Worked example

Amount of transferred losses that can be utilised – exempt income

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 where the group's income includes exempt income. 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.

Tax losses must first be deducted against exempt income. Therefore, the available fraction is also applied to a group's exempt income. Transferred tax losses are notionally offset against exempt income (to which the available fraction has been applied, i.e. the available fraction amount of exempt income). Any remaining transferred tax losses are then notionally deducted against assessable income to determine the total limit of transferred tax losses from the bundle that is able to be utilised.

In working out the group's actual taxable income, transferred tax losses can begin to be offset against assessable income once they have been used against the available fraction amount of exempt income.

Example

Facts

A group consolidates on 1 July 2002 and is working out its taxable income for the income year ending 30 June 2003.

The group's transferred losses (all in one bundle with an available fraction of 0.500) are as shown in table 1.

Table 1: Transferred losses

Sort	Amount ($)
Film losses	100
Tax losses (not film)	700

Table 2 shows the amounts of income generated by the group for the 2003 income year.

Table 2: Group income 2003

Income	Amount ($)
Assessable film income	200
Other assessable income	2,200 (deductions of $200)
Net exempt film income	300
Other net exempt income	500

All the transferred losses are to be utilised using the available fraction method.

The head company satisfies the recoupment tests for the utilisation of 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 3: Categories of group income or gains (step 1)

Column 1 Income or gains	Gross amount ($)	*Less:* allowable deductions/ reductions ($)	*Less:* group/ concessional losses of that kind ($)	Column 2 Income/ gains available for bundle ($)
Exempt film income	300	–	–	300
Assessable film income	200	–	–	200
Exempt other income	500	–	–	500
Other assessable income	2,200	200	–	2,000

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

Table 4: Fraction of income/gains attributable to the bundle (step 2)

Column 1 Income or gains	Column 2 Income/gains available for bundle	Multiplied by: available fraction (AF)	AF amount for the bundle
Exempt film income	$300	0.500	$150
Assessable film income	$200	0.500	$100
Exempt other income	$500	0.500	$250
Other assessable income	$2,000	0.500	$1,000

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

Table 5: Exempt income (step 3)

Exempt income	$	Deductions	$
Exempt film income	150	Transferred film losses	100
Exempt other income	250	Transferred tax losses (not film)	300
Total	**400**	**Total**	**400**

Note: Tax losses are deducted from net exempt income before they are deducted from assessable income as per subsection 36-15(3) of the *ITAA 1997*.

Table 6: Taxable income (step 3)

Assessable income	$	Deductions	$
Assessable film income	100	Transferred film loss	0
Other assessable income	1,000	Transferred tax loss (not film)	400
Total	**1,100**	**Total**	**400**

The (notional) taxable income is $700 ($1,100 – $400).

Transferred losses ‘used’ in working out notional taxable income for the bundle are:

- transferred film losses $100 (against exempt film income)
- transferred tax losses (not film) $300 (against exempt income)
  $400 (against assessable income)

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

B. Determine group's actual taxable income

Table 7: Exempt income

Exempt income	$	Deductions	$
Net exempt film income	300	Transferred film losses	100
Other net exempt income	500	Transferred tax losses (not film)	300
Total	**800**	**Total**	**400**

Net exempt income remaining is $400 ($800 – $400).

Note that section 707-340 allows transferred tax losses to be deducted against assessable income even though the group has net exempt income remaining.

Table 8: Taxable income

Assessable income	$	Deductions	$
Assessable film income	200	Deductions	200
Other assessable income	2,200	Transferred tax losses (not film)	400
Total	**2,400**	**Total**	**600**

The group's taxable income is $1,800 ($2,400 – $600).

Losses in the bundle remaining as at 30 June 2003 are:

- transferred film losses $100 – $100 = $0
- transferred tax losses (not film) $700 – $300 – $400 = $0

As there are no losses remaining in the bundle it now ceases to exist (by the operation of subsection 707-315(3)).

References

Income Tax Assessment Act 1997, Subdivision 36-A

Income Tax Assessment Act 1997, sections 707-310, 707-315, 707-340; 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