Worked example

Calculating taxable income, income tax and losses for non-membership periods

Description

This example shows how to calculate an entity's income tax payable or loss when it has one or more periods during an income year in which it is not a subsidiary member of a consolidated group.

Commentary

An entity is required to calculate its income tax payable or sort of loss for each non-membership period in the income year. (A non-membership period is a period during an income year in which the entity is not a member of a consolidated group. Note that an entity will have more than one non-membership period in an income year if it leaves and then rejoins the same consolidated group or joins another consolidated group during that year.)

Total income tax payable for the financial year is the sum of tax payable for each period. Losses made in an earlier period are not offset. Any loss made in a non-membership period that ends on the last day of the income year is not offset against income made in an earlier period. However, the tax loss is carried forward.

For the purpose of determining whether a loss can be claimed by an entity for a period, that entity's non-membership period includes the time just after the end of the period. This ensures that any ownership changes occurring at that time (the end of the period) are taken into account in determining any loss claimable for the non-membership period. → subsections 701-30(3A) and 701-30(8)

Special rules apply under Division 716 of the *Income Tax Assessment Act 1997* (ITAA 1997) where income and deductions are 'brought to account' over a period rather than at a single moment. Subdivision 716A apportions, between the head company of a consolidated group and an entity that joins or leaves it in the year, the entity's assessable income and deductions that would have otherwise been brought to account over several income years. Subdivision 716B provides principles for the allocation of amounts to periods in which the head company and subsidiary member have different income years. It also provides for the grossing up of amounts for periods of less than 365 days.

The following steps are required to calculate the income tax payable, taxable income or losses of an entity that has one or more non-membership periods in the same income year:

Step 1: Identify each non-membership period during the income year.
→ paragraph 701-30(2)(b), ITAA 1997

Step 2: For each one of those periods, calculate separately the entity's taxable income and, where appropriate, the loss of each sort. Do this as if the start and end of each period were the start and end of the income year.
→ subsection 701-30(3)

Step 3: Calculate separately the income tax payable on each amount of taxable income identified for each period. → subsection 701-30(3)

Step 4: Add together each amount of taxable income identified at step 2 to calculate the entity's taxable income for the whole income year. → subsection 701-30(5)

Step 5: Add together each amount of income tax payable identified at step 3 to calculate the entity's income tax payable for the financial year. → subsection 701-30(4)

Step 6: If at step 2 a loss is calculated for any period, the entity has a loss of a particular sort for the income year only if it has a loss for a non-membership period ending at the end of the income year. → subsection 701-30(7)

The entity can only have a loss for the income year to the extent that it has a loss in the final period of the income year. This is because when an entity joins a consolidated group its losses are either transferred into the group in accordance with the loss transfer rules or they are cancelled and cannot be used by any entity. As the income tax payable is worked out separately for each period of the income year in which the entity is a taxpayer in its own right, losses in a later period of the income year cannot be used to offset income in an earlier period. → subsection 701-30(7)

These calculation rules apply also to partnerships and trusts, which have net income rather than taxable income. → subsection 701-65

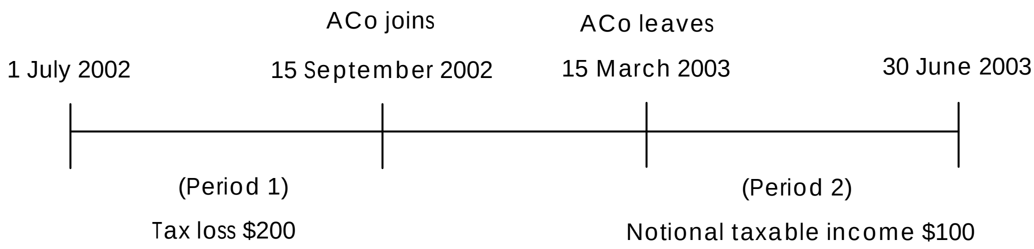
Example 1

Facts

ACo, a company, becomes a subsidiary member of a consolidated group on 15 September 2002 and leaves the group on 15 March 2003.

ACo makes a tax loss of $200 in the first part of the year in which it was not a member of the consolidated group (Period 1).

ACo has notional taxable income of $100 in the other part of the year in which it was not a member of the consolidated group (Period 2).



Calculation

Notional income tax liability:	Period 1	Nil
Notional income tax liability:	Period 2 ($100 x 30% tax rate)	<u>$30</u>
Income tax liability:		<u>$30</u>

ACo's 2002–03 income tax liability of $30 is based on the notional taxable income made in the second part of the year in which it was not a member of the consolidated group (Period 2).

The $200 tax loss made by ACo in Period 1 is either transferred to the consolidated group or cancelled and not able to be used by any entity.

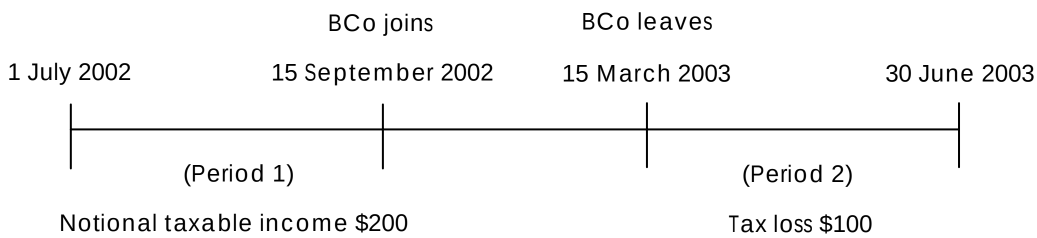
Example 2

Facts

BCo, a company, becomes a subsidiary member of a consolidated group on 15 September 2002 and leaves the group on 15 March 2003.

BCo has notional taxable income of $200 in the first part of the year in which it was not a member of the consolidated group (Period 1).

BCo makes a tax loss of $100 in the other part of the year in which it was not a member of the consolidated group (Period 2).



Calculation

Notional income tax liability:	Period 1 ($200 x 30% tax rate)	$60
Notional income tax liability:	Period 2	<u>Nil</u>
Income tax liability:		<u>$60</u>

BCo's 2002–03 income tax liability of $60 is based on the notional taxable income made in the first part of the year in which was not a member of the consolidated group (Period 1).

The $100 tax loss made by BCo in Period 2 becomes BCo's loss for the 2002–03 income year and is available to be carried forward to 2003–04.

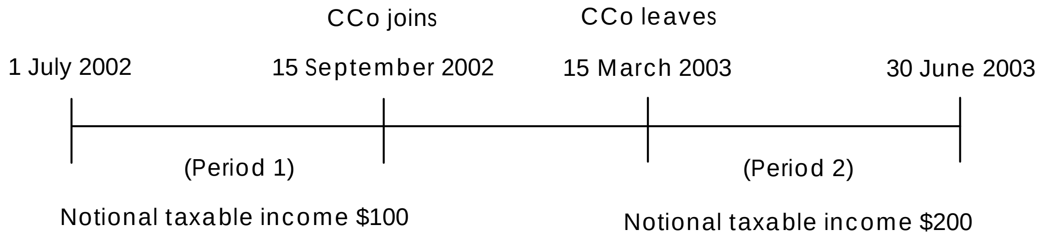
Example 3

Facts

CCo, a company, becomes a subsidiary member of a consolidated group on 15 September 2002 and leaves the group on 15 March 2003.

CCo has notional taxable income of $100 in the first part of the year in which it was not a member of the consolidated group (Period 1).

CCo has notional taxable income of $200 in the other part of the year in which it was not a member of the consolidated group (Period 2).



Calculation

Notional income tax liability:	Period 1 ($100 x 30% tax rate)	$30
Notional income tax liability:	Period 2 ($200 x 30% tax rate)	$60
Income tax liability:		$90

CCo's 2002–03 taxable income is $300 and is calculated by adding the notional taxable income derived in the two periods in which it was not a member of the consolidated group.

CCo's 2002–03 income tax liability is $90 and is calculated by adding the notional income tax liabilities calculated for the two periods in which it was not a member of the consolidated group.

References

Income Tax Assessment Act 1997, Division 716; as amended by *New Business Tax System (Consolidation and Other Measures) Act (No. 1) 2002* (No. 117 of 2002), Schedule 1

Income Tax Assessment Act 1997, section 701-30; as amended by
- *New Business Tax System (Consolidation) Act (No. 1) 2002* (No. 68 of 2002), Schedule 1
- *New Business Tax System (Consolidation and Other Measures) Act (No. 1) 2002* (No. 117 of 2002), Schedule 1
- *New Business Tax System (Consolidation and Other Measures) Act 2003 (No. 16 of 2003)*, Schedule 19

Explanatory Memorandum to the New Business Tax System (Consolidation and Other Measures) Bill (no 2) 2002, Paragraphs 6.13 to 6.21

Income Tax Assessment Act 1997, section 701-65; as amended by *New Business Tax System (Consolidation) Act (No. 1) 2002* (No. 68 of 2002), Schedule 1

Explanatory Memorandum to the New Business Tax System (Consolidation) Bill (No. 1) 2002