



Private groups the tax rules you could be missing

Do you claim debt deductions, like interest? The thin capitalisation and debt deduction creation rules may apply to you.

Last updated 14 November 2025

When preparing your tax return, make sure you check if the thin capitalisation and debt deduction creation rules (DDCR) apply.

These rules now affect more private groups and their associates, following significant changes to the thin capitalisation rules from July 2023 and the introduction of DDCR from July 2024.

The thin capitalisation rules may limit your debt deductions, based on your adjusted tax earnings or the amount of eligible third-party debt you have. The DDCR may disallow debt deductions relating to certain related-party arrangements, such as wholly domestic funding connected with acquisitions, transactions and distributions.

Are you relying on an exemption? Check your eligibility again. Some private groups are misapplying exemptions and incorrectly believe the rules don't apply to them. A common pitfall is not taking associates into account. Don't make this mistake.

Non-compliance attracts our attention and can lead to denial of debt deductions, amended tax returns with tax shortfalls, and penalties and interest. Avoid costly mistakes by:

- carefully checking if the thin capitalisation rules and DDCR affect you and your associates each year
- reviewing previously-lodged tax returns and schedules to ensure you've complied – do this now as waiting for us to identify an error

may result in a bigger tax bill.

Five tips to get it right

Follow these tips when preparing your tax return:


1. Review all your funding arrangements and ask your adviser how the thin capitalisation rules affect you as well as what extra information you need to provide.
2. If the thin capitalisation rules and DDCR apply to you, complete the **international dealings schedule** with your tax return.
3. When determining if you're under the \$2 million threshold exemption, include the debt deductions of all **associate entities**.
4. If you've used a related-party arrangement, such as a Division 7A loan, to fund an asset acquisition from, or a payment or distribution to, an **associate pair**, read **Debt deduction creation rules and Division 7A**. Remember, the DDCR can deny debt deductions arising from historical arrangements and transactions too.
5. Keep accurate and complete records that explain and support your tax positions.

Keep up to date

We have tailored communication channels for medium, large and multinational businesses, to keep you up to date with updates and changes you need to know.

Read more articles in our online **Business bulletins newsroom**.

Subscribe to our free:

- Fortnightly [Business bulletins email newsletter](#) 
- **email notifications** about new and updated information on our website – you can choose to receive updates relevant to your situation. Choose the 'Business and organisations' category to ensure your subscription includes notifications for more Business bulletins newsroom articles like this one.

QC 105851

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

Copyright notice

© Australian Taxation Office for the Commonwealth of Australia

You are free to copy, adapt, modify, transmit and distribute this material as you wish (but not in any way that suggests the ATO or the Commonwealth endorses you or any of your services or products).