Worked example

Reduction for intragroup liabilities on entry (in ACA step 2)

Description

This example shows how an amount added at step 2 of the allocable cost amount (ACA) calculation (which involves adding the joining entity's liabilities) is determined where the liability is owed by the joining entity to a member of the joined group (an intragroup liability).

Commentary

The second step in determining the ACA for a joining entity is to add all of its accounting liabilities at the joining time. → section 705-70, *Income Tax Assessment Act 1997* (ITAA 1997)

The amount taken into account for a joining entity's liability that is a debt or other liability owed to the joined group depends on the market value of the corresponding asset of the joined group.

If the market value of the corresponding asset is equal to or more than the group's cost base for the asset, the amount to be added is the group's cost base. If the market value is less than or equal to the group's reduced cost base for the asset, the amount to be added is the group's reduced cost base. If the market value falls between the group's cost base and reduced cost base, the amount to be added is the market value of the asset.

Note

Recent changes to consolidation rules

Recent changes to the cost setting rules ensure that the assets of a joining entity that do not become assets of the head company under the single entity rule have their tax cost reset when the entity joins the consolidated group – see *Tax Laws Amendment (2004 Measures No. 2) Act 2004*, Schedule 2, Part 4 (83 of 2004), 'Cost setting for assets that the head company does not hold under the single entity rule'.

Example

Facts

ACo is acquired by HeadCo (the head company of a consolidated group) on 1 July 2002 for $200. The financial position of ACo on joining the group is:

- assets at a cost of $300 (market value)
- liability: $100 loan from BCo (100% subsidiary of HeadCo)

In the books of BCo, the asset (loan to ACo) shows a cost base of only $80. (This could arise where the liability has been assigned – market value is $100, purchased for $80.)

Calculation

The ACA step 2 result will be $280 – the price paid for membership interests of $200 plus the liability of $80. In this example, the market value of the member's asset constituted by the accounting liability is greater than the asset's cost base. Therefore, the amount to be added will equal the member's cost base of $80. → subsection 705-75(2), ITAA 1997

Note: The liability of $80 is added at ACA step 2 (to determine the group's cost of acquiring ACo) → section 705-70. However, the intragroup debt to BCo does not become a liability of the joined group, and the group's asset (the $80 loan to ACo) will not be treated as an asset of the group for income tax purposes. This is because all intragroup transactions in a consolidated group are ignored.

References

Income Tax Assessment Act 1997, sections 705-70 and 705-75; 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, paragraph 5.71

Revision history

Section C2-4-240 first published (excluding drafts) 2 December 2002.

Further revisions are described below.

Date	Amendment	Reason
14.7.04	Note on recent changes to consolidation rules, p. 1.	Legislative amendments.

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** (Treasury papers on refinements to the consolidation regime).