TD 2004/70 - 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 2004/70 - 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?*

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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

The number, subject heading, date of effect and paragraph 1 of this document are a 'public ruling' for the purposes of Part IVAAA of the ***Taxation Administration Act 1953*** *and are legally binding on the Commissioner.*

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. Paragraph 705-80(1)(a) only applies in certain circumstances where the accounting liability has been recognised at the joining time.

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. 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.

4. An adjustment to the step 2 amount may be necessary under paragraph 705-80(1)(a) where (in the words of that paragraph):

> for income tax purposes, 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 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.

5. In other words, paragraph 705-80(1)(a) applies where the liability has been recognised for accounting purposes at the joining time but is not recognised for income tax purposes until a later time.

6. The situation where new evidence obtained after the joining time shows that a liability or a change in liability should have been recognised for accounting purposes at the joining time is dealt with separately by TD 2004/71 and is referred to in Taxation Ruling TR 2004/14.

7. 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.

Date of effect

8. This Determination applies to years commencing both before and after its date of issue. However, it does not apply to taxpayers to the extent that it conflicts with the terms of settlement of a dispute agreed to before the date of the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

Commissioner of Taxation
1 December 2004

Previous draft:
TD 2004/D60

Related Rulings/Determinations:
TR 92/20; TR 2004/14; TD 2004/71

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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