High-level worked example

Consolidated group joins another consolidated group

Description

This high-level example shows how a consolidated group joining another consolidated group (group to group) is treated like a single entity joining a consolidated group. It also illustrates one of the more complex group-to-group modifications to the basic case cost setting process, for over-depreciated assets (step D).

Commentary

When a consolidated group is acquired by another consolidated group the core rules provide that the head company of the acquired group is treated as a single entity joining the acquiring consolidated group → Subdivision 705-C, *Income Tax Assessment Act 1997* (ITAA 1997). The subsidiary members of the acquired group are treated as parts of the head company of that group, and their assets (other than intragroup membership interests) as assets of that head company. This is achieved by way of modifications to the basic case. → section 705-185, ITAA 1997

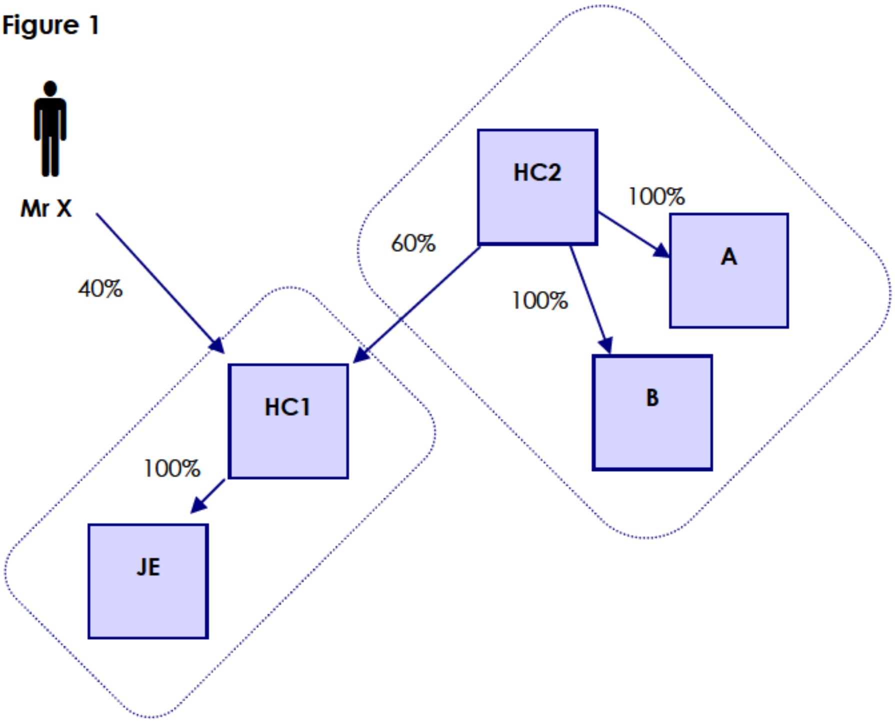
One of the more complex modifications to the basic rules relates to the adjustment for over-depreciation of assets in joining entities (step D of the cost setting process). This ensures that the tax cost setting amount is not inappropriately reduced for over-depreciated assets brought into the acquired group by an entity on joining. There is no reduction for over-depreciation to the extent that rebatable dividends paid out of profits sheltered from tax by the over-depreciation have not left the acquired group. → section 705-190, ITAA 1997

There is no modification where an over-depreciated asset was, just before the acquired group's time of consolidation, held by the head company of that group, and is still over-depreciated at the time the acquired group becomes part of the acquiring group. This is because section 705-50 of the ITAA 1997 applies appropriately to such assets.

Example

Facts

Figure 1



On 1 July 2000, HC1 and JE are incorporated, with JE as a wholly-owned subsidiary of HC1. HC2 owns 60% of the shares in HC1. Mr X (an unrelated 3rd party) owns the other 40% of shares. Just after incorporation on 1 July 2000 the companies' financial positions are as follows:

Table 1: HC1 – financial position at 1 July 2000

Cash	200	Equity	800
Asset 1 (MV 200, AV 200)	200		
Shares in JE (MV 400)	400		
	800		800

Table 2: JE – financial position at 1 July 2000

Asset 2 (MV 400, AV 400)	400	Equity	400
	400		400

During the first year, HC1 makes a net profit after tax of $53. Of this an amount of $20 is sheltered from income tax due to over-depreciation. No provision is made for any future tax liability. HC1's taxable income is $50. Its financial position is as shown in table 3.

Table 3: HC1 – financial position at 30 June 2001

Cash	290	Equity	800
Asset 1 (MV 180, AV 160)	180	Provision for dividend	53
Shares in JE (MV 780)	400	Provision for income tax	17
	870		870

After a year of trading, JE makes a net profit after tax of $364. Of this an amount of $100 is sheltered from income tax due to over-depreciation. JE's taxable income is $400. No provision is made for future tax liability. JE's financial position is as follows:

Table 4: JE – financial position at 30 June 2001

Cash	600	Equity	400
Asset 2 (MV 300, AV 200)	300	Provision for dividend	364
		Provision for income tax	136
	900		900

During the year ending 30 June 2002, HC1 pays all of its profits for the previous year ($53) as a dividend to its shareholders. The dividend consists of a franked component of $40 and $13 paid as an unfranked dividend that relates solely to profits sheltered from tax due to over-depreciation. HC2 retains the unfranked portion of the dividend it receives. HC1's financial position at 30 June 2002 is as follows:

Table 5: HC1 – financial position at 30 June 2002

Cash	684	Equity	800
Asset 1 (MV 160, AV 120)	160	Accumulated profits	426
Shares in JE (MV 640)	400	Provision for income tax	18
	1,244		1,244

During the year ending 30 June 2002, JE pays all of its profits for the previous year ($364) as a dividend to HC1. The dividend consists of a franked component of $317 and $47 paid as an unfranked rebatable dividend that relates solely to profits sheltered from tax due to over-depreciation. HC1 retains this dividend. JE's financial position at 30 June 2002 is as follows:

Table 6: JE – financial position at 30 June 2002

Cash	500	Equity	400
Asset 2 (MV 200, AV 0)	200	Profit after income tax	240
		Provision for income tax	60
	700		700

HC1 and JE form a consolidated group

HC1 forms a consolidated group with JE on 1 July 2002. The group's financial position is unchanged from 30 June 2002. JE held an over-depreciated asset with a market value (MV) of $200 but a nil adjustable value (AV) at the formation time.

When a consolidated group forms, the tax costs of assets owned by the head company are not set. However, the tax costs of assets of subsidiaries are set under the asset cost setting rules, unless the head company is eligible to choose to retain existing tax costs and chooses to do so. HC1 chooses not to retain existing tax costs for JE, and the tax cost setting rules will apply.

HC1 begins by calculating the entry allocable cost amount (ACA) for JE as shown in the following section.

Calculation – setting the tax costs of JE's assets

A: Calculate entry ACA for JE

ACA step 1: Add up the cost of each membership interest

HC1 owns 100% of membership interests in JE from the date of incorporation to date of formation. JE is incorporated for $400 on 1 July 2000, and the market value of HC1's interests at 1 July 2002 is $640 (Interest 1 in the following worksheet). There are no outstanding cost base adjustments for membership interests, such as for earlier value shifting or loss transfers.

→ subsection 705-65(3), ITAA 1997, and Explanatory Memorandum to New Tax System (Consolidation) Bill (No.1) 2002, paragraph 5.60

Worksheet: Step 1 – Add up the cost of each membership interest

		$ Interest 1	$ Interest 2	$ Interest 3	$
P	Cost base (CB) at the joining time or formation time(JT) (Note: cost of pre-CGT interests not indexed)	400			
Q	Reduced cost base (RCB) at JT (ignoring reductions for rebatable dividends: section 160ZK(5) ITAA 1936 or section 110-55(7) ITAA 1997), and adding back any adjustments under section 165-115ZA(3) ITAA 1997 to the extent the relevant losses will reduce ACA under steps 5 & 6)	400			
R	CB (line P) as adjusted for value shifting or loss transfer	400			
S	RCB (line Q) as adjusted for value shifting or loss transfer, or section 165-115ZD ITAA 1997	400			
T	Market value (MV) at the joining time	640			
	Tests: If MV (line T) ≥ adjusted CB (line R), use line R If MV (line T) ≤ adjusted RCB (line S), use line S If adjusted RCB (line S) < MV (line T) < adjusted CB (line R), use line T				
	***Result* for each membership interest (sum is entry ACA step 1 amount)**	400			**400**

ACA step 2: Add liabilities that can or must be recognised in the balance sheet

The provision for income tax is shown as Liability 1. No reductions or adjustments are required. There are no employee shares, no rights or options issued by JE and no debt interests that are regarded as equity for general accounting purposes.

Worksheet: Step 2 – Add liabilities etc.

	$ Liability 1	$ Liability 2	$ Subtotals	$
				Cfwd 400
Accounting liabilities				
Start with statement of financial position	60			
Reduce where liability valued differently for group				
Reduce to $nil if attached to an asset				
Reduce for future income tax deductions				
Reduce for intra-group debt (add back reductions under section 165-115ZA(3) before comparison)				
Adjust for unrealised gains or losses				
Sum of reduced or adjusted amounts	60		60	
Add for employee shares				
MV of disregarded shares				
Reduce by reduction amount				
Add for rights & options				
Add market value of rights or options held by third parties				
Add equity treated as debt				
Add market value of equity for accounting purposes but debt for tax purposes (under debt/equity rules)				
Step 2 amount				
Sum of the sub-totals				60
Entry ACA result after step 2				**460**

ACA step 3: Add undistributed profits which accrued to the group

As HC1 elects to consolidate from 1 July 2002, in the first year of the two-year transitional period, and JE is a wholly-owned subsidiary on that date, the transitional rule for ACA step 3 applies → section 701-30, *Income Tax (Transitional Provisions) Act 1997* (IT(TP)A 1997). All undistributed profits accrued to the group are included.

JE has a total of $240 in undistributed profits that would accrue to HC1, of which $100 is unfranked and relates solely to profits sheltered from income tax due to over-depreciation. The balance relates to trading profit that is fully frankable and for which a provision of income tax of $60 is recognised in the accounts.

Worksheet: Step 3 – Add undistributed profits accrued to the group

	$	$
		Cfwd 460
Ongoing rule		
Add undistributed *frankable* profits accrued to group at the JT	140	
and		
Transitional rule for subsidiaries that are non-chosen transitional entities, and group has consolidated before 1 July 2003:		
Add *all* undistributed *unfrankable* profits accrued to group at the joining time	100	240
Entry ACA result after step 3		**700**

ACA steps 3A, 4, 5, 6 and 7

Steps 3A, 4, 5, 6 and 7 do not apply.

ACA Step 8

The ACA is $700.

B: Subtract value of JE's retained cost base assets

The ACA amount ($700) less retained cost base assets ($500) results in an ACA balance of $200.

C: Apportion remainder of ACA over remaining assets other than excluded assets

The remainder of the ACA of $200 is to be allocated to the reset cost base asset (Asset 2). However, a further reduction of this amount may be required if the asset is over-depreciated.

D: Adjust the amount for over-depreciated assets

Is the asset over-depreciated?

Worksheet: Is Asset 2 over-depreciated?

	Is an asset over-depreciated? **Test for each depreciable asset** **At the joining time:**	**Test satisfied?**	**$** **Excess amount**
M	Does market value exceed adjustable value?	Yes	200
N	Does the cost exceed adjustable value?	Yes	400
	If the answer is YES to both questions, the asset is over-depreciated by the lesser of M and N		**200**

The market value of $200 exceeds the adjustable value of $0 by $200. The cost of $400 exceeds the adjustable value of $0 by $400. Under both tests for over-depreciation, Asset 2 is over-depreciated.

The tax cost setting amount for an over-depreciated asset is reduced by the lesser of the over-depreciation amount (calculated above), the excess of the tax cost setting amount over its terminating value, and the tax deferral amount (calculated in the following worksheet).

Worksheet: Asset 2 – over-depreciation reduction

			$ amount
	<u>**Test for each over-depreciated asset**</u>		
	Over-depreciation amount		
(a)	Over-depreciation amount from previous table		200
	Tax cost setting amount exceeds terminating value		
(b)	Excess of the tax cost setting amount over its terminating value		200
	Tax deferral amount		
(c)	*Start with* the amount of unfranked dividends paid by the joining entity before the joining time, that were subject to s.46 or s.46A rebate	47	
(d)	The amount of the profits paid as dividends in (c) above – (the *qualifying profits amount*) that was not subject to tax because of the over-depreciation of the asset – *but* count only to the extent it was not counted in ACA step 4 and to the extent the deductions for over-depreciation did not form part of a loss that reduced the ACA under step 5, were not counted in ACA step 4 (but the depreciation did not generate a tax loss to be subtracted from the entry ACA at step 5)	47	
(e)	The extent to which the dividend in (c) – adjusted to amount in (d) – was *not* further distributed (directly or indirectly) to a taxpayer who was *not* entitled to such a rebate. This is the *tax deferral amount*	47	
	Transitional rule on formation		
(f)	*Add* – The tax deferral amount is increased to include any unfrankable *undistributed* profits accrued to head company and included in ACA step 3 (under transitional rules) to the extent that those profits were not subject to tax because of deductions for depreciation representing over-depreciation, and the deductions did not form part of a loss that reduced the ACA under step 5 (subsection 701-30(3) IT(TP)A)	100	
(g)	Is there a tax deferral amount? How much?	yes	147
	Reduction of tax cost setting amount is the lesser of (a), (b) and (g)		147

The tax cost setting amount for Asset 2 of $200 must be further reduced by $147 to $53.

Further facts

On consolidation, HC1 and JE enter into a tax sharing agreement. JE agrees to pay to HC1 an annual amount based on an estimate of the tax that would have been payable had JE continued to be liable for tax on its income after deductions.

The financial positions of HC1 and JE at 30 June 2003 are as shown in tables 5 and 6.

Table 7: HC1 – financial position at 30 June 2003

Cash	766	Equity	800
Tax sharing agreement right	102	Accumulated profits	488
Asset 1 (MV 140, AV 80)	140	Provision for income tax	120
Shares in JE (MV 831)	400		
	1,408		1,408

Table 8: JE – financial position at 30 June 2003

Cash	833	Equity	400
Asset 2 (MV 100, AV 0)	100	Accumulated profits	431
		Provision for tax sharing	102
	933		933

Group consisting of HC1 and JE is acquired by another consolidated group

HC2 is the head company of an existing consolidated group consisting of itself and A and B (see figure 1). On 1 July 2003, HC2 acquires the remaining 40% of shares from Mr X for $687.60. HC1 is now ineligible to be a head company of a consolidated group as it is now a wholly-owned subsidiary of another company eligible to be a head company. Both HC1 and JE become members of HC2's consolidated group.

However, the cost setting rules are modified to operate as if only the head company of the acquired group joins, and all assets of the acquired group are treated as assets of the old head company for the purpose of setting tax costs of assets. → section 705-185, ITAA 1997

HC2 begins by calculating the entry ACA for HC1 as shown in the following section.

Calculation – setting tax costs of HC1's assets (and those of its member parts as a single entity)

A: Calculate entry ACA for HC1

ACA step 1: Add up the cost of each membership interest

HC2 acquired 60% of membership interests in HC1 on 1 July 2000 when it was incorporated, for an amount of $480 (Interest 1 in the worksheet below). This membership interest has a market value of $1,031 on 1 July 2003. HC2 acquires the remaining 40% on 1 July 2003 for $687.60 (Interest 2 in the worksheet below rounded to $688). There are no outstanding cost base adjustments for membership interests, such as for earlier value shifting or loss transfers.

Worksheet: Step 1 – Add up the cost of each membership interest

		$ Interest 1	$ Interest 2	$ Interest 3	$
P	Cost base (CB) at the joining time or formation time(JT) (Note: cost of pre-CGT interests not indexed)	480	688		
Q	Reduced cost base (RCB) at JT (ignoring reductions for rebatable dividends: section 160ZK(5) ITAA 1936 or section 110-55(7) ITAA 1997), and adding back any adjustments under section 165-115ZA(3) ITAA 1997 to the extent the relevant losses will reduce ACA under steps 5 & 6)	480	688		
R	CB (line P) as adjusted for value shifting or loss transfer	480	688		
S	RCB (line Q) as adjusted for value shifting or loss transfer, or section 165-115ZD ITAA 1997	480	688		
T	Market value (MV) at the joining time	1,031	688		
	Tests: If MV (line T) ≥ adjusted CB (line R), use line R If MV (line T) ≤ adjusted RCB (line S), use line S If adjusted RCB (line S) < MV (line T) < adjusted CB (line R), use line T				
	Result **for each membership interest (sum is entry ACA step 1 amount)**	**480**	688		**1,168**

ACA step 2: Add liabilities that can or must be recognised in the balance sheet

The provision for income tax is shown as Liability 1. No reductions or adjustments are required. There are no employee shares, no rights or options issued by HC1 or JE and no debt interests that are regarded as equity for general accounting purposes.

Worksheet: Step 2 – Add liabilities etc.

	$ Liability 1	$ Liability 2	$ Subtotals	$
				Cfwd 1,168
Accounting liabilities				
Start with statement of financial position	120			
Reduce where liability valued differently for group				
Reduce to $nil if attached to an asset				
Reduce for future income tax deductions				
Reduce for intra-group debt (add back reductions under section 165-115ZA(3) before comparison)				
Adjust for unrealised gains or losses				
Sum of reduced or adjusted amounts	120		120	
Add for employee shares				
MV of disregarded shares				
Reduce by reduction amount				
Add for rights & options				
Add market value of rights or options held by third parties				
Add equity treated as debt				
Add market value of equity for accounting purposes but debt for tax purposes (under debt/equity rules)				
Step 2 amount				
Sum of the sub-totals				120
Entry ACA result after step 2				**1,288**

ACA step 3: Add undistributed profits which accrued to the group

From HC1's franking account, it can be seen that, as at 30 June 2003, $499 is franked and a further $280 would be frankable (provision for income tax $120). (Subsections 705-90(3) and (4) require that a hypothetical adjustment be made to the franking account on the basis that the tax would have been paid by 30 June 2003.) Therefore, HC1's undistributable, frankable profits at the joining time would be $779, of which only $467 (rounded) would accrue to the acquiring group, as HC2 only held 60% interest in HC1 continuously until 1 July 2003.

Worksheet: Step 3 – Add undistributed profits accrued to the group

	$	$
		Cfwd 1,288
Ongoing rule		
Add undistributed *frankable* profits accrued to group at the JT	467	
and		
Transitional rule for subsidiaries that are non-chosen transitional entities, and group has consolidated before 1 July 2003:		
Add *all* undistributed *unfrankable* profits accrued to group at the joining time		
Entry ACA result after step 3		**1,755**

ACA steps 3A, 4, 5, 6 and 7

Steps 3A, 4, 5, 6 and 7 do not apply.

ACA Step 8

The ACA is $1,755.

B: Subtract value of JE's retained cost base assets

The ACA amount ($1,755) less the retained cost base asset (Cash $1,599 – i.e. $766 for HC1 and $833 for JE) results in an ACA balance of $156.

C: Apportion remainder of ACA over remaining assets other than excluded assets

The remainder ($156) is then apportioned amongst the reset cost base assets according to their market values. (The intragroup arrangement for tax sharing is ignored as the group is treated as a single taxpayer.)

Table 9: Apportionment according to market value ($)

Reset cost base assets	Terminating value (TV)	Market value (MV)	Apportionment of remainder	Assets held on revenue account - excess over greater of TV or MV	Tax cost setting amount for asset
Asset 1	80	140	91	0	91
Asset 2	0	100	65	0	65
Totals	**80**	**240**	**156**	**0**	**156**

There is no reduction to the tax cost setting amounts under section 705-40 for assets held on revenue account as the amounts do not exceed the greater of the assets' MV or TV.

D: Adjust the amount for over-depreciated assets

The tax cost setting amount for depreciation assets may be further reduced for over-depreciation. Note that no reduction occurred for Asset 1 when HC1 consolidated its group, as the tax costs of HC1's assets were not reset. The tax cost of Asset 2 was reduced when the first group formed; however, now that its tax cost has been reset, it needs to be tested again. → section 705-190, ITAA 1997

Is Asset 1 over-depreciated?

Worksheet: Is Asset 1 over-depreciated?

	Is an asset over-depreciated? Test for each depreciable asset At the joining time:	Test satisfied?	$ Excess amount
M	Does market value exceed adjustable value?	Yes	60
N	Does the cost exceed adjustable value?	Yes	120
	If the answer is YES to both questions, the asset is over-depreciated by the lesser of M and N		**60**

The market value of $140 exceeds the adjustable value of $80 by $60. The cost of $200 exceeds the adjustable value of $80 by $120. Under both tests for over-depreciation, asset 1 is over-depreciated.

The tax cost setting amount for an over-depreciated asset is reduced by the lesser of the over-depreciation amount (calculated above), the excess of the tax cost setting amount over its terminating value, and the tax deferral amount (calculated in the following worksheet).

Worksheet: Asset 1 – over-depreciation reduction

			$ amount
	<u>**Test for each over-depreciated asset**</u>		
	Over-depreciation amount		
(a)	Over-depreciation amount from previous table		60
	Tax cost setting amount exceeds terminating value		
(b)	Excess of the tax cost setting amount over its terminating value		11
	Tax deferral amount		
(c)	*Start with* the amount of unfranked dividends paid by the joining entity before the joining time, that were subject to section 46 or section 46A rebate	0	
(d)	The amount of the profits paid as dividends in (c) above – (the *qualifying profits amount*) that was not subject to tax because of the over-depreciation of the asset – *but* count only to the extent it was not counted in ACA step 4 and to the extent the deductions for over-depreciation did not form part of a loss that reduced the ACA under step 5, were not counted in ACA step 4 (but the depreciation did not generate a tax loss to be subtracted from the entry ACA at step 5)	0	
(e)	The extent to which the dividend in (c) – adjusted to amount in (d) – was *not* further distributed (directly or indirectly) to a taxpayer who was *not* entitled to such a rebate. This is the *tax deferral amount*	0	
	Transitional rule on formation		
(f)	*Add* – The tax deferral amount is increased to include any unfrankable *undistributed* profits accrued to head company and included in ACA step 3 (under transitional rules) to the extent that those profits were not subject to tax because of deductions for depreciation representing over-depreciation, and the deductions did not form part of a loss that reduced the ACA under step 5 (subsection 701-30(3) IT(TP)A)	0	
(g)	Is there a tax deferral amount? How much?	0	0
	Reduction of tax cost setting amount is the lesser of (a), (b) and (g)		0

Note: Although the HC1 had made a distribution of unfranked dividends before the joining time, that amount was not subject to the section 46 or 46A rebate and would therefore not be counted at (c) above.

Asset 1's tax cost setting amount of $91 is accordingly not reduced.

Is Asset 2 over-depreciated?

Worksheet: Is Asset 2 over-depreciated?

	Is an asset over-depreciated? Test for each depreciable asset At the joining time:	Test satisfied?	$ Excess amount
M	Does market value exceed adjustable value?	Yes	100
N	Does the cost exceed adjustable value?	Yes	400
	If the answer is YES to both questions, the asset is over-depreciated by the lesser of M and N		**100**

The market value of $100 exceeds the adjustable value of $0 by $100. The cost of $400 exceeds the adjustable value of $0 by $400. Under both tests for over-depreciation, asset 2 is over-depreciated.

The tax cost setting amount for an over-depreciated asset is reduced by the lesser of the over-depreciation amount (calculated above), the excess of the tax cost setting amount over its terminating value, and the tax deferral amount (calculated in the following worksheet).

Worksheet: Asset 2 – over-depreciation reduction

			$ amount
	<u>Test for each over-depreciated asset</u>		
	Over-depreciation amount		
(a)	Over-depreciation amount from previous table		100
	Tax cost setting amount exceeds terminating value		
(b)	Excess of the tax cost setting amount over its terminating value		65
	Tax deferral amount		
(c)	*Start with* the amount of unfranked dividends paid by the joining entity before the joining time, that were subject to section 46 or 46A rebate	0	
(d)	The amount of the profits paid as dividends in (c) above – (the *qualifying profits amount*) that was not subject to tax because of the over-depreciation of the asset – *but* count only to the extent it was not counted in ACA step 4 and to the extent the deductions for over-depreciation did not form part of a loss that reduced the ACA under step 5, were not counted in ACA step 4 (but the depreciation did not generate a tax loss to be subtracted from the entry ACA at step 5)	0	
(e)	The extent to which the dividend in (c) – adjusted to amount in (d) – was *not* further distributed (directly or indirectly) to a taxpayer who was *not* entitled to such a rebate. This is the *tax deferral amount*	0	
	Transitional rule on formation		
(f)	*Add* – The tax deferral amount is increased to include any unfrankable *undistributed* profits accrued to head company and included in ACA step 3 (under transitional rules) to the extent that those profits were not subject to tax because of deductions for depreciation representing over-depreciation, and the deductions did not form part of a loss that reduced the ACA under step 5 (subsection 701-30(3) IT(TP)A)	0	
(g)	Is there a tax deferral amount? How much?	0	0
	Reduction of tax cost setting amount is the lesser of (a), (b) and (g)		0

Note: Although JE paid an unfranked rebatable dividend of $47 to HC1 on 31 October 2001, this dividend is not counted at step (d) above, because it was not distributed outside the first consolidated group and the modification in section 705-190 applies.

Asset 2's tax cost setting amount of $65 is accordingly not reduced.

Income tax calculations for HC1

Income tax depreciation schedule for asset 1

Year ended 30 June	Cost	Adjustable value at beginning	Method	Remainder of effective life in years	Tax deduction	Adjustable value at year end
2001	200	200	prime cost	5	40	160
2002	–	160	prime cost	4	40	120
2003	–	120	prime cost	3	40	80
Total	**200**				**120**	

Income tax payable by HC1

Year ended 30 June 2001

Assessable income		100
Allowable deductions		
Expenses	10	
Depreciation of Asset 1	40	50
Taxable income		50

Tax payable $17 ($50 x 34%)

Year ended 30 June 2002

Assessable income	120	
Dividend received	364	484
Allowable deductions		
Expenses	20	
Depreciation of Asset 2	40	60
Taxable income		424

Tax on taxable income $127 (424 x 30%) less dividend rebate $109 (364 x 30%)

Tax payable $18

Year ended 30 June 2003

Assessable income (group income)			
HC1		120	
JE		1,000	1,120
Allowable deductions			
Expenses	of HC1	20	
	of JE	607	
Depreciation:	of Asset 1	40	
	of Asset 2 (AV 0)	53	720
Taxable income			400

Tax payable $120 ($400 x 30%)

General journal entries

DR	Tax sharing agreement right	102	
DR	Income tax expense	18	
CR	Provision for tax		120

HC1's franking account for imputation purposes

		Debit $	Credit $	Balance
1 July 2000	Opening balance			0
30 June 2001	Closing balance			0
1 July 2001	Opening balance			0
31 Aug 2001	Payment of tax for 2000-01 (tax 17 x 70/30)		40	40 CR
30 Sept 2001	Payment of dividend	40		0
31 Oct 2001	Receipt of franked dividend		317	317 CR
30 June 2002	Closing balance			317 CR
1 July 2002	Opening balance			317 CR
31 Aug 2002	Payment by HC1 of tax for 2001-02 (18 x 70/30)		42	359 CR
31 Aug 2002	Payment by JE of tax for 2001–02 (60 x 70/30)		140	499 CR
30 June 2003	Closing balance			499 CR
30 June 2003	Actual balance			499 CR
30 June 2003	**Hypothetical payment** by 30.6.03 of tax for group for 2002–03 (120 x 70/30)		280	779 CR
30 June 2003	**Hypothetical closing balance**			779 CR

Income tax calculations for JE

Income tax depreciation schedule for asset 2

Year ended 30 June	Cost	Adjustable value at beginning	Method	Remainder of effective life in years	Tax deduction	Adjustable value at year end
2001	400	400	prime cost	2	200	200
2002	–	200	prime cost	1	200	0
2003	53*	0	prime cost	0	53	0
Total	**400**				**453**	

* NOTE: Depreciation for 2002-03 would be based on new tax cost for the asset on consolidation. The tax cost setting amount for Asset 2, after reducing for over-depreciation, was $53.

Income tax payable by JE

Year ended 30 June 2001

Assessable income		1,000
Allowable deductions		
Expenses	400	
Depreciation of Asset 2	200	600
Taxable income		400

Tax payable $136 ($400 x 34%)

Year ended 30 June 2002

Assessable income		1,100
Allowable deductions		
Expenses	700	
Depreciation of Asset 2	200	900
Taxable income		200

Tax payable $60 ($200 x 30%)

Year ended 30 June 2003

Notional assessable income		1,000
Notional allowable deductions		
Expenses	607	
Depreciation of Asset 2	53	660
Notional taxable income		340

Notional tax payable $102 ($340 x 30%)

JE's franking account for imputation purposes

		Debit $	Credit $	Balance
1 July 2000	Opening balance			0
30 June 2001	Closing balance			0
1 July 2001	Opening balance			0
31 Aug 2001	Payment of tax for 2000-01 (tax 136 x 70/30)		317	317 CR
31 Oct 2001	Payment of franked dividend	317		0
30 June 2002	Closing balance (actual)			0
30 June 2002	Closing balance (actual)			0
30 June 2002	**Hypothetical payment** by 30/6/02 of tax for 2001–02 (60 x 70/30)		140	140 CR
30 June 2002	**Hypothetical closing balance**			140 CR

References

Income Tax Assessment Act 1997, section 705-50 and subsection 705-65(3); as amended by

- *New Business Tax System (Consolidation) Act (No. 1) 2002* (No. 68 of 2002), Schedule 1
- *New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Act 2002* (No. 90 of 2002), Schedule 2

Explanatory Memorandum to New Tax System (Consolidation) Bill (No.1) 2002, paragraph 5.60

Income Tax Assessment Act 1997, Subdivision 705-C; as amended by *New Business Tax System (Consolidation and Other Measures) Act (No. 1) 2002* (No. 117 of 2002), Schedule 4

Income Tax (Transitional Provisions) Act 1997, section 701-30; as amended by:

- New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Act 2002 (No. 90 of 2002), Schedule 7
- *New Business Tax System (Consolidation and Other Measures) Act (No. 1) 2002* (No. 117 of 2002), Schedule 5

Income Tax Assessment Act 1997, subsection 705-90(6) as substituted by *Tax Laws Amendment (2004 Measures No. 7) Act 2005* (No. 41 of 2005), Schedule 6, Part 3

Explanatory Memorandum to Tax Laws Amendment (2004 Measures No. 7) Bill 2004, paragraphs 6.24 – 6.29

Revision history

Section C2-2-120 first published 2 December 2002 and updated 28 May 2003.

Further revisions are described below.

Date	Amendment	Reason
26.10.05	Changes to worksheets pp. 7 and 13, and references.	Legislative amendments.
	Changes to worksheet p. 17	To correct error.

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).