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Outward investing financial entity (non-ADI)

How an outward investing financial entity (non-ADI) calculates if they have met the thin capitalisation rules.

Step 1: Calculate the adjusted average debt

How to calculate the adjusted average debt if you're an outward investing financial entity (non-ADI).

Steps 2 and 3: Calculate the safe harbour debt amount

How to calculate the safe harbour debt amount if you're an outward investing financial entity (non-ADI).

Step 4: Calculate the worldwide gearing debt amount

How to calculate the worldwide gearing debt amount if you're an outward investing financial entity (non-ADI).

Step 5: Calculate the debt deductions disallowed

How to calculate the debt deductions disallowed if you're an

Worked example of calculations for an outward investing financial entity (non-ADI)

The steps an outward investing financial entity (non-ADI) takes to determine if it will have debt deductions disallowed.

QC 48250

Step 1: Calculate the adjusted average debt

How to calculate the adjusted average debt if you're an outward investing financial entity (non-ADI).

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On this page

Before you start

The calculation used by outward investing financial entities (non-ADI) will depend on the method chosen for their thin capitalisation calculation.

An outward investing financial entity (non-ADI) 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** (TPDT), consider how this test works for you by reviewing the **third party debt conditions**.

If not using the TPDT, follow these steps to calculate the adjusted average debt and maximum allowable debt.

An outward investing financial entity (non-ADI) that elects to use the thin capitalisation rules that apply to ADI entities will need to refer to **outward investing entity (ADI)**. For more information, see **Electing to use the ADI rules**.

Step 1

Broadly, the adjusted average debt of an outward investing financial entity (non-ADI) 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 1.5. Find out more at **Cost-free debt capital**.

The adjusted average debt also includes liabilities arising out of arrangements for borrowing securities – see step 1.4.

Worksheet 2: Outward investing financial entity (non-ADI)'s step 1 explains how an outward investing financial entity (non-ADI) calculates its adjusted average debt.

For more information, see **subsection 820-85(3)** of the ITAA 1997.

Note: Ignore any amounts attributable to any of the entity's overseas permanent establishments.

Table 9: Outward investing financial entity (non-ADI)'s step 1

Steps	Comments
Step 1.1: 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 **A** on *Worksheet 2: outward*	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 income year. This includes debt interest that does not initially give rise to debt deductions but will do so in the future.

investing financial entity (non-ADI)'s step 1.	
Step 1.2: Calculate the average value, for that year, of all the entity's associate entity debt. Insert this amount at **B** on *Worksheet 2: Outward investing financial entity (non-ADI)'s step 1.*	Average debt capital is then reduced by the associate entity debt.
Step 1.3: Calculate the average value, for that year, of all the entity's controlled foreign entity debt. Insert this amount at **C** on *Worksheet 2: Outward investing financial entity (non-ADI)'s step 1.*	Average debt capital is further reduced by any amounts lent to controlled foreign entities of which the entity is an Australian controller.
Step 1.4: Calculate the average value, for that year, of the entity's borrowed securities amount. Insert this amount at **D** on *Worksheet 2: Outward investing financial entity (non-ADI)'s step 1.*	The amounts included in an entity's borrowed securities amount are explained in **Borrowed securities amount**. Broadly, they include the entity's liabilities incurred under a repurchase agreement, sell-buyback arrangement or securities loan arrangement.
Step 1.5: Calculate the average value, for that year, of any of the entity's cost-free debt capital. Insert this amount at **E** on *Worksheet 2: Outward investing financial entity (non-ADI)'s step 1.*	Cost-free debt capital is included in adjusted average debt for integrity reasons.
Step 1.6: Calculate the adjusted average debt. Adjusted average debt is the result of **A** − **B** − **C** + **D** + **E**.	Adjusted average debt represents total debt (**A**) less associate entity debt (**B**) and controlled foreign entity debt (**C**), increased by certain securities loan arrangement

	amounts (**D**) and cost-free debt capital (**E**).

Worksheet 2: Outward investing financial entity (non-ADI)'s step 1

Steps	$
Step 1.1: Average debt capital	(**A**) _____
Step 1.2: Average associate entity debt	(**B**) _____
Step 1.3: Average controlled foreign entity debt	(**C**) _____
Step 1.4: Average borrowed securities amount	(**D**) _____
Step 1.5: Average cost-free debt capital	(**E**) _____
Step 1.6: Adjusted average debt = (**A** – **B** – **C** + **D** + **E**)	_____

The entity's adjusted average debt does not exceed its maximum allowable debt if the adjusted average debt is nil or a negative amount. If so, you do not have to complete any more calculations.

If the entity's adjusted average debt is a positive amount, you need to calculate the entity's maximum allowable debt amount, which is the greatest of the safe harbour debt amount – **steps 2 and 3**, or the worldwide gearing debt amount – see **step 4**.

For more information, see **Worked example of calculations for an outward investing financial entity (non-ADI)**.

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Steps 2 and 3: Calculate the safe harbour debt amount

How to calculate the safe harbour debt amount if you're an outward investing financial entity (non-ADI).

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On this page

How to apply steps 2 and 3

The safe harbour debt amount for an outward investing financial entity (non-ADI) is the lesser of the following 2 amounts:

- the total debt amount – see step 2
- the adjusted on-lent amount – see 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 amounts**. These amounts can be wholly funded by debt capital.

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

- *Table 10: Outward investing financial entity (non-ADI)'s step 2*
- *Table 12: Outward investing financial entity (non-ADI)'s step 3*
- *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*
- *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3*.

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

- *Table 11: Outward investing financial entity (non-ADI)'s step 2A* and *Worksheet 10: Outward investing financial entity (non-ADI)'s step 2A* – total debt amount
- *Table 13: Outward investing financial entity (non-ADI)'s step 3A* and *Worksheet 12: Outward investing financial entity (non-ADI)'s step 3A* – adjusted on-lent amount.

For more information, see **section 820-100** of the ITAA 1997.

Note: Ignore any amounts attributable to any of the entity's overseas permanent establishments.

Table 10: Outward investing financial entity (non-ADI)'s step 2

Steps	Comments
Step 2.1: Calculate the average value, for the income year, of all the entity's assets. Insert this amount at **F** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*.	The first step is to work out the average value of the entity's assets.
Step 2.2: Calculate the average value, for that year, of the entity's excluded equity interests. Insert this amount at **XX** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*.	Certain short-term equity interests reduce the safe harbour debt amount for integrity reasons. See **excluded equity interests**.

Step 2.3: Transfer the amount from **B** on *Worksheet 8: Outward investing financial entity (non-ADI)'s step 1* to **B** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*.	This is the average associate entity debt and is the same amount calculated at **B** on *Worksheet 2: Outward investing financial entity (non-ADI)'s step 1* (step 1.2) and can be transferred directly from there. Associate entity debt is a loan asset of the lender representing, broadly, the debt interests issued to the lender by the associate entity.
Step 2.4: Calculate the average value, for that year, of all the entity's associate entity equity. Insert this amount at **G** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*.	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.
Step 2.5: Transfer the amount from **C** on *Worksheet 2: Outward investing financial entity (non-ADI)'s step 1* to **C** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*.	This is the average value of debt lent to controlled foreign entities for which the outward investor is an Australian controller. It is the same amount calculated at **C** on *Worksheet 2: Outward investing financial entity (non-ADI)'s step 1* (step 1.3) and can be transferred directly from there. Controlled foreign entity debt is an asset of the lender, representing the debt interests issued to the lender by the controlled foreign entity.
Step 2.6: Calculate the average value, for that year, of all the entity's controlled foreign entity equity. Insert this amount at **H** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*.	This is the average value of the equity invested in controlled foreign entities for which the outward investor is an Australian controller. Controlled foreign entity equity is an asset of the investing entity.

Step 2.7: Calculate the average value, for that year, of all the entity's non-debt liabilities. Insert this amount at **J** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*.	N/A
Step 2.8: Calculate the average value of the entity's zero-capital amount. Insert this amount at **ZC** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*.	N/A
Step 2.9: Calculate the net Australian assets funded by debt and equity. This is the result of **F** – **XX** – **B** – **G** – **C** – **H** – **J** – **ZC**. Insert the result at **K** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*.	This step reduces total assets (**F**) by the amounts worked out in steps 2.2 to 2.8. The amount at **K** represents the net Australian assets that are funded by debt and equity.
Step 2.10: Multiply the amount at **K** by (15 ÷ 16). Insert the result at **L** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*.	Multiplying the amount at **K** (net assets) by (15 ÷ 16) reflects the debt to equity ratio of 15:1.
Step 2.11: Transfer the average value of the entity's zero-capital amount from step 2.7. Insert this amount at **ZC** on *Worksheet 3: Non-ADI financial outward investor's step 2*.	The zero-capital amount was taken out at step 2.8 and is now added back on so that the total debt amount is increased by the average value of the zero-capital amount.
Step 2.12: If the entity does not have any associate entities that are outward	The average associate entity excess amount is, broadly, the excess borrowing capacity of

investing financial entities (non-ADI) or, inward investing financial entities (non-ADI), insert 0 (zero) at **M** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*. Otherwise, calculate the entity's average associate entity excess amount – see *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*. Transfer the amount at **M** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A* to **M** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*.	any associate entities that are outward investing financial entities (non-ADI) or inward investing financial entities (non-ADI). It also recognises any premium paid for the investment in an associate entity. This is worked out in *Table 11: Outward investing financial entity (non-ADI)'s step 2A* and *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A* at **M.** If the entity does not have any associate entities that are outward investing financial entities (non-ADI) non-ADI outward investors or inward investing financial entities (non-ADI), the average associate entity excess amount is zero.
Step 2.13: Calculate the entity's total debt amount by adding the amounts at **L**, **ZC** and **M.**	N/A

Worksheet 3: Outward investing financial entity (non-ADI)'s step 2

Steps	$
Step 2.1: Average assets	(**F**) _____
Step 2.2: Average excluded equity interests	(**XX**) _____
Step 2.3: Average associate entity debt from **B** on *Worksheet 2: Outward investing financial entity (non-ADI)'s step 1*	(**B**) _____
Step 2.4: Average associate entity equity	(**G**) _____

Step 2.5: Average controlled foreign entity debt from **C** on *Worksheet 2: Outward investing financial entity (non-ADI)'s step 1*	(**C**) _____
Step 2.6: Average controlled foreign entity equity	(**H**) _____
Step 2.7: Average non-debt liabilities	(**J**) _____
Step 2.8: Average zero-capital amount	(**ZC**) _____
Step 2.9: F – XX – B – G – C – H – J – ZC	(**K**) _____
Step 2.10: K × (15 ÷ 16)	(**L**) _____
Step 2.11: Average zero-capital amount from step 2.8	(**ZC**) _____
Step 2.12: Average associate entity excess from **M** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*	(**M**) _____
Step 2.13: Total debt amount = **L** + **ZC** + **M**	_____

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

For more information, see **Worked example of calculations for an outward investing financial entity (non-ADI)**.

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

Table 11: Outward investing financial entity (non-ADI)'s step 2A and *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A* set out how to calculate the amount at **M** in *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2* – the average associate

entity excess amount. If the entity does not have any associate entities that are outward investing financial entities (non-ADI) or inward investor (financial) do not complete this step and show zero at **M** on *Worksheet 3: Outward investing financial entity (non-ADI)'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.

Associate entity excess amount

The associate entity excess amount is the total of the premium excess and the attributable safe harbour excess amounts. 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 measurement days method, it must calculate its associate entity excess amount on the opening day and closing day in the 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.

Things to remember:

- Ignore any amounts attributable to any of the overseas permanent establishments of the entity or its associate entities.
- An Australian entity will always be an outward investor if it is an associate entity of an outward investor.

Step 2A 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.

Table 11: Outward investing financial entity (non-ADI)'s step 2A

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, excluding the value of any debt interests issued to the investing entity by the associate entity. Insert this amount at **N** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*.	This is the value, on a measurement day, of the equity the entity has invested in its associate entity. This excludes any debt interest that may be included in associate entity equity.
Step 2A.2: Calculate, on the measurement day, the value of the associate entity's equity capital attributable to the equity interests the investing entity holds in the associate entity, excluding the value of equity interests held by the investing entity that are controlled foreign entity equity for the investing entity. Insert this amount at **P** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*.	This is the value, on a measurement day, of the associate entity's equity capital attributable to the equity interests the investing entity holds in the associate entity. This excludes the value that represents controlled foreign entity equity for the investing entity. This is measured by the associate entity in accordance with the accounting standards.
Step 2A.3: Calculate the premium excess amount by deducting the amount at **P** from the amount at **N** and multiplying the result by (15 ÷ 16). Insert the result at **Q** on *Worksheet 4: Outward investing*	N/A

financial entity (non-ADI)'s step 2A.	
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 **R** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*.	The safe harbour debt amount must be calculated for the associate entity on a measurement day. If the associate entity is an: • outward investor, complete step 2 in Outward investing financial entity (non-ADI) for the associate entity • inward investor, complete **step 2** in Inward investor (financial) for the associate entity.
Step 2A.5: 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 **S** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*.	You must also work out the associate entity's adjusted average debt on a measurement day.
Step 2A.6: Deduct the amount at **S** from the amount at **R**. Insert the result at **T** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*.	Taking the adjusted average debt (**S**) away from the safe harbour debt amount (**R**) 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.
Step 2A.7: Calculate, on that measurement day, the sum of all of the following:	This works out the value of the associate entity's equity capital (including

• The value of the associate entity's equity capital attributable to the investing entity. • The value of the debt interests issued to the investing entity by the associate entity that – are on issue – no part of which forms part of the associate entity's cost-free debt capital – do not give rise to costs covered by **paragraph 820-40(1)(a)**. • The value of the debt interests issued to the investing entity by the associate entity that – are on issue – give rise to costs covered by **paragraph 820-40(1)(a)** but those costs are not deductible from the associate entity's assessable income in any income year. Insert the result at **U** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*.	certain debt interests) attributable to the investing entity on a measurement day.
Step 2A.8: Calculate, on the measurement day, the sum of all the following: • The value of all the associate entity's equity capital. • The value of all the debt interests issued by the associate entity that – are on issue – no part of which forms part of the associate entity's cost-free debt capital	This works out the value of the associate entity's total equity capital (including certain debt interests) on a measurement day.

– do not give rise to costs covered by **paragraph 820-40(1)(a)**. • The value of all the debt interests issued by the associate entity that – are on issue – give rise to costs covered by **paragraph 820-40(1)(a)** but those costs are not deductible from the associate entity's assessable income in any income year. Insert the result at **V** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*.	
Step 2A.9: Divide the amount at **U** by the amount at **V**. Insert the result at **W** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*.	This works out the proportion of the associate entity's equity capital attributable to the investing entity on a measurement day.
Step 2A.10: Calculate the entity's attributable safe harbour excess amount by multiplying the amount at **T** (the associate entity's excess capacity) by the amount at **W** (the proportion of equity capital attributable to the investing entity). Insert the result at **X** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*.	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.
Step 2A.11: Add the amounts at **Q** (premium excess amount) and **X** (attributable safe harbour excess amount). Insert the result at **Y** on *Worksheet 4: Outward investing*	This is the associate entity excess amount for a single associate entity on a measurement day of the investing entity.

financial entity (non-ADI)'s step 2A.	
Step 2A.12: If the entity has only one associate entity, transfer any positive amount at **Y** to **Z** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*. Otherwise, repeat steps 2A.1 to 2A.11 for each associate entity. Then add all positive results at **Y** and insert at **Z** on *Worksheet 4: Outward investing financial entity (non-ADI)'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 **Z** will be the same as the amount at **Y**, provided **Y** is positive. If **Y** is negative, it is disregarded.
Step 2A.13: Calculate **Z** (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.
Step 2A.14: Calculate the entity's average associate entity excess amount by adding the results at **Z** for each measurement day and dividing by the number of measurement days. Insert the result at **M** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*.	The results are added together and divided by the number of measurement days to get the average associate entity excess amount.

Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A

Steps	$

Step 2A.1: Investing entity's associate entity equity on a measurement day	(**N**) _____
Step 2A.2: Associate entity equity capital attributable to the investing entity's equity interests on a measurement day	(**P**) _____ If **P** is negative, is it taken to be nil
Step 2A.3: Premium excess amount (**N** – **P**) × (15 ÷ 16)	(**Q**) _____ **Q** may be a negative amount
Step 2A.4: Associate entity's safe harbour debt amount on a measurement day	(**R**) _____
Step 2A.5: Associate entity's adjusted average debt on a measurement day	(**S**) _____
Step 2A.6: R – **S**	(**T**) _____ If **T** is negative, it is taken to be nil
Step 2A.7: Associate entity's equity capital attributable to investing entity on a measurement day	(**U**) _____
Step 2A.8: Associate entity's total equity capital on a measurement day	(**V**) _____
Step 2A.9: U ÷ **V**	(**W**) _____
Step 2A.10: Attributable safe harbour excess amount (**T** × **W**)	(**X**) _____
Step 2A.11: Associate entity excess amount on a measurement day for one associate entity (**Q** + **X**)	(**Y**) _____
Step 2A.12: Associate entity excess amount on a	(**Z**) _____

measurement day for all associate entities (sum of the positive results at **Y**) Now calculate the associate entity excess amount for all associate entities on the investing entity's other measurement days (see step 2A.13)	
Step 2A.14: The average value of the associate entity excess amount. This is the sum of results at **Z** divided by the number of measurement days.	= (**M**) _____ Transfer this amount to **M** on *Worksheet 9: Outward investing financial entity (non-ADI)'s step 2*

For more information, see **Worked example of calculations for an outward investing financial entity (non-ADI)**.

Explanation: Calculate the adjusted on-lent amount

Table 12: Outward investing financial entity (non-ADI)'s step 3

Steps	Comments
Step 3.1: Transfer the amount from **F** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2* to **F** on *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3*.	This is the average value of assets. This amount has already been worked out at **F** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2* (step 2.1) and can be transferred directly from there.
Step 3.2: Transfer the amount from **XX** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2* to **XX** on *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3*.	This is the average value of the entity's excluded equity interests. This amount has already been worked out at **XX** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2* (step 2.2) and

	can be transferred directly from there.
Step 3.3: Transfer the amount from **G** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2* to **G** on *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3*.	This is the average value of associate entity equity. This amount has already been worked out at **G** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2* (step 2.4) and can be transferred directly from there.
Step 3.4: Transfer the amount from **C** on *Worksheet 2: Outward investing financial entity (non-ADI)'s step 1* to **C** on *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3*.	This is the average value of controlled foreign entity debt. This amount has already been worked out at **C** on *Worksheet 2: Outward investing financial entity (non-ADI)'s step 1* (step 1.3) and can be transferred directly from there. This is also the same amount at **C** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*.
Step 3.5: Transfer the amount from **H** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2* to **H** on *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3*.	This is the average value of controlled foreign entity equity. This amount has already been worked out at **H** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2* (step 2.6) and can be transferred directly from there.
Step 3.6: Transfer the amount from **J** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2* to **J** on *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3*.	This is the average value of non-debt liabilities. This amount has already been worked out at **J** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2* (step 2.7) and can be transferred directly from there.
Step 3.7: Calculate the average value of the entity's	This reduces Australian assets by the value of the entity's on-lending business.

on-lent amount, excluding controlled foreign entity debt. Insert the amount at **OA** on *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3*.	
Step 3.8: Calculate net Australian non-lending assets funded by debt and equity. This is the result of **F** – **XX** – **G** – **C** – **H** – **J** – **OA.** Insert the result at **AA** on *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3*.	The amount at **AA** represents the net Australian non-lending assets funded by debt and equity.
Step 3.9: Multiply the amount at **AA** by (3 ÷ 5). Insert the result at **BB** on *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3*.	Multiplying the amount at **AA** by (3 ÷ 5) reflects the debt to equity ratio of 1.5:1 applied to non-lending business.
Step 3.10: Transfer the average value of the entity's on-lent amount from step 3.7. Insert the amount at **OA** on *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3*.	This is the same amount calculated in step 3.7. This adds back the on-lent amount.
Step 3.11: Transfer the amount from **B** on *Worksheet 2: Outward investing financial entity (non-ADI)'s step 1* to **B** on *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3*.	This is the average value of associate entity debt. This amount has already been worked out at **B** on *Worksheet 2: Outward investing financial entity (non-ADI)'s step 1* (step 1.2) and can be transferred directly from there. This is also the same amount at **B** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*.

Step 3.12: If the entity does not have any associate entities that are outward investing financial entities (non-ADI) or inward investor (financial), insert 0 (zero) at **CC** on *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3*. Otherwise, calculate the entity's average associate entity excess amount – see *Worksheet 6: Outward investing financial entity (non-ADI)'s step 3A*. Transfer the amount at **CC** on *Worksheet 6: Outward investing financial entity (non-ADI)'s step 3A* to **CC** on *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3*.	The associate entity excess amount is, broadly, the excess borrowing capacity of any associate entities that are outward investing financial entities (non-ADI) inward investor (financial). It also recognises any premium paid for the investment in an associate entity. This amount is worked out in *Table 13: Outward investing financial entity (non-ADI)'s step 3A* and *Worksheet 6: Outward investing financial entity (non-ADI)'s step 3A* at **CC.** If the entity does not have any associate entities, the average associate entity excess amount is zero.
Step 3.13: Calculate the entity's adjusted on-lent amount This is the result of **BB** + **OA** – **B** + **CC.**	N/A

Worksheet 5: Outward investing financial entity (non-ADI)'s step 3

Steps	$
Step 3.1: Average assets from **F** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*	(**F**) _____
Step 3.2: Average excluded equity interests from **XX** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*	(**XX**) _____
Step 3.3: Average associate entity equity from **G** on *Worksheet 3: Outward*	(**G**) _____

investing financial entity (non-ADI)'s step 2	
Step 3.4: Average controlled foreign entity debt from **C** on *Worksheet 2: Outward investing financial entity (non-ADI)'s step 1*	(**C**) _____
Step 3.5: Average controlled foreign entity equity from **H** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*	(**H**) _____
Step 3.6: Average non-debt liabilities from **J** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*	(**J**) _____
Step 3.7: Average on-lent amount	(**OA**) _____
Step 3.8: F – XX – G – C – H – J – OA	(**AA**) _____ If **AA** is negative, it is taken to be zero
Step 3.9: AA × (3 ÷ 5)	(**BB**) _____
Step 3.10: Average on-lent amount from step 3.7	(**OA**) _____
Step 3.11: Average associate entity debt from **B** on *Worksheet 2: Outward investing financial entity (non-ADI)'s step 1*	(**B**) _____
Step 3.12: Average associate entity excess from **CC** on *Worksheet 6: Outward investing financial entity (non-ADI)'s step 3A*	(**CC**) _____
Step 3.13: Adjusted on-lent amount = **BB + OA – B + CC**	_____

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 further calculations.

However, if the adjusted average debt is more than the safe harbour debt amount, you can choose to calculate the entity's worldwide gearing debt amount under **step 4** (unless the entity is foreign controlled). 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 outward investing financial entity (non-ADI).

Calculating CC: The average associate entity excess amount for the adjusted on-lent amount

Table 13: Outward investing financial entity (non-ADI)'s step 3A and *Worksheet 6: Outward investing financial entity (non-ADI)'s step 3A* set out how to calculate the amount at **CC** of *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3* – the associate entity excess amount.

If the entity does not have any associate entities that are non-ADI outward investors or non-ADI inward investors, do not complete this step and show nil at **CC** on *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3*.

Step 3.12 is the equivalent of step 2.12 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 safe harbour excess amount will be the same and can be transferred directly from *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*.

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

Things to remember:

- Ignore any amounts attributable to any of the entity's overseas permanent establishments.

- An Australian entity will always be an outward investor if it is an associate entity of an outward investor.

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. The associate entity must be a non-ADI entity subject to the thin capitalisation rules.

Table 13: Outward investing financial entity (non-ADI)'s step 3A

Steps	Comments
Step 3A.1: Transfer the amount at **N** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A* to **N** on *Worksheet 6: Outward investing financial entity (non-ADI)'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 **N** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A* (step 2A.1) and can be transferred directly from there.
Step 3A.2: Transfer the amount at **P** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A* to **P** on *Worksheet 6: Outward investing financial entity (non-ADI)'s step 3A*.	This is the value, on a particular measurement day, of the associate entity's equity capital attributable to the equity interests the investing entity holds in the associate entity, excluding the value that represents controlled foreign entity equity of the investing entity.

	This amount has already been worked out at **P** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A* (step 2A.2) and can be transferred directly from there.
Step 3A.3: Calculate the premium excess amount by deducting the amount at **P** from the amount at **N** and multiplying the result by (3 ÷ 5). Insert this result at **DD** on *Worksheet 6: Outward investing financial entity (non-ADI)'s step 3A*.	N/A
Step 3A.4: Transfer the amount at **X** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A* to **X** on *Worksheet 6: Outward investing financial entity (non-ADI)'s step 3A*.	This is the attributable safe harbour excess amount on a particular measurement day. This amount has already been worked out at **X** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A* (step 2A.10) and can be transferred directly from there.
Step 3A.5: Calculate the entity's associate entity excess amount by adding the amounts at **DD** (premium excess amount) and **X** (attributable safe harbour excess amount). Insert the result at **EE** on *Worksheet 6: Outward investing financial entity (non-ADI)'s step 3A*.	This is the associate entity excess amount for a single associate entity on a measurement day of the investing entity.
Step 3A.6: If the entity has only one associate entity, transfer any positive amount at **EE** to **FF** on *Worksheet 6: Outward investing financial entity (non-ADI)'s step 3A*.	The associate entity excess amount must be worked out for each associate entity on a measurement day.

Otherwise, repeat steps 3A.1 to 3A.5 for each associate entity. Then add all positive results at **EE** and insert at **FF** on *Worksheet 6: Outward investing financial entity (non-ADI)'s step 3A*.	All the positive associate entity excess amounts are added 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 **FF** will be the same as the amount at **EE**, provided **EE** is positive. If **EE** is negative, it is disregarded.
Step 3A.7: Calculate **FF** (the total associate entity excess amount – steps 3A.5 to 3A.6) on each other measurement day.	The associate entity excess amount is calculated on each of the investing entity's measurement days.
Step 3A.8: Calculate the entity's average associate entity excess amount by adding the results at **FF** for each measurement day and dividing by the number of measurement days. Insert the result at **CC** on *Worksheet 6: Outward investing financial entity (non-ADI)'s step 3A*.	The results are added together and divided by the number of measurement days to get the average associate entity excess amount.

Worksheet 6: Outward investing financial entity (non-ADI)'s step 3A

Steps	$
Step 3A.1: Investing entity's associate entity equity on a measurement day from **N** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*	(**N**) _____
Step 3A.2: Associate entity's equity capital attributable to the investing entity's equity interests on a measurement day	(**P**) _____ If **P** is negative, it is taken to be nil

from **P** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*	
Step 3A.3: Premium excess amount (**N** – **P**) × (3 ÷ 5)	(**DD**) _____ **DD** may be a negative amount
Step 3A.4: Attributable safe harbour excess amount from **X** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*	(**X**) _____
Step 3A.5: Associate entity excess amount on a measurement day for one associate entity; that is, **DD** + **X**	(**EE**) _____
Step 3A.6: Associate entity excess amount on a measurement day for all associate entities, being the sum of positive results at **EE** Now calculate the associate entity excess amount for all associate entities on the investing entity's other measurement days – see step 3A.7	(**FF**) _____
Step 3A.8: The average value of the associate entity excess amount; that is, the sum of results at **FF** divided by the number of measurement days	(**CC**) _____ Transfer this amount to **CC** on *Worksheet 5: Outward investing financial entity (non-ADI)'s step 3*

For more information, see **Worked example of calculations for a outward investing financial entity (non-ADI)**.

Step 4: Calculate the worldwide gearing debt amount

How to calculate the worldwide gearing debt amount if you're an outward investing financial entity (non-ADI).

Last updated 24 July 2024

On this page

How to apply step 4

The worldwide gearing test is available to outward investing financial entity (non-ADI)'s that are not also foreign controlled. This test allows Australian operations of an entity, in certain circumstances, to be geared up to the same level as the gearing of the Australian entity's worldwide group. The gearing of the entity's worldwide group is determined by reference to method statements contained in section 820-110 of the ITAA 1997. The worldwide group consists of the Australian entity and the Australian controlled foreign entities for which the Australian entity is an Australian controller.

Table 14: Outward investing financial entity (non-ADI)'s step 4 and *Worksheet 7: Outward investing financial entity (non-ADI)'s step 4* explain how to calculate the worldwide gearing debt amount.

If the entity has any associate entities, you also need to work through *Table 15: Outward investing financial entity (non-ADI)'s step 4A* and *Worksheet 8: Outward investing financial entity (non-ADI)'s step 4A*.

For more information, see **subsection 820-110(2)** of the ITAA 1997.

If the worldwide equity amount (calculated at step 4.2 below) is a nil amount, the worldwide gearing debt amount cannot be used by the entity as a measure of its maximum allowable debt for the income year. If this is the case, the entity must instead calculate its maximum allowable debt for the income year, use the safe harbour debt amount – see steps 2 and 3.

Notes:

- If an entity is an outward investing financial entity (non-ADI) and is also foreign controlled, the worldwide gearing debt amount is the result of applying the method statement in section 820-111 of the ITAA 1997.
- An entity that is the head company of an Australian tax consolidated group or multiple entry consolidated group will be classified as both outward investing and inward investing entity if it
  - is foreign controlled
  - holds investments in a foreign entity or has a foreign permanent establishment.

Explanation

Step 4 assumes you have completed *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2* – the total debt amount calculation. If you have not, you need to complete steps 2.1 to 2.9 in *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*, ignoring any amounts attributable to the entity's overseas permanent establishments.

Table 14: Outward investing financial entity (non-ADI)'s step 4

Steps	Comments
Step 4.1: Calculate the entity's worldwide debt for the income year. Insert this amount at **GG** on *Worksheet 7: Outward investing financial entity (non-ADI)'s step 4*.	Worldwide debt is the sum of the debt interests issued by the Australian entity and its Australian controlled foreign entities, other than debt interests issued to each other.

Step 4.2: Calculate the entity's worldwide equity for the income year. Insert this amount at **HH** on *Worksheet 7: Outward investing financial entity (non-ADI)'s step 4*.	Worldwide equity is the equity capital of the Australian entity and its Australian controlled foreign entities, other than equity interests held in each other.
Step 4.3: Divide the amount at **GG** by the amount at **HH**. This is the worldwide gearing ratio. Insert the result at **JJ** on *Worksheet 7: Outward investing financial entity (non-ADI)'s step 4*.	Dividing the worldwide debt by the worldwide equity establishes the worldwide gearing ratio.
Step 4.4: Insert the amount of **JJ** at **KK** on *Worksheet 7: Outward investing financial entity (non-ADI)'s step 4*.	N/A
Step 4.5: Add 1 (one) to the amount at **KK.** Insert the result at **LL** on *Worksheet 7: Outward investing financial entity (non-ADI)'s step 4*.	Steps 4.5 and 4.6 convert the ratio into a fraction, which is later applied to the entity's net Australian assets.
Step 4.6: Divide the amount at **KK** by the amount at **LL.** Insert the result at **MM** on *Worksheet 7: Outward investing financial entity (non-ADI)'s step 4*.	N/A
Step 4.7: Multiply the amount at **MM** by the result at **K** (from the total debt calculation on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*). Insert the result at **NN** on *Worksheet 7: Outward*	This applies the ratio, expressed as a fraction, to net Australian assets. This is calculated at **K** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2* – the total debt amount calculation – see step 2.9.

investing financial entity (non-ADI)'s step 4.	
Step 4.8: Transfer the amount at **ZC** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2* to **ZC** on *Worksheet 7: Outward investing financial entity (non-ADI)'s step 4*.	This is the zero-capital amount and was worked out at **ZC** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2* – step 2.8. This increases the worldwide gearing debt amount by the amount representing assets against which no capital is required to be held. It mirrors the concession in the total debt amount calculation.
Step 4.9: If the entity does not have any associate entities that are non-ADI financial outward or inward investors, insert 0 (zero) at **PP** on *Worksheet 7: Outward investing financial entity (non-ADI)'s step 4*. Otherwise, calculate the average value of the entity's associate entity excess amount – see *Worksheet 8: Outward investing financial entity (non-ADI)'s step 4A*. Transfer the amount at **PP** on *Worksheet 8: Outward investing financial entity (non-ADI)'s step 4A* to **PP** on *Worksheet 7: Outward investing financial entity (non-ADI)'s step 4*.	This increases the worldwide gearing debt amount by the associate entity excess amount. The average associate entity excess amount is worked out at **PP** on *Worksheet 7: Outward investing financial entity (non-ADI)'s step 4*. If the entity does not have any associate entities that are non-ADI outward investors or non-ADI inward investors, the associate entity excess amount is zero.
Step 4.10: Calculate the entity's worldwide gearing debt amount by adding the amounts at **NN**, **ZC** and **PP.**	The worldwide gearing debt amount represents the fraction of assets, increased by the zero-capital amount and the associate entity excess amount.

Worksheet 7: Outward investing financial entity (non-ADI)'s step 4

Steps	$
Step 4.1: Worldwide debt	(**GG**) _____
Step 4.2: Worldwide equity	(**HH**) _____
Step 4.3: GG ÷ HH	(**JJ**) _____
Step 4.4: Insert the amount of **JJ** at **KK**	(**KK**) _____
Step 4.5: KK + 1	(**LL**) _____
Step 4.6: KK ÷ LL	(**MM**) _____
Step 4.7: MM × the amount at **K** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*	(**NN**) _____
Step 4.8: Average zero-capital amount from **ZC** on *Worksheet 3: Outward investing financial entity (non-ADI)'s step 2*	(**ZC**) _____
Step 4.9: Average associate entity excess amount from **PP** on *Worksheet 8: Outward investing financial entity (non-ADI)'s step 4A*	(**PP**) _____
Step 4.10: Worldwide gearing debt amount = **NN** + **ZC** + **PP**	_____

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

If the entity's adjusted average debt is more than the worldwide gearing debt amount, you can choose to calculate an amount under the **third party debt test** for the entity. If you do not want to calculate a third party debt test amount you can use the worldwide gearing debt

amount as the maximum allowable debt amount and debt deductions will be disallowed on this basis – see step 5.

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

Table 15: Outward investing financial entity (non-ADI)'s step 4A and *Worksheet 8: Outward investing financial entity (non-ADI)'s step 4A* set out how to calculate the amount at **PP** of *Worksheet 7: Outward investing financial entity (non-ADI)'s step 4* – the average associate entity excess amount.

If the entity does not have any associate entities, do not complete this step and show zero at **PP** on *Worksheet 7: Outward investing financial entity (non-ADI)'s step 4*.

This is equivalent to step 2.12 in the total debt amount calculation. The only difference is that, when calculating the premium excess amount, the gearing ratio is applied rather than the 15:1 ratio. The attributable safe harbour excess amount is the same and can be transferred directly from *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*.

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

Note: An Australian entity will always be an outward investor if it is an associate entity of an outward investor.

Explanation: Calculate the average associate entity excess amount for the worldwide gearing debt amount

If the entity has more than one associate entity, repeat steps 4A.1 to 4A.6 for each associate entity on each of the investing entity's measurement days. Step 4A assumes you have completed *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*. If you have not, you need to complete steps 2A.1, 2A.2 and 2A.4 to 2A.10, ignoring any amounts attributable to overseas permanent establishments of the investing entity or associate entities.

Table 15: Outward investing financial entity (non-ADI)'s step 4A

Steps	Comments
Step 4A.1: Transfer the amount at **N** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A* to **N** on *Worksheet 8: Outward investing financial entity (non-ADI)'s step 4A*.	This is the value, on a particular measurement day, of the equity the entity has invested in the associate entity, excluding debt interests. This amount has already been worked out at **N** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A* (step 2A.1) and can be transferred directly from there.
Step 4A.2: Transfer the amount at **P** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A* to **P** on *Worksheet 8: Outward investing financial entity (non-ADI)'s step 4A*.	This is the value, on a particular measurement day, of the associate entity's equity capital attributable to the equity interests the investing entity holds in the associate entity, excluding the value that represents controlled foreign entity equity of the investing entity. This amount has already been worked out at **P** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A* (step 2A.2) and can be transferred directly from there.
Step 4A.3: Calculate the premium excess amount by deducting the amount at **P** from the amount at **N** and multiplying the result by the amount at **MM** on *Worksheet 7: Outward investing financial entity (non-ADI)'s step 4*.	n/a

Insert the result at **QQ** on *Worksheet 8: Outward investing financial entity (non-ADI)'s step 4A*.	
Step 4A.4: Transfer the amount at **X** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A* to **X** on *Worksheet 8: Outward investing financial entity (non-ADI)'s step 4A*.	This is the attributable safe harbour excess amount for an associate entity on a particular measurement day. This amount has already been worked out at **X** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A* (step 2A.10) and can be transferred directly from there.
Step 4A.5: Calculate the entity's associate entity excess amount by adding the amounts at **QQ** (premium excess amount) and **X** (attributable safe harbour excess amount). Insert the result at **RR** on *Worksheet 8: Outward investing financial entity (non-ADI)'s step 4A*.	This is the associate entity excess amount for a single associate entity on a particular measurement day of the investing entity.
Step 4A.6: If the entity has only one associate entity, transfer any positive amount at **RR** to **SS** on *Worksheet 8: Outward investing financial entity (non-ADI)'s step 4A*. Otherwise, repeat steps 4A.1 to 4A.5 for each associate entity. Add all positive results at **RR** and insert at **SS** on *Worksheet 8: Outward investing financial entity (non-ADI)'s step 4A*.	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 for any particular measurement day. If the entity has only one associate entity, the amount at **SS** will be the same as the amount at **RR**, provided **RR** is positive. If **RR** is negative, it is disregarded.

Step 4A.7: Calculate **SS** (the total associate entity excess amount – steps 4A.1 to 4A.6) on each other measurement day.	The associate entity excess amount is calculated for all associate entities on each of the investing entity's measurement days.
Step 4A.8: Calculate the entity's average associate entity excess amount by adding the results at **SS** for each measurement day and dividing by the number of measurement days. Insert the result at **PP** on *Worksheet 8: Outward investing financial entity (non-ADI)'s step 4A*.	The results are added together and divided by the number of measurement days to get the average associate entity excess amount.

Worksheet 8: Outward investing financial entity (non-ADI)'s step 4A

Steps	$
Step 4A.1: Investing entity's associate entity equity on a measurement day from **N** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*	(**N**) _____
Step 4A.2: Associate entity's equity capital attributable to the investing entity's equity interests on a measurement day from **P** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*	(**P**) _____ If **P** is negative, it is taken to be nil
Step 4A.3: Premium excess amount (**N** – **P**) × **MM**	(**QQ**) _____ **QQ** may be a negative amount
Step 4A.4: Attributable safe harbour excess amount from **X** on *Worksheet 4: Outward investing financial entity (non-ADI)'s step 2A*	(**X**) _____

Step 4A.5: Associate entity excess amount on a measurement day for one associate entity (**QQ** + **V**)	(**RR**) _____
Step 4A.6: Associate entity excess amount on a measurement day for all associate entities. That is, the sum of positive results at **RR** Now calculate the associate entity excess amount for all associate entities on the investing entity's other measurement days – see step 4A.7	(**SS**) _____
Step 4A.8: The average value of the associate entity excess amount (sum of results at **SS** divided by the number of measurement days)	= (**PP**) _____ Transfer this amount to **PP** on *Worksheet 8: Outward investing financial entity (non-ADI)'s step 4A*

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Step 5: Calculate the debt deductions disallowed

How to calculate the debt deductions disallowed if you're an outward investing financial entity (non-ADI).

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An outward investing financial entity (non-ADI) entity can use one of the following 3 methods to calculate the entity's compliance with the thin capitalisation regime :

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

- Where the entity has made a choice to apply the **third party debt test**, the amount of debt deductions allowed are determined under that test.

Note: You do not have to calculate all amounts. For example, you can use the safe harbour debt amount as the maximum allowable debt amount if you do not want to calculate a worldwide gearing debt amount and you have not made a choice to use the third party debt test.

If the entity's adjusted average debt is more than its maximum allowable debt as calculated under the safe harbour method or worldwide gearing method, a proportion of its debt deductions cannot be deducted. *Table 16: Outward investing financial entity (non-ADI)'s step 5* and *Worksheet 9: Outward investing financial entity (non-ADI)'s step 5* works out the proportion of debt deductions disallowed.

For more information, see **section 820-115** of the ITAA 1997.

Table 16: Outward investing financial entity (non-ADI)'s step 5

Steps	Comments
Step 5.1: Calculate the amount by which the entity's adjusted average debt exceeds its maximum allowable debt; that is, its excess debt. Insert the result at **TT** on *Worksheet 9: Outward investing financial entity (non-ADI)'s step 5*.	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.
Step 5.2: Calculate the entity's average debt. Insert this amount at **UU** on *Worksheet 9: Outward investing financial entity (non-ADI)'s step 5*.	The average debt is the average value, for the income year, of: • debt capital that gives rise to debt deductions in that or any other income year. This is the amount calculated at **A** in *Worksheet 2: Outward investing financial entity*

	(non-ADI)'s step 1 – see step 1.1 • the entity's cost–free debt capital that is included in its adjusted average debt. This is the amount calculated at **E** in *Worksheet 2: Outward investing financial entity (non-ADI)'s step 1* – see step 1.5.
Step 5.3: Divide the amount at **TT** by the amount at **UU.** Insert the result at **VV** on *Worksheet 9: Outward investing financial entity (non-ADI)'s step 5*.	This step works out what proportion to apply to the entity's debt deductions to calculate the amount disallowed.
Step 5.4: Calculate the amount of the debt deductions for the income year. Insert this amount at **WW** on *Worksheet 9: Outward investing financial entity (non-ADI)'s step 5*.	The calculation is applied to all the entity's debt deductions for the year.
Step 5.5: Multiply the amount at **VV** by the amount at **WW**. This is the total debt deductions disallowed.	This calculates the amount of debt deductions disallowed. The debt deductions that would be allowed, but for thin capitalisation, are each reduced proportionately.

Worksheet 9: Outward investing financial entity (non-ADI)'s step 5

Steps	$
Steps 5.1: Excess debt; that is, adjusted average debt minus maximum allowable debt	(**TT**) _____
Steps 5.2: Average debt	(**UU**) _____

Steps 5.3: TT ÷ UU	(**VV**) _____
Steps 5.4: Debt deductions for the year	(**WW**) _____
Steps 5.5: Total debt deductions disallowed (**VV** × **WW**)	= _____

This is the amount of debt deductions the outward investing financial entity (non-ADI) is not allowed to deduct under the thin capitalisation rules.

If the entity has made a choice to apply the **third party debt test**, the amount of debt deductions the outward investing financial entity (non-ADI) is not allowed to deduct under the thin capitalisation rules are determined under that test.

For more information, see **Worked example of calculations for an outward investing financial entity (non-ADI)**.

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Worked example of calculations for an outward investing financial entity (non-ADI)

The steps an outward investing financial entity (non-ADI) takes to determine if it will have debt deductions disallowed.

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On this page

Steps to take

How to calculate

There are 5 steps an outward investing financial entity (non-ADI) that has not made a choice to use the third party debt test takes to calculate if they have met the thin capitalisation rules:

- Step 1: Calculate the adjusted average debt
- Steps 2 and 3: Calculate the safe harbour debt amount
- Step 4: Calculate the worldwide gearing debt amount
- Step 5: Calculate the debt deductions disallowed

For more information, see **Thin capitalisation**.

Worked example

The following worked example for a fictional company 'Aust Fin' demonstrates each of the steps required to calculate if they have met the thin capitalisation rules.

For the purposes of this exercise, assume Aust Fin has not made a choice to use the third-party debt test.

Worked example: Aust Fin and Ozzie Co

Aust Fin is a financial entity. It has a wholly-owned foreign subsidiary (For Sub) and a wholly-owned Australian subsidiary (Ozzie Co) that is a general class investor. Aust Fin has borrowed $5 million from its Australian parent and $19 million from unrelated financial institutions and has $3 million of non-debt. It has lent $23 million to unrelated third parties, $3 million of which is a 0% risk-weighted loan. Aust Fin has invested $7 million equity in For Sub and $1 million in Ozzie Co. The $1 million equity investment in Ozzie Co represents what Aust Fin paid a third party for 100% of the equity. For Sub has borrowed $3 million from an unrelated financial institution and has $2 million in retained earnings.

Aust Parent Co, Aust Fin and Ozzie Co have not formed a consolidated group for tax purposes.

None of the Australian companies have any overseas permanent establishments. All loans are at commercial interest rates.

For the purposes of this example, Aust Fin is the only entity being tested under the thin capitalisation rules. The test year is the 2019–20 income year.

Diagram: Financial information for Aust Fin and Ozzie Co

 Picture of Aust Fin and third parties company relations.

Aust Fin's financial position for 2019–20

The following tables show Aust Fin's financial position for the 2019–20 income year. These are average values using the opening and closing balances method.

Aust Fin's assets and liabilities for year ending 30 June 2020

Assets	Assets amount
Loans	$20m
Low risk-weighted load	$3m
Equity in Ozzie Co (see note)	$1m
Equity in For Sub	$7m
Other assets	$4m
Total assets	**$35m**
Liabilities	**Liabilities amount**
Loans	$24m

Non-debt liabilities	$3m
Share capital	$8m
Total liabilities	**$35m**

Note: Assume the equity investment in Ozzie Co always remains valued at $1 million throughout the income year.

As Aust Fin has $2.7 million worth of debt deductions in the 2019–20 income year, it fails the 'debt deduction de-minimus' test. Assume it also fails the 'asset de-minimus' test and is not exempt under section 820-39 – (this section exempts certain special purpose vehicles).

Ozzie Co's assets and liabilities at 1 July 2020

Assets	**Assets amount**
Non-current	$900,000
Total assets	**$900,000**
Liabilities	Liabilities amount
Share capital	$850,000
Retained earnings	$50,000
Total liabilities	**$900,000**

Ozzie Co's assets and liabilities at 30 June 2020

Assets	**Assets amount**
Non-current	$950,000
Total assets	**$950,000**

Liabilities	Liabilities amount
Share capital	$850,000
Retained earnings	$100,000
Total liabilities	**$950,000**

Steps to take

An outward investing financial entity (non-ADI) must follow these steps to calculate if they have met the thin capitalisation rules:

Step 1: Calculate Aust Fin's adjusted average debt

Worksheet 1: Aust Fin's step 1

Steps	**Label**	**Label description**	**Amount**
Step 1.1: The average value of all the debt capital of Aust Fin that gives rise to debt deductions is $24m	(**A**)	Average debt capital	$24m
Step 1.2: Aust Fin has not lent any debt to its associate entities and does not have any associate entity debt	(**B**)	Average associate entity debt	$0
Step 1.3: Aust Fin does not have any controlled foreign entity debt	©	Average controlled foreign entity debt	$0
Step 1.4: Aust Fin does not have any borrowed securities amount	(**D**)	Borrowed securities amount	$0

Step 1.5: All Aust Fin's debt capital gives rise to debt deductions	(**E**)	Average cost-free debt capital	$0
Step 1.6 Aust Fin's adjusted average debt is $24m	=	Adjusted average debt (**A** – **B** – **C** + **D** + **E**)	$24m

Aust Fin's adjusted average debt is $24 million. This is now compared to Aust Fin's maximum allowable debt, which is the greatest of its:

- safe harbour debt amount, which is the lesser of the total debt amount and the adjusted on-lent amount
- worldwide gearing debt amount.

Step 2: Calculate Aust Fin's total debt amount

Worksheet 2: Aust Fin's step 2

Steps	Label	Label description	Amount
Step 2.1: The average value of Aust Fin's assets is $35m	(**F**)	Average assets	$35m
Step 2.2: None of the equity interests issued by Aust Fin are excluded equity interests	(**XX**)	Average excluded equity interests	$0
Step 2.3: Aust Fin has not lent any debt to its associate entities and does not have any associate entity debt	(**B**)	Average associate entity debt (from **B** in worksheet 1)	$0

Step 2.4: The average value of Aust Fin's associate entity equity is $1m. The equity invested in For Sub is not included in associate entity debt because it is not attributable to For Sub's Australian permanent establishments or other assets held by For Sub for the purpose of producing Australian assessable income	(**G**)	Average associate entity equity	$1m
Step 2.5: Aust Fin has not lent any amounts to For Sub and so does not have any controlled foreign entity debt	(**C**)	Average controlled foreign entity debt from **C** in worksheet 1	$0
Step 2.6: The average value of Aust Fin's controlled foreign entity equity is the $7m invested in For Sub	(**H**)	Average controlled foreign entity equity	$7m
Step 2.7: The average value of Aust Fin's non-debt liabilities is $3m	(**J**)	Average non-debt liabilities	$3m
Step 2.8: The only zero-capital	(**ZC**)	Average zero-capital amount	$3m

amount Aust Fin has is the low-risk weighted loan to the unrelated company so the average value of Aust Fin's zero-capital amount is $3m			
Step 2.9: Reduce Aust Fin's average assets by the amounts at **XX**, **B**, **G**, **C**, **H**, **J** and **ZC**	(**K**)	**F** – **XX** – **B** – **G** – **C** – **H** – **J** – **ZC**	$21m
Step 2.10: Multiply the result at **K** by 15 divided by 16	(**L**)	**K** × 15 ÷ 16	$19,687,500
Step 2.11: The average value of Aust Fin's zero-capital amount is $3 million, as established in step 2.7	(**ZC**)	Average zero-capital amount	$3m
Step 2.12: The average value of Aust Fin's associate entity excess amount is $625,312 – see worksheet 2A	(**M**)	Average associate entity excess amount (from **M** on worksheet 2A)	$625,312
Step 2.13: Aust Fin's total debt amount is calculated by adding the amounts at **L**, **ZC** and **M**	=	Total debt amount (**L** + **ZC** + **M**)	$23,312,812

Step 2A: Calculate Aust Fin's average associate entity excess amount for the total debt amount

Aust Fin's associate entity excess amount is calculated on each of its measurement days. Aust Fin uses the opening and closing balances method so its measurement days are 1 July 2019 (the first day of the period) and 30 June 2020 (the last day of the period).

Worksheet 2A: Aust Fin's step 2A

Steps	Label	Label description	1 July 2015 amount	30 20 am
Step 2A.1: The value of Aust Fin's associate entity equity on both measurement days is the $1m invested in Ozzie Co	(**N**)	Aust Fin's associate entity equity on a measurement day	$1m	
Step 2A.2: The value of Ozzie Co's equity capital attributable to Aust Fin's equity interests in Ozzie Co is $900,000 on 1 July and $950,000 on 30 June	(**P**)	Ozzie Co's equity capital attributable to Aust Fin's equity interests on a measurement day	$900,000	
Step 2A.3: Aust Fin's premium excess amount is calculated by taking **P** from **N** and	(**Q**)	(**N** – **P**) × 15 ÷ 16	$93,750	

multiplying the result by 15 divided by 16				
Step 2A.4: Ozzie Co's safe harbour debt amount on a measurement day is its assets multiplied by 3 divided by 5	(**R**)	Ozzie Co's safe harbour debt amount on a measurement day	$540,000	
Step 2A.5: Ozzie Co does not have any debt capital so its adjusted average debt on both measurement days is $0	(**S**)	Ozzie Co's adjusted average debt on a measurement day	$0	
Step 2A.6: Ozzie Co's excess borrowing capacity is calculated by reducing its safe harbour by its adjusted average debt	(**T**)	**R – S**	$540,000	
Step 2A.7: The value of Ozzie Co's equity capital attributable to Aust Fin is the same as **P**	(**U**)	Ozzie Co's equity capital attributable to Aust Fin on a measurement day	$900,000	

Step 2A.8: Ozzie Co's total equity capital is the same as **U** because Aust Fin owns Ozzie Co 100%	(**V**)	Value of Ozzie Co's total equity capital on a measurement day	$900,000	$
Step 2A.9: The proportion of Ozzie Co's equity capital held by Aust Fin on both days is 100%	(**W**)	**U** ÷ **V**	1	
Step 2A.10: The attributable safe harbour excess amount is the proportion of equity capital (100%) held by Aust Fin multiplied by Ozzie Co's excess borrowing capacity	(**X**)	T × W	$540,000	$
Step 2A.11: The associate entity excess amount on a measurement day is the sum of the premium excess amount and the attributable safe harbour	(**Y**)	**Q** + **X**	$633,750	

excess amount				
Step 2A.12: Aust Fin has only one associate entity so **Z** is the same as **Y**	(**Z**)	Transfer from **Y**	$633,750	
Step 2A.13:Z is calculated on the other measurement day. This has been done in the far right-hand column above				
Step 2A.14: The average associate entity excess amount is calculated by adding the results at **Z** ($633,750 and $616,875) and dividing by 2 (the number of measurement days)			($633,750 + $616,875) ÷ 2	Tı wo

Aust Fin's total debt amount is $23,312,812. It must now calculate its adjusted on-lent amount. The lesser of these two amounts is its safe harbour debt amount.

Step 3: Calculate Aust Fin's adjusted on-lent amount

Worksheet 3: Aust Fin's step 3

Steps	Label	Label description	Amount
Step 3.1: The average value of Aust Fin's assets is $35m	(**F**)	Average assets from **F** on worksheet 2	$35m
Step 3.2: None of the equity interests issued by Aust Fin are excluded equity interests	(**XX**)	Average excluded equity interests	$0
Step 3.3: The average value of Aust Fin's associate entity equity is $1m – see step 2.4	(**G**)	Average associate entity equity from **G** on worksheet 2	$1m
Step 3.4: Aust Fin has not lent any amounts to For Sub so its controlled foreign entity debt is $0	(**C**)	Average controlled foreign entity debt from **C** on worksheet 1	$0
Step 3.5: The average value of Aust Fin's controlled foreign entity equity is the $7m invested in For Sub	(**H**)	Average controlled foreign entity equity from **H** on worksheet 2	$7m
Step 3.6: The average value of Aust Fin's non-debt liabilities is $3m	(**J**)	Average non-debt liabilities from **J** on worksheet 2	$3m
Step 3.7: The average value of Aust Fin's on-lent amount is $23m, which is the $20m	(**OA**)	Average on-lent amount	$23m

lent to unrelated third parties and the $3m low-risk weighted loan			
Step 3.8: Reduce Aust Fin's assets by the amounts at **XX**, **G**, **C**, **H**, **J** and **OA**	(**AA**)	**F** – **XX** – **G** – **C** – **H** – **J** – **OA**	$1m
Step 3.9: Multiply the result at **AA** by 3 divided by 5	(**BB**)	**AA** × (3 ÷ 5)	0.6
Step 3.10: The average value of Aust Fin's on-lent amount is $23m, as calculated in step 3.7	(**OA**)	Average on-lent amount	$23m
Step 3.11: The average value of Aust Fin's associate entity debt is $0	(**B**)	Average associate entity debt from **B** on worksheet 1	$0
Step 3.12: The average value of Aust Fin's associate entity excess is $600,000 – see worksheet 3A	(**CC**)	Average associate entity excess from **CC** on worksheet 3A	$600,000
Step 3.13: Aust Fin's adjusted on-lent amount is calculated by adding the amounts at **BB**, **OA** and **CC** and reducing the result by the amount at **B**	=	Adjusted on-lent amount; that is, **BB** + **OA** – **B** + **CC**	$24.2m

Step 3A: Calculate Aust Fin's average associate entity excess amount for the adjusted on-lent

amount

Worksheet 3A: Aust Fin's step 3A

Steps	Label	Label description	1 July 2019 amount	30 Jur 2020a
Step 3A.1: The value of Aust Fin's associate entity equity on both measurement days is the $1m invested in Ozzie Co	(**N**)	Aust Fin's associate entity equity on a measurement day	$1m	
Step 3A.2: Calculate the value of Ozzie Co's equity capital attributable to Aust Fin's equity interests in Ozzie Co is $900,000 on 1 July and $950,000 on 30 June	(**P**)	Ozzie Co's equity capital attributable to Aust Fin's equity interests on a measurement day	$900,000	$9
Step 3A.3: Aust Fin's premium excess amount is calculated by reducing the amount at **N** by the amount at **P** and multiplying the result by	(**DD**)	(**N** – **P**) × 3 ÷ 5	$60,000	$

3 divided by 5				
Step 3A.4: The attributable safe harbour excess amount has already been calculated at **X** in worksheet 2A	(**X**)	Attributable safe harbour excess amount from **X** on worksheet 2A	$540,000	$5
Step 3A.5: The associate entity excess amount is the sum of the premium excess amount and the attributable safe harbour excess amount	(**EE**)	**DD** + **X**	$600,000	$6
Step 3A.6: Aust Fin has only one associate entity so **FF** is the same as **EE**	(**FF**)	Transfer from **EE**	$600,000	$6
Step 3A.7: FF is calculated on Aust Fin's each other measurement day. This has been done in the right-hand column above				
Step 3A.8: the average	(**CC**)	(0.6 + 0.6) ÷ 2		$6

associate entity excess amount is calculated by adding results at **FF** ($600 000 and $600 000) and dividing by 2 (the number of measurement days)				Tra work

As Aust Fin's total debt amount is the lesser of the two amounts, the total debt amount is the safe harbour debt amount; that is, $23,312,812. Aust Fin's adjusted average debt ($24 million) is more than this amount. Aust Fin can calculate an alternative amount under either the worldwide gearing debt test or the arm's length debt test, though neither amount may be higher than the safe harbour debt amount. It can also choose to use the safe harbour debt amount as its maximum allowable debt.

Step 4: Calculate Aust Fin's worldwide gearing debt amount

Aust Fin is not foreign controlled so the method statement contained in section 820-111(2) is used to calculate its worldwide gearing debt amount.

Worksheet 4: Aust Fin's step 4

Steps	Label	Label description	Amount
Step 4.1: Aust Fin's worldwide debt is $27m; that is, $24m owed by Aust Fin to third parties and $3m owed by For Sub to a third party	(**GG**)	Worldwide debt	$27m

Step 4.2: Aust Fin's worldwide equity is $10m; that is, $8m equity interest held in Aust Fin and $2m retained earnings in For Sub. The $7m equity invested in For Sub by Aust Fin is excluded because amounts lent to entities within the worldwide group are disregarded	(**HH**)	Worldwide equity	$10m
Step 4.3: Aust Fin's worldwide gearing ratio is calculated by dividing the worldwide debt by the worldwide equity	(**JJ**)	**GG** ÷ **HH**	$2.7m
Step 4.4: Insert the amount of JJ at KK	(**KK**)	**JJ**	$2.7m
Step 4.5: Add 1 (one) to the amount at **KK**	(**LL**)	**KK** + 1	$3.7m
Step 4.6: Divide the amount at **KK** by the amount at **LL**	(**MM**)	**KK** ÷ **LL**	0.7297297
Step 4.7: The gearing ratio is applied to Aust Fin's net assets as calculated at **K** in worksheet 2	(**NN**)	0.729729 × $21m	$15,324,309
Step 4.8: Aust Fin's zero capital amount has	(**ZC**)	Average zero-capital Amount	$3m

already been worked out at **ZC** on worksheet 2			
Step 4.9: The average value of Aust Fin's associate entity excess amount is $609,608 – see worksheet 4A	(**PP**)	Average associate entity excess amount	$609,608
Step 4.10: Aust Fin's worldwide gearing debt amount is calculated by adding the amounts at **NN**, **ZC** and **PP**	=	Worldwide gearing debt amount (**NN** + **ZC** + **PP**)	$18,933,917

Step 4A: Calculate Aust Fin's average associate entity excess for the worldwide gearing debt amount

Worksheet 4A: Aust Fin's step 4A

Steps	Label	Label description	1 July 2019 amount	30 Ju 2020 amou
Step 4A.1: The value of Aust Fin's associate entity equity on both measurement days is the $1m invested in Ozzie Co	(**N**)	Aust Fin's associate entity equity on a measurement day	$1m	
Step 4A.2: The value of Ozzie Co's equity capital	(**P**)	Ozzie Co's equity capital attributable to Aust Fin's	$900,000	$

attributable to Aust Co's equity interests in Ozzie Co is $900,000 on 1 July and $950,000 on 30 June		equity interests on a measurement day		
Step 4A.3: Aust Fin's premium excess amount is calculated by reducing the amount at **N** by the amount at **P** and multiplying the result by the uplifted worldwide gearing ratio worked out at **MM** on worksheet 4	(**QQ**)	(**N** – **P**) × **MM**	$72,973	
Step 4A.4: The attributable safe harbour excess amount has been calculated at **X** on worksheet 2A	(**X**)	Attributable safe harbour excess amount (from **X** on worksheet 2A)	$540,000	$
Step 4A.5: The associate entity excess amount is the sum of the premium excess amount and	(**RR**)	**QQ** + **X**	$612,729	$

the attributable safe harbour excess amount				
Step 4A.6: Aust Fin has only one associate entity so **SS** if the same as **RR**	(**SS**)	Transfer from **RR**	$612,729	$
Step 4A.7: **SS** is calculated for the other measurement day. This has been done in the right-hand column above				
Step 4A.8: The average associate entity excess amount is calculated by adding the results at **SS** ($612,729 and $606,486) and dividing by 2 (the number of measurement days)	(**PP**)		($612,729 + $606,486) ÷ 2	$ Tra works

Aust Fin's worldwide gearing debt amount is $18,933,917. This is less than its safe harbour debt amount. Aust Fin can calculate an alternative amount under the arm's length debt test. Aust Fin could also choose to not calculate an arm's length debt amount (as this may be less than the safe harbour debt amount as well) and calculate what

debt deductions are disallowed on the basis that the safe harbour debt amount is its maximum allowable debt.

Step 5: Calculate debt deductions disallowed

Aust Fin's maximum allowable debt is $23,312,812 – the safe harbour debt amount, being the greatest of the 3 amounts. As Aust Fin's adjusted debt ($24 million) is more than its maximum allowable debt, a proportion of its debt deductions will be disallowed.

Aust Fin's debt deductions are $2.7 million.

Worksheet 6: Aust Fin's step 6

Steps	Label	Label description	Amount
Step 6.1: Aust Fin's adjusted average debt is $24m and its maximum allowable debt is $23,312,812	(**TT**)	Excess debt $24m − $23,312,812	$687,188
Step 6.2: Aust Fin's average debt is $24m	(**UU**)	Average debt	$24m
Step 6.3: Divide the amount at **TT** by the amount at **UU** to get the proportion to be applied to Aust Fin's debt deductions	(**VV**)	**TT** ÷ **UU** $687,188 × $24m	0.0286328
Step 6.4: Aust Fin's debt deductions for the income year are $2.7m	(**WW**)	Debt deductions for the income year	$2.7m
Step 6.5: The amount of debt deductions disallowed is calculated by multiplying the	=	**VV** x **WW** 0.0286328 × $2.7m	$77,308

amount at **VV** by the amount at **WW**			

Aust Fin cannot deduct $77,308 of its debt deductions.

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