Worked example

Increase for certain privatised depreciating assets (at exit ACA step 1)

Description

This example shows how the step 1 amount of the exit ACA may be increased for certain privatised assets leaving the group.

Commentary

To set the head company's cost of membership interests in a leaving entity, the exit ACA is calculated in five steps → 'Treatment of assets', C2-1. The step 1 amount is worked out by adding up the terminating values of the leaving entity's assets just before the leaving time.

There is an increase in the step 1 amount for certain privatised depreciating assets leaving the group that either:

- had their tax cost setting amount reduced under section 705-47 of the ITAA 1997 when an entity joined the group, or
- had their first element of cost reduced because of subsection 58-70(5) of the ITAA 1997 when they were acquired by the group.

The step 1 amount is increased by the amount of that reduction.

Example

Facts

(This example is based on that at C2-4-605.)

ACo is a wholly-owned subsidiary of HCo.

On 2 July 2001, ACo acquires a privatised depreciating asset in connection with a business from a tax exempt entity for $96. The asset has an effective life of 10 years.

Under section 58-65 of the ITAA 1997, ACo chooses to work out the first element of the privatised asset's cost using its notional written down value, which is calculated as $90.

ACo uses the prime cost method and for the 2001-02 income year deducts $9 for the decline in value (based on a cost of $90) under Division 40 of the ITAA 1997, leaving an adjustable value of $81 on 30 June 2002.

On 1 July 2002, HCo forms a consolidated group with ACo as a subsidiary member.

After ACo's ACA is calculated and allocated, the tax cost setting amount (TCSA) for the privatised asset is $86. No reduction at step C is necessary because the asset has a market value of $92.

However, at step D a reduction in the privatised depreciating asset's TCSA is required under section 705-47 of the ITAA 1997, because Division 58 of the

ITAA 1997 has directly affected ACo's deductions (by reducing the asset's cost from $96 to $90) and the asset's TCSA calculated up to this point ($86) exceeds its terminating value ($81). The TCSA for the privatised depreciating asset is reduced to its terminating value of $81, a reduction of $5 ($86 – $81).

HCo deducts $9 for the decline in value for the 2002-03 income year. This is worked out using paragraph 701-55(2)(c) of the ITAA 1997 and based on a cost of $81 and the remaining effective life of 9 years. The privatised depreciating asset has an adjustable value of $72 on 30 June 2003.

ACo leaves HCo's group on 1 July 2003 with the privatised depreciating asset.

ACo's exit ACA step 1 amount includes $72, being the terminating value of the privatised depreciating asset. This is increased by $5 (to $77) under subsection 711-25(3) of the ITAA 1997, because the asset had its TCSA reduced by $5 (from $86 to $81) under section 705-47 of the ITAA 1997 when ACo joined the group.

References

Income Tax Assessment Act 1997, subsection 711-25(3); as inserted by *Tax Laws Amendment (2004 Measures No. 2) Act 2004* (83 of 2004), Schedule 2

Income Tax Assessment Act 1997, sections 711-20 and 711-25; as amended by *Tax Laws Amendment (2010 Measures No. 1) Act 2010* (No. 56 of 2010), Schedule 5, Part 7, Division 1

Explanatory Memorandum to Tax Laws Amendment (2004 Measures No. 2) Bill 2004, paragraphs 2.206 to 2.241

Explanatory Memorandum to Tax Laws Amendment (2010 Measures No. 1) Bill 2010, paragraphs 5.188 – 5.197

Revision history

Section C2-5-220 first published 11 March 2005.

Further revisions are described below.

Date	Amendment	Reason
6.5.11	Minor revisions to 'Commentary' to reflect changes that clarify the time when the leaving time cost setting provisions in Division 711 apply.	Legislative amendments.