

Worked example

Adjustment for intragroup liabilities owed to a leaving entity on exit (in exit ACA step 3)

Description This example shows how liabilities owed by members of the consolidated group to the leaving entity (intragroup liabilities) at the leaving time are reflected at step 3 of the exit allocable cost amount (ACA) calculation.

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. At step 3, an amount is added relating to any liabilities actually owed by members of the group to the leaving entity at the leaving time.

The amount to be added is the market value at the leaving time of the leaving entity's assets that correspond to the liabilities owed to it by group members at the leaving time. However, where the market value of the corresponding asset held by the leaving entity is greater than its cost, the cost amount is used.

This element of the ACA is separately identified because, while an entity is a member of a consolidated group, liabilities it is owed by other members of the group are not recognised for income tax purposes.

Example

Facts The head company HCo sells 5% of ACo on 30 June 2004, and ACo consequently leaves HCo's group. At the leaving time, ACo has a cash asset of \$900 and an accounting asset that has not been identified for income tax purposes (a \$100 loan to BCo, another member of the consolidated group). The market value of the loan is \$100.

Calculation Calculate ACo's exit ACA as follows:

Step 1

The terminating value of the cash asset is \$900.

Step 2

Not applicable.

Step 3

The market value of the BCo's liability to ACo is \$100. This amount is added to the result after step 2 (\$900).

Steps 4

Not applicable.

Step 5

ACo's exit ACA is **\$1,000**.

References

Income Tax Assessment Act 1997, section 711-40 and subsection 711-20(1); 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