

Worked example

Amount of transferred losses that can be utilised

Description This example shows how to determine, under the available fraction method, the limits for utilisation of losses transferred to the head company of a consolidated group. It also shows how these limits are applied in calculating a group's actual taxable income.

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)

Commentary The available fraction for a loss bundle is applied to each category of group income or gains as reduced by any relevant deductions, including group losses (that is, losses generated by the consolidated group as opposed to transferred losses). The results are taken to be the head company's only income or gains of each type. Based on that assumption, the head company works out the maximum amount of losses of each sort it can use from the loss bundle.

In working out the group's actual taxable income, group losses of one sort are generally used ahead of transferred losses of the same sort.

Example

Facts A consolidated group is working out the group's taxable income for the 2004 income year.

- The group's capital gains for the income year are \$1,200.
- The group's capital losses for the income year are \$200.
- The group's only other assessable income is \$4,000.
- Its deductions relating to that income are \$800.
- There is a group net capital loss of \$400 carried forward from the 2003 income year.
- There is a group tax loss (not film) of \$700 carried forward from the 2003 income year.

The group's transferred losses and their available fractions are shown in table 1.

Table 1: Transferred losses and available fractions

Loss bundle	Available fraction	Unused transferred losses
Bundle A	0.150	\$150 net capital losses \$900 tax losses (not film)
Bundle B	0.275	\$2,000 tax losses (not film)

The head company satisfies the recoupment tests for the utilisation of all the group losses and all the transferred losses.

Calculation

A. Determine limits for utilisation of transferred losses

Step 1: Work out the categories of group income or gains – subsection 707-310(3)

Table 2: Categories of group income or gains (step 1)

Column 1 Income or gains	Column 2 Gross amount (\$)	Less: allowable deductions/reductions (\$)	Less: group/concessional losses of that kind (\$)	Column 2 Income/ gains available for bundle (\$)
Capital gains	1,200	200	400	600
Other assessable income	4,000	800	700	2,500

Step 2: Calculate the fraction of the income/gains that is attributable to each bundle – subsection 707-310(3)

Table 3: Fraction of income/gains attributable to each bundle (step 2)

Column 1 Income or gains	Loss bundle	Column 2 Income/ gains available for bundle	Multiplied by: available fraction (AF)	AF amount for the bundle
Capital gains	Bundle A	\$600	0.150	\$90
	Bundle B	\$600	0.275	\$165
Other assessable income	Bundle A	\$2,500	0.150	\$375
	Bundle B	\$2,500	0.275	\$688

Step 3(a): Work out a notional taxable income for bundle A – subsection 707-310(2)

Table 4: Net capital gain (step 3a)

Capital gains	\$	Losses applied	\$
Capital gain	90	Transferred net capital losses	90
Total	90	Total	90

The (notional) net capital gain is \$0 (\$90 – \$90).

Table 5: Taxable income (step 3a)

Assessable income	\$	Deductions	\$
Net capital gain	0	Transferred tax losses (not film)	375
Other assessable income	375		
Total	375	Total	375

Transferred losses 'used' in working out notional taxable income for bundle A are:

- transferred net capital losses \$90
- transferred tax losses (not film) \$375

These are the limits for utilisation of these transferred losses when determining the actual taxable income for the group.

Step 3(b): Work out a notional taxable income for bundle B – subsection 707-310(2)

Table 6: Net capital gain (step 3b)

Capital gain	\$	Losses applied	\$
Capital gain	165	Transferred net capital losses	0
Total	165	Total	0

The (notional) net capital gain is \$165 (\$165 – \$0).

Table 7: Taxable income (step 3b)

Assessable income	\$	Deductions	\$
Net capital gain	165		
Other assessable income	688	Transferred tax losses (not film)	853
Total	853	Total	853

The amount of transferred losses 'used' in working out notional taxable income for bundle B is:

- transferred tax losses (not film) \$853

This is the limit for utilisation of transferred losses when determining the actual taxable income for the group.

B. Determine group's actual taxable income

Table 8: Net capital gain

Capital gains	\$	Capital losses	\$
Capital gains	1,200	Current-year group capital losses	200
		Group net capital losses	400
		Transferred net capital losses (bundle A)	90
Total	1,200	Total	690

Therefore, the group's net capital gain is \$510 (\$1,200 – \$690).

Table 9: Taxable income

Assessable income	\$	Deductions	\$
Net capital gain	510	Deductions	800
		Group tax loss	700
Other assessable income	4,000	Transferred tax losses (bundle A)	375
		Transferred tax losses (bundle B)	853
Total	4,510	Total	2,728

The group's taxable income is \$1,782 (\$4,510 – \$2,728).

References

Income Tax Assessment Act 1997, Subdivision 707-C; as amended by *New Business Tax System (Consolidation) Act (No. 1) 2002* (No. 68 of 2002), Schedule 1

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