Worked example

Adjusting available fraction – sum of available fractions is more than one

Description

Available fractions are adjusted to ensure they approximate the proportion of the group's income that can be said to be generated by the relevant entity or group that transferred the loss. The total of the available fractions for existing loss bundles cannot exceed one.

This example shows how to adjust the available fraction for each loss bundle in a consolidated group where the sum of the available fractions would otherwise be more than one.

Note

For more information about:

- loss bundles and calculating the available fraction → 'Treatment of losses', C3-1; 'Consolidation loss provisions', C3-2-110 (high-level worked example)
- working out modified market value → 'Modified market value of a single joining entity', C3-4-110 (worked example)
- market values → 'Market valuation guidelines', C4-1

Commentary

In working out an available fraction for a bundle of losses where the denominator is zero, the numerator is instead divided by one → subsection 707-320(5). This means the available fraction at first calculation will equal the amount of the joining entity's modified market value.

Also, if the modified market value of a joining entity exceeds the adjusted market value of the group[1], the available fraction at first calculation will be greater than one.

Having a group's available fractions total more than one incorrectly indicates that the group can generate more income than it actually does. In such a case, the group's available fractions are proportionally reduced.

Under item 5 in the table in subsection 707-320(2) of the *Income Tax Assessment Act 1997*, each available fraction is adjusted by multiplying it by the following factor:

$$\frac{1}{\text{total of all available fractions}}$$

[1] Where the adjusted market value is a positive amount.

Example

Facts

HCo is the head company of a consolidated group that forms on 1 July 2002. On consolidation, losses are transferred to HCo from ACo and BCo.

ACo has a modified market value of $10 and BCo has a modified market value of $40.

The adjusted market value of the group is nil.

Calculation

The denominator in the available fraction formula – adjusted market value of the group – is 1 instead of 0. → subsection 707-320(5)

Initially, the available fractions for the ACo loss bundle and the BCo loss bundle are:

ACo $\frac{10}{1} = 10$

BCo $\frac{40}{1} = 40$

Under adjusting event 5 in subsection 707-320(2), each of these available fractions is multiplied by the following factor:

$$\frac{1}{10 + 40} = 0.02$$

This results in the following available fractions, which are used in determining how much of the losses in each bundle can be utilised:

ACo	10×0.02	= 0.200
BCo	40×0.02	= 0.800

References

Income Tax Assessment Act 1997 – as amended by *New Business Tax System (Consolidation) Act (No.1) 2002* (No. 68 of 2002), Schedule 1:

- item 5 in the table in subsection 707-320(2)
- subsection 707-320(5)

Explanatory Memorandum to the New Business Tax System (Consolidation) Bill (No. 1) 2002, Chapter 8