



TD 2014/22 - Income tax: consolidation: if the conditions in paragraph 50(3)(a) of Part 4 of Schedule 3 to the Tax Laws Amendment (2012 Measures No. 2) Act 2012 are satisfied and the interim rules apply to an assessment and, on or after 29 June 2012, that assessment was amended to alter a claim made under the original 2010 law, do the interim rules apply to the altered claim?

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Taxation Determination

Income tax: consolidation: if the conditions in paragraph 50(3)(a) of Part 4 of Schedule 3 to the *Tax Laws Amendment (2012 Measures No. 2) Act 2012* are satisfied and the interim rules apply to an assessment and, on or after 29 June 2012, that assessment was amended to alter a claim made under the original 2010 law, do the interim rules apply to the altered claim?

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If you rely on this ruling, the Commissioner must apply the law to you in the way set out in the ruling (unless the Commissioner is satisfied that the ruling is incorrect and disadvantages you, in which case the law may be applied to you in a way that is more favourable for you – provided the Commissioner is not prevented from doing so by a time limit imposed by the law). You will be protected from having to pay any underpaid tax, penalty or interest in respect of the matters covered by this ruling if it turns out that it does not correctly state how the relevant provision applies to you.

Ruling

1. Yes. The interim rules¹ continue to apply to all of the claims in a notice of assessment that satisfies the requirements of paragraph 50(3)(a) of Part 4 of Schedule 3 to the *Tax Laws Amendment (2012 Measures No. 2) Act 2012*,² including any of those claims which are later altered in a notice of amended assessment served on or after 29 June 2012.

¹ The amendments made by Parts 1 and 2 of Schedule 3 to the *Tax Laws Amendment (2012 Measures No. 2) Act 2012*.

² All legislative references are to Schedule 3 to the *Tax Laws Amendment (2012 Measures No. 2) Act 2012* unless otherwise indicated.

2. Paragraph 50(3)(a) operates to apply the interim rules to each claim in the assessment that satisfies the conditions of paragraph 50(3)(a). When one of those claims is altered in a notice of amended assessment served on or after 29 June 2012, the subsequent amended assessment results from an application of the interim rules and does not relate to the application of the original 2010 law.³ The earlier notice of assessment remains the latest notice of assessment that relates to the application of the original 2010 law in respect of the joining entity and the conditions in paragraph 50(3)(a) continue to be satisfied by that notice.

3. Therefore each claim included in the assessment which was made pursuant to that earlier notice of assessment continues to be subject to the interim rules, including the altered claim.

Examples

Note: the following examples are provided for the purposes of illustrating the Commissioner's view about the way in which paragraph 50(3)(a) applies and do not provide a view about the application of any of the substantive provisions of the pre rules,⁴ interim rules or original 2010 law.

Example 1: claim made under original 2010 law amended (decreased) on or after 29 June 2012

4. *Web Co joined the Spider Co consolidated group on 1 July 2008. At the joining time, Web Co's assets included asset 1 and asset 2, both reset cost base assets.*

5. *For the year ended 30 June 2009, Spider Co lodged its income tax return on 5 October 2009, in accordance with the original 2002 law. It did not claim a deduction for the tax cost setting amount for asset 1 or asset 2.*

6. *On 7 June 2010, after Tax Laws Amendment (2010 Measures No. 1) Act 2010 became law, an amended notice of assessment was served on Spider Co in respect of Web Co's assets, whereby a deduction was claimed for the entire tax cost setting amount of asset 1 (\$10,000) as well as a deduction for part of the tax cost setting amount of asset 2 (\$80,000).*

7. *As this is Spider Co's latest notice of assessment which relates to the original 2010 law in respect of Web Co's asset 1 and asset 2 claims, and it was served on or after 12 May 2010 and on or before 30 March 2011, the conditions of paragraph 50(3)(a) are satisfied. Consequently paragraph 50(3)(a) operates to apply the interim rules to the claims for asset 1 and asset 2 included in Spider Co's 7 June 2010 notice of amended assessment.*

8. *On 19 October 2012 a further notice of amended assessment is served on Spider Co in respect of Web Co's asset 2 claim, reducing it from \$80,000 to \$15,000.*

³ The *Income Tax Assessment Act 1997* as amended by the *Tax Laws Amendment (2010 Measures No. 1) Act 2010* (2010 Act), but disregarding amendments made by Schedule 3.

⁴ The amendments made by Part 1 of Schedule 3: item 49.

9. *This further amended notice is not a notice of assessment which relates to the original 2010 law in respect of Web Co's asset 2 claim, since that claim is not a particular to which the original 2010 law applies, but is now a particular to which the interim rules apply. As such, the notice of 7 June 2010 remains the latest notice of assessment which relates to the original 2010 law, meaning that the conditions in paragraph 50(3)(a) continue to be satisfied for both the asset 1 claim and the amended asset 2 claim. Consequently, both of these claims continue to be subject to the interim rules.*

Example 2: claim made under original 2010 law, amended (increased) on or after 31 March 2011, and on or before 28 June 2012

10. *Foot Co joined the Shoe Co consolidated group on 1 July 2008. At the joining time, Foot Co's assets included asset 1 and asset 2, both reset cost base assets.*

11. *For the year ended 30 June 2010, Shoe Co lodged its income tax return on 14 August 2010, in accordance with the original 2010 law. It claimed a deduction for the entire tax cost setting amount of asset 1 for \$38,000 as well as a deduction for part of the tax cost setting amount for asset 2 of \$5,000.*

12. *On 19 April 2012 an amended notice of assessment was served on Shoe Co in respect of Foot Co's assets, increasing the asset 2 claim from \$5,000 to \$13,000.*

13. *This is Shoe Co's latest notice of assessment which relates to the original 2010 rules in respect of Foot Co's asset 2 claim, however it was served after 30 March 2011. Consequently the conditions of paragraph 50(3)(a) are not satisfied for that claim.*

14. *Paragraph 50(3)(a) therefore does not operate to apply the interim rules to Foot Co's asset 2 claim (which was altered in Shoe Co's 19 April 2012 notice of amended assessment). Instead the pre rules apply to this claim in that amended assessment.*

15. *The notice of assessment served on 14 August 2010, however, continues to be the latest notice of assessment in respect of all of Foot Co's other particulars, including the asset 1 claim. As that notice was served on or after 12 May 2010 and on or before 30 March 2011, the conditions of paragraph 50(3)(a) are satisfied. Consequently, the interim rules apply to all of the particulars in that notice of assessment, including the asset 1 claim, but not the asset 2 claim.*

Date of effect

16. *This Determination applies to years of income commencing both before and after its date of issue. However, this Determination will not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of this Determination (see paragraphs 75 and 76 of Taxation Ruling TR 2006/10).*

Appendix 1 – Explanation

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

17. The Application rules in Part 4 of Schedule 3 are relevant to ascertaining whether the pre rules, interim rules or prospective rules⁵ apply in relation to an assessment of the head company of a consolidated group or multiple entry consolidated group in respect of an entity (the 'joining entity') when that entity joins the group.

18. Subitem 50(1) provides that:

- (1) The pre rules, interim rules or prospective rules apply to an assessment of the head company of a consolidated group or MEC group for an income year in respect of an entity (the joining entity) that becomes a member of the group at a time (the joining time), in accordance with subitems (2), (3), (4) and (5).

19. Subitem 50(2) provides that the pre rules will apply to an assessment of the head company of a consolidated group for an income year in respect of a joining entity if the entity joined the group before 12 May 2010 (or where the arrangement under which the entity joined the group commenced before 10 February 2010).

20. There are two exceptions to the pre rules, namely the interim rules as provided for in subitem 50(3) and the original 2002 law⁶ as provided for in subitem 50(5).

21. The exceptions largely protect assessments served on or before 30 March 2011 from the effect of retrospective law changes made by Schedule 3. Where the exceptions apply to an assessment, and it is amended to alter an existing claim for a deduction the protection is removed to the extent of the altered claim. In this scenario, other existing claims for deductions in the assessment will continue to be protected notwithstanding that amendment. However, altering an existing claim for a deduction, in an assessment covered by paragraph 50(3)(a), on or after 29 June 2012 in order to give effect to the interim rules, will not remove the protection in respect of that claim. Conversely, where, in relation to a particular item, no claim has been made by 30 March 2011, subsequently amending an assessment on or after 29 June 2012 to make a claim for the first time will not benefit from protection. Also, if the altered claim is for a deduction not affected by Schedule 3 (for example, the claim is for a decline in value amount for a depreciating asset) the removal of the protection will make no difference.

22. Relevant to this Determination, paragraph 50(3)(a) is concerned with a specific situation, being where the joining time would otherwise fall within the pre rules, but the head company was served with notices of assessment at a time when the original 2010 law applied.

23. Paragraph 50(3)(a) states:

- (3) Despite subitem (2), the interim rules apply, for the income year in respect of the joining entity, if:
 - (a) both of these conditions are satisfied:
 - (i) apart from this subitem, the pre rules would apply, for the income year in respect of the joining entity, in accordance with subitem (2);

⁵ The amendments made by Parts 1, 2 and 3 of Schedule 3: item 49.

⁶ The ITAA 1997 disregarding amendments to that Act made by Division 1 of Part 1 and Division 2 of Part 11 to Schedule 5 to the 2010 Act and by Schedule 3: item 49.

- (ii) the head company's latest notice of assessment, for the income year, that relates to the application of the original 2010 law in respect of the joining entity, was served on the head company by the Commissioner on or after 12 May 2010 and on or before 30 March 2011; or

24. In accordance with subitem 50(1), paragraph 50(3)(a) applies to an assessment of the head company for an income year, in respect of a joining entity.

25. The term 'assessment' in relation to an income tax liability is defined by subsection 6(1) of the *Income Tax Assessment Act 1936* (ITAA 1936). Paragraph (a) of the definition provides that 'assessment' means the ascertainment of:

- the amount of taxable income (or that there is no taxable income); and
- *the* tax payable on that taxable income (or that there is no tax payable); and
- ...

26. An assessment is made up of elements or particulars. A 'particular,' is a specific or definite constituent element in the assessment of the taxable income of a taxpayer (or that there is no taxable income) or tax payable thereon (or that there is no tax payable).⁷ A claim for a deduction is an example of a particular or an element of an assessment.

27. For paragraph 50(3)(a) to apply, the pre rules must otherwise apply to the joining entity for that income year.

28. The operation of paragraph 50(3)(a) must be considered in the context of subitems 50(1) and 50(2) such that paragraph 50(3)(a) only confers the application of the interim rules to particulars in respect of the joining entity that have been included in the head company's notice of assessment for that income year.

29. That is, the interim rules apply to each particular of the latest notice of assessment, for the income year, that relates to the application of the original 2010 law in respect of the joining entity that was served on the head company by the Commissioner on or after 12 May 2010 and on or before 30 March 2011.

30. Paragraph 50(3)(a) turns on whether the latest notice of assessment that relates to the application of the original 2010 law in respect of the joining entity was served on the head company by the Commissioner on or after 12 May 2010 and on or before 30 March 2011. The reason underlying this requirement is that if the taxpayer has realised tax outcomes under the original 2010 law in an assessment within the relevant period, they qualify for the interim rule exception to the pre rules to the extent of the particulars claimed in that notice of assessment.

⁷ Taxation Ruling TR 2011/5 *Income tax: objections against income tax assessments*, paragraphs 156 to 162.

31. The phrase 'latest notice of assessment' recognises that the Commissioner or the taxpayer may amend an assessment any number of times within the relevant statutory time limits. An amended assessment is an assessment for the purposes of the ITAA 1936.⁸ There is only one assessment for a given income year, thus an amendment of an existing assessment is not a new assessment for that year.⁹ An amended assessment does not cancel, revoke, extinguish or replace the original assessment. Rather, its role is to alter the original assessment by amending it in a particular or particulars, with a view to imposing a fresh liability, or at least, by adjusting the particulars that went to determining the taxable income or tax payable amounts previously notified.¹⁰ The service of a notice of amended assessment completes this assessment process. If an assessment has been amended a number of times there will be a series of notices of assessment and amended assessment for the income year.

32. Therefore, to determine whether paragraph 50(3)(a) applies, each notice of assessment for the income year must be examined to determine whether it relates to the application of the original 2010 law in respect of a particular. Once the latest notice of assessment that covers the particular of the assessment that relates to the application of the original 2010 law is determined, there is then the question of whether the notice was served on the head company by the Commissioner within the relevant time period or not.

33. The term 'relates to' denotes a connection or relationship between the application of the original 2010 law and the notice of assessment. 'Related' is defined in the *Macquarie Dictionary* as 'to have reference (to) or to have some relation (to)'. The term 'relating to' has been considered by the courts and has been afforded a wide interpretation: *Fountain v. Alexander* (1982) 150 CLR 615 at 629; *Colakovski v. Australian Telecommunications Corp* (1991) 100 ALR 111. However, overall the term has been determined by the courts with reference to its statutory context and purpose: *Butler v. Johnston* (1984) 55 ALR 265 at 268; *Hatfield v. Health Insurance Commission* (1987) 77 ALR 103 at 106-7.

34. The purpose of paragraph 50(3)(a) can be seen as to give effect to the Government's statement in Media Release No. 59 of 25 November 2011 at paragraph 30, Table 2, Item 3 which indicates that the interim rules apply if the claim is covered by an assessment or amended assessment where the notice is served between 12 May 2010 and 30 March 2011.

35. Paragraph 3.123 of the Explanatory Memorandum to the Tax Laws Amendment (2012 Measures No. 2) Bill 2012, also reveals this purpose and indicates that the exception to the pre rules in paragraph 50(3)(a) is confined to claims made in the relevant assessment. It draws a distinction between a 'claim' being the amount relating to an asset or event which becomes a particular of the current year's assessment and the 'tail of a claim' being amounts relating to that same asset or event which might be claimable in the future. The example provided in paragraph 3.123 illustrates that in the context of paragraph 50(3)(a) only the claim made in the relevant assessment is protected and not the tail of a claim.

⁸ Section 173 of the ITAA 1936.

⁹ See *Stokes v. Federal Commissioner of Taxation* 96 ATC 4393; (1996) 32 ATR 500 per Davies J, citing with approval what Latham CJ said in *Cadbury-Fry-Pascall Pty Ltd v. Federal Commissioner of Taxation* (1944) 70 CLR 362; (1944) 7 ATD 471; at CLR 381; ATD 482. The Full Federal Court in *Federal Commissioner of Taxation v. Stokes* (1996) 72 FCR 160; 97 ATC 4001; (1996) 34 ATR 478 expressed a similar view. Also see TR 2011/5, paragraph 83.

¹⁰ TR 2011/5, paragraph 82.

36. This purpose would be defeated if 'relates to' was given a wide meaning. The interim rules are (in almost all cases) more restrictive in operation than the original 2010 law, and thus in some cases it will be necessary to amend the original 2010 claim made in an assessment that satisfies paragraph 50(3)(a) in order to comply with the interim rules. If that amended assessment is considered to relate to the original 2010 law because it alters a particular claimed under the original 2010 law, the amended assessment would become the latest notice of assessment and would no longer satisfy the timing of service requirements of paragraph 50(3)(a).

37. The intent is that claims in an assessment should not be disqualified from paragraph 50(3)(a) merely because there is an amendment to a particular claimed under the 2010 law as a result of the interim rules applying. Thus, a notice of assessment 'relates to the application of the original 2010 law in respect of the joining entity' if the relevant provisions of the original 2010 law were applicable to a particular in respect of the joining entity in the relevant head company's notice of assessment.

38. The relevant provisions of the original 2010 law were applicable until 29 June 2012, when the *Tax Laws Amendment (2012 Measures No. 2) Act 2012* came into effect. As such, any notices of assessment served on or after the 29 June 2012 could not be said to relate to the application of the original 2010 law as they will not apply the original 2010 law to a particular in respect of the joining entity in the assessment. Rather, the particulars in that notice of assessment would have applied the relevant provisions of the interim rules or pre rules in accordance with the *Tax Laws Amendment (2012 Measures No. 2) Act 2012*.

39. Where an alteration to an existing claim is made in a notice of amended assessment served on or after 29 June 2012, and the previous notice of assessment covering the claim satisfies the requirements of paragraph 50(3)(a), the subsequent notice of amended assessment results from an application of the interim rules and therefore does not relate to the application of the original 2010 law in respect of the joining entity. The previous notice of assessment (that was served on the head company by the Commissioner on or after 12 May 2010 and on or before 30 March 2011) remains the latest notice of assessment which can be said to relate to the application of the original 2010 law in respect of the joining entity. Consequently, all of the particulars in that previous notice of assessment will continue to satisfy the requirements of paragraph 50(3)(a). The result is that the particular, although altered, remains subject to the interim rules, as do all of the particulars which were included in the assessment pursuant to that earlier notice of assessment.

40. On the other hand, if a particular in an assessment that falls within paragraph 50(3)(a) is subsequently amended on or after 31 March 2011 but on or before 28 June 2012, the altered particular no longer satisfies the requirements of paragraph 50(3)(a) because the amended particular is covered by a latest notice of assessment that relates to the application of the original 2010 law in respect of the joining entity served on the head company by the Commissioner after 30 March 2011. However, the unaltered particulars from the previous notice of assessment will continue to satisfy the conditions in paragraph 50(3)(a) and thus are covered by the interim rules.

References

Previous draft:

TD 2014/D4

*Related Rulings/Determinations:*TR 2006/10; TR 2011/5; TD 2014/D2;
TD 2014/D3; TD 2014/23; TD 2014/24*Subject references:*

- application rules
- assessment
- consolidation
- interim rules
- joining entity
- joining time
- original 2002 law
- original 2010 law
- pre rules
- prospective rules
- residual tax cost setting rule
- right to future income
- tax cost setting

Legislative references:

- Tax Laws Amendment (2012 Measures No. 2) Act 2012 Sch 3 Pt 1
- Tax Laws Amendment (2012 Measures No. 2) Act 2012 Sch 3 Pt 2
- Tax Laws Amendment (2012 Measures No. 2) Act 2012 Sch 3 Pt 3
- Tax Laws Amendment (2012 Measures No. 2) Act 2012 Sch 3 Pt 4
- Tax Laws Amendment (2012 Measures No. 2) Act 2012 Sch 3 Pt 4 Item 49
- Tax Laws Amendment (2012 Measures No. 2) Act 2012 Sch 3 Pt 4 Subitem 50(1)
- Tax Laws Amendment (2012 Measures No. 2) Act 2012 Sch 3 Pt 4 Subitem 50(2)
- Tax Laws Amendment (2012 Measures No. 2) Act 2012 Sch 3 Pt 4 Subitem 50(3)

- Tax Laws Amendment (2012 Measures No. 2) Act 2012 Sch 3 Pt 4 50(3)(a)
- Tax Laws Amendment (2012 Measures No. 2) Act 2012 Sch 3 Pt 4 Subitem 50(5)
- Tax Laws Amendment (2010 Measures No. 1) Act 2010
- Tax Laws Amendment (2010 Measures No. 1) Act 2010 Sch 5 Part 1 Div 1
- Tax Laws Amendment (2010 Measures No. 1) Act 2010 Sch 5 Part 11 Div 2
- ITAA 1936 6(1)
- ITAA 1936 173
- ITAA 1997
- TAA 1953

Case references:

- Butler v. Johnston (1984) 55 ALR 265
- Cadbury-Fry-Pascall Pty Ltd v. Federal Commissioner of Taxation (1944) 70 CLR 362; (1944) 7 ATD 471
- Colakovski v. Australian Telecommunications Corp (1991) 100 ALR 111
- Federal Commissioner of Taxation v. Stokes (1996) 72 FCR 160; 97 ATC 4001; (1996) 34 ATR 478
- Fountain v. Alexander (1982) 150 CLR 615
- Hatfield v. Health Insurance Commission (1987) 77 ALR 103
- Stokes v. Federal Commissioner of Taxation 96 ATC 4393; (1996) 32 ATR 500

Other references:

- Explanatory Memorandum to Tax Laws Amendment (2012 Measures No. 2) Bill 2012
 - Assistant Treasurer's Media Release No. 59 of 25 November 2011
 - Macquarie Dictionary 5th Edition
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