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## Taxation Determination

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Income tax: is the ‘applicable functional currency’ for the head company of a consolidated group determined by looking at the ‘accounts’ of all the members of the consolidated group, for the purposes of item 1 of subsection 960-60(1) of the *Income Tax Assessment Act 1997*?

**❶ This publication provides you with the following level of protection:**

This publication (excluding appendixes) is a public ruling for the purposes of the *Taxation Administration Act 1953*. A public ruling is an expression of the Commissioner’s opinion about the way in which a relevant provision applies, or would apply, to entities generally or to a class of entities in relation to a particular scheme or a class of schemes. If you rely on this ruling, we must apply the law to you in the way set out in the ruling (unless we are satisfied that the ruling is incorrect and disadvantages you, in which case we may apply the law in a way that is more favourable for you – provided we are not prevented from doing so by a time limit imposed by the law). You will be protected from having to pay any underpaid tax, penalty or interest in respect of the matters covered by this ruling if it turns out that it does not correctly state how the relevant provision applies to you.

### Ruling

1. Yes. For the purposes of item 1 of subsection 960-60(1) of the *Income Tax Assessment Act 1997* (ITAA 1997),<sup>1</sup> the ‘applicable functional currency’ for the head company of a consolidated group is determined by looking at the ‘accounts’ of all the members of the consolidated group – and not just at the ‘accounts’ of the head company.
2. Whether there is such a currency under this view will depend on whether there is one particular foreign currency that is the currency predominantly used for the basic record keeping of the consolidated group.<sup>2</sup>

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<sup>1</sup> All legislative references are to the ITAA 1997 unless otherwise indicated.

<sup>2</sup> See Taxation Determination TD 2006/4.

# TD 2007/24

## **Date of effect**

3. This Determination applies to years of income commencing both before and after its date of issue. However, the Determination will not apply to taxpayers to the extent that it conflicts with the terms of settlement of a dispute agreed to before the date of issue of the Determination (see paragraphs 75 and 76 of Taxation Ruling TR 2006/10).

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**Commissioner of Taxation**

25 July 2007

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## Appendix 1 – Explanation

**①** *This Appendix is provided as information to help you understand how the Commissioner's view has been reached. It does not form part of the binding public ruling.*

### Explanation

4. Item 1 in the table in subsection 960-60(1) of Subdivision 960-D enables an 'Australian resident' (as defined in subsection 995-1(1)), to choose to use the 'applicable functional currency' where it is required to prepare financial reports under section 292 of the *Corporations Act 2001*. The 'applicable functional currency' for such an 'Australian resident' to use is determined under subsection 960-70(1).<sup>3</sup>
5. An Australian resident head company can make the choice to use the 'applicable functional currency' under item 1 of the table in subsection 960-60(1).<sup>4</sup> However, such a choice by a head company will be effective only if there is a sole or predominant foreign currency (that is, other than Australian currency) in which the head company keeps its 'accounts', at the time that it makes this choice.
6. The single entity rule in section 701-1 provides that if an entity is a subsidiary member of a consolidated group for any period, it and any other subsidiary member of the group are taken for 'head company core purposes'<sup>5</sup> and 'entity core purposes'<sup>6</sup> to be part of the head company, rather than separate entities for that period. The intended operation of the single entity rule is to apply the income tax laws for these purposes to a consolidated group, as if it was a single entity being the head company.<sup>7</sup>
7. Calculation of the head company's liability for income tax, where this involves an application of item 1 of subsection 960-60(1), will come within the meaning of 'head company core purposes' for the purposes of section 701-1. The single entity rule in this context, will therefore affect the meaning of 'applicable functional currency' in subsection 960-70(1).
8. Accordingly, the term 'you' in subsection 960-70(1) refers, in such a case, to the head company of the consolidated group; including as parts of that entity all of the subsidiary members for the relevant period. The term 'your accounts' in the subsection correspondingly refers to the 'accounts' of the head company and all of the subsidiary members for this period.<sup>8</sup> Note that only the 'accounts' of entities within a group consolidated for tax purposes are considered. Thus, in determining whether there is a predominant foreign currency for a consolidated group, no reliance is placed upon any consolidated group 'accounts' that do not relate solely to the tax consolidated group.
9. The 'applicable functional currency' of the head company of a multiple entry consolidated (MEC) group is determined in the same way as that set out above for the head company of a non-MEC consolidated group. The single entity rule in section 701-1 applies equally to both head companies (refer paragraph 15 of Taxation Ruling TR 2004/11).

<sup>3</sup> The key criterion, as stipulated by subsection 960-70(1) of Subdivision 960-D, is whether there is a 'sole or predominant foreign currency' in which the 'Australian resident' entity kept its 'accounts' (as defined in subsection 960-70(4)), at the time of the 'applicable functional currency' choice. (In this case the 'Australian resident' entity is the head company of the consolidated group.)

<sup>4</sup> Refer Taxation Determination TD 2006/7.

<sup>5</sup> See subsection 701-1(2).

<sup>6</sup> See subsection 701-1(3).

<sup>7</sup> Refer Taxation Ruling TR 2004/11.

<sup>8</sup> For these purposes 'accounts' may include a consolidated profit and loss statement and a consolidated balance sheet; refer paragraphs 960-70(4)(a) to (f) inclusive, in conjunction with the definition of *consolidated financial statements* in paragraph 4 of Australian Accounting Standard AASB 127 *Consolidated and Separate Financial Statements*, and paragraph 295(2)(d) of the *Corporations Act 2001*.

## References

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*Previous draft:*

TD 2006/D45

*Related Rulings/Determinations:*

TR 2004/11; TR 2006/10; TD 2006/4;  
TD 2006/7

*Subject references:*

- applicable functional currency
- foreign exchange gains and losses
- functional currency
- functional currency choice

*Legislative references:*

- ITAA 1997
- ITAA 1997 701-1
- ITAA 1997 Subdiv 960-D
- ITAA 1997 960-60(1)
- ITAA 1997 960-70(1)

- ITAA 1997 960-70(4)
- ITAA 1997 960-70(4)(a)
- ITAA 1997 960-70(4)(b)
- ITAA 1997 960-70(4)(c)
- ITAA 1997 960-70(4)(d)
- ITAA 1997 960-70(4)(e)
- ITAA 1997 960-70(4)(f)
- ITAA 1997 995-1(1)
- Corporations Act 2001
- Corporations Act 2001 292
- Corporations Act 2001 295(2)(d)
- TAA 1953

*Other references:*

- Australian Accounting Standard AASB 127  
Consolidated and Separate Financial  
Statements

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ATO references

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