


TD 2004/72 - Income tax: consolidation: when calculating step 2 of the allocable cost amount for a joining entity, do section 705-75 or 705-80 of the Income Tax Assessment Act 1997 apply to an accounting liability covered by subsection 705-70(2)?

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Taxation Determination

Income tax: consolidation: when calculating step 2 of the allocable cost amount for a joining entity, do section 705-75 or 705-80 of the *Income Tax Assessment Act 1997* apply to an accounting liability covered by subsection 705-70(2)?

Preamble

*The number, subject heading, date of effect and paragraph 1 of this document are a 'public ruling' for the purposes of Part IVA of the **Taxation Administration Act 1953** and are legally binding on the Commissioner.*

1. No. When calculating step 2 of the allocable cost amount (ACA) of a joining entity (section 705-60 of the *Income Tax Assessment Act 1997* (ITAA 1997)), neither section 705-75 nor 705-80 of the ITAA 1997 applies to an accounting liability¹ covered by subsection 705-70(2) of the ITAA 1997.
2. For the purpose of determining the amount to be included at step 2 of the ACA calculation, subsection 705-70(1) of the ITAA 1997 adds together the amounts of all the accounting liabilities of the joining entity at the joining time that can or must be recognised in the entity's statement of financial position. Subsection 705-70(2) of the ITAA 1997 qualifies this by providing that no amount is to be added for an accounting liability that arises because of a joining entity's ownership of an asset if, on disposal of the asset, the accounting liability will transfer to the new owner.
3. Sections 705-75 and 705-80 of the ITAA 1997 may apply where there is an amount of an accounting liability that is to be added at subsection 705-70(1) of the ITAA 1997 in working out the step 2 amount in the ACA calculation. They operate by changing the amount of the accounting liability that would otherwise have been added in working out the step 2 amount under subsection 705-70(1). The sections do not apply to an accounting liability, the amount of which is not required to be added at step 2 under subsection 705-70(1).
4. As the amount of an accounting liability covered by subsection 705-70(2) of the ITAA 1997 is not added in working out the step 2 amount under subsection 705-70(1) of the ITAA 1997, the liability cannot be subject to an adjustment under section 705-75 or 705-80 of the ITAA 1997.

¹ Subsection 705-70(1) of the ITAA 1997 explains the term 'accounting liability' for step 2.

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Date of Effect

5. This Determination applies to years commencing both before and after its date of issue. However, it does not apply to taxpayers to the extent that it conflicts with the terms of settlement of a dispute agreed to before the date of the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

Commissioner of Taxation

8 December 2004

Previous draft:

TD 2004/D51

Related Rulings/Determinations:

TR 92/20

Subject references:

- consolidation – joining
- consolidation – tax liabilities
- joining entity

- tax cost setting rules

Legislative references:

- ITAA 1997 705-60
 - ITAA 1997 705-70(1)
 - ITAA 1997 705-70(2)
 - ITAA 1997 705-75
 - ITAA 1997 705-80
 - TAA 1953 Pt IVAAA
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ATO references

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