Glossary

Abbreviations

ABN	Australian business number
ACA	allocable cost amount
ADF	approved deposit fund
ADI	authorised deposit-taking institution
AF	available fraction
APA	advance pricing arrangement
ATO	Australian Taxation Office
CFC	controlled foreign corporation
CGT	capital gains tax
COT	continuity of ownership test
CTE	chosen transitional entity
ESAS	employee share acquisition scheme
FBT	fringe benefits tax
FDA	foreign dividend account
FIF	foreign investment fund
FLP	foreign life assurance policy
FTC	foreign tax credit
GIC	general interest charge
GST	goods and services tax
GVSR	General value shifting regime
IFRE	interposed foreign-resident entity
IGL	intragroup liability
ITAA	*Income Tax Assessment Act*
IT(TP)A	*Income Tax (Transitional Provisions) Act 1997*
LDB	loss denial balance
LDP	loss denial pool
LIM	loss integrity measures
MEC	multiple entry consolidated (group)
MI	membership interest
MMV	modified market value
MV	modified value
NAL	non-arm's length (transaction)
NCS	non-chosen subsidiary
OBU	offshore banking unit
PAYG	pay as you go
PDF	pooled development fund
PHC	provisional head company
PST	pooled superannuation trust
RCB	reduced cost base
RUNL	residual unrealised net loss
SAP	substituted accounting period
SBT	same business test
STS	simplified tax system
TCSA	tax cost setting amount
TFHS	transitional foreign-held subsidiary
TFN	tax file number
TSA	tax sharing agreement
TV	terminating value
UNL	unrealised net loss

Terms

Adjustable value	A depreciating asset's cost less its decline in value since it was first used, or installed ready for use, for any purpose whether business or private.
Adjusted market value of the consolidated group	The market value of the consolidated group at the joining time, ignoring any losses and assuming a nil franking account balance.
Allocable cost amount	The amount that is allocated to the assets of an entity joining a consolidated group, or to the assets of a member of a consolidated group on formation, to determine the tax costs of those assets at that time. The allocable cost amount reflects the cost to the joined group of acquiring the joining entity. It does not apply where the transitional option of using terminating value has been chosen.
Alteration time	Broadly, an alteration time (within sections 165-115L and 165-115M) occurs just before majority ownership in respect of the company's voting power, dividends or capital distributions is not maintained or there is a change in control of voting power. It can also occur if the liquidator of a company declares that shares in the company are worthless and in certain other situations (see sections 165-115N-Q).
Asset based model	A model developed to design rules for determining the costs for assets brought into a consolidated group and for reconstructing the equity cost base on exit (recommended in *A tax system redesigned*). The cost setting rules are based on this model.
Australian branch of a foreign bank	An Australian branch in relation to a foreign bank means a permanent establishment in Australia through which the foreign bank carries on banking business.
Available amount	The ACA step 2 amount (subsection 705-70(1)) that would be worked out if you ignored both the special rules under section 705-59 for linked assets and liabilities and the accounting standards that apply to them. → subsection 705-59(3)
Available fraction	An available fraction is worked out for each bundle of losses and is used to limit the rate at which transferred losses may be recouped by the head company. The available fraction is the modified market value of the loss entity as a proportion of the adjusted market value of the consolidated group at the joining time.
Bundle of losses	All the losses of a joining entity that are transferred to the head company at the same time.
Cessation event – provisional head company	A cessation event happens to a provisional head company of a MEC group if: • the company ceases to satisfy the qualifying conditions for being a provisional head company, or • the company ceases to exist.

Changeover time

Broadly, a changeover time (within sections 165-115C and 165-115D) occurs just before majority ownership in respect of a company's voting power, dividends or capital distributions is not maintained or there is a change in control of voting power.

Chosen transitional entity

An entity for which the head company chooses to retain the existing tax values of assets instead of applying the tax cost setting rules on formation.

Concessional losses

Losses transferred as a result of passing the continuity of ownership test and the control test and that the head company chooses to use over three years. These are subject to the following prerequisites:

- the losses were actually incurred by a company in an income year ending on or before 21 September 1999
- the group consolidates during the transitional period – that is, between 1 July 2002 and 30 June 2004, and
- the loss company joins the consolidated group at the time when the consolidated group comes into existence.

Consolidatable group

A group of entities that is eligible to be consolidated. A consolidatable group consists of a head company and all of the subsidiary members of the group, and will exist providing that there is, in addition to the head company, at least one subsidiary member.

Consolidated group

A head company and all of the subsidiary members of the group (if any).

In general, before a consolidated group can be brought into existence, there must be:

- a consolidatable group in existence, and
- an effective choice made by the head company of the consolidatable group to consolidate the group.

A consolidated group that is formed in this way comes into existence from the date specified in the notice of choice given to the Commissioner of Taxation.

Continuing majority-owned entity

An entity that was majority owned at all times from the start of 27 June 2002 until the entity became a subsidiary member of a consolidated group.

→ subsection 701A-1(1), IT(TP)A 1997

Continuity of ownership test

Broadly, a company satisfies the continuity of ownership test if, from the start of the income year in which a loss was incurred until the end of the income year in which the loss is sought to be deducted, the same individuals have, directly or indirectly (through the continuous holding of the same shares or interests):

- control of more than 50% of the voting power in the company
- rights to more than 50% of the company's dividends, and
- rights to more than 50% of the company's capital distributions.

The rules surrounding the continuity of ownership test in relation to companies are contained in Division 165 of the ITAA 1997. However, in certain circumstances the rules are modified in relation to listed public companies. These modified rules are contained in Division 166 of the ITAA 1997.

Continuity of ownership test (COT) transfer

The transfer of a loss from a company to the head company because the continuity of ownership test is passed and the control test is not failed.

Control test

The control test in relation to companies is contained in section 165-15 of the ITAA 1997. It is failed if a person starts to control the entity's voting power during the period in which the continuity of ownership test is applied for the purposes of gaining a benefit or advantage in relation to the application of the ITAA.

The control test in relation to non-fixed trusts is contained in section 269-95 of Schedule 2F to the ITAA 1936. It is failed if, at any time during the test period, a group commences to control the trust (for example, so it can obtain beneficial enjoyment of the capital or income of the trust).

Cost setting rules

The rules dealing with income tax treatment of assets of subsidiary entities that join or leave a consolidated group. → 'Assets', C2

Debt interest

Debt interest has the meaning given by Subdivision 974-B of the ITAA 1997.

Deferred attribution credit

An attributable taxpayer can elect to defer the timing of an attribution credit that relates to the attribution of an unrealised gain on assets (the notional gain) where a controlled foreign corporation changes residence from an unlisted country to a listed country.

Eligible tier-1 company

A tier-1 company that meets certain requirements as to the ownership of its membership interests.

→ see also 'Tier-1 company', 'New eligible tier-1 members of a MEC group'

Excluded assets

An asset is an excluded asset for consolidation purposes if an amount has been deducted in respect of the asset in working out the allocable cost amount.

Fifty per cent (50%) stake test

This operates in a broadly similar manner in relation to trusts as the continuity of ownership test does in relation to companies. A trust satisfies the 50% stake test if, at all relevant times during the test period:

- the same individuals have fixed entitlements, directly or indirectly, to more than 50% of the income of the trust, and
- the same individuals have fixed entitlements, directly or indirectly, to more than 50% of the capital of the trust (these individuals need not be the same as those who hold fixed entitlements to income).

The rules relating to the 50% stake test are contained in Schedule 2F to the ITAA 1936.

First subsidiary A subsidiary member of the group that holds membership interests in another subsidiary member of the group (second subsidiary). → section 705-145, ITAA 1997

Focal company The company seeking to utilise a loss where special rules for meeting the continuity of ownership test apply to a MEC group. The focal company is the head company of a MEC group at some time in its ownership test period for the loss.

Foreign-owned group → see 'Multiple entry consolidated (MEC) group'

Formation residual unrealised net loss (formation RUNL) A formation RUNL is the amount that would have been a company's residual unrealised net loss just before the time of formation of a consolidated group (e.g. paragraph 715-50(1)(c) and section 715-35)

Formation time When a consolidated group comes into existence.

General modifying rule Each eligible tier-1 company of a MEC group is treated as if it were a part of the head company rather than a separate entity.

General value shifting regime (GVSR) The GVSR consists of direct value shifting rules and indirect value shifting rules that impact primarily on equity and loan interests in companies and trusts. The GVSR will generally apply to arrangements that materially change the market value of interests in entities. → Divisions 723, 725, 727; and Subdivisions 715-G, 715-H & 719-T

Group losses Losses that have been generated by the consolidated group.

Head company – consolidated group A head company must be an Australian-resident company that has all or some of its taxable income taxed at a rate that is or equals the general company tax rate. It cannot be a prescribed dual resident or a subsidiary member of a consolidatable or consolidated group. A head company also cannot be a company that receives special tax treatment relative to an ordinary Australian-resident company (examples of such companies include tax exempt companies, certain credit unions, pooled developments funds (PDFs) and film licensed investment companies). However, a non-profit company can be a head company.

Head company – MEC group An eligible tier-1 company that has been nominated by all other eligible tier-1 companies of the MEC group to be the provisional head company of the group, and in which no membership interests are held by other members of the group. The provisional head company at the end of the income year is taken to have been the head company of the MEC group for the income year or for the period the MEC group was in existence.

→ see also 'Provisional head company', 'Multiple entry consolidated (MEC) groups'

Joining entity Any eligible entity that joins a consolidated group.

Joining time The time a joining entity becomes a member of a consolidated group.

Leaving entity A member of a consolidated group that ceases to be eligible to be a member of that group and so automatically leaves the group.

Leaving residual unrealised net loss (leaving RUNL) A leaving RUNL is the amount that would have been the head company's residual unrealised net loss at the time an entity leaves a consolidated group (e.g. paragraph 715-95(1)(e) and section 715-35).

Leaving time The time at which a leaving entity ceases to be eligible to be a member of a particular consolidated group.

Linked assets and liabilities A set of linked assets and liabilities consists of at least one asset and at least one liability that the accounting standards or statements of accounting concepts require to be:

- set-off against each other in preparing an entity's statements of financial position, and
- presented in that statement as a net amount.

→ subsection 705-59(2)

Linked entities Entities that are linked through membership interests (and at least one of them is linked with an existing consolidated group) and join the consolidated group at the same time because of an event that happens to one of them.

Loss → see 'Sort of loss'

Loss denial pool A loss denial pool of the head company may be created at the formation or joining time (section 715-60). Loss denial pools of a leaving entity can also be created at the leaving time (section 715-110 and section 715-135).

Loss integrity measures (LIM) The loss integrity measures deal with the realised and unrealised losses of companies (see Subdivisions 165-CC and 165-CD of the ITAA). These measures address loss duplication where there is a change in ownership or control, and treat unrealised losses of a company in a similar way to realised losses.

Loss reduction method Broadly, the loss reduction method applies to certain interests in consolidated and MEC groups to which Subdivision 165-CD and the general value shifting rules cannot apply on their normal terms. Losses on such interests are generally denied. → Subdivisions 715-H & 719-T

Majority owners A person or persons are the majority owners of an entity if they beneficially own, directly or indirectly through one or more interposed entities, more than 50% of the market value of all the membership interests in the entity.

→ subsection 701A-1(2), IT(TP)A

Market value of reset interests (for pooling purposes) The market value of reset interests in a trigger company is the market value of all reset interests (just before trigger time). → subsection 719-570(1), ITAA 1997

Market value of a MEC group (for pooling purposes)

Where each eligible tier-1 company that is a member of the group just before the trigger time is a trigger company, the market value of the group is the sum of the market values (just before the trigger time).

Otherwise, the market value of the reset interests as a whole (including the market value of synergies arising from the combination of those interests) just before the trigger time is more than nil.

→ subsection 719-570(1) and paragraph 719-555(1)(c)

Member of a group

An entity is a member of a consolidated group, consolidatable group or MEC group while the entity satisfies the conditions for being either the head company or a subsidiary member of that group. → see also 'Subsidiary member of a consolidated or consolidatable group', 'Subsidiary member of a MEC group'

Members of entities

The following table shows the members of various entities.

Entity	Member
Company	a member of the company or a stockholder in the company
Partnership	a partner in the partnership
trust (except a corporate unit trust or a public trading trust)	a beneficiary, unitholder or object of the trust
corporate unit trust	a unitholder of the trust
public trading trust	a unitholder of the trust

If two or more entities jointly hold interests or rights that give rise to membership of another entity, each of them is a member of the other entity.

An entity is not a member of another entity merely because it holds interests or rights in that other entity that are debt interests.

Membership interest held continuously

A membership interest is continuously held where the beneficial owner of the particular membership interest has been the same entity from the time that interest was first acquired to the specific reference date. There are some exceptions to this principle.

Membership interest in an entity

For the purposes of determining whether an entity is a wholly-owned subsidiary of the head company, the term 'membership interest' means each interest or set of interests in the entity or each right or set of rights in relation to the entity that makes one a member of the entity. Membership interests do not include interests held solely as a debt interest.

Modified market value

The modified market value of a joining entity is its market value, assuming:

- the entity has no losses and the balance of its franking account is nil
- the subsidiary members of the group at the joining time are separate entities and not divisions or parts of the head company at the joining time
- the entity's market value did not include an amount attributable to a membership interest in a member of the group that is a corporate tax entity or an entity that transferred losses to the head company, and

- a trust (other than a corporate tax entity or a trust with losses) contributes to the joining entity's market value only to the extent attributable to fixed entitlements (at joining time) to income or capital of the trust that is not attributable (directly or indirectly) to membership interests in another member of the group that is a corporate tax entity or a trust with losses.

Multiple entry consolidated (MEC) group

Where two or more eligible Australian-resident companies (and their wholly-owned subsidiaries, if any) are wholly owned by a common foreign parent company, and do not have a common Australian parent company, they may choose to form a multiple entry consolidated (MEC) group. A MEC group is treated as a consolidated group for income tax purposes.

New eligible tier-1 members of a MEC group

A company will be a member of a MEC group as a new eligible tier-1 company if:

- after the MEC group is formed it becomes an eligible tier-1 company of the top company, and
- the provisional head company of the MEC group notifies the Commissioner of Taxation that the company is to become a member of the MEC group.

In some circumstances there may be additional requirements for the company to become a new eligible tier-1 member of a MEC group.

→ see also 'Eligible tier-1 company', 'Tier-1 company'

New head company

→ see 'Old head company / new head company'

Non-chosen subsidiary

Subsidiary members of a transitional group at the formation time that are not chosen transitional entities. → see also 'Chosen transitional entity'

Non-share equity interest

An equity interest in a company that is not solely a share.

Non-trigger companies

Eligible tier-1 companies that are members of a MEC group but are not trigger companies.

Notifiable events for a MEC group

An event about which an entity is required to notify the Tax Office in the approved form – for example:

- an entity becomes a member of a MEC group
- an entity ceases to be a member of a MEC group
- a cessation event happens to the provisional head company of a MEC group → section 719-80, ITAA 1997
- a MEC group is formed by a special conversion event → section 719-40, ITAA 1997.

Old head company/new head company A MEC group has an old head company and a new head company where a company is the head company of a MEC group at the end of an income year and a different company is the head company of the group at the start of the next income year (the transition time). → section 719-85, ITAA 1997

One in, all in Where a head company elects to form a consolidated group, all entities that qualify as subsidiary members must be included in the consolidated group from the time that the group forms or at their joining time. However, special rules apply to MEC groups.

Over-depreciation of an asset An asset is over-depreciated at a particular time if there has been some depreciation (i.e. a reduction in its adjustable value) and its market value exceeds its adjustable value. The amount of over-depreciation of the asset is the excess of its market value over its adjustable value or the excess of its cost over adjustable value, whichever is greater.

Pattern of distributions test A test that may need to be satisfied by certain non-fixed trusts before they can recoup tax losses. The rules relating to the pattern of distributions test are contained in Schedule 2F to the ITAA 1936.

Pooled cost amount The sum of the cost bases of the reset interests in all the eligible tier-1 companies just before the trigger time.

Pooled interest Broadly, a membership interest in an eligible tier-1 company of a MEC group held by an entity that is not a member of the group.

Pooling The process whereby the cost base or reduced cost base of pooled interests is calculated when a trigger event occurs.

Potential MEC group A potential MEC group derives from one or more eligible tier-1 companies of a top company and consists of those eligible tier-1 companies and all the eligible resident entities that are wholly-owned subsidiaries (if any) of those eligible tier-1 companies.

Pre-CGT factor A factor attached at the joining time to each asset that is not a current asset to preserve the pre-CGT (capital gains tax) status of membership interests of a member while the member is in a consolidated group. At leaving time, the number of membership interests to be treated as pre-CGT interests are worked out in reference to the pre-CGT factor.

Pre-CGT factor asset Any non-current asset that has a pre-CGT factor attached to it.

Provisional head company An eligible tier-1 company of the top company that is jointly appointed by all other eligible tier-1 companies of the MEC group and in which no membership interests are beneficially owned by another member of the group. The provisional head company at the end of the income year is taken to have been the head company of the MEC group for the income year or for the period the MEC group was in existence. → see also 'Head company – MEC group', 'Cessation event – provisional head company'

Relationship test

The loss company and the income company must be in existence and members of the same wholly-owned group during the loss year, the deduction year and any intervening income year.

Reset cost base asset

Any asset that is not a retained cost base asset or an excluded asset.

Reset interests

Each pooled interest for which a cost setting amount is worked out.

Residual unrealised net loss (RUNL)

→ see 'Formation RUNL' and 'Leaving RUNL'

Retained cost base asset

Australian currency (other than trading stock or collectables) or a right to receive a specified amount of Australian currency (other than a right that is a marketable security within the meaning of section 70B of the ITAA 1936) or an entitlement that is subject to a prepayment.

Revenue asset

A CGT asset is a revenue asset if, and only if:

- the profit or loss on disposing of the asset, ceasing to own it, or otherwise realising it, would be taken into account, in calculating assessable income or tax loss, otherwise than as a capital gain or capital loss, and
- the asset is neither trading stock nor a depreciating asset.

→ section 977-50, ITAA 1997

Revenue-like asset

Refers in this manual to three classes of assets:

- trading stock
- depreciating assets
- revenue assets.

Note that trading stock, depreciating assets and revenue assets are referred to in the consolidation legislation as 'assets held on revenue account' and 'revenue etc. assets'. A partly constructed asset that has a limited effective life is a depreciating asset for the purposes of Division 40 of the ITAA 1997.

Same business test

A company that fails the continuity of ownership or control test may nonetheless utilise losses if it passes the 'same business test'. Basically, the same business test is passed if the business an entity carries on during the income year in which it seeks to utilise the loss is the same as the one it carried on immediately before the test time. The rules surrounding the same business test are contained in Division 165 of the ITAA 1997.

Second subsidiary

A subsidiary member of a group whose membership interests are held by a first subsidiary. → section 705-145, ITAA 1997

Segregated exempt assets A life insurance company can segregate assets for the sole purpose of discharging its exempt life insurance policy liabilities (Subdivision 320-H, ITAA 1997). Broadly, segregated assets are assets that support immediate annuity and current pension business and business from constitutionally protected superannuation funds.

Life insurance companies are exempt from tax on amounts of ordinary income and statutory income derived on segregated exempt assets.

Where a consolidated group includes one or more members that are life insurance companies during the income year, the head company is taken to be a life insurance company for the purposes of applying the income tax law.

Single entity rule A consolidation core rule under which the members of a consolidated group are taken to be parts of the head company of the group for certain income tax purposes defined in consolidation legislation.

Sort (of loss) A sort of a loss can be a:

- tax loss
- film loss
- net capital loss.

Special conversion event The conversion of a consolidated group to a MEC group in the following circumstance: if a top company that owns a consolidated group acquires one or more eligible tier-1 companies, the head company of the consolidated group may be able to form a MEC group with the newly acquired company or companies.

Spreading period The period used to work out how certain income and deductions are divided between a head company and a subsidiary member if the law attributes the income or deduction to a period rather than to a particular moment and the entity is in the consolidated group for only part of a year.

→ section 716-25, ITAA 1997

Subdivision 165-CC tagged assets Broadly, a Subdivision 165-CC tagged asset of a company (within the meaning of section 715-30) is a CGT asset taken into account for the most recent changeover time for the company and that is still held by the company, or is a CGT asset covered by paragraph 165-115A(1A)(b) that relates to a Subdivision 170-D amount that has not been recognised by the company before consolidation.

Subdivision 170-D deferred loss These are capital losses and deductions, resulting from some CGT events involving related entities, that are disregarded under Subdivision 170-D.

Sub-group A sub-group is a chosen transitional entity and all non-chosen subsidiaries that the chosen transitional entity holds membership interests in, either directly or indirectly through one or more other entities.

Sub-group membership interests

The sub-group membership interests in relation to the sub-group comprise:

- the membership interests that the chosen transitional entity holds directly in the non-chosen subsidiary and any of the interposed non-chosen subsidiaries, and
- the membership interests that each interposed non-chosen subsidiary holds directly in the non-chosen subsidiary or in any of the other interposed non-chosen subsidiaries.

Subsidiary member of a consolidated or consolidatable group

Broadly, an entity is a subsidiary member of a consolidated or consolidatable group if:

- it is a resident company, trust or partnership
- it is a wholly-owned subsidiary of the head company
- it would/does not effectively gain or lose concessional tax treatment by being a subsidiary member of a consolidated group, and
- any entities that are interposed between it and the head company of the group are subsidiary members (of the group), nominees or certain non-resident entities.

Examples of entities that would effectively gain or lose concessional treatment by being a subsidiary member of a consolidated group include tax exempt entities, certain credit unions, non-profit companies, pooled development funds, film licensed investment companies, non-complying approved deposit funds and superannuation funds and complying superannuation entities.

Subsidiary member of a MEC group

Broadly, an entity is a subsidiary member of a MEC group if it is a:

- tier-1 company other than a tier-1 company that is the head company of the group, or
- resident company, trust or partnership that is a wholly-owned subsidiary of a tier-1 company, and:
  - it would/does not effectively gain or lose concessional tax treatment by being a subsidiary member of the MEC group, and
  - any entities that are interposed between it and the tier-1 company of the group are subsidiary members (of the group), nominees or certain non-resident entities. (Note: additional entity requirements apply where an interposed foreign resident entity is involved.)

Terminating value for a head company

The amount that would need to be received for an asset to result in no tax consequences for the consolidated group as a result of the asset leaving the group via a disposal of membership interests. Terminating value is used to determine the group's cost of the membership interests in the entity that leaves the group, at the leaving time.

Terminating value for a joining entity

The amount that would result in a tax-neutral consequence for the entity ceasing to hold assets when it joins a group. → see also section 705-30, ITAA 1997

Test company The company that is tested to determine whether the continuity of ownership test is passed, where the company seeking to utilise the loss is either the focal company or the company that made the loss because of a COT transfer.

Tier-1 company A company will be a tier-1 company if:

- it is a qualifying wholly-owned Australian resident subsidiary of the ultimate foreign holding company, and
- it is not a wholly-owned subsidiary of a company that is an Australian resident which could be a member of the MEC group.

→ see also 'Eligible tier-1 company' and 'New eligible tier-1 members of a MEC group'

Top company A top company must be a foreign company and must not be a wholly-owned subsidiary of another company other than a company that is a prescribed dual resident.

Transfer tests Before a joining entity can transfer losses to the head company of a consolidated group it must pass modified versions of the existing loss recoupment tests, such as the continuity of ownership test, control test or same business test. These modified tests are referred to as 'transfer tests'. The main modification involves replacing the loss claim year with the trial year. Other modifications relate to the testing points/periods in relation to the same business test. → see also 'Control test', Continuity of ownership test', 'Same business test'

Transferred losses Losses that have been made outside the consolidated group and transferred into the group by an entity when it joins the group.

Transitional entity A transitional entity is one that is a wholly-owned member of a transitional group on or before 30 June 2003 and does not at any time after 1 July 2002 leave the group and then subsequently rejoin.

Transitional foreign-held subsidiary [TFHS] An Australian-resident company that becomes a member of a consolidated or MEC group under the transitional foreign-held membership rules and has some or all of its membership interests directly owned by non-resident entities or their nominees.

Transitional foreign-held indirect subsidiary [TFHIS] An Australian-resident entity that becomes a member of a consolidated or MEC group under the transitional foreign-held membership rules and has some or all of its membership interests owned directly or indirectly by a TFHS and any remaining membership interests by the other members of the consolidated or MEC group or their nominees.

Transitional group Broadly, a transitional group exists under the following circumstances:

- The group comes into existence on 1 July 2002.
- The group comes into existence after 1 July 2002 but before 1 July 2003, and there is at least one transitional entity that becomes a subsidiary member of the group on the day the group comes into existence.
- The group comes into existence during the financial year starting on 1 July 2003, and at least one transitional entity becomes a subsidiary member of the group on the day the group comes into existence.

Trial year The period starting at the latest of:

- the time 12 months before the joining time
- the time the joining entity came into existence, or
- if the joining entity has been a stand-alone entity since exiting a consolidated group, the time of its exit from that group

and ending just after the joining time.

Trigger company An eligible tier-1 company in relation to which a trigger event occurs.

Trigger events An eligible tier-1 company leaving a MEC group or a CGT event happening in relation to one or more reset interests in the company.

Trigger time The time when an eligible tier-1 company leaves a MEC group or a CGT event happens in relation to a reset interest in the company.

Unused carry-forward losses The losses that would be available to be utilised by a joining entity if it did not join a consolidated group.

Utilisation tests In certain circumstances a loss company and an income company must not be prevented from deducting or applying a loss as part of the requirements for transferring losses between members of the same wholly-owned group.

Utilise (a loss) An entity utilises a loss:

- in the case of a tax loss – to the extent it is deducted from an amount of the entity's assessable income or exempt income
- in the case of a net capital loss – to the extent that it is applied to reduce an amount of the entity's capital gains.

Value donor A company that is able to donate all or part of its modified market value to a loss company under the transitional concessions surrounding the calculation of the available fraction.

Value shifting If value is shifted between certain owners' interests then those interests (e.g. cost bases) are adjusted to prevent inappropriate losses or gains from arising when the interests are later realised.

Virtual PST A virtual pooled superannuation trust. A life insurance company can segregate assets for the sole purpose of discharging its virtual PST liabilities (Subdivision 320-F, ITAA 1997). These segregated assets are together known as a virtual PST. The virtual PST component is included in the complying superannuation class of taxable income of a life insurance company.

Where a consolidated group includes one or more members that are life insurance companies during the income year, the head company is taken to be a life insurance company for the purposes of applying the income tax law. Therefore, the virtual PST component is included in the complying superannuation class of taxable income of the head company.

Wholly-owned subsidiary

An entity is a wholly-owned subsidiary of its holding entity if all the membership interests in it are beneficially owned by:

- the holding entity
- one or more wholly-owned subsidiaries of the holding entity, or
- a combination of the holding entity and one or more wholly-owned subsidiaries of the holding entity.

Special rules allow an entity to be treated as a wholly-owned subsidiary in circumstances that would otherwise prevent the entity from being a wholly-owned subsidiary. For example, in certain circumstances, an entity will be treated as if it were a wholly-owned subsidiary where employee share ownership does not exceed 1% and certain conditions are met; or where there is a non-fixed trust interposed between the entity and the head company. Membership interests do not include interests held solely as a debt interest.

Revision history

Section A2 first published (excluding drafts) 2 December 2002 and updated 28 May 2003. Further revisions are described below.

Date	Amendment	Reason
14.1.04	Revenue-like asset – revise definition to include note that a partly constructed asset that has a limited effective life is a depreciating asset for the purposes of Division 40 of the ITAA 1997.	Section C2-4-530 revised to illustrate treatment of partly constructed assets.
	Insert definitions of transitional foreign-held subsidiary (TFHS) and transitional foreign-held indirect subsidiary (TFHIS).	These terms introduced in extensive revision of section C10-2-120.
14.7.04	Insert definitions of 'available amount' and 'linked assets and liabilities'.	Definitions support revisions to section C2 Assets.
30.6.09	Amend definitions of 'Sort (of loss)' and 'Utilise (a loss)' to reflect new rules for treatment of foreign losses.	Legislative amendment.

Proposed changes to consolidation

Proposed changes to consolidation announced by the Government are not incorporated into the *Consolidation reference manual* until they become law. In the interim, information about such changes can be viewed at:

- http://assistant.treasurer.gov.au (Assistant Treasurer's press releases)
- www.treasury.gov.au (Treasury papers on refinements to the consolidation regime).