

## Determining annual liability

### Key points

The head company self-assesses the annual income tax liability of the consolidated group, lodges a single income tax return for the group and makes a balancing payment or receives a balancing credit.

Subsidiary members that are part of a consolidated group for only part of a financial year separately self-assess their income tax liability and lodge an income tax return for the periods in which they were not part of a group.

### Self-assess income tax liability

The head company needs to consolidate income tax information from all members of the group to prepare a single consolidated income tax return.

Entities that are part of a consolidated group for only part of an income year separately self-assess their income tax liability and entitlement to pay as you go (PAYG) instalment credits for the periods in which they were not part of the group.

### Reconcile, lodge and make payment

Head company

The head company:

- lodges a single income tax return for the group
- reconciles available PAYG instalment credits with its income tax liability, and
- makes any balancing payment or receives a refund.

During the formation period, the head company is entitled to a credit for PAYG instalments payable by the group's subsidiary members. Where a subsidiary member's instalment liability spans both pre- and post-consolidation periods, the head company needs to make a reasonable apportionment of the liability between the two periods.

The credit available to the head company takes into account the period in which the member was actually in the group. The remainder of the credit is available to the subsidiary member. Where the subsidiary member and the head company have different accounting periods, the amount of the credit available to the head company takes account of how much of the instalment period fell within the head company's income year. The balance of the credit is available to the head company in the subsequent income year. Where necessary, the ATO will assist by providing information on instalment obligations to those authorised to receive it.

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## Note

### Access to income tax information

A head company may access ATO income tax information on a subsidiary member once it has notified the ATO of the consolidated group's formation.

Where a head company requires information but has yet to notify the ATO of the group's formation, the information may be provided where one of the following conditions is met:

- The tax agent reference number for the head company and subsidiary member is identical and the subsidiary member authorises the tax agent to pass the information to the head company (that is, the head company would access the information via the tax agent).
- The subsidiary member's public officer nominates an officer of the head company as the subsidiary member's representative using the approved form (so that the nominated person is entitled to receive protected information).

When preparing the income tax return, the head company should complete label Z1 at item 3 'Status of company' on page 2 of the return to indicate the return has been prepared on the basis that it is the head company of a consolidated or MEC group. → *Company tax return instructions*, NAT 0669-6

## Subsidiary members

An entity that is a subsidiary member of a consolidated group for the entire income year does not lodge an income tax return or complete any schedules. But if the entity is not part of a consolidated group for any period of the income year, it needs to lodge a single income tax return (at the normal lodgment time) covering the period(s) it was outside a group. Therefore, an entity that joins a consolidated group during an income year should wait until the end of the year before it lodges a return covering the period(s) it was not a member of a consolidated group.

When an entity that has been a subsidiary member of a consolidated group for any period of the year is preparing a return, it should complete label Z2 at item 3 'Status of company' on page 2 of the return to indicate that it has been a subsidiary member of a group. → *Company tax return instructions*, NAT 0669-6

## Note

A subsidiary member of a consolidated group should not indicate this is a final return if membership of the consolidated group is the only basis on which the company will not be required to lodge future returns.

Tax consequences arise for the joining entity as a consequence of it ceasing to hold its trading stock, and this must be taken into account in calculating the entity's income tax liability for the period up to the joining time. → section 701-35, ITAA 1997; 'Treatment of trading stock brought into the group', C9-5-320

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Where a subsidiary member has operated outside the group for more than one period during a particular income year, the income tax payable for that year is worked out by calculating the taxable income for each non-membership period as if each period were a separate income year. The subsidiary member's income tax liability for the whole year is the total of each of these amounts. Note that if this entity has a loss or entitlement to other credits for the non-membership period that ends on the last day of the income year, that loss or credit cannot be applied in calculating the tax payable for any prior non-membership period. Such a loss or credit is carried forward. → 'Calculating taxable income, income tax and losses for non-membership periods', C9-5-110

Where a return is required because the subsidiary member was not a member of a consolidated group for part of the income year, the subsidiary member should complete any schedules relevant to the non-membership periods.

The subsidiary is required to self-assess its entitlement to a PAYG instalment credit. The basis for this calculation is described under 'Head company', p. 1.

#### Revision history

Section B3-3 first published (excluding drafts) 2 December 2002 and updated 28 May 2003.

Further revisions are described below.

Date	Amendment	Reason
14.7.04	Changes to text on the tax return obligations of a subsidiary member and on the tax consequences for a joining entity of it bringing trading stock into the group, p. 2.	For clarification.
6.5.11	Revisions to reflect changes introduced by the <i>Tax Laws Amendment (Confidentiality of Taxpayer Information) Act 2010</i> (No. 145 of 2010).	Legislative amendments.

Figure 1: Consolidation pathway – Determining annual liability

