Record keeping guidelines and checklist

Purpose and status

Purpose

These guidelines are intended to help business managers and their tax advisers meet the documentation and record keeping requirements of the consolidation regime. Publication of the guidelines responds to requests from the business community for the Tax Office to restate existing record keeping requirements and summarise any additional requirements imposed by consolidation.

Status

These draft guidelines do not attempt to set out in comprehensive detail the obligations of taxpayers under consolidation. The guidelines are under development, and the Tax Office will continue to discuss the scope and content of this document with the business community.

The record keeping requirements set out here are based on the existing regulatory regime and are consequently mandatory. Therefore, while a taxpayer may exercise discretion and judgement about the form and content of the documentation required to meet their obligations under section 262A of the *Income Tax Assessment Act 1936* or section 121-20 of the *Income Tax Assessment Act 1997*, they must keep any such documentation according to the requirements of the existing regulatory regime.

By following these guidelines, taxpayers can be more confident that they have met their compliance obligations and that consequently the Tax Office will perceive them as low risk to revenue.

Contents

Why keep business records?

There are four reasons why taxpayers should keep documentation recording transactions and other acts relevant to the taxation laws:

1 statutory requirements to keep records

2 penalties for failure to keep or retain records

3 the practical advantage of reduced risk of tax audits and adjustments and improved communication with the Tax Office, and

4 the burden of proof, which rests with taxpayers in the event of dispute.

Statutory requirements

Section 262A of the *Income Tax Assessment Act 1936* (ITAA 1936) requires a person, including a company, carrying on a business to keep records that record and explain all transactions and other acts engaged in by the person that are relevant for any purpose of the Act.[1] In particular, the section requires taxpayers to keep:

- any documents that are relevant for the purposes of ascertaining the person's income and expenditure, and
- documents containing particulars of any election, estimate, determination or calculation made by the person under that Act, and particulars showing the basis for and the method by which an estimate, determination or calculation was made.

These records must be in writing in the English language or made readily accessible and convertible into writing in English.

Similarly, section 121-20 of the *Income Tax Assessment Act 1997* (ITAA 1997) requires taxpayers to keep records of every act, transaction, event or circumstance that can reasonably be expected to be relevant to working out whether they have made a capital gain or capital loss from a CGT event as described in Division 104 of the ITAA 1997. It does not matter whether the CGT event has already happened or may happen in the future.

As with section 262A of the ITAA 1936, the records must be in English or be readily accessible and convertible into English. The records must also show details of how the act, transaction, event or circumstance is relevant to working out whether a taxpayer has made a capital gain or loss. The records must then be retained until the end of five years after it becomes certain that no CGT event can happen where the records could reasonably be expected to be relevant.

Where a consolidated group has life insurance company subsidiary members, special consolidation rules will apply to that group to take into account the existing rules for the taxation of life insurance companies. Section 262A of the ITAA 1936 will apply to records relevant for the purpose of these special rules.

[1] Defined by section 6 to include the *Income Tax Assessment Act 1997*.

The Tax Office has produced the following rulings to provide guidance to taxpayers about their record keeping obligations under the taxation laws:

- *TR 96/7: Income tax: record keeping – section 262A – general principles*
- *TR 97/21: Income tax: record keeping – electronic records*

Other taxation rulings mentioned later in this paper discuss income tax documentation issues for taxpayers with specific types of transactions, such as cross-border related party dealings.

The Tax Office also provides information on record keeping requirements that is specially designed for small business. → ATO publication, *A Guide to keeping your business records*

Penalties

If taxpayers fail to keep records relevant to the assessment of their income tax, they could become liable to the administrative penalty that applies to a breach of section 262A of the ITAA 1936 or to prosecution for an offence under section 8L of the *Taxation Administration Act 1953* (TAA 1953).

Less risk of audit and dispute, better communication

The Commissioner of Taxation has a statutory obligation to ensure compliance with the taxation laws. There are sound practical reasons why taxpayers should retain all documentation that records and explains all tax-law relevant transactions and other acts they engage in. The keeping of such documentation helps mitigate the risk of audit by and dispute with the Tax Office. It also helps taxpayers communicate their position to the Tax Office.

Providing proof

In addition, appropriate record keeping helps taxpayers meet the burden of proof in the event of dispute. Sections 14ZZK and 14ZZO of the TAA 1953 prescribe that the taxpayer has the burden of proving that a disputed assessment is excessive. This is the case whether the taxpayer is seeking a review of an assessment or is appealing against an objection decision.

In discharging their onus of proof, a taxpayer must not only show that the assessment is wrong, but must also positively establish the correction that makes it right or more nearly right (see *Trautwein v. FC of T* (1936) 56 CLR 63; *FC of T v. Dalco* (1990) 168 CLR 614; 90 ATC 4088; (1990) 20 ATR 1370; *FC of T v. Australia and New Zealand Savings Bank Limited* (1994) 181 CLR 466; (1994) 29 ATR 11; 94 ATC 4844; *Allard v. FC of T* 92 ATC 4897; (1992) 24 ATR 493).

If there is a dispute, a taxpayer who has documentation about transactions will be better placed to discharge their burden of proof.

Requirements for retaining records

Head company to retain records

As the head company has absorbed the subsidiaries for all purposes of the ITAA 1936 and ITAA 1997, it is regarded as the taxpayer for all income tax purposes relating to the period of consolidation. Consequently, the head company will be required to meet all its subsidiaries' obligations under section 262A of the ITAA 1936 and section 121-20 the ITAA 1997 as they relate to the process of consolidation and the assessment of future income tax liabilities.

The head company is responsible for keeping records to record and explain all transactions and other acts even though a subsidiary may have engaged in transactions relevant for the purpose of the act.

Physical transfer of the records will not always be necessary, as the effect of the consolidation measure is that the head company's obligation to keep records will be discharged if a subsidiary member keeps the records.

Note

Record keeping arrangements

The head company will need to enter into arrangements with subsidiary members to ensure that records required under the taxation laws are correctly kept.

When a subsidiary member leaves a group, both the head company and the leaving entity should ensure they retain copies of, or have access to, the relevant tax records required to meet their obligations under section 262A.

Period of record retention

A person must keep records for five years after they are prepared or obtained or five years after the completion of the transaction or acts to which they relate (whichever is the later).

Additionally, section 121-25 of the ITAA 1997 requires a taxpayer to retain records until the end of five years after it becomes certain that no CGT event (or no further CGT event) can happen. Where a net capital loss is made, taxpayers may need to keep records for a longer period, depending on whether the loss will be applied against a future gain. In this event, taxpayers are required to keep their records for five years after any CGT event where a gain is made that is reduced by applying the net capital loss.

Under the consolidation regime, records relating to the process of consolidation will need to be kept in addition to records relating to transactions and acts of subsidiary members that are relevant to the determination of the head company's future income tax liabilities.

Consolidation-specific records

Overview

A consolidated group is treated as a single entity for income tax purposes. As a consequence of this, the head company must retain, in addition to the records needed to determine its income tax liability, records that document, among other things:

- the process of forming the consolidated group
- the tax history of the joining entities under the entry history rule
- entries and exits of subsidiary members
- events that result in an entity being no longer eligible to be a head company
- events where a consolidated group no longer has subsidiary members, and
- consolidation eliminations or adjustments to derive the income tax outcomes for the head company of the group.

Information documenting the formation of a consolidated group

The additional records to be kept by a consolidated group may include records containing particulars of the following:

- market value of assets of a joining entity at the joining time
- market value of assets at the time membership interests were acquired
- how the values of assets were calculated when implementing the choice to consolidate
- how the allocable cost amount (ACA) was calculated for each subsidiary entity
- use of transitional option or new tax values for assets set through cost setting rules
- CGT cost bases at the joining time
- opening trading stock values or the amount of the outgoing incurred in acquiring trading stock on hand at the joining time
- adjustable values for depreciating assets at the joining time
- value of all liabilities of a joining entity that may be recognised by the Australian Accounting Standards or Statements of Accounting Concepts
- modified market value of a joining entity
- adjusted market value of the consolidated group
- special rules relating to consolidated groups that have life insurance company subsidiary members
- documentation of all inter-member eliminations and tax adjustments applicable to the consolidated group, and
- tax sharing agreements covering the group's income tax-related liabilities.

Tax-specific records that may be required

Under the Corporations Law, entities generally prepare financial reports in accordance with the accounting standards. The law and accounting standards generally require an entity to detail different classes of assets and liabilities, income details and other reporting requirements.

As well as producing financial statements, entities will need to maintain additional records in accordance with the requirements of the income tax laws. Also, when entities form a consolidated group, records documenting the consolidation process and determining the head company's future income tax liabilities will need to be kept.

Records that may be required on specific aspects of the consolidation regime include the following:

Membership rules and notification

- a record of the wholly-owned members of the consolidated group and membership interests in each of the member entities. A chart of the group structure with particulars of membership interests at relevant dates would satisfy this requirement. Related entities excluded from the consolidated group should be shown with reasons for their exclusion if this is not explicit or obvious. Also include all non-resident entities interposed between members of the group.
- particulars, including number, class and value, of shares in member entities issued under arrangements for employee shareholdings. When determining the market value of employee share interests, a valuation short cut option may be available → 'Market valuation guidelines', C4-1
- the date on which the group chooses consolidation to take effect
- dates of movements of entities into and out of the consolidated group. When entities join or leave the consolidated group, particulars of changes to membership interests and assets brought into the group or taken from the group by the leaving entity
- the date when a head company with a substituted accounting period (SAP) chooses consolidation to take effect.

→ 'Notifying status', B3-1

→ 'Changing group membership', B3-5

Note

Recent changes to consolidation rules

Recent changes to the CGT rules have shortened from 2 months to 28 days the period in which an interposed company may choose that the consolidated group continue in existence under section 124-380 of the ITAA 1997 so as to align with the notification period for events affecting consolidated groups under section 703-60 of the ITAA 1997 – see *Tax Laws Amendment (2004 Measures No. 2) Act 2004* (83 of 2004), Schedule 2, Part 3, 'Technical amendments relating to membership rules'.

Subsidiary member leaves the consolidated group

- date and particulars of change in membership interests or other event that causes a subsidiary member to leave a consolidated group
- documents containing particulars of the head company's cost setting for the net assets that the leaving entity takes with it
- particulars of the head company's cost setting of membership interests in the leaving entity
- particulars of liabilities owing to other members of the consolidated group by the leaving entity
- particulars of the market valuation, when required, of any liabilities owing to other members of the consolidated group by the leaving entity
- documents containing particulars of any ongoing arrangements involving income, expenditure, assets or liabilities between a member of the consolidated group and the leaving entity – such as loans subject to interest, the provision of property under lease or prepayments for the future provision of goods and services
- supporting calculations for the cost setting of membership interests in the leaving entities where two or more entities cease to be subsidiary members of the group at the same time
- supporting calculations for setting costs of membership interests in the entities affected where the leaving entity holds membership interests in other subsidiary members of the consolidated group, as these other subsidiary members of the group will also cease to be members of the group at the leaving time. The cost of membership interests in each of the leaving entities must be worked out on a 'bottom-up' basis
- supporting calculations where the leaving entity takes with it assets that had a pre-CGT factor and where membership interests in the leaving entity are deemed to be pre-CGT assets.

→ 'Changing group membership', B3-5

Consolidated group ceases to exist

- dates and particulars of change in the membership interests in the head company or other event that causes the consolidated group to cease to exist
- head company notification to Tax Office of cessation
- records of tax events and transactions at the time of the group ceasing to exist
- market valuations, where required, to establish the cost base of membership interests and tax values for assets
- when the head company becomes a subsidiary member of another consolidated group, supporting calculations for available fraction adjustments and changes to the cost base of membership interests and tax values of assets.

→ 'Changing group membership', B3-5

Treatment of assets and cost setting rules

- asset register – to contain additional information to that required by section 121-35 of the ITAA 1997. The register should show the type of asset of the joining entity and the asset's terminating value immediately before consolidation. It should also show the cost base of the membership interests in the joining entity as the starting point for the calculation of the allocable cost amount and any pre-CGT factor applicable to that membership interest in a joining entity that is a pre-CGT asset
- depreciation schedule, showing adjustable value (cost) and depreciation details
- statement of whether the head company has chosen to use the transitional provisions and retain existing tax costs for the assets of each joining entity
- documentation of a company's choice to continue to claim accelerated depreciation in respect of a depreciating asset where the joining entity was entitled to accelerated depreciation
- records showing the group's cost setting process, including:
  - steps one to eight of the calculation of the allocable cost amount for a joining entity
  - particulars of retained cost base assets, and
  - allocation of balance of allocable cost amount to the reset cost base assets
- particulars of a joining entity's liabilities in accordance with the accounting standards or statements of accounting concepts, identifying whether the liabilities are owed to third parties or other group members

  Where the accounting standards and statements of accounting concepts do not apply to the joining entity it is still necessary to identify the relevant liabilities by reference to those liabilities that can or must be identified under the accounting standards or statements of accounting concepts.
- documentation to support any adjustments made to liabilities to account for differences between liabilities taken into account under generally accepted accounting principles and under the income tax laws. In circumstances where the historical information required for calculating these adjustments is no longer available, the adjustment should be determined on the most reliable basis for estimation available.

  In circumstances where the historical records identifying income tax payable on profits of a joining entity are not available to the joined group, the head company can use the most reliable basis for estimation available.
- documentation containing particulars of where a liability taken into account in working out the ACA of an entity that joins a consolidated group is later discharged for a different amount and the difference is treated as a capital gain or loss at the time of discharge
- documentation containing particulars of where a mistake in working out the tax cost setting amounts for the assets of an entity joining a

consolidated group has been brought to account as a capital gain or loss documentation containing particulars of where the head company has chosen to reduce the tax cost setting amount for an entity's depreciating assets to the terminating value for those assets

- documentation containing particulars of where the head company has chosen to reduce the tax cost setting amount for an entity's depreciating assets to the terminating value for those assets
- documentation containing particulars of where the head company chooses to add back the whole or part of an adjustment for over-depreciation when working out its cost base for membership interests in a leaving entity
- when entities join or leave the consolidated group, particulars of changes to membership interests and assets brought into the group by the joining entity or taken from the group by the leaving entity
- documentation where, for certain pre-CGT assets held by a head company at formation time, the head company chooses to use their formation time market values instead of terminating values when calculating costs of membership interests for an entity leaving a group.

Where the pre-CGT status of membership interests in a joining entity has been preserved by attaching a pre-CGT factor to the assets of the joining entity at the joining time, records required would include:

- documents containing particulars of all membership interests in the joining entity, including date of purchase, number and type of membership interests and cost of membership interests
- documentation supporting the market valuation of membership interests → 'Market valuation guidelines', C4-1, and
- particulars of the calculation of the pre-CGT factor.

→ 'Determining asset values', B2-2

→ 'Treatment of assets', C2-1

Market valuations

The extent of information and documentation that a taxpayer creates, obtains and keeps in regard to a market valuation should depend on:

- the complexity of the market valuations involved
- the value of the asset being valued relative to other assets of the taxpayer, and
- the degree of judgement or objectivity inherent in the market valuation process.

Where market valuations have been used for the purposes of consolidation, including establishing the cost of membership interests, tax values for assets or an available fraction for a bundle of losses, the market valuation report and supporting documentation should contain as a minimum:

- description of the asset valued
- purpose and context of the market valuation
- specific market value
- date or period to which the market valuation relates
- description of methodologies employed
- information on which the market valuation is based, and
- details of any assumptions relied on in the market valuation.

→ 'Market valuation guidelines', C4-1

Franking accounts

On consolidation, the franking surpluses of subsidiary members are transferred to the head company. The head company operates a single franking account for the group.

The head company will retain records for the single franking account and records to support compliance with the franking account rules for consolidated groups. From 1 July 2002 franking accounts will be operated in accordance with the rules set out in the *New Business Tax System (Imputation) Act 2002.*

Records must be kept of:

- all franking account surpluses transferred from the joining entities to the head company's consolidated franking account, and
- particulars of the treatment of any deficit in a subsidiary's franking account.

→ 'Transferring franking credits', B2-4

→ 'Treatment of franking credits', C5-1

International provisions

Advance Pricing Arrangements

Advance Pricing Arrangements (APAs) are already dealt with through taxation ruling *TR 95/23: Transfer pricing – procedures for bilateral and unilateral advance pricing arrangements*.

Where a subsidiary member or head company of the consolidated group has entered into an APA, the head company must, in effect, retain all records relied on in concluding the APA and discharging any obligations pursuant to the APA.

As part of discharging the agreed APA obligations, the head company will need to record and report data as required to the Tax Office. The relevant

APA data and information for the APA annual compliance report are agreed to and explicitly stated in the final documentation, setting out the terms of the APA agreed to with the Tax Office.

Unless otherwise stated in the APA, all records must be kept in accordance with the record keeping requirements under the Act.

The head company will continue to be responsible, as part of the APA, for the compliance with the APA and preparation of an annual compliance report for each year of the APA. That report will contain sufficient information to detail the actual results for the relevant APA year and to demonstrate compliance with the terms and conditions of the APA.

The annual APA compliance report is separate to any requirement the head company has to self-assess and lodge a single income tax return for the consolidated group.

The APA program aims to provide taxpayers with an opportunity to reach an agreement with the Tax Office on the future application of the arm's length principle in their international dealings with related parties. One of the stated benefits of this program is to reduce the record keeping burden on taxpayers.

Transfer pricing

Taxation Ruling *TR 98/11: Income tax: documentation and practical issues associated with setting and reviewing transfer pricing in international dealings* provides guidance on the documentation and records that a head company would be well advised to retain when setting and reviewing transfer prices for the international related party dealings of a consolidated group.

This ruling also provides guidance on the documentation and record keeping requirements for small business taxpayers and entities with low levels of international dealings.

Foreign-owned multiple entry consolidated (MEC) groups

By forming a MEC group, a foreign-owned group of Australian entities may be able to consolidate despite not having a single Australian head company. Records to support choices about forming a MEC group include:

- particulars of membership interests in all tier-1 Australian resident subsidiaries of a foreign resident company
- particulars of the foreign resident company's membership interests in all other Australian entities
- documentation establishing that all of the eligible tier-1 companies of the foreign resident company have chosen to form the MEC group
- documentation to support the joint nomination of one of the eligible tier-1 companies as the provisional head company, and
- particulars of pooled cost bases of membership interests where the pooling rules apply.

→ 'Multiple entry consolidated (MEC) groups', C10-1

Foreign tax credits (FTCs)

Taxpayers should retain records to support compliance with proposed FTC rules for dealing with the transfer of excess foreign tax credits to the head company of a consolidated group at the time the group is formed and at the time an entity joins a consolidated group.

Records should show, among other things, that the joining entity of a consolidated group has been a member of that group for twelve months if the FTCs of the joining entity are to be utilised in the tax year of consolidation.

FTCs must be clearly identified by class of income and the year in which they arose when pooled by the head company.

→ 'Transferring foreign tax credits and attribution surpluses', B2-5

→ 'Pooling of excess foreign tax credits', C6-2-110

Controlled foreign companies (CFC) and foreign investment funds (FIF)

In accordance with the single entity principle, only the head company will be able to operate attribution accounts and attributed tax accounts for the purposes of consolidation. The pre-consolidation balances of these accounts will be transferred to the head company to facilitate the use of any pre-consolidation surpluses during consolidation.

Subsidiary members of a consolidated group will have inoperative attribution and attributed tax accounts during the period of consolidation once the balances in those accounts have been transferred to the head company.

When a subsidiary member with an interest in a CFC, FIF or FLP leaves a group, it will take a portion of the surpluses the head company holds in relation to the leaving subsidiary member's interest in the CFC, FIF or FLP it takes with it.

Records to be kept by the head company would include:

- particulars of the proportion of the attribution surplus and attributed tax account surplus transferred by the head company to a leaving subsidiary member, and
- particulars of amounts transferred by each subsidiary member to the attribution and attributed tax accounts operated by the head company.

→ 'Transferring foreign tax credits and attribution surpluses', B2-5

Losses

Documentation will need to evidence compliance with the two sets of rules that govern losses and consolidated groups, namely:

- When an entity becomes a subsidiary member of a consolidated group, its unused carry forward losses are transferred to the group if the losses satisfy modified versions of the usual tests for deducting and applying losses.

- The rate at which transferred losses can be used will generally be restricted to approximate the rate of use that the joining entity would have experienced had it remained outside the consolidated group.

From a compliance perspective, sufficient records would need to be maintained to allow changes in ownership and business activity to be tracked on a 12-month basis or other period as appropriate.

A head company would be required to maintain records that will provide an adequate trail to explain and confirm the composition of loss bundles and calculation of available fractions. Specifically, records would need to identify:

- the nature and source of all losses transferred to the head company
- the different 'sorts' of losses in each bundle
- the different 'sorts' of losses listed in the legislation:
  - a tax loss (that is, a loss deductible against all assessable income)
  - a film loss
  - a net capital loss
  - an overall foreign loss in respect of certain interest income
  - an overall foreign loss in respect of 'modified passive income'
  - an overall foreign loss in respect of offshore banking income, and
  - an overall foreign loss in respect of other assessable foreign income
- a bundle for each entity
- when available fractions are adjusted due to the occurrence of an adjustment event
- where the use of transferred losses is apportioned as the available fraction applied for only part of the income year
- when the head company has chosen to cancel the transfer of a loss
- when losses do not satisfy the transfer tests, as they are effectively cancelled in that they may not be used by any entity
- where a debt of the head company is forgiven, the debt particulars, any agreements, payment arrangements, deeds entered into and calculation of the reduction of losses transferred, and
- where a group consolidates during the transitional period and chooses to use the concessional treatment for the utilisation of certain losses over three years.

When a head company uses the value donor concession in applying or utilising transferred losses, the following documentation and records are required to be kept:

- particulars of membership interests during the transitional period for the head company, loss entity and value donor
- the calculation of the available fraction

- details of the calculation of the modified market values
- a record of the dates when a head company has chosen to consolidate and use this concession
- changes to loss bundles due to the operation of the value donor concession, and
- where the real loss-maker or the value donor transfers foreign losses to the group, two separate sets of fractions: one that ignores the operation of the value donor rules and one that ignores their application, as foreign losses cannot be transferred.

→ 'Transferring and using losses', B2-3

→ 'Treatment of losses', C3-1

→ 'Market valuation guidelines', C4-1

Substituted accounting periods (SAPs)

To retain access to grouping provisions until the date of consolidation, consolidated groups with a head company with a SAP must choose to consolidate from the first day of their next income year commencing after 1 July 2003. This choice will need to be documented.

→ 'Substituted accounting period (SAP)', C9-4-110

Liability for the payment of income tax

The head company is responsible for the income tax liabilities of the entire group from the date of consolidation. Where a tax sharing agreement is in place, the head company must keep the agreement and retain all records relied on in drafting and entering into it.

Unless otherwise stated in the agreement, all records must be kept in accordance with the record keeping requirements under the Act.

→ 'Determining annual liability', B3-3

→ 'Managing obligations', B3-4

Other guidance material

Other guidance material on documentation and record keeping for the consolidation regime is provided at section C4-1 of this Reference Manual.

→ 'Market valuation guidelines', C4-1

Record keeping checklist

About this checklist

This checklist of record keeping requirements for consolidated groups is a guide only, and should be read in conjunction with the more detailed record keeping guidelines earlier in this section and the head company tax return instructions.

By following these guidelines, taxpayers can be more confident that they have met their compliance obligations and that consequently the Tax Office will perceive them as low risk to revenue.

Formation of a consolidated group

Having decided to consolidate, a head company must retain records documenting the decision and the implementation of consolidation. These records are in addition to those usually retained to ascertain the income tax liability of the head company.

These additional records may contain particulars of:

- ☐ market value of assets of a joining entity at the joining time
- ☐ market value of assets at the time membership interests were acquired
- ☐ how the values of assets were calculated when implementing the choice to consolidate
- ☐ how the allocable cost amount was calculated for each subsidiary entity
- ☐ use of transitional option or new tax values for assets set through cost setting rules
- ☐ CGT cost bases at the joining time
- ☐ opening trading stock values or purchase prices for trading stock on hand at the joining time
- ☐ adjustable values for depreciating assets at the joining time
- ☐ value of all liabilities of a joining entity that may be recognised by the Australian Accounting Standards or Statements of Accounting Concepts
- ☐ modified market value of a joining entity
- ☐ adjusted market value of the consolidated group
- ☐ special rules relating to consolidated groups that have life insurance company subsidiary members

Tax-specific records that may be required

Membership rules and notification

- ☐ A record of the wholly-owned members of the consolidated group and the head company's membership interest in each of the member entities
- ☐ A list of related entities excluded from the consolidated group and all non-resident entities interposed between members of the group
- ☐ Particulars, including number, class and value, of shares in member entities issued under arrangements for employee shareholdings
- ☐ The date on which the group chooses consolidation to take effect
- ☐ Dates of movements of entities into and out of the consolidated group

Subsidiary member leaves the consolidated group

- ☐ Date and particulars of change in membership interest or other event that causes a subsidiary member to leave a consolidated group
- ☐ Particulars of the head company's cost setting for the net assets that the leaving entity takes with it
- ☐ Particulars of the head company's cost setting of membership interests in the leaving entity
- ☐ Particulars of cost setting of membership interests in the affected entities where more than one entity leaves the consolidated group
- ☐ Particulars of any liabilities – including their market valuation, when required – owing to other members of the consolidated group by the leaving entity
- ☐ Particulars of any ongoing arrangements involving income, expenditure, assets or liabilities between a member of the consolidated group and the leaving entity
- ☐ Supporting calculations for pre-CGT factor, where applicable, for assets leaving entity takes from the consolidated group

Consolidated group ceases to exist

- ☐ Date and particulars of change in membership interests or other event that causes the consolidated group to cease to exist
- ☐ Head company notification to Tax Office of cessation
- ☐ Records of tax events and transactions at the time of the group ceasing to exist
- ☐ Market valuations, where required, to establish the cost base of membership interests and tax values for assets

Asset rules and valuation

Asset register listing:

- ☐ – description of asset of the joining entity
- ☐ – date of acquisition
- ☐ – adjustable value
- ☐ – the asset's terminating value immediately before consolidation
- ☐ – cost base of the membership interests in the joining entity
- ☐ – calculation of the allocable cost amount apportionment to the reset cost base assets
- ☐ – pre-CGT factor applicable to membership interest in a joining entity that is a pre-CGT asset
- ☐ Depreciation schedule detailing adjustable values and depreciation
- ☐ Statement of whether the head company has chosen to use the transitional provisions and retain existing tax costs for the assets of each joining entity
- ☐ Documentation of choice to continue to claim accelerated depreciation
- ☐ Records showing the group's cost setting process
- ☐ Particulars of the head company's choice to reduce the tax cost setting amount for an entity's depreciating assets to the terminating value for those assets
- ☐ Particulars of the head company's choice to add back the whole or part of an adjustment for over-depreciation when working out its cost base for membership interests in a leaving entity
- ☐ Particulars of where a capital gain or loss has been returned, instead of recalculated to correct for errors, in the tax cost setting amounts for the assets of a joining entity
- ☐ Particulars of where a capital gain or loss has been returned where a liability taken into account in working out the ACA of a joining entity is discharged for a different amount
- ☐ Particulars of the head company's choice to use formation time market values for certain pre-CGT assets instead of terminating values when calculating costs of membership interests for an entity leaving a group
- ☐ Particulars of a joining entity's membership interests that have had their pre-CGT status preserved, including date of purchase, number, type, cost and market valuation of membership interests, and calculation of the pre-CGT factor
- ☐ Particulars of changes to membership interests and assets brought into the group by the joining entity or taken from the group by the leaving entity

Market valuation

A market valuation report and supporting documentation containing as a minimum:

- ☐ – description of the asset valued
- ☐ – purpose and context of the market valuation
- ☐ – specific market value
- ☐ – date or period to which the market valuation relates
- ☐ – description of methodologies employed
- ☐ – information on which the market valuation is based
- ☐ – assumptions relied on in the market valuation

Franking accounts

- ☐ Particulars of franking account surpluses transferred from joining entities to the head company's consolidated franking account

International provisions

- ☐ Records relied on in concluding an Advance Pricing Arrangement (APA) and discharging any obligations pursuant to it
- ☐ Annual compliance report for an APA
- ☐ Transfer pricing documentation: see *Taxation Ruling TR 98/11, Income tax: documentation and practical issues associated with setting and reviewing transfer pricing in international dealings*

For multiple entry consolidated (MEC) groups, records showing that the nominated head company is an eligible tier-1 company, including:

- ☐ – particulars of membership interests in all the eligible tier-1 companies
- ☐ – particulars of the ultimate foreign parent's membership interests in other Australian entities
- ☐ – documentation establishing that all eligible tier-1 companies of the ultimate foreign parent have made a choice to form the MEC group and nominated the provisional head company
- ☐ – particulars of pooled cost bases of membership interests where the pooling rules apply

Foreign tax credits (FTCs)

- ☐ Records of the transfer of excess FTCs to the head company of a consolidated group at formation time and when an entity joins the group

Controlled foreign companies (CFC) and foreign investment funds (FIF)

- [ ] Records of attribution accounts and attributed tax accounts maintained for the purposes of the CFC and FIF measures for entities that join, form or leave a consolidated group

Losses

- [ ] Particulars of the nature and source of all losses transferred to the head company
- [ ] Particulars of the different 'sorts' of losses in each bundle

Particulars of the different 'sorts' of losses listed in the legislation:

- [ ] – a tax loss (that is, a loss deductible against all assessable income)
- [ ] – a film loss
- [ ] – a net capital loss
- [ ] – an overall foreign loss in respect of certain interest income
- [ ] – an overall foreign loss in respect of 'modified passive income'
- [ ] – an overall foreign loss in respect of offshore banking income, and
- [ ] – an overall foreign loss in respect of other assessable foreign income
- [ ] Records disclosing the composition of the various loss bundles and the calculation of an available fraction for each bundle
- [ ] Record of the recalculation of the available fraction when an adjustment event occurs
- [ ] Record of a head company's choice to cancel the transfer of a loss
- [ ] Record of a head company's choice to use concessional measures that apply to a head company in deducting or utilising transferred losses
- [ ] Record of a head company's choice to utilise transferred losses over three years

When a head company uses the value donor concession:

- [ ] – particulars of membership interests during the transitional period for the head company, loss entity and value donor
- [ ] – the calculation of the available fraction
- [ ] – the calculation of the modified market values
- [ ] – the dates when a head company has chosen to consolidate and use this concession

Other

- ☐ Records to support inter-member eliminations on consolidation
- ☐ Records to support tax adjustments applicable to the consolidated group
- ☐ General ledger audit trails for tax information

Revision history

Section C9-2 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, p. 6.	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).