


***TD 2004/D32 - Income tax: consolidation tax cost setting rules: step 3 of the allocable cost amount: is the 'retained profits' amount referred to in subsection 705-90(2) a cumulative retained profits balance?***

 This cover sheet is provided for information only. It does not form part of *TD 2004/D32 - Income tax: consolidation tax cost setting rules: step 3 of the allocable cost amount: is the 'retained profits' amount referred to in subsection 705-90(2) a cumulative retained profits balance?*

This document has been finalised by TD 2004/55.



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## Draft Taxation Determination

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Income tax: consolidation tax cost setting rules: step 3 of the allocable cost amount: is the 'retained profits' amount referred to in subsection 705-90(2) a cumulative retained profits balance?

### **Preamble**

*This document is a draft for industry and professional comment. As such, it represents the preliminary, though considered views of the Australian Taxation Office. This draft may not be relied on by taxpayers and practitioners as it is not a ruling for the purposes of **Part IVAAA of the Taxation Administration Act 1953**. It is only final Taxation Determinations that represent authoritative statements by the Australian Taxation Office.*

1. Yes. Undistributed profits are the cumulative retained profits of the joining entity that could be recognised in the joining entity's statement of financial position if that statement were to be prepared as at the joining time. This amount may be limited by subsection 705-90(3) of the *Income Tax Assessment Act 1997* (ITAA 1997) and paragraph 705-90(6)(a) and reduced by the operation of paragraph 705-90(6)(b).
2. Profits are determined in accordance with accounting standards as being the difference between revenue and expenses. Retained profits is the accumulation of those recorded profits which have not been distributed to owners, transferred to reserves, or retrospectively adjusted due to the introduction of new or revised accounting standards. That is, retained profits are increased by net profits and transfers from reserves, they are decreased by losses (if applicable), transfers to reserves and distributions to owners. The resulting cumulative amount is the balance of retained profits. See generally, Leo and Hoggett, 'Company Accounting in Australia', (5th ed.) John Wiley & Sons, Australia, Ltd. at page 114.

### **Example**

3. On 1 July 2001 BCo is incorporated as a wholly owned subsidiary of ACo for \$200.00. For the year ended 30 June 2002 BCo made a profit of \$200.00 before tax and paid tax of \$60.00. Accordingly at 30 June 2002, BCo would have assets of \$340.00 of which \$140.00 represents retained profits. For the year ended 30 June 2003 BCo made an accounting loss of \$70.00, after creation of a DTA of \$30.00 in respect of a tax loss of \$100.00. ACo elects to form a consolidated group effective from 1 July 2003.

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4. In the above example, the retained profits balance under subsection 705-90(2) is \$70.00 (\$140.00 less \$70.00).

## Date of Effect

5. When the final Determination is issued, it is proposed to apply both before and after its date of issue. However, the Determination will not apply to taxpayers to the extent that it conflicts with the terms of settlement of a dispute agreed to before the date of issue of the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

## Your comments

6. We invite you to comment on this draft Taxation Determination. Please forward your comments to the contact officer by the due date.

**Due date:** 20 August 2004  
**Contact officer:** Sophia Savva  
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## Commissioner of Taxation

21 July 2004

### *Previous draft:*

Not previously issued in draft form

### *Related Rulings/Determinations:*

TR 92/20

### *Subject references:*

- ACA
- allocable cost amount
- consolidation
- cost setting
- profits
- retained profits

- step 3

- undistributed profits

### *Legislative references:*

- TAA 1953 Pt IVAAA
- ITAA 1997 705-90(2)
- ITAA 1997 705-90(3)
- ITAA 1997 705-90(6)(a)
- ITAA 1997 705-90(6)(b)

### *Other References:*

- Leo and Hoggett, 'Company Accounting in Australia', (5th ed.) John Wiley & Sons, Australia, Ltd. at page 114

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### ATO references

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