

## 2015 ATTA Conference Abstract

### **Do thin capitalisation rules address the cross-border debt bias? A theoretical and empirical literature review**

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Policymakers are increasingly relying on thin capitalisation rules to limit tax base erosion from cross-border interest deductions. Using both the theoretical and empirical literature in relation to thin capitalisation rules, this paper examines: (1) to what extent these rules are effective in both theory and practice; (2) whether thin capitalisation rules mitigate the debt bias; and (3) whether implementation of a fundamental reform addressing the domestic debt bias would eliminate the need for thin capitalisation rules.

This research also inverts and extends the literature by considering whether a cross-border manifestation of a fundamental reform could replace existing thin capitalisation rules. This paper suggests that '*it's time*' to address the tax-induced cross-border debt bias, providing a useful reference point for Australian policy makers' future reform of thin capitalisation rules.

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