

Consolidation – key points and pathway

From 1 July 2002, eligible wholly-owned groups can consolidate – to operate as a single entity for income tax purposes.

The head company pays PAYG instalments and self-assesses a single annual income tax liability on behalf of the whole group.

Consolidation does not affect other tax obligations such as GST, FBT and PAYG withholding.

A consolidated group can be formed by a single, Australian-resident head company and all its eligible wholly-owned Australian-resident subsidiaries.

The subsidiaries may be companies, partnerships or trusts.

A foreign-owned group of Australian-resident subsidiaries that do not have a single Australian-resident head company may also be able to form a multiple entry consolidated (MEC) group.

Participation is optional but irrevocable.

The head company of a consolidatable group makes a choice in writing for itself and all its eligible wholly-owned Australian subsidiaries to be treated as a consolidated group for income tax purposes.

The head company notifies the ATO of its choice to consolidate by the time it lodges the group's first consolidated income tax return.

The choice to consolidate generally remains in effect until the head company ceases to be a head company.

The existence of a consolidated group is not affected by changes in the subsidiary membership from time to time.

The consolidation rules replace the grouping provisions for wholly-owned groups.

Corporate groups will generally not have the option of continuing with the grouping provisions beyond 30 June 2003. They must consolidate if they want access to any form of single entity treatment.

Consolidation makes business simpler and improves the integrity of the tax system.

Consolidation simplifies the taxation of wholly-owned groups and reduces compliance costs by:

- ignoring intragroup transactions for tax purposes
- pooling losses, franking credits and foreign tax credits
- aligning PAYG instalments with annual income tax obligations, and
- replacing multiple reporting requirements with a single income tax return and PAYG instalments for the entire group.

Consolidation also reduces opportunities for tax avoidance through loss creation and value shifting.

Consolidation pathway

Forming and operating as a consolidated group involves a series of steps.

As part of the integrated tax design process, the ATO in consultation with business representatives and advisers developed a blueprint of these steps, which is summarised in the consolidation 'pathway' → next page. The pathway is essentially an overview of the consolidation process from the taxpayer's point of view.

The key steps are described briefly below.

Choosing

Consolidation is optional. A group needs to determine its eligibility, analyse the costs and benefits of consolidating, and choose whether and when to consolidate. The choice to consolidate is irrevocable once it is made.

→ 'Choosing', B1-1

Forming a consolidated group

Consolidating a group involves planning and implementing new systems and calculating a consolidated income tax position for the group as a whole. Among other things, the head company needs to:

- determine asset values for joining subsidiaries
- transfer losses and calculate a utilisation rate
- transfer franking credits and foreign tax credits, and
- deal with the other tax attributes of the joining subsidiaries.

→ 'Forming', B2-0

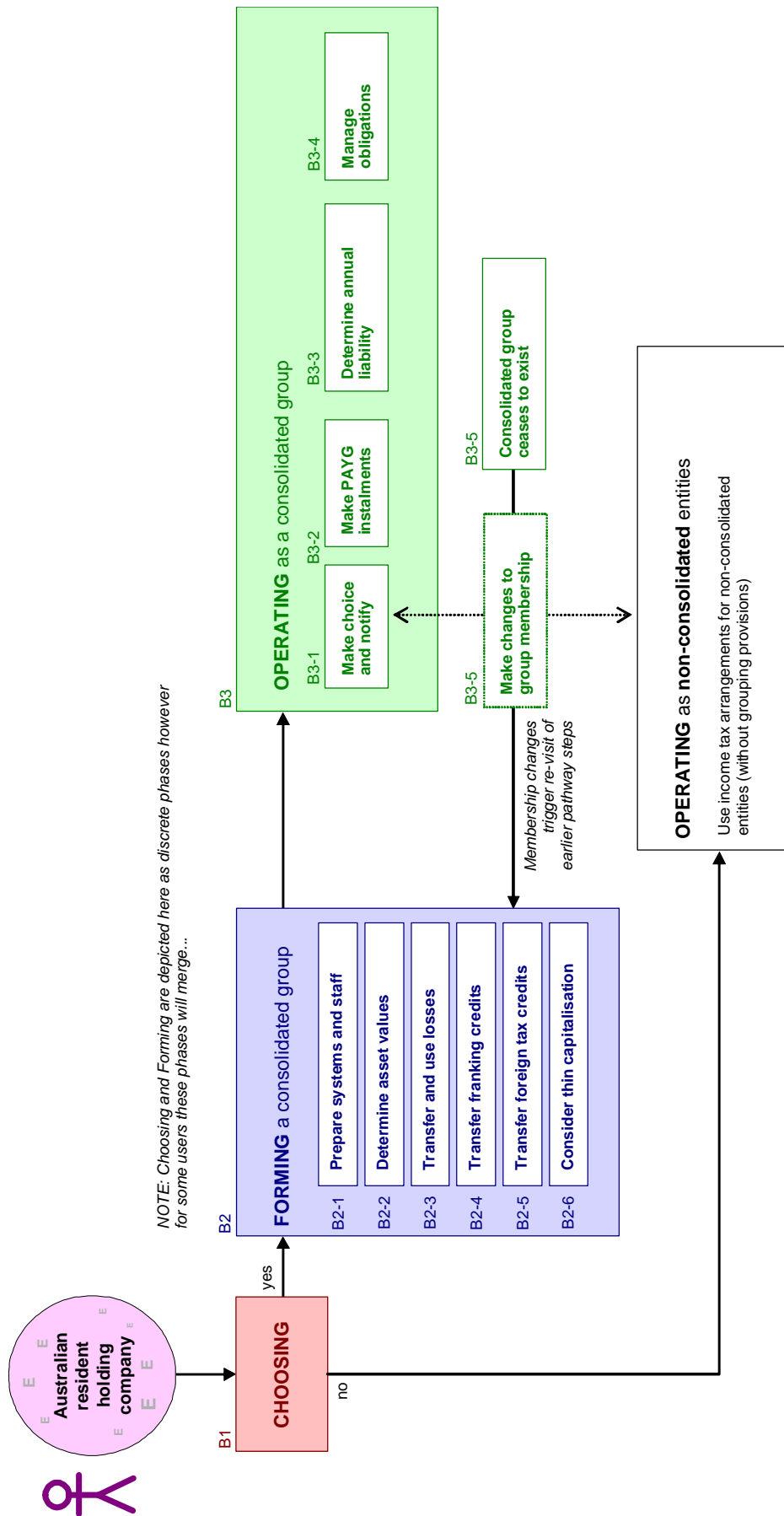
Operating as a consolidated group

Operating as a consolidated group requires the head company to, among other things:

- make a choice in writing to form a consolidated group with effect from a certain date
- notify the ATO of its choice to consolidate in the approved form within the prescribed time
- calculate, report and pay the group's PAYG instalments
- determine, report and make any balancing adjustments to meet the group's annual income tax liabilities
- manage any ongoing income tax liabilities and supply income tax information to the ATO when required, and
- manage the entry and exit of subsidiary members, including notifying the ATO.

→ 'Operating', B3-0

Figure 1: Consolidation pathway



Revision history

Section B0-1 first published (excluding drafts) 2 December 2002. Further revisions are described below.

Date	Amendment	Reason
6.5.11	Minor revisions to reflect changes to choice to consolidate rules.	Legislative amendments.