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 head company's terminating values of all the assets that the leaving entity takes with it.

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

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

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

Revision history

Section C2-5-220 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).