Worked example

Reduction for privatised depreciating assets (at step D)

Description

This example shows how the tax cost setting amount (TCSA) for a privatised depreciating asset may be reduced (at step D of the tax cost setting process).

Commentary

After the joining entity's ACA is allocated among its reset cost base assets in proportion to their market values, and any necessary reductions are made for revenue-like assets (step C of the cost setting process), a further reduction may be required for each privatised depreciating asset (step D).

A privatised depreciating asset is a depreciating asset in respect of which, as a result of a past or simultaneously occurring privatisation, a relevant privatised asset provision directly or indirectly affects the amount the joining entity could deduct for decline in value of the previously exempt asset.

The relevant privatised asset provisions are:

- section 61A of the ITAA 1936 – which applied to tax exempt entities that became taxable between 1 July 1988 and 2 July 1995
- Subdivisions 57-I and 57-J in Schedule 2D of the ITAA 1936 – which applied to tax exempt entities that became taxable between 3 July 1995 and 3 August 1997
- former Division 58 of the ITAA 1997 – which applied to tax exempt entities that became taxable and to asset sales in connection with a business from a tax exempt entity between 4 August 1997 and 30 June 2001, and
- current Division 58 of the ITAA 1997 – which applies to tax exempt entities that became taxable and to asset sales in connection with a business from a tax exempt entity from 1 July 2001.

Where the TCSA for a privatised depreciating asset (calculated so far) exceeds the terminating value of the asset, the TCSA is reduced to the terminating value.

The purpose of this reduction is to ensure that the limiting of decline in value deductions under the privatised assets provisions (such as Division 58 of the ITAA 1997) is not overridden by the consolidation tax cost setting process. Reducing the TCSA to the joining entity's terminating value for the asset ensures that decline in value deductions allowable to the head company for such privatised assets continue to be appropriately limited.

This reduction does not apply where the privatised asset has been held for at least 24 months by an earlier consolidated group that is not an associate of the joined group.

Example

Facts

ACo is a wholly-owned subsidiary of HCo.

On 2 July 2001, ACo acquires a privatised depreciating asset in connection with a business from a tax exempt entity for $96. The asset has an effective life of 10 years.

Under section 58-65 of the ITAA 1997, ACo chooses to work out the first element of the cost of the privatised asset using its notional written down value, which is calculated as $90.

ACo uses the prime cost method and for the 2001-02 income year deducts $9 for the decline in value (based on a cost of $90) under Division 40 of the ITAA 1997, leaving an adjustable value of $81 on 30 June 2002.

On 1 July 2002, HCo forms a consolidated group with ACo as a subsidiary member.

After ACo's ACA is calculated and allocated, the TCSA for the privatised asset is $86. No reduction at step C is necessary because the asset has a market value of $92.

However, at step D a reduction in the privatised depreciating asset's TCSA is required under section 705-47 of the ITAA 1997, because Division 58 of the ITAA 1997 has directly affected ACo's deductions (by reducing the asset's cost from $96 to $90) and the asset's TCSA calculated up to this point ($86) exceeds its terminating value ($81).

The TCSA for the privatised depreciating asset is reduced to its terminating value of $81, a reduction of $5 ($86 – $81).

References

Income Tax Assessment Act 1997, section 705-47; as inserted by *Tax Laws Amendment (2004 Measures No. 2) Act 2004* (83 of 2004), Schedule 2

Explanatory Memorandum to the Tax Laws Amendment (2004 Measures No.2) Bill 2004, paragraphs 2.206 to 2.241

Revision history

Section C2-4-605 first published 11 March 2005.

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).