### CGT Events arising out of the cost setting rules

In calculating the tax cost setting amounts for an entity joining or leaving a consolidated or MEC group, the CGT events listed in the following table may take place, resulting in a capital gain or capital loss for the head company as indicated.

<table>
<thead>
<tr>
<th>CGT event</th>
<th>Description</th>
<th>Time of event</th>
<th>Applies to</th>
<th>Capital gain</th>
<th>Capital loss</th>
<th>Legislative references (ITAA 1997 and Explanatory Memorandums – EM)</th>
</tr>
</thead>
</table>
| L1        | A reduction under section 705-57 in the tax cost setting amounts of assets of an entity becoming a member of a consolidated or MEC group | Just after the entity becomes a member of the group | The head company, which is allowed a capital loss equal to the reduction; the loss being deductible over five years | No capital gain | Amount of reduction | s. 104-500  
  s. 705-57, s. 705-163, s. 705-240  
  EM to NBTS (Consolidation and Other Measures) Bill (No.1) 2002, paragraphs 1.89 to 1.114 and 1.175 to 1.181 |
| L2        | The amount of ACA remaining after applying step 3A for any pre-formation rollover is negative | Just after the entity becomes a member of the group | The head company, which makes a capital gain equal to the amount remaining | Amount remaining | No capital loss | s. 104-505  
  s. 705-93, s. 705-147, s. 705-227 & s. 705-150  
  EM to NBTS (Consolidation and Other Measures) Bill (No.2) 2002, paragraphs 5.119 to 5.122 |
| L3        | The sum of the tax cost setting amounts for all the joining entity’s retained cost base assets that become those of the head company exceeds the entity’s ACA | Just after the entity becomes a member of the group | The head company, which makes a capital gain equal to the excess | Amount of excess | No capital loss | s. 104-510  
  Note to s. 705-25, note 1A to s. 705-35, paragraphs 705-35(1)(b), 705-59(5)(b) – item 4  
  EMs to: NBTS (Consolidation and Other Measures) Bill (No.2) 2002, paragraphs 5.123 to 5.126  
  TLAB (No. 6) 2003, paras 3.42 to 3.56 |
<table>
<thead>
<tr>
<th>CGT event</th>
<th>Description</th>
<th>Time of event</th>
<th>Applies to</th>
<th>Capital gain</th>
<th>Capital loss</th>
<th>Legislative references</th>
</tr>
</thead>
<tbody>
<tr>
<td>L4</td>
<td>There are no reset cost base assets against which to apply the remaining amount of the ACA under paragraph 705-35(1)(c)</td>
<td>Just after the entity becomes a member of the group</td>
<td>The head company, which makes a capital loss equal to the amount remaining</td>
<td>No capital gain</td>
<td>Amount of excess</td>
<td>s. 104-515 and note 2 to s. 705-35  EM to NBTS (Consolidation and Other Measures) Bill (No.2) 2002, paragraphs 5.127 to 5.131</td>
</tr>
<tr>
<td>L5</td>
<td>In calculating the ACA for a leaving entity, the amount remaining after applying step 4 of the table in section 711-20 is negative</td>
<td>When the entity leaves the group</td>
<td>The head company, which makes a capital gain equal to the amount remaining</td>
<td>Amount remaining</td>
<td>No capital loss</td>
<td>s. 104-520  EM to NBTS (Consolidation and Other Measures) Bill (No.2) 2002, paragraphs 5.132 to 5.135</td>
</tr>
<tr>
<td>L6</td>
<td>Where the head company of a consolidated or MEC group has a net overstated or a net understated tax cost setting amount for the subsidiary member because of errors in working out the tax cost of its reset cost base assets</td>
<td>Start of the income year in which the Commissioner becomes aware of the errors</td>
<td>The head company, which makes a capital gain if there is a net overstated amount and a capital loss if there is a net understated amount</td>
<td>The net overstated amount resulting from the errors, or a portion of that amount</td>
<td>The net understated amount resulting from the errors, or a portion of that amount</td>
<td>s. 104-525, s. 705-315, s. 705-320  EM to NBTS (Consolidation and Other Measures) Bill (No.2) 2002, paragraphs 5.17 to 5.34</td>
</tr>
<tr>
<td>L7</td>
<td>The discharged liability of a subsidiary member differs from the amount taken into account in working out the entity's ACA</td>
<td>Start of the income year in which the liability is discharged</td>
<td>The ACA calculated at the joining time less the ACA calculated using the correct amount for the liability</td>
<td>The ACA calculated using the correct amount for the liability less the ACA calculated at the joining time</td>
<td></td>
<td>s. 104-530  EM to NBTS (Consolidation and Other Measures) Bill (No.2) 2002, paragraphs 5.35 to 5.42</td>
</tr>
<tr>
<td>CGT event</td>
<td>Description</td>
<td>Time of event</td>
<td>Applies to</td>
<td>Capital gain</td>
<td>Capital loss</td>
<td>Legislative references</td>
</tr>
<tr>
<td>-----------</td>
<td>-------------</td>
<td>---------------</td>
<td>------------</td>
<td>--------------</td>
<td>--------------</td>
<td>-----------------------</td>
</tr>
</tbody>
</table>
| L8        | A reduction in the tax cost setting amounts for reset cost base assets on joining cannot be allocated because of restrictions on amounts allocated for assets held on revenue account | Just after the entity becomes a member of the group | The head company, which makes a capital loss equal to the unallocated amount of the reduction | No capital gain | Amount of reduction that cannot be allocated | s.104-535  
ss. 705-40(1) & ss. 705-40(2)  
EM to TLAB (No. 8) 2003, paragraphs 2.19 to 2.22 |

**References**


**Taxation determinations**

TD 2004/64 – Income tax: consolidation: capital gains: does section 104-530 (CGT event L7) of the Income Tax Assessment Act 1997 apply to amounts of a liability that accrue after the time that the entity with the liability became a subsidiary member of a consolidated group?

TD 2004/65 – Income tax: consolidation: capital gains: does section 104-530 (CGT event L7) of the Income Tax Assessment Act 1997 apply where: (a) an entity becomes a member of a consolidated group; (b) the entity owes a liability to another member of the group at that time; and (c) the liability is later discharged?
TD 2004/66 – Income tax: consolidation: capital gains: can section 104-530 (CGT event L7) of the Income Tax Assessment Act 1997 only apply if an allocable cost amount is worked out for an entity?

TD 2004/67 – Income tax: consolidation: capital gains: does the determination of a capital gain or loss under section 104-530 (CGT event L7) of the Income Tax Assessment Act 1997 require a full reconstruction of the allocable cost amount in relation to the relevant liability?

TD 2004/87 – Income tax: consolidation: can the head company of a transitional group make a capital loss under section 104-500 (CGT event L1) of the Income Tax Assessment Act 1997 in respect of the assets of a chosen transitional entity?

Revision history
Section C2-1-410 first published 14 July 2004.
Further revisions are described below.

<table>
<thead>
<tr>
<th>Date</th>
<th>Amendment</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>26.10.05</td>
<td>New references to taxation determinations.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Changes to L1 row, capital loss column.</td>
<td>For clarification.</td>
</tr>
</tbody>
</table>

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: