

## Consolidation and the thin capitalisation rules

### Note

#### MEC groups and the thin capitalisation rules

The thin capitalisation rules for consolidated groups also apply to multiple entry consolidated (MEC) groups. For the purposes of this section, 'consolidated groups' includes MEC groups.

The thin capitalisation grouping rules are effectively replaced by the consolidation rules. The thin capitalisation grouping rules generally cease to operate for a company from the time it becomes a member of a consolidated group or from 1 July 2003, whichever is earlier. However, these rules continue to operate until the consolidation day (joining time) for companies that become members of a consolidated group that forms on the first day of the head company's income year beginning before 1 July 2004.

The thin capitalisation rules apply to a consolidated group in accordance with the single entity principle.

The rules characterise the head company of the consolidated group as either an inward or outward investor, and as an ADI (authorised deposit-taking institution) or non-ADI depending on the characteristics of its member entities. Subject to certain modifications to the rules, the group's thin capitalisation position is then determined in accordance with the thin capitalisation rules applicable to that classification.

Any denial of debt deduction is accounted for in the tax return lodged by the consolidated group.

The thin capitalisation regime also continues to permit foreign bank branches to group with a consolidated group for thin capitalisation purposes only, in order to determine the relevant funding levels on a group basis. In these cases, any denial of debt deduction will be apportioned between the foreign bank branch and the consolidated group on a similar basis to that which currently applies under the existing thin capitalisation grouping provisions.

### Note

#### Recent changes to consolidation rules

Recent changes to the *Financial Corporations (Transfer of Assets and Liabilities) Act 1993* ensure that the income tax relief provided by that Act applies appropriately to financial corporations that are members of consolidated groups – see *Tax Laws Amendment (2004 Measures No. 2) Act 2004* (83 of 2004), Schedule 2, Part 12, 'Financial corporations (Transfer of Assets and Liabilities) Act 1993'.

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## More information

→ 'Thin capitalisation and consolidated groups', C6-1-110

### Revision history

Section B2-6 first published (excluding drafts) 2 December 2002 and updated 28 May 2003.

Further revisions are described below.

Date	Amendment	Reason
14.7.04	Note on recent changes to consolidation rules, p. 1.	Legislative amendments.

### Proposed changes to consolidation

Proposed changes to consolidation announced by the Government are not incorporated into the *Consolidation reference manual* until they become law. In the interim, information about such changes can be viewed at:

- <http://assistant.treasurer.gov.au> (Assistant Treasurer's press releases)
- [www.treasury.gov.au](http://www.treasury.gov.au) (Treasury papers on refinements to the consolidation regime).