


***TD 2006/D45 - 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?***

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This document has been finalised by [This draft determination has been finalised by Taxation Determination TD 2007/24.](#)



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## Draft 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*?

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### Ruling

1. Yes. For the purposes of item 1 of subsection 960-60(1) of the *Income Tax Assessment Act 1997* (ITAA 1997), 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>1</sup>

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<sup>1</sup> See Taxation Determination TD 2006/4.

# TD 2006/D45

## **Date of effect**

3. 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 75 and 76 of Taxation Ruling TR 2006/10).

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**Commissioner of Taxation**

22 November 2006

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## Appendix 1 – Explanation

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

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) of the ITAA 1997), 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) of the ITAA 1997.<sup>2</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>3</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. Section 701-1 of the ITAA 1997 (the single entity rule) 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’ and ‘entity core purposes’ 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>4</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>5</sup>

9. The views expressed in this Determination apply equally to a multiple entry consolidated (MEC) group where appropriate.

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<sup>2</sup> The key criterion, as stipulated by subsection 960-70(1) of Subdivision 960-D of the ITAA 1997, 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) of the ITAA 1997), 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>3</sup> Refer Taxation Determination TD 2006/7.

<sup>4</sup> Refer Taxation Ruling TR 2004/11.

<sup>5</sup> For these purposes ‘accounts’ includes a consolidated profit and loss statement and a consolidated balance sheet; refer paragraphs (a) to (f) inclusive of subsection 960-70(4), 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 (d) of subsection 295(2) of the *Corporations Act 2001*.

## Appendix 2 – Your comments

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10. We invite you to comment on this draft Taxation Determination. Please forward your comments to the contact officer by the due date. (Note: The Tax Office prepares a compendium of comments for the consideration of the relevant Rulings Panel or relevant Tax officers. The Tax Office may use a version (names and identifying information removed) of the compendium in providing responses to persons providing comments. Please advise if you do not want your comments included in the latter version of the compendium.)

**Due date:** 12 January 2007

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## References

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*Previous draft:*

Not previously issued as a draft

*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 995-1(1)
- Corporations Act 2001
- Corporations Act 2001 292
- Corporations Act 2001 295(2)

*Other references:*

- Australian Accounting Standard AASB 127  
Consolidated and Separate Financial  
Statements

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ATO references

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