

Treatment of foreign tax credits, attribution surpluses and foreign dividend accounts

Foreign tax credits

Under the single entity principle, the head company of a consolidated group is assessed on the foreign income of all members of the group. The head company can claim a foreign tax credit (FTC) against Australian tax payable on this income – using its own FTCs, FTCs of subsidiary members and excess FTCs transferred into the group from joining entities.

On consolidation, the excess FTCs of companies joining or forming a consolidated group are transferred to the head company. The excess FTCs are then pooled by the head company according to class of income and the income year in which they arose.

The head company generally cannot use the excess FTCs of a subsidiary member until the end of the head company's income year following the one in which the member joined the group.

However, transitional provisions operating from 1 July 2002 to 30 June 2004 allow a head company to use a joining entity's excess FTCs in the joining year in some circumstances, rather than in the following income year.

The grouping provision that allows the transfer of excess FTCs between companies in wholly-owned groups is not available for income years starting after 30 June 2003. Subject to the transitional provisions, from 1 July 2003 excess FTCs are only able to be transferred to a head company when a consolidated group is formed or when an entity joins a consolidated group.

Example

The worked example 'Pooling of excess foreign tax credits' (→ C6-2-110) shows how the excess FTCs of a joining entity are transferred to the head company of the group and may subsequently be used by the head company.

Note

Recent changes to consolidation rules

Recent changes to consolidation rules make minor refinements to deal with issues under current foreign tax credit provisions – see *Tax Laws Amendment (2004 Measures No. 2) Act 2004* (83 of 2004), Schedule 2, Part 9, Division 3 'Foreign tax credits'.

Claiming foreign tax credits

Section 160AF of the *Income Tax Assessment Act 1936* (ITAA 1936) allows an FTC to be claimed only by the entity that has paid and been personally liable for the foreign tax. To ensure a head company can claim an FTC against Australian tax payable on a consolidated group's foreign income, the head company is deemed to have paid and been personally liable for the foreign tax on that foreign income rather than the subsidiary member. This also applies to

foreign tax on certain overseas film income under Part III, Division 18A of the ITAA 1936 and certain shipping income under Division 18B.

Where the head company is assessed on foreign income, it can use its own FTCs, FTCs of subsidiary members and excess FTCs transferred into the group from joining entities. This applies even if the entity that paid the foreign tax is no longer a member of the group or if the foreign tax was paid by an entity after it left the group. However, if an entity is assessed on foreign income before joining the group but pays the foreign tax afterwards, the entity is still entitled to the FTC to offset the Australian tax payable by it on the foreign income.

Once transferred, FTCs are effectively pooled according to class of income and the year in which the credits arose. Any excess FTCs held by or arising for the head company (through subsidiary members in the consolidated group) remain with the head company when entities leave the group. This is because the head company is the only entity recognised as having paid and been personally liable for the foreign tax that gives rise to the FTCs.

Transfer and carry-forward of foreign tax credits

The rules for the carry-forward of excess FTCs are contained in section 160AFE of the ITAA 1936. Prior to its amendment¹ this section (the old section 160AFE) allowed:

- carry-forward of excess foreign tax paid over the Australian tax payable on foreign income for up to five years (excess FTCs from the earliest year must be used first), and
- transfer of excess FTCs between companies that have been members of the same wholly-owned group for the whole of an income year, subject to certain conditions.

The amended section 160AFE (the new section 160AFE) continues to allow all taxpayers to carry-forward excess FTCs for five years, but removes the provisions allowing transfer of excess FTCs between companies in a wholly-owned group.

Subject to certain variations and exceptions to its application in the transitional period (→ 'Application of new section 160AFE in the transitional period', page 4), the new section 160AFE applies to any income years and any non-membership periods starting after 30 June 2003. This basic rule applies to an entity whether or not it is a member of a consolidated group (or MEC group), either as a head company or subsidiary member, and irrespective of whether the entity has a substituted accounting period (SAP). The old section 160AFE continues to operate until 30 June 2003 or until the time the new section 160AFE applies.

Where an entity with excess FTCs becomes a subsidiary member of a consolidated group, the excess FTCs are effectively transferred to the head company of that group. This is done by deeming the head company to have

¹ Section 160AFE was amended by Schedule 10 of the New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Act 2002 (No. 90 of 2002)

held the excess FTCs (referred to as transfer credits) rather than the subsidiary member. Once transferred, the excess FTCs remain with the head company.

The head company cannot use the excess FTCs of a subsidiary entity until the end of the head company's income year following the one in which the entity joined the group, unless the transitional rule applies. This is the case whether or not the entity is still a member of the group at that time.

Where an entity is not currently a member of a consolidated group, it is entitled to any excess FTCs that arise under section 160AFE during that time. However, where the excess FTCs have been transferred to the head company of a consolidated group because the entity became a subsidiary member of that group, the entity relinquishes any future entitlement to those excess FTCs in later non-membership periods or when it joins another group.

Joining part-way through an income year

If an entity is a subsidiary member of a consolidated group for part but not all of an income year, and there are one or more periods in that year where it is not a member of any consolidated group, each period is referred to as a non-membership period. This period is treated as if it were an income year.

→ section 701-30, *Income Tax (Transitional Provisions) Act 1997*

Where a joining entity has a non-membership period and foreign income is included in its assessable income for that period, the entity can claim an FTC on any foreign tax it paid on that foreign income (even if it paid the tax after joining the group). The entity can also use any excess FTCs to which it is entitled (that is, FTCs that were not previously transferred to a head company), subject to the rules in section 160AFE. Any remaining excess FTCs are then transferred to the head company of the group it joins.

If an entity leaves a consolidated group part-way through an income year and foreign income is included in its assessable income, the leaving entity is entitled to claim an FTC only for the foreign tax paid on that foreign income. It cannot claim a credit for excess FTCs of earlier income years or non-membership periods because these FTCs now belong to and remain with the head company of the group the entity is leaving. → section 717-30, ITAA 1997

Transitional provisions

Transitional provisions apply for the period 1 July 2002 to 30 June 2004 (the transitional period).

The transitional provisions allow a head company to use a joining entity's excess FTCs in the formation year (rather than in the following income year as under the general rules). This applies to a joining entity's excess FTCs both from earlier years and any non-membership period preceding the joining time. This transitional provision can be used where:

- the consolidated group forms in the transitional period
- the new section 160AFE applies to the head company in the formation year
- the joining entity becomes a subsidiary member of the consolidated group on formation, and

- the head company and the joining entity were members of the same wholly-owned group from the beginning of the income year until the joining time (the beginning of the income year and the joining time may be the same time).

Excess FTCs from a non-membership period must be used by the head company before other transferred excess FTCs.

Application of new section 160AFE in the transitional period

In the transitional period the new section 160AFE applies to any income years and any non-membership periods starting after 30 June 2003, with certain exceptions and qualifications that affect:

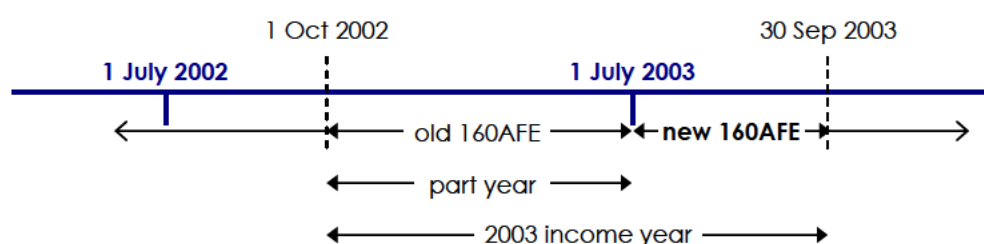
- taxpayers with a SAP that are not members of a group
- groups that form prior to 1 July 2003, and
- groups with a SAP that form between 1 July 2003 and 30 June 2004.

These situations are described below, together with an explanation of the '12 month rule' that affects the application of the old section 160AFE in each situation. The items from *New Business Tax System (Consolidation and Other Measures) Act (No. 1) 2002* (No. 117 of 2002) that provide the following rules have been inserted into the history to the new section 160AFE in the ITAA 1936.

Taxpayer with a SAP that is not a member of a group

Where an entity with a SAP is not a member of a consolidated or MEC group, the new section 160AFE applies from 1 July 2003 to the end of its income year as if that period were an income year, and from then on (figure 1). The old section 160AFE applies from the start of the entity's income year to 30 June 2003². If the taxpayer wants to transfer excess FTCs for this part-year, the old section 160AFE applies subject to the '12 month rule' → page 8.

Figure 1: Application of new section 160AFE to a taxpayer with a SAP

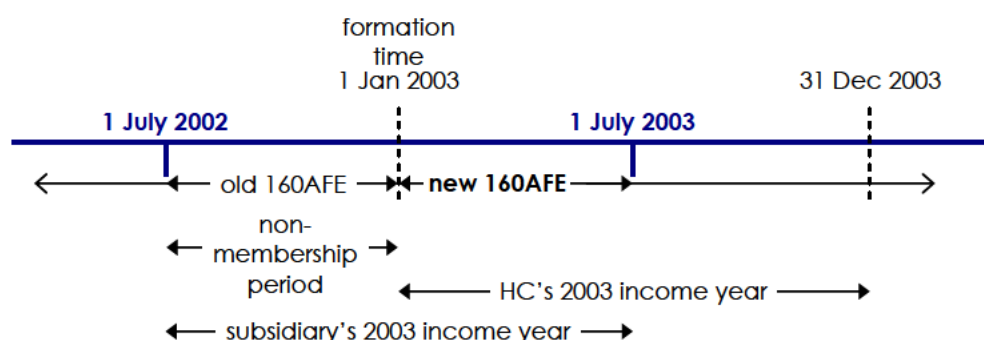


² Item 5 Schedule 15 New Business Tax System (Consolidation and Other Measures) Act (No. 1) 2002 (No. 117 of 2002)

Formation of group prior to 1 July 2003 (30 June balancer or SAP)

Where a group consolidates prior to 1 July 2003 and at the beginning of the head company's income year, the new section 160AFE applies from the time the consolidated group is formed (figure 2). The old section 160AFE applies until just before the formation time³. For the purpose of transferring excess FTCs in the non-membership period ending just before the formation time, the old section 160AFE applies subject to the '12 month rule' → page 8.

Figure 2: Application of new section 160AFE to members of a group forming prior to 1 July 2003



If in the above circumstances a company becomes the head company of a consolidated or MEC group other than at the beginning of its income year, whether or not the head company has a SAP, the old section 160AFE applies from the start of the head company's income year until just before the formation time⁴. This is illustrated in figure 3 for a head company without a SAP and in figure 4 for a head company with a SAP. The head company can choose to treat this shortened period as an income year. This means that if the head company wants to transfer excess FTCs in the shortened period, the old section 160AFE will apply subject to the '12 month rule' → page 8.

³ Item 3 Schedule 10 New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Act 2002 (No. 90 of 2002)

⁴ Item 6 Schedule 15 New Business Tax System (Consolidation and Other Measures) Act (No. 1) 2002 (No. 117 of 2002)

Figure 3: Application of new section 160AFE to a head company without a SAP that forms a group prior to 1 July 2003 during its income year

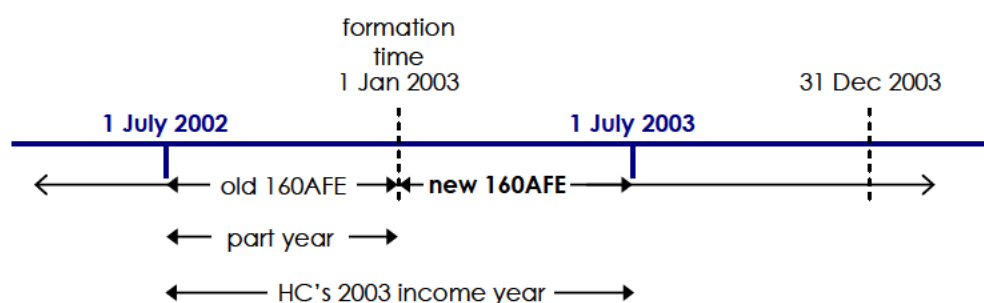
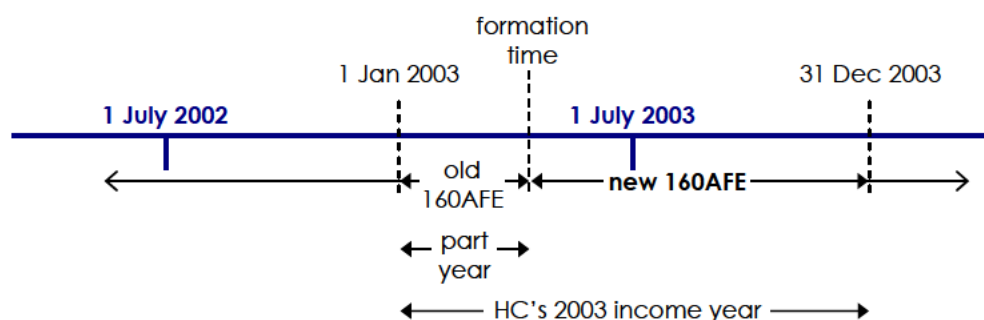


Figure 4: Application of new section 160AFE to a head company with a SAP that forms a group prior to 1 July 2003 during its income year

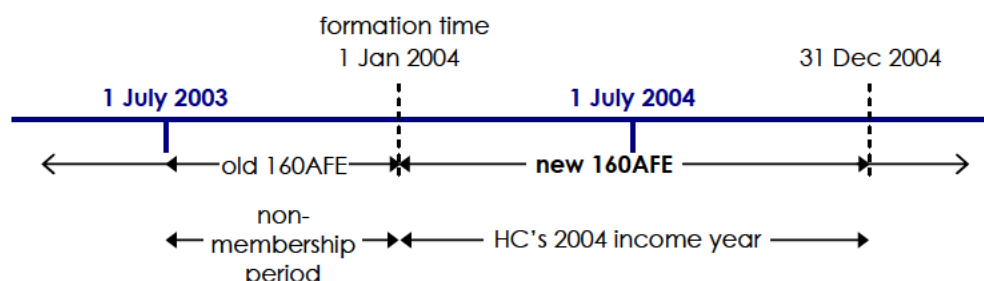


Formation of group with a SAP between 1 July 2003 and 30 June 2004

Where a group consolidates on the first day of the head company's first income year beginning on or after 1 July 2003 and before 1 July 2004, the new section 160AFE applies from the formation time⁵. The application of the old section 160AFE is extended until just before the formation time (figure 5). If a subsidiary member wants to transfer excess FTCs in the non-membership period ending just before the formation time, the old section 160AFE applies subject to the '12 month rule' → page 8. The head company is able to transfer excess FTCs under the ordinary rules of the old section 160AFE before the formation time.

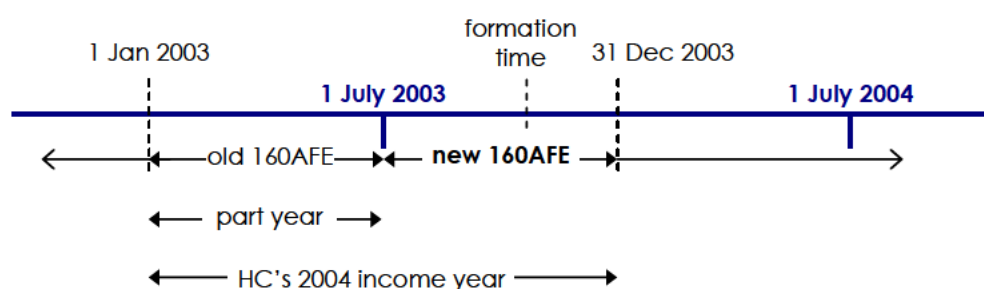
⁵ Item 3 Schedule 10 New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Act 2002 (No. 90 of 2002)

Figure 5: Application of new section 160AFE to members of a group forming at the start of the head company's income year that begins in the period 1 July 2003 to 30 June 2004



However, if in the above circumstances a company becomes the head company of a consolidated group other than at the beginning of its income year, the new section 160AFE applies from 1 July 2003 to the end of the head company's income year as if it were an income year. The old section 160AFE applies from the start of the head company's income year until 30 June 2003⁶ (figure 6). The head company can choose to treat this shortened period as an income year. This means that if the head company wants to transfer excess FTCs in this shortened period, the old section 160AFE applies subject to the '12 month rule' → page 8.

Figure 6: Application of new section 160AFE to head company that forms a group in the period 1 July 2003 to 30 June 2004, other than at the start of its income year



⁶ Item 7 Schedule 15 New Business Tax System (Consolidation and Other Measures) Act (No. 1) 2002 (No. 117 of 2002)

‘12 month rule’

The old section 160AFE allowed a company to transfer excess FTCs to another company only if both had continuously been members of the same group for an income year.

To maintain the integrity of this rule, where a period is less than an income year, be it a part year or a non-membership period, that period is treated as if it were an income year for the purposes of applying the old section 160AFE. The entity transferring the excess FTCs and the recipient entity must have been members of the same group for a continuous period of 12 months⁷. If either company had not existed for a period of 12 months, they must have both been group companies continuously from the time the relevant company, or companies, came into existence.

Essentially, in circumstances not already covered by the requirement in the old paragraph 160AFE(1D)(b):

- where the old section 160AFE ceases to apply on 30 June 2003, the continuous period ends at 30 June 2003, and
- where the old section 160AFE ceases to apply on a date other than 30 June 2003, the continuous period ends at the formation time.

Attribution surpluses

In keeping with the single entity principle, in a consolidated group only the head company is able to operate attribution accounts and attributed tax accounts for the purposes of the controlled foreign company (CFC) and foreign investment fund (FIF) provisions. The pre-consolidation surpluses of such accounts are transferred to the head company.

This section explains the rules for:

- dealing with attribution accounts at entry and exit, and
- calculating the appropriate amount of FIF income that should be assessed to an entity that joins or leaves a consolidated group with an interest in a FIF in order to determine the surplus to be transferred.

Example

The worked example ‘Transfer of attribution surpluses’ (→ C6-2-210) shows how attribution account surpluses relating to interests in CFCs, FIFs and FLPs are transferred from a joining company to a head company at the joining time and from a head company to a leaving company at the leaving time.

⁷ Items 8 and 9 Schedule 15 New Business Tax System (Consolidation and Other Measures) Act (No. 1) 2002 (No. 117 of 2002)

Transfer of surpluses

These rules apply to surpluses in attribution accounts, attributed tax accounts, FIF attribution accounts and FIF attributed tax accounts – collectively referred to here as ‘attribution accounts’.

At entry

A company that becomes a subsidiary member of a consolidated group may hold interests in a CFC, FIF or foreign life assurance policy (FLP). If the balance of any relevant attribution account kept by that company is in surplus immediately before the joining time, the surplus is transferred to the head company of that group.

This ensures that distributions from CFCs, FIFs and FLPs are not taxed to the head company where the joining company has already been taxed on the attributed income.

A surplus is transferred from the joining company to the head company in the following way:

- 1 The balance of the joining company’s attribution account is calculated immediately before the joining time to determine the amount of the surplus to be transferred (if any).
- 2 At the joining time an attribution account credit equal to the amount of that surplus arises in the attribution account of the head company.
- 3 At the same time, a corresponding and equal attribution account debit arises in the attribution account of the joining company.

After the transfer of surpluses, the attribution accounts of the joining company become inoperative. Any attribution account debits or credits that would have arisen in the attribution accounts kept by the joining company during the time it is a member of the consolidated group will now arise in the attribution accounts kept by the head company.

At exit

When a company leaves a consolidated group it may take with it interests in a CFC, FIF or FLP. Where this happens, the head company transfers to the leaving company a proportion of the attribution account surplus that the head company has in relation to these interests.

The underlying rationale for transferring the surplus on exit is the same as that for transferring attribution account surpluses on entry, and the procedure is effectively a reversal of steps 1 to 3 above. The principal difference, however, is in the amount transferred.

Only a proportion of the head company's attribution account surplus, as it relates to the relevant CFC, FIF or FLP interests, is transferred. The proportion is calculated at the leaving time using the following formula:

$$\frac{\text{Leaving company's attribution account percentage}^1 \text{ in relation to the attribution account entity}^2 \text{ at the leaving time}}{\text{Head company's attribution account percentage in relation to the attribution account entity just before the leaving time}} \times \text{Attribution surplus for the attribution account entity in relation to the head company just before leaving time}$$

Notes:

¹ The term 'attribution account percentage' is defined in the ITAA 1936, section 364 for CFCs and section 602 for FIFs.

² An 'attribution account entity' is defined in the ITAA 1936, section 363 for CFCs and section 601 for FIFs.

Calculation of
FIF income
before the
joining or leaving
time

Special rules are required to ensure that the correct amount of FIF income is assessed to the correct taxpayer where a company joins or leaves a consolidated group during the notional accounting period of a FIF. To achieve this, where the FIF's notional accounting period does not actually end at the joining time or leaving time, it is taken to end immediately before the joining or leaving time. These rules are not required for interests held in CFCs (see note).

Note

Calculation of CFC income

Under the CFC rules, an attributable taxpayer includes its share of the CFC income for the whole statutory accounting period of the CFC when the statutory accounting period ends in the income year of the taxpayer. If the CFC's statutory accounting period ends in a non-membership period of a company that joins or leaves a group, that company is assessed on its attribution percentage of the whole of the CFC's attributable income for the CFC's statutory accounting period that ended in the company's income year. If the CFC's statutory accounting period ends while the company is a member of a group, the head company is assessed instead on the attributable income for the whole statutory accounting period.

At entry

If a joining company holds an interest in a FIF at a time immediately before the joining time and the notional accounting period of the FIF actually ends at the joining time, the joining company will calculate the FIF income according to the rules in Part XI of the ITAA 1936. If this is not the case, the notional accounting period of the FIF is taken to end immediately before the joining time and the joining company will need to calculate the FIF income relating to the shortened notional accounting period that ended at that time.

If the FIF income calculation results in an amount being assessable, a credit arises in the joining company's FIF attribution account. If the calculation results in a FIF loss and the FIF attribution account is in surplus, so much of the FIF loss as does not exceed that surplus is allowable as a deduction against

the joining company's assessable income for that period. A debit will arise in the joining company's FIF attribution account to the extent of the allowable deduction. Any remaining FIF loss will be inherited by the head company under the entry history rule.

Thus, all possible credits and debits to the FIF attribution account and FIF attributed tax account are made before the surplus (calculated immediately before the joining time) is transferred to the head company.

The head company will have FIF income included in its assessable income from the joining time onwards in accordance with the FIF provisions. This is achieved by the head company being deemed to have acquired the FIF interests at the joining time. The deemed acquisition at the joining time means that the head company will only include in its assessable income an amount of FIF income relating to the period from the joining time until the end of the notional accounting period of the FIF.

At exit

When a company leaves a consolidated group taking FIF interests with it, the principles for calculating FIF income are effectively the same as those outlined above but in reverse.

Where the notional accounting period of the FIF is taken to end at the leaving time, the head company determines the FIF income and the FIF attribution and attributed tax account surpluses immediately before the leaving time as though the FIF interest held by the leaving company was held by the head company at the end of its income year. As in the entry case, this calculation is made to determine the FIF income where the notional accounting period of the FIF does not ordinarily end at the leaving time.

The head company will continue to determine the FIF income in relation to the interests in the FIF remaining in the group, from the leaving time until the actual end of that FIF's notional accounting period.

The leaving company will have FIF income included in its assessable income from the leaving time onwards in accordance with the FIF provisions. This is achieved by the leaving company being deemed to have acquired the FIF interests at the leaving time. The deemed acquisition at the leaving time means that the leaving company will only include in its assessable income an amount of FIF income relating to the period from the leaving time until the end of the notional accounting period of the FIF.

Deferred attribution credits

An attributable taxpayer joining a consolidated group may have elected to defer the timing of an attribution credit that relates to the attribution of an unrealised gain on assets (a notional gain) where a CFC changes residence from an unlisted country to a listed country. At the joining time, the joining company's deferred attribution credit is made available for the head company to use when the CFC pays a dividend from a gain derived from the actual disposal of an asset. → section 717-227 Schedule 8, *New Business Tax System (Consolidation and Other Measures) Act 2003*

Measures) Act 2003

A company that leaves a consolidated group with an interest in a CFC is able to take a proportion of the deferred attribution credit that relates to the attribution account percentage of the attribution account entity. The amount of the deferred attribution credit –referred to as the ‘original credit’ – is worked out using the following formula:

$$\frac{\text{Leaving company's attribution account percentage in relation to the attribution account entity at the leaving time}}{\text{Head company's attribution account percentage in relation to the attribution account entity just before the leaving time}} \times \text{Original credit}$$

The proportion taken by the leaving company reduces the amount of the attribution credit available for the head company to use when the CFC pays a dividend from gains derived from the actual disposal of an asset. → section 717-

262 Schedule 8, *New Business Tax System (Consolidation and Other Measures) Act 2003*

Elections relating to CFCs FIFs and FLPs

An entity can make irrevocable elections in relation to calculating the attributable income of CFCs, or FIF income in relation to FIFs or FLPs. If a subsidiary member makes irrevocable elections prior to the joining time, those elections are not taken to have been made by the head company for the head company core purposes. The head company is also not prevented from applying the calculation method to determine FIF income if an entity that became a subsidiary member would have been prevented from using the calculation method had it not joined the consolidated group.

However, any irrevocable elections made by a head company prior to consolidation continue to apply to interests in CFCs, FIFs and FLPs that the head company holds under the single entity principle. Also, if a head company is prevented from using the calculation method to determine FIF income, it continues to be bound by that restriction. → Subdivision 717-F Schedule 8, *New*

Business Tax System (Consolidation and Other Measures) Act 2003

An entity that leaves a consolidated group is not bound by any elections made by the head company prior to the leaving time. After the leaving time, the leaving entity can make its own elections under Parts X and XI in calculating attributable income or FIF income. → Subdivision 717-G Schedule 8, *New Business Tax*

System (Consolidation and Other Measures) Act 2003

Note

Recent changes to consolidation rules

Recent changes to consolidation rules may affect irrevocable elections in relation to interests in foreign investment funds that are trading stock – see *Tax Laws Amendment (2004 Measures No. 2) Act 2004* (83 of 2004), Schedule 2, Part 9, Division 1 ‘Elections about valuing interests in FIFs held as trading stock’.

Foreign dividend accounts

During consolidation, a head company of a consolidated group operates a single foreign dividend account (FDA) by pooling any FDA surpluses or FDA deficits transferred to it at the joining time. The head company is also able to aggregate the foreign investments of all its subsidiary members. The aggregation of the foreign investments held by the members enables the head company to credit the FDA for the total non-portfolio dividends received and debit the account for the total foreign tax paid.

Example

The worked example 'Transfer of foreign dividend account balance' (→ C6-2-310) shows the transfer of a joining company's FDA balance to the head company of a consolidated group. It also shows how the head company uses the FDA surplus to pay non-resident shareholders unfranked dividends exempt from dividend withholding tax.

FDA surplus

An FDA surplus is an excess of FDA credits over FDA debits.

If a subsidiary member has an FDA surplus at the balance time (that is, a time just before the joining time), that FDA surplus is transferred to the head company by:

- entering an FDA debit in the subsidiary member's account equal to the FDA surplus at the balance time, and
- entering an FDA credit in the head company's account equal to the FDA surplus at the joining time.

FDA deficit

An FDA deficit is an excess of FDA debits over FDA credits.

If a subsidiary member has an FDA deficit at the balance time, that FDA deficit is transferred to the head company by:

- entering an FDA credit in the subsidiary member's account equal to the FDA deficit at the balance time, and
- entering an FDA debit in the head company's account equal to the FDA deficit at the joining time.

→ section 717-510 Schedule 9, *New Business Tax System (Consolidation and Other Measures) Act 2003*

The FDA of a subsidiary member is inoperative following the transfer of its FDA balances – no credit or debit entries are made to the subsidiary member's FDA during the time it is a member of a consolidated group.

Joining part-way through an income year	If a company joins a consolidated group part-way through its income year, and an FDA debit for an Australian taxable dividend amount would arise for that company had it not joined the consolidated group, an FDA debit is made to the account immediately before the balance time. The FDA debit amount for the Australian taxable dividend amount is calculated according to the formula in subsection 128TB(2) of the ITAA 1936.
Leaving a consolidated group	When a company ceases to be a subsidiary member of a group it cannot take an FDA balance with it on exit.
FDA declarations	<p>During consolidation, the head company can utilise a pooled FDA surplus to pay non-resident shareholders unfranked dividends, free from dividend withholding tax. The head company is taken to make the FDA declarations for dividends paid to its shareholders and to the shareholders of its subsidiary members. If the head company makes more than one FDA declaration on a particular day, the sum of the FDA declaration amounts must not exceed the FDA surplus at the beginning of the day.</p> <p>If the total of the FDA declaration amounts exceeds the FDA surplus, the FDA declaration percentages specified by the head company are proportionally reduced so that the FDA declaration amounts do not exceed the FDA surplus available to the head company. The proportional reduction of the FDA declaration percentages, which in turn reduces the FDA declaration amounts, does not affect the dividend amount paid to non-resident shareholders.</p> <p>→ sections 717-520 and 717-525 Schedule 9, <i>New Business Tax System (Consolidation and Other Measures) Act 2003</i></p>
Repeal of the FDA grouping provision	<p>The FDA grouping provision, which allows resident companies of a wholly-owned group to transfer a proportion of the FDA surplus with the payment of unfranked dividends, generally ceases to apply from 1 July 2003.</p> <p>If a head company with a substituted accounting period consolidates on the first day of its first income year after 1 July 2003, it can continue to access the FDA grouping provision until the date of consolidation.</p>
MEC groups	<p>The FDA rules that apply for a consolidated group also apply to MEC groups. In a MEC group, the provisional head company operates the FDA as well as making FDA declarations for dividends paid to non-resident shareholders. Where a provisional head company is replaced by a new provisional head company, the FDA balance is transferred from the old provisional head company to the new one. → section 719-905 Schedule 9, <i>New Business Tax System (Consolidation and Other Measures) Act 2003</i></p>

Note

Recent changes to consolidation rules

The treatment of foreign dividend accounts is affected by changes to consolidation rules – see *Tax Laws Amendment (2004 Measures No. 2) Act 2004* (83 of 2004), Schedule 2, Part 9, ‘Refinements to foreign dividend account provisions’.

Offshore banking units

If a member of a consolidated group is a gazetted offshore banking unit (OBU), the consolidation rules deem the head company of the consolidated group to be an OBU for the period in which the subsidiary member has this status.

The OBU provisions in Division 9A of Part III of the ITAA 1936 will apply to the head company to ensure that the income arising from offshore banking activities of members of the group are effectively taxed at 10%. Division 9A will also apply in this way where the head company itself is an OBU. → Section 717-710 Schedule 10, *New Business Tax System (Consolidation and Other Measures) Act 2003*

However, the head company will not be taken to be an OBU for the purposes of determining whether a non-resident lender to the group is entitled to withholding tax exemptions under Division 11A of Part III of the ITAA 1936. This is because the withholding tax regime is not covered by the core purposes and therefore not subject to the single entity rule. In other words, for the exemptions under Division 11A to apply to an interest payment to a non-resident, the member of the group paying the interest must in itself be a gazetted OBU.

References

Income Tax Assessment Act 1936, sections 128TB, 128TC; Division 9A of Part III, Division 11A of Part III

Income Tax Assessment Act 1936, sections 160AF and 160AFE, Part III, Divisions 18A and 18B – as amended by:

- *New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Act 2002* (No. 90 of 2002), Schedule 10
- *New Business Tax System (Consolidation and Other Measures) Act (No. 1) 2002* (No. 117 of 2002), Schedule 15

Income Tax Assessment Act 1997, section 701-5

Income Tax Assessment Act 1997, Division 717, Subdivision 717-A – as amended by:

- *New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Act 2002* (No. 90 of 2002), Schedule 6
- *New Business Tax System (Consolidation and Other Measures) Act (No. 1) 2002* (No. 117 of 2002), Schedule 7
- *New Business Tax System (Consolidation and Other Measures) Act 2003* (No. 16 of 2003), Schedules 8, 9 and 10

Income Tax (Transitional Provisions) Act 1997, section 701-30; as amended by *New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Act 2002* (No. 90 of 2002), Schedule 7

Income Tax (Transitional Provisions) Act 1997, Division 717; as amended by *New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Act 2002* (No. 90 of 2002), Schedule 9

Explanatory Memorandum to the New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Bill 2002, Chapter 3

Explanatory Memorandum to the New Business Tax System (Consolidation and Other Measures) Bill 2002, Chapter 9

Explanatory Memorandum to the New Business Tax System (Consolidation and Other Measures) Bill (No. 2) 2002, Chapter 7

Revision history

Section C6-1 first published (excluding drafts) 2 December 2002 and updated 28 May 2003.

Further revisions are described below.

Date	Amendment	Reason
14.7.04	Note on recent changes to consolidation rules, pp. 1, 12, 14.	Legislative amendments.

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).