul> <li>are on issue</li> <li>give rise to costs covered by paragraph 820-40(1)(a).</li> </ul> </li> </ul>	This works out the value of the associate entity's total equity capital (including certain debt interests) on a measurement day.
<b>Step 2A.9:</b> Divide the amount at <b>S</b> by the amount at <b>T</b> . Insert the result at <b>U</b> on <i>Worksheet 12: Inward investment vehicle</i> (financial)'s step 2A.	This works out the proportion of the associate entity's equity capital attributable to the investing entity on a measurement day.

<b>Step 2A.10:</b> Calculate the entity's attributable safe harbour excess amount by multiplying the amount at <b>R</b> (the associate entity's excess capacity) by the amount at <b>U</b> (the proportion of equity capital attributable to the investing entity). Insert the result at <b>V</b> on <i>Worksheet 12: Inward investment vehicle (financial)'s step 2A.</i>	This applies the proportion worked out in step 2A.9 to the associate entity's excess borrowing capacity to work out the amount of that excess capacity that can be attributed to the investing entity.
<ul> <li>Step 2A.11: Calculate the entity's associate entity excess amount by adding the amounts at N (premium excess amount) and V (attributable safe harbour excess amount).</li> <li>Insert the result at W on Worksheet 12: Inward investment vehicle (financial)'s step 2A.</li> </ul>	This is the associate entity excess amount for a single associate entity on a measurement day of the investing entity.
Step 2A.12: If the entity has only one associate entity, transfer any positive amount at W to X on Worksheet 12: Inward investment vehicle (financial)'s step 2A. Otherwise, repeat steps 2A.1 to 2A.11 for each associate entity. Then add all positive results at W and insert at X on Worksheet 12: Inward investment vehicle (financial)'s step 2A.	The associate entity excess amount must be worked out for each associate entity on a measurement day. Add all the positive associate entity excess amounts together to get the total associate entity excess amount on any particular measurement day. If the entity has only one associate entity, the amount at <b>W</b> will be the same as the amount at <b>X</b> , provided <b>X</b> is positive. If <b>X</b> is negative, it is disregarded.
<b>Step 2A.13:</b> Calculate <b>X</b> (the total associate entity excess amount – steps 2A.1 to 2A.12) on each other measurement day.	The associate entity excess amount for all associate entities is calculated on each of the investing entity's measurement days.

<b>Step 2A.14:</b> Calculate the entity's average associate entity excess amount by adding the results at <b>X</b> for each measurement day and dividing by the number of measurement days.	The results are added together and divided by the number of measurement days to get the average associate entity excess amount.
Insert the result at <b>K</b> on Worksheet 11: Inward investment vehicle (financial)'s step 2.	

### Worksheet 12: Inward investment vehicle (financial)'s step 2A

Steps	\$
<b>Step 2A.1:</b> Investing entity's associate entity equity on a measurement day.	(L)
<b>Step 2A.2:</b> Associate entity's equity capital attributable to investing entity on a measurement day.	( <b>M</b> ) If <b>M</b> is negative it is taken to be nil
<b>Step 2A.3:</b> Premium excess amount ( <b>L</b> – <b>M</b> ) × (15 ÷ 16)	(N) N may be a negative amount
<b>Step 2A.4:</b> Associate entity's safe harbour debt amount on a measurement day	(P)
<b>Step 2A.5:</b> Associate entity's adjusted average debt on a measurement day.	(Q)
Step 2A.6: P – Q	( <b>R</b> ) If <b>R</b> is negative, it is taken to be zero
<b>Step 2A.7:</b> Associate entity's equity capital attributable to	(S)

investing entity on a measurement day.	
<b>Step 2A.8:</b> Associate entity's total equity capital on a measurement day.	(T)
Step 2A.9: S ÷ T	(U)
<b>Step 2A.10</b> : Attributable safe harbour excess amount ( <b>R</b> × <b>U</b> ).	(V)
<b>Step 2A.11:</b> Associate entity excess amount on a measurement day for one associate entity ( <b>N</b> + <b>V</b> ).	(W)
<b>Step 2A.12:</b> Associate entity excess amount on a measurement day for all associate entities (the sum of positive results at <b>W</b> ).	(X)
Now calculate the associate entity excess amount for all associate entities on the investing entity's other measurement days, see step 2A.13.	
<b>Step 2A.14:</b> The average value of the associate entity excess amount (the sum of results at <b>X</b> divided by the number of measurement days).	= ( <b>K</b> ) Transfer this amount to <b>K</b> on Worksheet 11: Inward investment vehicle (financial)'s step 2.

#### Table 20: Inward investment vehicle (financial)'s step 3

Steps	Comments
<b>Step 3.1:</b> Transfer the amount	This is the average value of
from <b>E</b> on Worksheet 11: Inward	assets. This amount has
investment vehicle (financial)'s	already been worked out at
step 2 to <b>E</b> on Worksheet 13:	<b>E</b> on Worksheet 11: Inward
Inward investment vehicle	investment vehicle
(financial)'s step 3.	(financial)'s step 2

	(step 2.1) and can be transferred directly from there.
<b>Step 3.2:</b> Transfer the amount from <b>MM</b> on Worksheet 11: Inward investment vehicle (financial)'s step 2 to <b>MM</b> on Worksheet 13: Inward investment vehicle (financial)'s step 3.	This is the average value of the entity's excluded equity interests. This amount has already been worked out at <b>MM</b> on <i>Worksheet 11:</i> <i>Inward investment vehicle</i> <i>(financial)'s step 2</i> (step 2.1A) and can be transferred directly from there.
<b>Step 3.3:</b> Transfer the amount from <b>F</b> on Worksheet 11: Inward investment vehicle (financial)'s step 2 to <b>F</b> on Worksheet 13: Inward investment vehicle (financial)'s step 3.	This is the average value of associate entity equity. This amount has already been worked out at <b>F</b> on <i>Worksheet 11: Inward</i> <i>investment vehicle</i> <i>(financial)'s step 2</i> (step 2.3) and can be transferred directly from there.
<b>Step 3.4:</b> Transfer the amount from <b>G</b> on Worksheet 11: Inward investment vehicle (financial)'s step 2 to <b>G</b> on Worksheet 13: Inward investment vehicle (financial)'s step 3.	This is the average value of non-debt liabilities. This amount has already been worked out at <b>G</b> on <i>Worksheet 11: Inward</i> <i>investment vehicle</i> <i>(financial)'s step 2</i> (step 2.4) and can be transferred directly from there.
<b>Step 3.5:</b> Calculate the average value of the entity's on-lent amount. Insert the amount at <b>OA</b> on <i>Worksheet 13: Inward investment vehicle (financial)'s step 3.</i>	This reduces Australian assets by the value of the entity's on-lending business.
<b>Step 3.6:</b> Calculate the net Australian non-lending assets funded by debt and equity.	The amount at <b>Y</b> represents the net Australian non-lending assets funded by debt and equity.

This is the result of <b>E</b> – <b>MM</b> – <b>F</b> – <b>G</b> – <b>OA</b> . Insert the result at <b>Y</b> on Worksheet 13: Inward investment vehicle (financial)'s step 3.	
<b>Step 3.7:</b> Multiply the amount at <b>Y</b> by (3 ÷ 5). Insert the result at <b>Z</b> on <i>Worksheet 13: Inward investment vehicle (financial)'s step 3.</i>	Multiplying the amount at <b>Y</b> by $(3 \div 5)$ reflects the debt to equity ratio of 1.5:1 applied to the non-lending business.
<b>Step 3.8:</b> Transfer the average value of the entity's on-lent amount from step 3.4. Insert the amount at <b>OA</b> on <i>Worksheet 13: Inward investment vehicle (financial)'s step 3.</i>	This is the same amount calculated in step 3.4. This adds back the on-lent amount.
<b>Step 3.9:</b> Transfer the amount from <b>B</b> on Worksheet 10: Inward investment vehicle (financial)'s step 1 to <b>B</b> on Worksheet 13: Inward investment vehicle (financial)'s step 3.	This is the average value of associate entity debt. This amount has already been worked out at <b>B</b> on <i>Worksheet 10: Inward</i> <i>investment vehicle</i> ( <i>financial</i> )'s step 1 (step 1.2 ) and can be transferred directly from there. This is also the same amount at <b>B</b> on <i>Worksheet 11: Inward</i> <i>investment vehicle</i> ( <i>financial</i> )'s step 2.
<b>Step 3.10:</b> If the entity does not have any associate entities that are non-ADIs and subject to the thin capitalisation rules, insert 0 (zero) at <b>AA</b> on <i>Worksheet 13:</i> <i>Inward investment vehicle</i> <i>(financial)'s step 3.</i> Otherwise, calculate the entity's average associate entity excess amount – see <i>Worksheet 14: Inward</i> <i>investment vehicle (financial)'s</i> <i>step 3A.</i>	Broadly, the associate entity excess amount is the excess borrowing capacity of any associate entity that is either an inward investment vehicle (financial) or an inward investor (financial). It also recognises any premium paid for the investment in an associate entity. This amount is worked out in step 3A at <b>AA</b> on

Transfer the amount at <b>AA</b> on Worksheet 14: Inward investment vehicle (financial)'s step 3A to <b>AA</b> on Worksheet 13: Inward investment vehicle (financial)'s step 3.	Worksheet 14: Inward investment vehicle (financial)'s step 3A. If the entity does not have any associate entities that are non-ADIs and subject to the thin capitalisation rules, the average associate entity excess amount is zero.
<b>Step 3.11:</b> Calculate the entity's adjusted on-lent amount. This is <b>Z</b> + <b>OA</b> – <b>B</b> + <b>AA</b> .	

### Worksheet 13: Inward investment vehicle (financial)'s step 3

Steps	\$
<b>Step 3.1:</b> Average assets from <b>E</b> on Worksheet 11: Inward investment vehicle (financial)'s step 2	(E)
<b>Step 3.2:</b> Average excluded equity interests from <b>MM</b> on <i>Worksheet 11: Inward investment vehicle (financial)'s step 2</i>	(MM)
<b>Step 3.3:</b> Average associate entity equity from <b>F</b> on <i>Worksheet 11: Inward investment vehicle (financial)'s step 2</i>	(F)
<b>Step 3.4:</b> Average non-debt liabilities from <b>G</b> on <i>Worksheet 11: Inward investment vehicle (financial)'s step 2</i>	(G)
Step 3.5: Average on-lent amount	(OA)
Step 3.6: E – MM – F – G – OA	( <b>Y</b> ) If <b>Y</b> is negative, it is taken to be zero.
<b>Step 3.7: Y</b> × (3 ÷ 5)	(Z)

<b>Step 3.8:</b> Average on-lent amount from step 3.4	(OA)
<b>Step 3.9:</b> Average associate entity debt from <b>B</b> on Worksheet 10: Inward investment vehicle (financial)'s step 1	(B)
<b>Step 3.10:</b> Average associate entity excess from <b>AA</b> on <i>Worksheet 14: Inward investment vehicle (financial)'s step 3A</i>	( <b>AA</b> )
<b>Step 3.11:</b> Adjusted on-lent amount ( <b>Z</b> + <b>OA</b> – <b>B</b> + <b>AA</b> )	=

This is the entity's adjusted on-lent amount. The entity's safe harbour debt amount is the lesser of the total debt amount (step 2) and the adjusted on-lent amount.

If the entity's adjusted average debt is equal to or less than the safe harbour debt amount, the entity is not disallowed any debt deductions under the thin capitalisation rules. You do not have to complete any more calculations.

However, if the entity's adjusted average debt is more than the safe harbour debt amount, you can choose to calculate the worldwide gearing debt amount under step 4. If you do not want to calculate a worldwide gearing debt amount, you can use your safe harbour debt amount as your maximum allowable debt and debt deductions will be disallowed on this basis – see step 5.

For more information, see Worked example of calculations for an inward investment vehicle (financial).

# Calculating AA: The associate entity excess amount – for the adjusted on-lent amount

Table 21: An inward investment vehicle (financial)'s step 3A and Worksheet 14: Inward investment vehicle (financial) entity)'s step 3A set out how to calculate the amount at **AA** on Worksheet 13: Inward investment vehicle (financial) entity's step 3 – the associate entity excess amount. Step 3.10 is the equivalent of step 2.9 in the total debt amount calculation. The only difference is in the premium excess amount calculation. The premium excess amount is worked out by applying the gearing ratio of 1.5:1 to the premium excess rather than the gearing ratio of 15:1. The attributable excess amount will be the same and can be transferred directly from *Worksheet 12: Inward investment vehicle (financial)'s step 2A*.

For more information, see section 820-920 of the ITAA 1997.

# Explanation: Calculate the average associate entity excess amount for the adjusted on-lent amount

If the entity has more than one associate entity, repeat steps 3A.1 to 3A.6 for each associate entity on each of the investing entity's measurement days.

Steps	Comments
<b>Step 3A.1:</b> Transfer the amount at <b>L</b> on Worksheet 12: Inward investment vehicle (financial)'s step 2A to <b>L</b> on Worksheet 14: Inward investment vehicle (financial)'s step 3A.	This is the value, on a particular measurement day, of the associate entity equity attributable to the associate entity, excluding debt interests. This amount has already been worked out at L on Worksheet 12: Inward investment vehicle (financial)s step 2A (step 2A.1) and can be transferred directly from there.
<b>Step 3A.2:</b> Transfer the amount at <b>M</b> on Worksheet 12: Inward investment vehicle (financial)'s step 2A to <b>M</b> on Worksheet 14: Inward investment vehicle (financial)'s step 3A.	This is the value, on a particular measurement day, of the associate entity's equity capital attributable to the investing entity. This amount has already been worked out at <b>M</b> on <i>Worksheet 12: Inward</i> <i>investment vehicle</i>

#### Table 21: Inward investment vehicle (financial)'s step 3A

	(financial)'s step 2A (step 2A.2) and can be transferred directly from there.
<ul> <li>Step 3A.3: Calculate the premium excess amount by deducting the amount at M from the amount at L and multiplying the result by (3 ÷ 5).</li> <li>Insert this result at BB on Worksheet 14: Inward investment vehicle (financial)s step 3A.</li> </ul>	N/A
<b>Step 3A.4:</b> Transfer the amount at <b>V</b> on Worksheet 12: Inward investment vehicle (financial)s step 2A to <b>V</b> on Worksheet 14: Inward investment vehicle (financial)'s step 3A.	This is the attributable safe harbour excess amount on a particular measurement day. This amount has already been worked out at <b>V</b> on <i>Worksheet 12: Inward</i> <i>investment vehicle</i> <i>(financial)'s step 2A</i> (step 2A.10) and can be transferred directly from there.
<ul> <li>Step 3A.5: Calculate the entity's associate entity excess amount by adding the amounts at</li> <li>BB (premium excess amount) and V (attributable safe harbour excess amount).</li> <li>Insert the result at CC on Worksheet 14: inward investment vehicle (financial)'s step 3A.</li> </ul>	This is the associate entity excess amount for a single associate entity on a measurement day of the investing entity.
<b>Step 3A.6:</b> If the entity has only one associate entity, transfer any positive amount at <b>CC</b> to <b>DD</b> on Worksheet 14: Inward investment vehicle (financial)'s step 3A. Otherwise, repeat steps 3A.1 to 3A.5 for each associate entity. Then add all positive results at <b>CC</b> and insert at <b>DD</b> on Worksheet 14: Inward	The associate entity excess amount must be worked out for each relevant associate entity on a measurement day. Add all the positive associate entity excess amounts to get the total associate entity excess

investment vehicle (financial)'s step 3A.	amount on any particular measurement day.
	If the entity has only one relevant associate entity, the amount at <b>DD</b> will be the same as the amount at <b>CC</b> , provided <b>DD</b> is positive. If <b>DD</b> is negative, it is disregarded.
<b>Step 3A.7:</b> Calculate <b>DD</b> (the total associate entity excess amount, see steps 3A.1 to 3A.6) on each other measurement day.	The associate entity excess amount is calculated on each of the investing entity's measurement days.
<b>Step 3A.8:</b> Calculate the entity's average associate entity excess amount by adding the results at <b>DD</b> for each measurement day and divide by the number of measurement days.	The results are added together and divided by the number of measurement days to get the average associate entity excess amount.
Insert the result at <b>AA</b> on Worksheet 14: Inward investment vehicle (financial)'s step 3A.	

### Worksheet 14: Non-ADI financial inward investment vehicle's step 3A

Steps	\$
<b>Step 3A.1:</b> Investing entity's associate entity equity on a measurement day from <b>L</b> on <i>Worksheet 12: Inward investment vehicle (financial)'s step 2A</i>	(L)
<b>Step 3A.2:</b> Associate entity's equity capital attributable to investing entity on a measurement day from <b>M</b> on <i>Worksheet 12: Inward investment vehicle (financial)'s step 2A</i>	( <b>M</b> ) If <b>M</b> is negative it is taken to be nil

<b>Step 3A.3:</b> Premium excess amount ( <b>L</b> – <b>M</b> ) × (3 ÷5)	( <b>BB</b> ) <b>BB</b> may be a negative amount
<b>Step 3A.4:</b> Attributable safe harbour excess amount from <b>V</b> on Worksheet 12: Inward investment vehicle (financial)'s step 2A	(V)
<b>Step 3A.5:</b> Associate entity excess amount on a measurement day for one associate entity ( <b>BB</b> + <b>V</b> )	(CC)
<b>Step 3A.6:</b> Associate entity excess amount on a measurement day for all associate entities (the sum of positive results at <b>CC</b> )	(DD)
Calculate the associate entity excess amount for all associate entities on the investing entity's other measurement days (step 3A.7)	
<b>Step 3A.8:</b> The average value of the associate entity excess amount (the sum of results at <b>DD</b> divided by the number of measurement days)	=( <b>AA</b> ) Transfer this amount to <b>AA</b> on Worksheet 13: Inward investment vehicle (financial)'s step 3

For more information, see Worked example of calculations for an inward investment vehicle (financial).

#### QC 48275

# Step 4: Calculate the worldwide gearing debt amount

How to calculate worldwide gearing debt amount for an inward investment vehicle (financial).

#### Last updated 24 July 2024

The gearing of the entity's worldwide group is determined by reference to method statements contained in section 820-216 to 219 of the ITAA 1997. The section 820-217 method statement applies to a financial inward investment vehicle.

If the entity is a financial inward investment vehicle for the income year and is not also a financial outward investor for all or part of that year, they can apply the worldwide gearing debt amount determined by reference to method statements contained in section 820-217 of the ITAA 1997.

Steps	Comments
<b>Step 4.1:</b> Calculate the entity's statement worldwide debt for the income year.	Statement worldwide debt is the amount of liabilities for the period less the following amounts:
This amount is calculated using specified audited consolidated financial statements. Insert this amount at <b>Z</b> on <i>Worksheet 15: Inward</i> <i>investment vehicle</i> <i>(financial)'s step 4.</i>	<ul> <li>provisions</li> </ul>
	<ul> <li>liabilities in relation to distributions to equity participants</li> </ul>
	<ul> <li>trade payables</li> </ul>
	• deferred tax liabilities
	<ul> <li>liabilities relating to employee benefits</li> </ul>
	• current tax liabilities
	deferred revenue
	<ul> <li>liabilities relating to insurance</li> </ul>
	• any other amount specified by legislative instrument.
	Refer to subsection 820-933(1) of the ITAA 1997.

#### Table 22: Inward investment vehicle (financial)'s step 4

<ul> <li>Step 4.2: Calculate the entity's statement worldwide equity for the income year.</li> <li>This amount is calculated using specified audited consolidated financial statements.</li> <li>Insert this amount at AA on Worksheet 15: Inward investment vehicle (financial))'s step 4.</li> </ul>	Statement worldwide equity is the amount of net assets for the period. Refer to section 820-933(2) of the ITAA 1997.
<b>Step 4.3:</b> Divide the amount at <b>Z</b> by the amount at <b>AA</b> . This is the worldwide gearing ratio. Insert the result at <b>BB</b> on Worksheet 15: Inward investment vehicle (financial)s step 4.	Dividing the statement worldwide debt by the statement worldwide equity establishes the worldwide gearing ratio.
<b>Step 4.4:</b> Add 1 (one) to the amount at <b>BB</b> (step 4.3). Insert the result at <b>CC</b> on Worksheet 15: Inward investment vehicle (financial)'s step 4.	Step 4.4 and step 4.5 convert the ratio to a fraction, which is later applied to the entity's net Australian assets.
<b>Step 4.5:</b> Divide the amount at <b>BB</b> by the amount at <b>CC</b> . Insert the result at <b>DD</b> on Worksheet 15: Inward investment vehicle (financial)'s step 4.	N/A
<b>Step 4.6:</b> Multiply the amount at <b>DD</b> by <b>H</b> . Insert the result at <b>EE</b> on Worksheet 15: Inward investment vehicle (financial)'s step 4.	This applies the ratio, expressed as a fraction, to net Australian assets <b>H</b> represents the net Australian assets funded by debt and equity, as calculated at <b>H</b> in Worksheet 10: Inward investment vehicle (financial)'s step 1.

<b>Step 4.7:</b> Add the average value of the entity's zero capital amount ( <b>ZC</b> ) from worksheet 11 to the amount at <b>EE</b> . Insert the amount at <b>FF</b> on <i>Worksheet 15: Inward investment vehicle (financial)'s step 4.</i>	N/A
<ul> <li>Step 4.8: If the entity does not have any associate entities, insert 0 (zero) at GG on Worksheet 15: Inward investment vehicle (financial)'s step 4.</li> <li>Otherwise, calculate the average value of the entity's associate entity excess amount (Refer to the method statement in section 820-920 of the ITAA 1997) and insert the amount at GG on Worksheet 15: Inward investment vehicle (financial)'s step 4.</li> </ul>	This increases the worldwide gearing debt amount by the average associate entity excess amount.
<b>Step 4.9:</b> Calculate the entity's worldwide gearing debt amount by adding the amounts at <b>FF</b> and <b>GG</b> .	The worldwide gearing debt amount represents the fraction of net Australian assets, increased by any relevant associate entity excess amount.

## Worksheet 15: inward investment vehicle (financial)'s step 4: Calculate the worldwide gearing debt amount – general entities

Steps	\$
Step 4.1: Statement worldwide debt	(Z)
Step 4.2: Statement worldwide equity	(AA)

Step 4.3: Divide Z by AA	(BB)
Step 4.4: BB + 1	(CC)
Step 4.5: Divide BB by CC	(DD)
<b>Step 4.6:</b> Multiply <b>DD</b> by amount at <b>H</b> on Worksheet 11: Inward investment vehicle (financial)'s step 2	(EE) 
<b>Step 4.7:</b> Add <b>EE</b> to the amount at <b>ZC</b> on Worksheet 11: Inward investment vehicle (financial)'s step 2	(FF)
<b>Step 4.8:</b> Average associate entity excess amount	(GG)
<b>Step 4.9:</b> Worldwide gearing debt amount ( <b>FF</b> + <b>GG</b> )	=

### Calculating GG: The average associate entity excess amount for the worldwide gearing debt amount

Refer to section 820-920 of the ITAA 1997 for the method statement on how to calculate this amount.

If the entity has no relevant associate entities, do not complete this step and show zero at **GG** on *Worksheet 15: Inward investment vehicle (financial)s step 4.* 

QC 48279

# Step 5: Calculate the debt deductions disallowed

How to calculate the debt deductions disallowed for an inward investment vehicle (financial).

Last updated 24 July 2024

For an entity that has not chosen to use the third party debt test, an entity's maximum allowable debt is the greater of the:

- safe harbour debt amount from steps 2 and 3
- worldwide gearing debt amount from step 4.

You do not necessarily have to calculate all amounts. If you do not want to calculate the worldwide gearing debt amount or choose not to apply the third party debt test, you can use the safe harbour debt amount as your maximum allowable debt.

If the entity's adjusted average debt is more than its maximum allowable debt, a proportion of its debt deductions cannot be deducted. *Table 23: Non-ADI financial inward investment vehicle's step 5* and *Worksheet 16: Inward investment vehicle (financial)'s step 5* work out the proportion disallowed.

For more information, see section 820-220 of the ITAA 1997.

Steps	Comments
<b>Step 5.1:</b> Calculate the amount by which the entity's adjusted average debt exceeds its maximum allowable debt – that is, the excess debt. Insert this amount at <b>EE</b> on <i>Worksheet 16: Inward</i>	The proportion of debt deductions disallowed depends on the amount by which the entity's adjusted average debt from step 1 exceeds its maximum allowable debt.
investment vehicle (financial)'s step 5.	
<b>Step 5.2:</b> Calculate the entity's average debt.	The average debt is the average of the following for the income year:
Insert this amount at <b>FF</b> on Worksheet 16: Inward investment vehicle (financial)'s step 5.	<ul> <li>the debt capital that gives rise to debt deductions in that year or any other</li> </ul>

#### Table 23: Inward investment vehicle (financial)'s step 5

	<ul> <li>income year. This is the amount calculated at A in Worksheet 10: Inward investment vehicle (financial)'s step 1 (see step 1.1)</li> <li>the entity's cost-free debt capital that is included in its adjusted average debt. This is the amount calculated at D in Worksheet 10: Inward investment vehicle (financial)'s step 1 (see step 1.4).</li> </ul>
<b>Step 5.3:</b> Divide the amount at <b>EE</b> by the amount at <b>FF</b> . Insert the result at <b>GG</b> on Worksheet 16: Non-ADI financial inward investment vehicle's step 5.	This step works out what proportion to apply to the entity's debt deductions to calculate the amount disallowed.
<b>Step 5.4:</b> Calculate the amount of the debt deductions for the income year. Insert this amount at <b>HH</b> on <i>Worksheet 16: Inward investment vehicle (financial)'s step 5.</i>	The calculation is applied to all the entity's debt deductions for the year.
<b>Step 5.5:</b> Multiply the amounts at <b>GG</b> by the amount at <b>HH</b> . This is the total debt deductions disallowed.	This calculates the amount of debt deduction disallowed. Debt deductions that would be allowed, but for thin capitalisation are each reduced proportionately.

### Worksheet 16: Inward investment vehicle (financial)'s step 5

Steps	\$
<b>Step 5.1:</b> Excess debt, that is, adjusted average debt less maximum allowable debt	(EE)

Step 5.2: Average debt	(FF)
Step 5.3: EE ÷ FF	(GG)
Step 5.4: Debt deductions for the income year	(HH)
<b>Step 5.5:</b> Total debt deductions disallowed ( <b>GG</b> × <b>HH</b> )	=

This is the amount of debt deductions an inward investment vehicle (financial) is not allowed to deduct under the thin capitalisation rules.

For more information, see Worked example of calculations for an inward investment vehicle financial (non-ADI).

QC 48280

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