

## Treatment of assets

When a consolidated group forms or an entity joins a consolidated group, the tax values of the assets of each joining subsidiary are aligned with the tax values of the membership interests in that subsidiary. In effect, the cost of acquiring the entity is allocated to its assets. → Taxation Ruling TR 2004/13

The rationale behind this approach is that, on entry into a consolidated group (either individually or as consequence of formation), the equity cost base of the joining entity is effectively transferred to the assets of the entity as a representation of the actual cost of those assets to the group.

On exit from the group, the process is reversed and the group's cost base of its equity in the leaving entity is derived from the entity's net assets just before the leaving time, as this aligns the group's cost base of the equity in the leaving entity and its assets.

An overview of this cost-setting process is provided in part B of this manual → 'Determining asset values', B2-2. The rules are set out in detail in Part C as shown in table 1. They vary from case to case to ensure that assets coming into a consolidated group in different circumstances are treated consistently.

Table 1

Step in process or special case		See section ...
Overview of cost setting process on formation and entry; transitional rules	C2-1-010	'Overview of cost setting process on formation and entry (including transitional rules)'
Calculating the entry ACA	C2-1-020	'Calculating the entry ACA (step A)'
Allocating the entry ACA	C2-1-030	'Allocating the entry ACA (steps B to E)'
One consolidated group joins another consolidated group	C2-1-040	'Modifications to entry cost setting rules'
Entities linked through ownership join a consolidated group	"	
A trust or partnership joins a consolidated group	"	
Dealing with errors in tax cost setting amounts and changes in liabilities when discharged	C2-1-050	'Dealing with errors in TCSAs and changes in liabilities when discharged'
An entity leaves a consolidated group	C2-1-060	'Cost setting on exit'
Treatment of internally generated assets, pre-CGT assets and goodwill	C2-1-070	'Treatment of special classes of assets'

There are further rules that apply to the formation of a multiple entry consolidated (MEC) group. → Multiple entry consolidated (MEC) groups, C10-1

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**Note that where an entity held by the head company through one or more foreign entities joins a transitional consolidated group on formation, the basic case rules apply subject to certain modifications.** → 'Transitional foreign held subsidiaries' in 'Eligibility tests and rules', C1-1

#### Revision history

Section C2-1 first published (excluding drafts) 2 December 2002 and updated 28 May 2003. Revisions since 2007 are described below.

Date	Amendment	Reason
26.6.07	Major restructure involving the break up of the section into a series of shorter sections.	To improve usability.
6.5.11	Reference to 'at the leaving time' replaced by 'just before the leaving time', to reflect changes to leaving time provisions in Division 711 of the ITAA 1997.	Legislative amendment.