

Worked example

## Increase for certain privatised depreciating assets (at exit ACA step 1)

**Description** This example shows how the step 1 amount of the exit ACA may be increased for certain privatised assets leaving the group.

**Commentary** To set the head company's cost of membership interests in a leaving entity, the exit ACA is calculated in five steps → 'Treatment of assets', C2-1. The step 1 amount is worked out by adding up the terminating values of the leaving entity's assets just before the leaving time.

There is an increase in the step 1 amount for certain privatised depreciating assets leaving the group that either:

- had their tax cost setting amount reduced under section 705-47 of the ITAA 1997 when an entity joined the group, or
- had their first element of cost reduced because of subsection 58-70(5) of the ITAA 1997 when they were acquired by the group.

The step 1 amount is increased by the amount of that reduction.

### Example

**Facts** (This example is based on that at C2-4-605.)

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 privatised asset's cost 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 tax cost setting amount (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

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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).

HCo deducts \$9 for the decline in value for the 2002-03 income year. This is worked out using paragraph 701-55(2)(c) of the ITAA 1997 and based on a cost of \$81 and the remaining effective life of 9 years. The privatised depreciating asset has an adjustable value of \$72 on 30 June 2003.

ACo leaves HCo's group on 1 July 2003 with the privatised depreciating asset.

ACo's exit ACA step 1 amount includes \$72, being the terminating value of the privatised depreciating asset. This is increased by \$5 (to \$77) under subsection 711-25(3) of the ITAA 1997, because the asset had its TCSA reduced by \$5 (from \$86 to \$81) under section 705-47 of the ITAA 1997 when ACo joined the group.

## References

*Income Tax Assessment Act 1997*, subsection 711-25(3); as inserted by *Tax Laws Amendment (2004 Measures No. 2) Act 2004* (83 of 2004), Schedule 2

*Income Tax Assessment Act 1997*, sections 711-20 and 711-25; as amended by *Tax Laws Amendment (2010 Measures No. 1) Act 2010* (No. 56 of 2010), Schedule 5, Part 7, Division 1

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

Explanatory Memorandum to Tax Laws Amendment (2010 Measures No. 1) Bill 2010, paragraphs 5.188 – 5.197

### Revision history

Section C2-5-220 first published 11 March 2005.

Further revisions are described below.

| Date   | Amendment   | Reason                  |
|--------|---|-------------------------|
| 6.5.11 | Minor revisions to 'Commentary' to reflect changes that clarify the time when the leaving time cost setting provisions in Division 711 apply. | Legislative amendments. |