


TD 2005/22 - Income tax: consolidation: is Australian currency, where it is taken to be foreign currency under section 960-80 of the Income Tax Assessment Act 1997 for the purposes of the functional currency provisions, treated as a retained cost base asset under the consolidation regime?

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Taxation Determination

Income tax: consolidation: is Australian currency, where it is taken to be foreign currency under section 960-80 of the *Income Tax Assessment Act 1997* for the purposes of the functional currency provisions, treated as a retained cost base asset under the consolidation regime?

Preamble

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

1. Yes. Australian currency is treated as a retained cost base asset for consolidation purposes. Where a taxpayer has elected into the functional currency regime and subsequently becomes a subsidiary member of a consolidated group, section 960-80 of the *Income Tax Assessment Act 1997* (ITAA 1997) does not have the effect of overriding the definition of retained cost base asset in subsection 705-25(5) of the ITAA 1997.

Explanation

2. The functional currency rules in Subdivision 960-D of the ITAA 1997 allow the use of currencies other than the Australian dollar as the monetary unit of account to work out the taxable income or the tax loss of an entity that has made a choice to use functional currency.

3. The core functional currency rules are an exception to the core foreign currency (Australian currency) translation rules in Subdivision 960-C of the ITAA 1997. The core foreign currency translation rules require foreign currency amounts to be translated into Australian dollars and they also state when a translation is to take place for a given type of transaction.

4. For the purposes of applying the functional currency provisions, where an entity has made a choice to use a functional currency, section 960-80 provides that Australian currency and any other currency (except the applicable currency) are taken to be foreign currencies.

5. The rules for the consolidation regime are set out in Part 3-90 of the ITAA 1997. Subsection 705-25(5) defines what is a retained cost base asset. Insofar as is relevant, a retained cost base asset is Australian currency or a right to receive a specified amount of such currency (other than a marketable security). Accordingly, foreign currency is not a

retained cost base asset for consolidation purposes. The functional currency provisions do not operate to change the ordinary meaning of Australian currency in subsection 705-25(5).

6. While Australian currency is taken to be foreign currency for the purposes of applying the functional currency provisions, that deeming effect does not extend beyond those purposes to affect the application of the consolidation provisions.

7. Australian currency is a retained cost base asset for consolidation purposes, including circumstances where it is taken to be a foreign currency for the purposes of applying the functional currency provisions.

8. Subsection 701-10(4) of the ITAA 1997 provides that each asset's tax cost is set at the time the entity becomes a subsidiary member of the group at the asset's tax cost setting amount. Section 705-25 states what the tax cost setting amount is for a retained cost base asset. For paragraphs (a) and (b) of subsection 705-25(5) which deal with Australian currency or a right to receive a specified amount of such currency (other than a marketable security), it provides that the tax cost setting amount is equal to the amount of the Australian currency concerned. Having arrived at a tax cost setting amount, section 701-55 sets out how the setting of a tax cost affects the application of the other provisions of the income tax legislation.

9. The treatment of Australian currency, that is taken to be a foreign currency for the purposes of the functional currency provisions, as a retained cost base asset will equally apply to a right to receive a specified amount of such Australian currency as covered by the definition of retained cost base asset at paragraph 705-25(5)(b).

Date of effect

10. 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 June 2005

Previous draft:

TD 2004/D91

Related Rulings/Determinations:

TR 92/20

Subject references:

- Australian currency
- consolidation
- functional currency
- retained cost base asset

Legislative references:

- TAA 1953 Pt IVA
- ITAA 1997 Pt 3-90
- ITAA 1997 701-10(4)
- ITAA 1997 701-55
- ITAA 1997 705-25
- ITAA 1997 705-25(5)
- ITAA 1997 705-25(5)(a)
- ITAA 1997 705-25(5)(b)
- ITAA 1997 Subdiv 960-C
- ITAA 1997 Subdiv 960-D
- ITAA 1997 960-80

ATO references

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