TD 2004/74 - Income tax: consolidation: can an amount be included in step 1 as well as step 2 of the allocable cost amount calculation in section 705-60 of the Income Tax Assessment Act 1997 ?

This cover sheet is provided for information only. It does not form part of *TD 2004/74 - Income tax: consolidation: can an amount be included in step 1 as well as step 2 of the allocable cost amount calculation in section 705-60 of the Income Tax Assessment Act 1997 ?*

Generated on: 2 June 2026, 09:00:46 PM

Taxation Determination

Income tax: consolidation: can an amount be included in step 1 as well as step 2 of the allocable cost amount calculation in section 705-60 of the *Income Tax Assessment Act 1997*?

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. Where an amount is included in step 1, that amount cannot also be added in step 2 of the allocable cost amount (ACA) calculation in section 705-60 of the *Income Tax Assessment Act 1997* (ITAA 1997).

Explanation

2. The fundamental object of the cost setting rules in Subdivision 705-A is to recognise the head company's cost of becoming the holder of the assets of a joining entity as an amount reflecting the group's cost of acquiring the entity. That amount, the ACA, consists of the cost of the group's membership interests in the joining entity, increased by the liabilities of the joining entity and adjusted to take account of any retained profits, distributions of profits, deductions and losses of the joining entity.

3. Subsection 705-10(3) of the ITAA 1997 explains that the reason for recognising the cost in this way is to align the costs of assets with the costs of membership interests and to allow the preservation of this alignment until the joining entity leaves the group.

4. Section 705-60 of the ITAA 1997 sets out the steps in working out the joined group's ACA for a joining entity. Step 1 in this process, as set out in section 705-60, is to start with the costs of the membership interests in a joining entity that are held by members of the group joined. Step 2 is then to 'Add to the result of step 1 the step 2 amount worked out under section 705-70, which is about the value of the joining entity's liabilities'.

5. If an amount was to be taken into account as both a cost of a membership interest in step 1 and as a liability of the joining entity in step 2, the cost of the joining entity's assets would not reflect the cost of acquiring that entity in accordance with the object in subsection 705-10(2) of the ITAA 1997.

6. The steps contained in section 705-60 for working out the ACA are the mechanism for enabling the objects of the tax cost setting rules to be achieved. They should therefore be given an interpretation which is consistent with those objects.

7. In this context the word 'add' at step 2 of section 705-60 of the ITAA 1997 means that an amount cannot be 'added' at step 2 if it has already been included at step 1.

8. This is supported by the ordinary meaning of the word 'add' which means the joining of one amount to another amount for the purpose of finding their combined value. (See the Australian Oxford Dictionary.)

Date of Effect

9. 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
8 December 2004

Previous draft:
TD 2004/D62

Related Rulings/Determinations:
TR 92/20; TR 2004/D2

Legislative references:
- ITAA 1997 705-A
- ITAA 1997 705-10(2)
- ITAA 1997 705-10(3)
- ITAA 1997 705-60
- ITAA 1997 705-70
- TAA 1953 Pt IVAAA

Other references:
- Australian Oxford Dictionary

ATO references
NO: 2004/10509
ISSN: 1038-8982