

Worked example

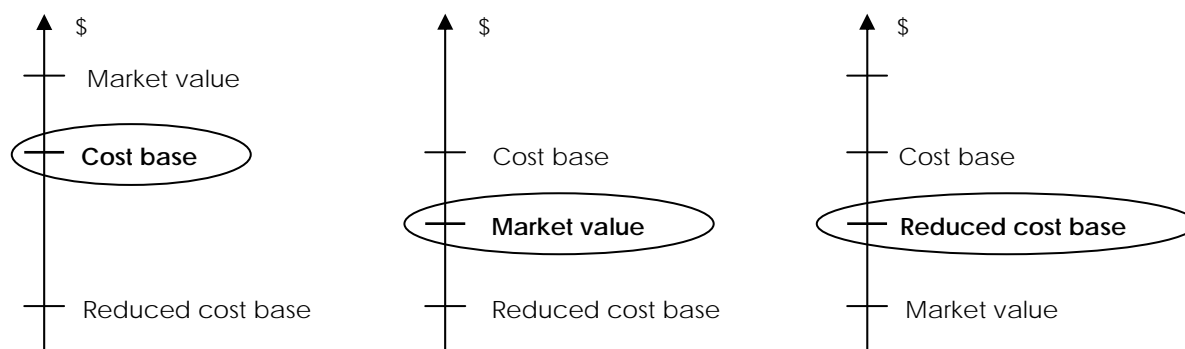
## Amount to be used as cost for membership interests (ACA step 1)

**Description** This example shows how the amount to be used as the cost for membership interests (ACA step 1) is determined where the market value of the membership interests differs from the cost base or reduced cost base.

**Commentary** The first step in determining the allocable cost amount (ACA) for a joining entity is to add up the costs for all of the membership interests in it that are held by members of the consolidated group it is joining → section 705-65, *Income Tax Assessment Act 1997* (ITAA 1997). Subject to certain adjustments, the cost used for each membership interest (the relevant cost) is the cost amount that would be used in determining the CGT outcome if the membership interest were disposed of at the joining time. This amount reflects part of the group's cost of acquiring the joining entity's assets.

If, at the joining time, the market value of a membership interest is greater than or equal to its cost base, the relevant cost is the cost base. Otherwise, the relevant cost is the greater of the market value of the interest or the reduced cost base of the interest. The relevant cost is shown in bold in Figure 1.

Figure 1 The relevant cost in ACA step 1



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## Example

**Facts** Company ACo has five issued shares on 1 June 1998.

On 1 June 1998, company HeadCo purchases a share (Interest 1 on the worksheet following) of ACo at \$9.90.

On 8 June 1998, HeadCo purchases another share (Interest 2) of ACo at \$10.00.

On 15 June 1998, HeadCo purchases another share (Interest 3) of ACo at \$10.10.

On 22 June 1998, HeadCo purchases another share (Interest 4) of ACo at \$10.20.

On 1 July 2003, ACo chooses to consolidate its group.

On 2 July 2003, HeadCo purchases the remaining share (Interest 5) of ACo at \$10.30 and ACo joins HeadCo's consolidated group. At the joining time, the market value of ACo's shares is \$10.20 each. (HeadCo is paying a premium for Interest 5.)

Incidental costs of acquiring those shares are nil. Since 1 June 1998, there has been no CGT event triggering resetting of the cost bases of the shares. There has been no event requiring value shifting or loss transfer adjustment. Also assume that Subdivision 165-CD of the ITAA 1997 does not apply to ACo.

**Calculation** The indexation factor for each of shares 1 to 4 is 1.020 (123.4/121.0).

**Table 1: ACA step 1: Add up the cost of each membership interest**

	\$ Interest 1	\$ Interest 2	\$ Interest 3	\$ Interest 4	\$ Interest 5
<b>P</b> Cost base (CB) at the joining time (JT) or formation time (Note: cost of pre-CGT interests not indexed)	10.10	10.20	10.30	10.40	10.30
<b>Q</b> Reduced cost base (RCB) at JT (ignoring reductions for rebatable dividends: former section 160ZK(5) ITAA 1936 or section 110-55(7) ITAA 1997), and adding back any adjustments under section 165-115ZA(3) ITAA 1997 to the extent the relevant losses will reduce the ACA under steps 5 & 6)	9.90	10.00	10.10	10.20	10.30
<b>R</b> CB (line P) as adjusted for value shifting or loss transfer	10.10	10.20	10.30	10.40	10.30
<b>S</b> RCB (line Q) as adjusted for value shifting or loss transfer or section 165-115ZD ITAA 1997	9.90	10.00	10.10	10.20	10.30
<b>T</b> Market value (MV)	10.20	10.20	10.20	10.20	10.20
<b>Tests</b>	If MV (line T) ≥ adjusted CB (line R), use line R If MV (line T) ≤ adjusted RCB (line S), use line S If adjusted RCB (line S) < MV (line T) < adjusted CB (line R), use line T				
<b>Result for each share</b>	10.10	10.20	10.20	10.20	10.30

Therefore, the step 1 amount is \$51.00, i.e.:

$$(10.10 \times 1) + (10.20 \times 1) + (10.20 \times 1) + (10.20 \times 1) + (10.30 \times 1)$$

## References

*Income Tax Assessment Act 1997*, section 705-65; as amended by:

- *New Business Tax System (Consolidation) Act (No. 1) 2002* (No. 68 of 2002), Schedule 1
- *New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Act 2002* (No. 90 of 2002), Schedule 2

Explanatory Memorandum to the New Business Tax System (Consolidation) Bill (No. 1) 2002, paragraphs 5.56–64

*Income Tax Assessment Act 1997*, subsections 110-55(7) and 165-115ZA(3)

*Income Tax Assessment Act 1936*, former subsection 160ZK(5)

*Tax Laws Amendment (Repeal of Inoperative Provisions) Act 2006* (No. 101 of 2006), which repealed section 160ZK of the *Income Tax Assessment Act 1936*

### Revision history

Section C2-4-220 first published (excluding drafts) 2 December 2002.

Further revisions are described below.

Date	Amendment	Reason
15.11.06	Updated references to inoperative provisions.	Legislative amendment.

### 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:

- <http://assistant.treasurer.gov.au> (Assistant Treasurer's press releases)
- [www.treasury.gov.au](http://www.treasury.gov.au) (Treasury papers on refinements to the consolidation regime).