TD 2004/D60 - Income tax: consolidation: does the phrase 'is taken into account at a later time' in paragraph 705-80(1)(a) of the Income Tax Assessment Act 1997 require that an accounting liability, or a change in the amount of an accounting liability, of a joining entity that is first recognised after the joining time be examined when determining whether or not section 705-80 of that Act applies?

This cover sheet is provided for information only. It does not form part of *TD 2004/D60 - Income tax: consolidation: does the phrase 'is taken into account at a later time' in paragraph 705-80(1)(a) of the Income Tax Assessment Act 1997 require that an accounting liability, or a change in the amount of an accounting liability, of a joining entity that is first recognised after the joining time be examined when determining whether or not section 705-80 of that Act applies?*

This document has been finalised by TD 2004/70.

Draft Taxation Determination

Income tax: consolidation: does the phrase 'is taken into account at a later time' in paragraph 705-80(1)(a) of the *Income Tax Assessment Act 1997* require that an accounting liability, or a change in the amount of an accounting liability, of a joining entity that is first recognised after the joining time be examined when determining whether or not section 705-80 of that Act applies?

Preamble

This document is a draft for industry and professional comment. As such, it represents the preliminary, though considered views of the Australian Taxation Office. This draft may not be relied on by taxpayers and practitioners as it is not a ruling for the purposes of Part IVAAA of the ***Taxation Administration Act 1953****. It is only final Taxation Determinations that represent authoritative statements by the Australian Taxation Office.*

1. No, the phrase 'is taken into account at a later time' in paragraph 705-80(1)(a) of the *Income Tax Assessment Act* (ITAA 1997) does not mean that an accounting liability, or a change to that accounting liability, that is first recognised after the joining time is required to be examined in determining whether section 705-80 applies.

Explanation

2. The purpose of section 705-80 is to ensure that, where necessary, an adjustment for unrealised gains and losses is made to the amount added under subsection 705-70(1) at step 2 of the process for calculating the allocable cost amount (ACA) of a joining entity.

3. An adjustment to the step 2 amount may be necessary under paragraph 705-80(1)(a) where:

> an accounting liability, or a change in the amount of an accounting liability (other than one owed to a *member of the joined group) is taken into account [for income tax purposes] at a later time than is the case in accordance with *accounting standards or statements of accounting concepts made by the Australian Accounting Standards Board [AASB].

Two examples of this form of liability are accrued employee leave entitlements and foreign exchange gains and losses.

4. Where an accounting liability (or a change thereof) is identified under paragraph 705-80(1)(a), subsection 705-80(1) requires that:

- a notional ACA be worked out under the assumption that the accounting liability is taken into account for income tax purposes at the same time as it is taken into account in accordance with the accounting standards or statements mentioned in paragraph 3; and
- if the notional ACA differs from the ACA calculated without making this assumption, the amount added under subsection 705-70(1) is to be increased or decreased (as the case requires) by the amount of the difference.

5. The phrase 'is taken into account at a later time' in paragraph 705-80(1)(a) does not mean that an accounting liability, or a change in the amount of an accounting liability, of a joining entity that is first recognised for accounting purposes after the joining time needs to be examined when applying section 705-80. Rather, the phrase refers to an accounting liability (or a change in the amount of the accounting liability) that is recognised for accounting purposes at a particular point in time but the recognition for income tax purposes is at a different time. Section 705-80 adjusts the accounting liability recognised and measured at the joining time for the purposes of subsection 705-70(1) so that the ACA is the same as it would have been if the liability had been recognised for income tax purposes at the same time as it was recognised for accounting purposes.

6. The time at which the accounting liability, or a change in the amount of an accounting liability, is recognised and measured for consolidation purposes is at the joining time.

Date of Effect

7. When the final Determination is issued, it is proposed to apply 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 21 and 22 of Taxation Ruling TR 92/20).

Your comments

8. We invite you to comment on this draft Taxation Determination. Please forward your comments to the contact officer by the due date.

Due date: **8 October 2004**

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Commissioner of Taxation
8 September 2004

Previous draft:

Not previously issued in draft form

Related Rulings/Determinations:

TR 92/20; TR 2004/D11

Subject references:

- AASB
- accounting expenses
- accounting liabilities
- accounting standards
- Australian Accounting Standards Board
- calculation of the allocable cost amount
- consolidation
- deferred expenses
- deferred tax liabilities
- joining entity
- statements of accounting concepts

Legislative references:

- TAA 1953 Pt IVAAA
- ITAA 1997 705-70(1)
- ITAA 1997 705-80
- ITAA 1997 705-80(1)
- ITAA 1997 705-80(1)(a)

ATO references
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