Worked example

Utilisation of transferred losses using both concessional and available fraction methods

Description

This example shows how to determine the amount of transferred losses that can be utilised, and apply these limits in calculating a group's actual taxable income, where the losses are utilised under both the concessional and available fraction methods.

Note

For more information about:

- loss bundles and calculating the available fraction → 'Treatment of losses', C3-1; 'Consolidation loss provisions', C3-2-110 (high-level worked example)
- the concessional method → 'Concessional method for utilising transferred losses', C3-4-520

Commentary

The utilisation of losses transferred to the head company of a consolidated group is generally subject to limits determined under the available fraction method. A concessional method for utilising losses is available for certain losses ('concessional losses') transferred to a consolidated group during the transitional period (that is, 1 July 2002 to 30 June 2004). If chosen, the concessional method will replace the limits on utilisation that would otherwise apply under the available fraction method for those losses.

The available fraction for a loss bundle is applied to each category of group income or gains as reduced by any relevant deductions, including group losses (that is, losses generated by the consolidated group as opposed to transferred losses) and concessional losses of the relevant sort (but *not* transferred losses whose use is limited by the available fraction method).

In working out the group's taxable income, concessional losses of a sort are effectively used before other transferred losses of the same sort. Those transferred tax losses subject to the available fraction method can then be utilised against the remaining assessable income but only after being applied against the relevant amount of exempt income.

Example

Facts

A consolidated group forms on 1 July 2002 and is working out its taxable income for the 2004 income year. The group does not generate any film income in the 2003 income year.

The group's income for the 2004 income year consists of:

- assessable film income $1,000
- net exempt film income $100
- other assessable income $1,000

The group's transferred losses (included in one bundle) and their available fraction are shown in table 1.

Table 1: Transferred losses

Loss bundle	Loss amount	Sort	Available fraction	Able to be utilised concessionally?
Bundle A	$900	film	0.400	yes
	$500	film	0.400	no

The head company satisfies the recoupment tests in respect of the utilisation of the transferred film losses in the 2004 income year.

The transferred film losses of $900 satisfy the conditions to be treated as concessional losses and the head company chooses to use the concessional method of utilisation.

Calculation

A. Determine limits for utilisation of transferred losses

Step 1: Work out the categories of group income or gains – subsection 707-310(3)

Table 2: Categories of group income or gains (step 1)

Column 1 Income or gains	Net amount ($)	*Less:* group / concessional losses of that kind ($)	Column 2 Income / gains available for bundle ($)
Exempt film income	100	100*	0
Assessable film income	1,000	500*	500
Other assessable income	1,000		1,000

* Worked out as 900 x 2/3 = 600. As the 2004 income year is the second year ending after the initial transfer time, the limit on utilising the concessional loss is worked out in accordance with Item 2 of the table in subsection 707-350(3).

Step 2: Calculate the fraction of the income/gains that is attributable to bundle A – subsection 707-310(3)

Table 3: Fraction of income/gains attributable to each bundle (step 2)

Column 1 Income or gains	Column 2 amount	Multiplied by: available fraction (AF)	AF amount for the bundle
Exempt film income	$0	0.400	$0
Assessable film income	$500	0.400	$200
Other assessable income	$1,000	0.400	$400

Step 3: Work out a (notional) taxable income for bundle A – subsection 707-310(2)

Table 4: Taxable income (step 3)

Assessable income	$	Deductions	$
Assessable film income	200	Transferred film losses	200*
Other assessable income	400		
Total	**600**	**Total**	**200**

* Film losses are only deductible against film income.

The (notional) taxable income is $400 ($600 – $200).

Transferred losses 'used' in working out notional taxable income for bundle A are:

- transferred film losses $200

This is the limit for utilisation of transferred losses when determining the actual taxable income for the group.

B. Determine the group's actual taxable income

Table 5: Exempt income

Exempt income	$	Deductions	$
Net exempt film income	100	Concessional film losses	100
Total	**100**	**Total**	**100**

Net exempt income remaining is $0.

Table 6: Taxable income

Assessable income	$	Deductions	$
Assessable film income	1,000	Concessional film losses	500*
Other assessable income	1,000	Transferred film losses	200*
Total	**2,000**	**Total**	**700**

* Film losses are only deductible against film income.

The group's taxable income for the 2004 income year is $1,300 ($2,000 – $700).

The balance of unutilised transferred losses as at 1 July 2004 is:

- transferred film losses (concessional) $300 ($900 – $600)
- transferred film losses (other) $300 ($500 – $200)

References

Income Tax Assessment Act 1997, subsections 707-310(2), 707-310(3); as amended by *New Business Tax System (Consolidation) Act (No. 1) 2002* (No. 68 of 2002), Schedule 1

Income Tax (Transitional Provisions) Act 1997, subsection 707-350(2); as amended by *New Business Tax System (Consolidation) Act (No. 1) 2002* (No. 68 of 2002), Schedule 2

Explanatory Memorandum to the New Business Tax System (Consolidation) Bill (No. 1) 2002, Chapters 8 and 9