

Substituted accounting period (SAP)

Key points

- A consolidated group can be formed from 1 July 2002 even where the head company or subsidiary members have substituted accounting periods (SAPs).
- The accounting periods of the individual group members do not need to be aligned before the head company forms a consolidated group.
- For compliance cost reasons, where the head company with a SAP chooses to consolidate the group from the first day of its next income year beginning after 1 July 2003, access to the grouping provisions will be extended to the date of consolidation.

Grouping provisions

The existing grouping provisions cease for most groups on 1 July 2003. If a head company chooses to consolidate a group before that time the grouping provisions cease from the date of consolidation.

However, a fixed date of 1 July 2003 for the removal of the grouping provisions may result in additional compliance costs for those groups whose head company has a SAP. Therefore, a limited extension of the grouping provisions is allowed for SAP groups up until the date of consolidation where the head company chooses to consolidate the group from the first day of its next income year that begins after 1 July 2003.

The relevant grouping provisions are:

- CGT rollover relief for asset transfers between companies that are part of the same wholly-owned group
- loss transfers between companies that are part of the same wholly-owned group
- the intercorporate dividend rebate for unfranked dividends paid between companies that are part of the same wholly-owned group
- transfers of excess foreign tax credits between companies that are part of the same wholly-owned group, and
- grouping provisions in the thin capitalisation regime.

Table 1: Dates from which current grouping provisions no longer apply

Consolidation date of head company	Date from which current grouping provisions no longer apply (all members)
Any date from 1 July 2002 to 30 June 2003	Date of consolidation
First day of SAP income year commencing after 30 June 2003	Date of consolidation
Any other date before or after first day of SAP income year commencing after 30 June 2003	1 July 2003
Group does not consolidate	1 July 2003

Source: Table 13.2 on page 292 of the Explanatory Memorandum to the New Business Tax System (Consolidation) Bill (No. 1) 2002.

If a SAP group does not consolidate on the first day of the head company's next income year after 1 July 2003, the grouping provisions are not available from 1 July 2003. They will, however, be available up until 30 June 2003.

Loss transfers

Tax loss transfers

The use of tax loss transfer provisions requires an apportionment of the tax loss of the loss company and the taxable income of the income company. Only that part of the income year's tax loss attributed to the period prior to 1 July 2003 and that part of the income year's taxable income attributed to the period prior to 1 July 2003 are taken into account in any tax loss transfer.

Net capital loss transfers

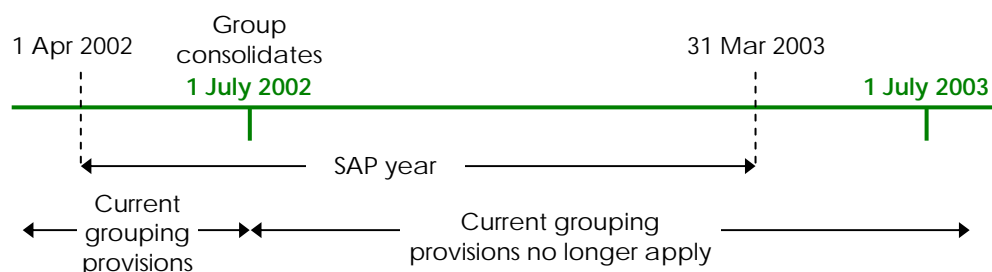
Net capital loss transfers are available only where the net capital loss would have arisen prior to 1 July 2003 and may only be transferred to a company that would have derived a net capital gain if its income year had ended on 30 June 2003.

Examples

Example 1

Head Company and its subsidiaries have a SAP ending 31 March in lieu of the following 30 June. The group consolidates on 1 July 2002.

Figure 1: SAP ends 31 March, group consolidates 1 July 2002



Current grouping provisions

Access to the current grouping provisions is lost for the whole group from 1 July 2002.

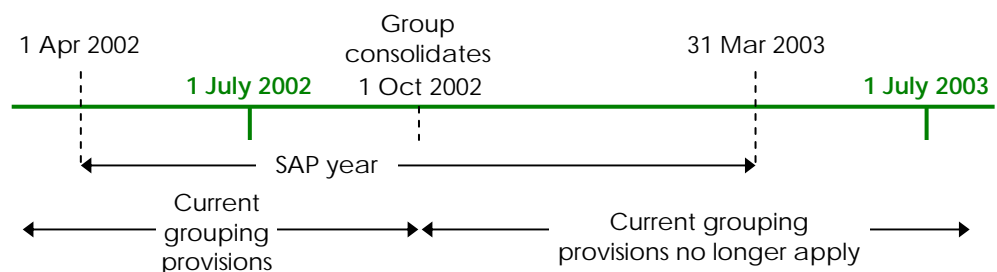
Lodgment of returns

Head Company lodges its 2003 return for the 12-month period ending 31 March 2003. This return includes the assessable income and allowable deductions for the consolidated group from 1 July 2002.

The subsidiary members each lodge their 2003 return for the 12-month period ending 31 March 2003. Effectively, only the assessable income and allowable deductions for the period prior to consolidation – that is, from 1 April 2002 to 30 June 2002 – are included in these returns.

Example 2 Head Company and its subsidiaries have a SAP ending 31 March in lieu of the following 30 June. The group consolidates on 1 October 2002.

Figure 2: SAP ends 31 March, group consolidates 1 October 2002



Current grouping provisions

Access to the current grouping provisions is lost for the whole group from 1 October 2002. Prior to this the group transfer provisions are available to group members but only in relation to the loss or income for the pre-consolidation period ending on 30 September 2002.

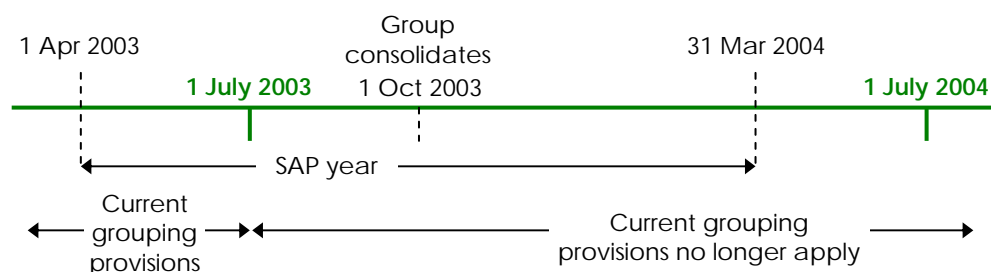
Lodgment of returns

Head Company lodges its 2003 return for the 12-month period ending 31 March 2003. This return includes assessable income and allowable deductions for the consolidated group from 1 October 2002.

The subsidiary members each lodge their 2003 return for the 12-month period ending 31 March 2003. Effectively, only the assessable income and allowable deductions for the period prior to consolidation – that is, from 1 April 2002 to 30 September 2002 – are included in these returns.

Example 3 Head Company and its subsidiaries have a SAP ending 31 March in lieu of the following 30 June. The group consolidates on 1 October 2003.

Figure 3: SAP ends 31 March, group consolidates 1 October 2003



Current grouping provisions

As the group did not consolidate on the first day of Head Company's next income year after 1 July 2003, the current grouping provisions are not available from 1 July 2003. Using the tax loss transfer provisions requires an apportionment of the tax loss of the loss company and the taxable income of the income company. Only that part of the tax loss attributed to the period prior to 1 July 2003 and that part of the taxable income attributed to the period prior to 1 July 2003 are taken into account in any tax loss transfer.

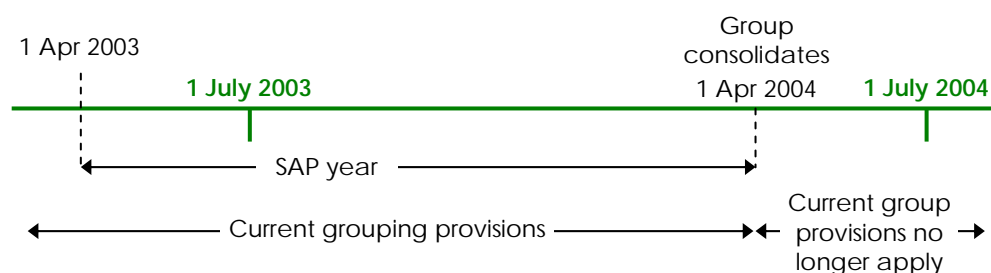
Lodgment of returns

Head Company lodges its 2004 return for the 12-month period ending 31 March 2004. This return includes assessable income and allowable deductions for the consolidated group from 1 October 2003.

The subsidiary members lodge their 2004 returns for the 12-month period ending 31 March 2004. Effectively, only the assessable income and allowable deductions for the period prior to consolidation – that is, from 1 April 2003 to 30 September 2003 – are included in these returns

Example 4 Head Company and its subsidiaries have a SAP ending 31 March in lieu of the following 30 June. Head Company chooses to consolidate the group from the first day of its SAP year beginning after 30 June 2003, that is, 1 April 2004.

Figure 4: SAP ends 31 March, group consolidates 1 April 2004



Current grouping provisions

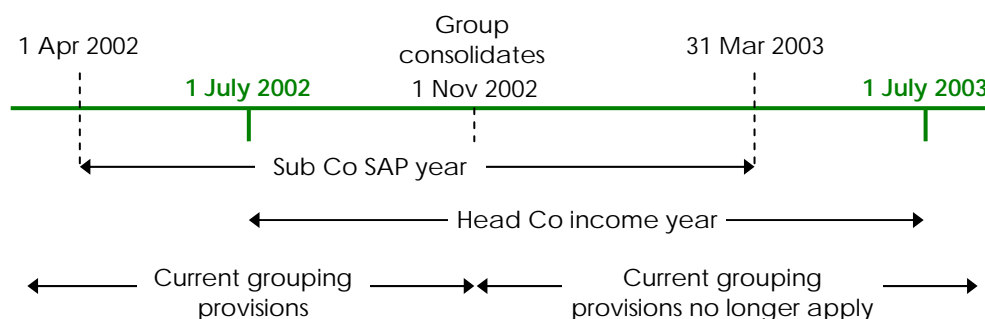
The current grouping provisions are available to the whole group until the day prior to the date of consolidation, that is, 31 March 2004.

Lodgment of returns

The head company and individual subsidiaries each lodge their 2004 returns for the full 12-month period to 31 March 2004.

Example 5 Head Company is an ordinary balancing company with a subsidiary having a SAP ending 31 March in lieu of the following 30 June. Head Company chooses to consolidate the group from 1 November 2002.

Figure 5: Subsidiary SAP ends 31 March, head company year ends 30 June



Current grouping provisions

Access to the current grouping provisions is lost for the whole group from 1 November 2002. Prior to this the group transfer provisions are available to group members but only in relation to the loss or income for the pre-consolidation period ending on 31 October 2002.

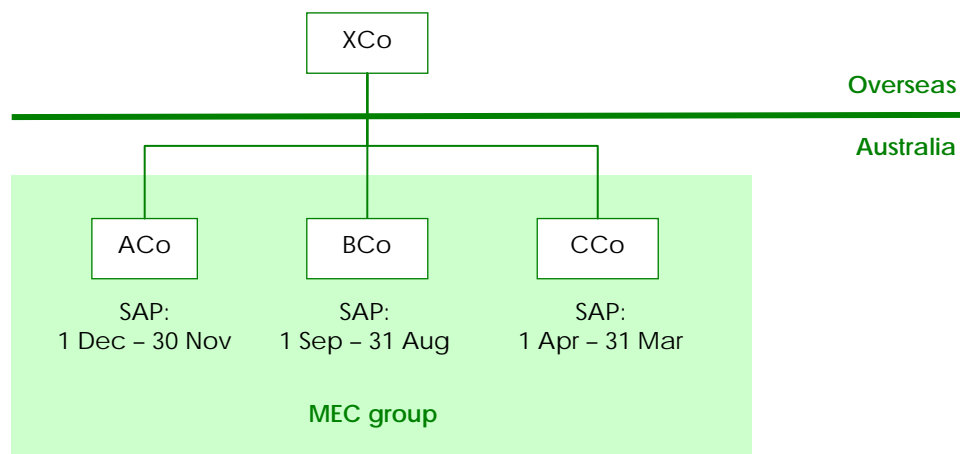
Lodgment of returns

Head Company lodges its 2003 return for the 12-month period to 30 June 2003. This return includes assessable income and allowable deductions for the consolidated group from 1 November 2002.

The subsidiary member with the SAP lodges its 2003 return for the 12-month period ending 31 March 2003. Effectively, only the assessable income and allowable deductions for the period from 1 April 2002 to 31 October 2002 are included in this return.

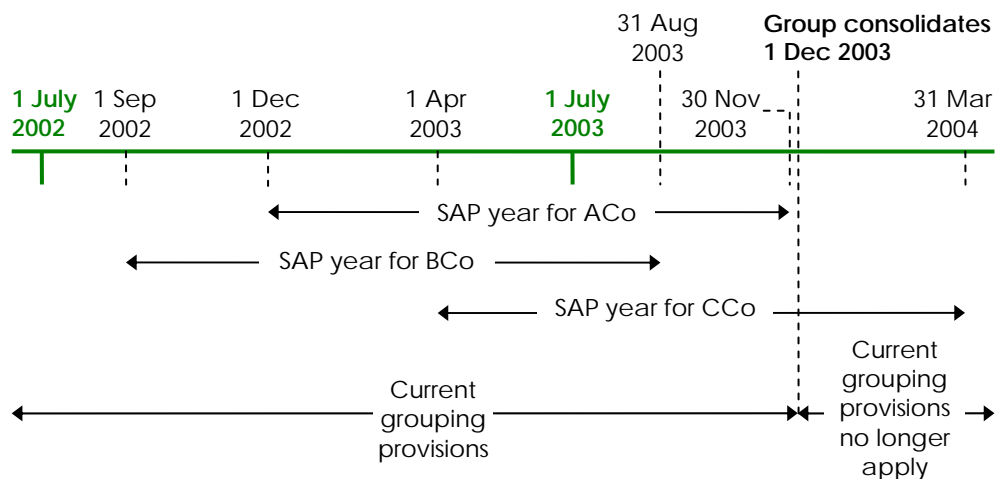
Example 6 A MEC group is formed in which the eligible tier-1 companies – ACo, BCo and CCo – have different SAPs (figure 6).

Figure 6: MEC group – eligible tier-1 companies with different SAPs



ACo, BCo and CCo jointly nominate ACo as the provisional head company of the MEC group. The group consolidates on 1 December 2003, which is the first day of ACo’s next income year after 30 June 2003 (figure 7).

Figure 7: MEC group forms on provisional head company’s first day of income year after 30 June 2003



Current grouping provisions

Access to the current grouping provisions is available until 30 November 2003 for the whole group, including BCo and CCo (even though they have a different SAP to the provisional head company, ACo).

Lodgment of returns

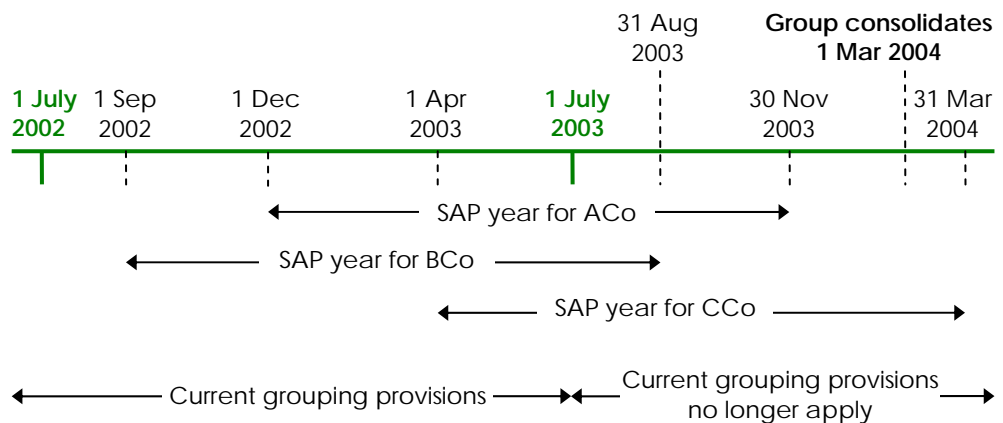
The head company (ACo) lodges the MEC group's 2004 return for the 12-month period from 1 December 2003 to 30 November 2004.

BCo lodges its 2004 return for the 12-month period ending 31 August 2004 but includes only the assessable income and allowable deductions for its non-membership period (1 September 2003 to 30 November 2003).

CCo lodges its 2004 return for the 12-month period ending 31 March 2004 but includes only the assessable income and allowable deductions for its non-membership period (1 April 2003 to 30 November 2003).

Example 7 The group described in example 6 decides to consolidate on 1 March 2004, which is not the first day of the provisional head company's (ACo's) income year after 30 June 2003 (figure 8).

Figure 8: MEC group forms on a day other than the provisional head company's first day of income year after 30 June 2003



Current grouping provisions

Access to the current grouping provisions is lost for the whole group from 1 July 2003 because the group has consolidated on 1 March 2004, which is not the first day of ACo's next income year beginning after 30 June 2003.

Lodgment of returns

The head company (ACo) lodges the MEC group's 2004 return for the 12-month period from 1 December 2003 to 30 November 2004. Effectively, the head company includes assessable income and allowable deductions for itself for the first three months (that is, from 1 December 2003 to 29 February 2004) and for the MEC group as a whole for the remaining nine months (that is, from 1 March 2004 to 30 November 2004).

The subsidiary members lodge their individual returns based on their non-membership periods: that is, BCo and CCo lodge their 2004 returns to cover their assessable income and allowable deductions up to 29 February 2004.

References

Income Tax Assessment Act 1997; as amended by *New Business Tax System (Consolidation) Act (No. 1) 2002*, (No. 68 of 2002), Schedule 3, Part 3, Divisions 1 and 2

Explanatory Memorandum to the New Business Tax System (Consolidation) Bill (No. 1) 2002, Chapter 13