


***TD 2011/10 - Income tax: consolidation: capital gains: does paragraph 40-880(5)(f) of the Income Tax Assessment Act 1997 prevent the deduction, under section 40-880 of that Act, of incidental costs described in subsection 110-35(2) of that Act that the head company of a consolidated group or MEC group incurs, in disposing of shares in a subsidiary member to a non-group entity, after the member leaves the group?***

 This cover sheet is provided for information only. It does not form part of *TD 2011/10 - Income tax: consolidation: capital gains: does paragraph 40-880(5)(f) of the Income Tax Assessment Act 1997 prevent the deduction, under section 40-880 of that Act, of incidental costs described in subsection 110-35(2) of that Act that the head company of a consolidated group or MEC group incurs, in disposing of shares in a subsidiary member to a non-group entity, after the member leaves the group?*

 There is a Compendium for this document: [TD 2011/8EC; TD 2011/9EC; TD 2011/10EC](#) .



---

## Taxation Determination

---

Income tax: consolidation: capital gains: does paragraph 40-880(5)(f) of the *Income Tax Assessment Act 1997* prevent the deduction, under section 40-880 of that Act, of incidental costs described in subsection 110-35(2) of that Act that the head company of a consolidated group or MEC group incurs, in disposing of shares in a subsidiary member to a non-group entity, after the member leaves the group?

**❶ This publication provides you with the following level of protection:**

This publication (excluding appendices) is a public ruling for the purposes of the *Taxation Administration Act 1953*.

A public ruling is an expression of the Commissioner's opinion about the way in which a relevant provision applies, or would apply, to entities generally or to a class of entities in relation to a particular scheme or a class of schemes.

If you rely on this ruling, the Commissioner must apply the law to you in the way set out in the ruling (unless the Commissioner is satisfied that the ruling is incorrect and disadvantages you, in which case the law may be applied to you in a way that is more favourable for you – provided the Commissioner is not prevented from doing so by a time limit imposed by the law). You will be protected from having to pay any underpaid tax, penalty or interest in respect of the matters covered by this ruling if it turns out that it does not correctly state how the relevant provision applies to you.

### Ruling

1. Yes. Paragraph 40-880(5)(f) of the *Income Tax Assessment Act 1997* (ITAA 1997)<sup>1</sup> does prevent the deduction, under section 40-880, of incidental costs described in subsection 110-35(2) that the head company of a consolidated group or MEC group incurs, in disposing of shares in a subsidiary member to a non-group entity, after the member leaves the group (that is, ceases to be a member of the group).

---

<sup>1</sup> All legislative references are to the ITAA 1997 unless otherwise indicated.

## Application

2. This Determination does not apply to the extent (if any) that the incidental costs mentioned in paragraph 1 of this Determination are remuneration to a member of the group.

## Example

3. *H Co is the head company of a consolidated group of which another company, Sub Co, is a subsidiary member. H Co's shareholding in Sub Co consists of 2,000 shares, all of the same class.*

4. *H Co sells 500 of the Sub Co shares to a non-group entity for \$175,000 (\$350 per share). As a result, Sub Co leaves the group.*

5. *Just before the leaving time, H Co calculates the tax cost setting amount for each of the group's membership interests in Sub Co in accordance with section 711-15. The tax cost setting amount for each of H Co's shares in Sub Co is \$220 and this amount forms the cost base or reduced cost base of each of the membership interests for CGT purposes just before the leaving time.*

6. *After Sub Co leaves the group, H Co incurs a liability to pay legal fees of \$5,000 to an entity outside the group in relation to the sale of the shares.*

7. *The legal fees are incidental costs as described in subsection 110-35(2). The legal fees form part of the second element of the cost base of the shares disposed of and therefore could be taken into account in working out the amount of the capital gain from the CGT event A1 that happens on the sale of these shares. After including the incidental costs, the cost base of each share sold is \$230.*

8. *As the legal fees could be taken into account in working out the amount of the capital gain on the sale of the shares, paragraph 40-880(5)(f) prevents any deduction for the fees that would otherwise be available under section 40-880.*

## Date of effect

9. This Determination applies to years of income commencing both before and after its date of issue. However, this Determination will not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of this Determination (see paragraphs 75 and 76 of Taxation Ruling TR 2006/10).

## Appendix 1 – Explanation

**❶** *This Appendix is provided as information to help you understand how the Commissioner's view has been reached. It does not form part of the binding public ruling.*

### Explanation

10. Section 40-880 allows certain business capital expenditure to be deducted in equal proportions over five income years. However, paragraph 40-880(5)(f) prevents an amount of expenditure from being deductible under section 40-880 to the extent the expenditure could be taken into account in working out the amount of a capital gain or capital loss from a CGT event.

11. Under the single entity rule (SER) in subsection 701-1(1), an entity that is a subsidiary member of a consolidated group or MEC group for any period is taken to be part of the head company, and as a result the shares in the subsidiary member held by the group are not recognised. If a subsidiary member leaves the group the head company recognises the shares just before the leaving time

12. Where some or all of the shares in a subsidiary member of a consolidated group are disposed of to an entity outside the group, CGT event A1<sup>2</sup> happens and the subsidiary member leaves the group.<sup>3</sup> Just before the subsidiary member leaves the group, subsection 701-15(3) sets the tax costs of the shares (and any other membership interests) held by the head company in the leaving entity to their tax cost setting amounts as determined under Division 711.

13. Under subsection 701-55(5), the cost base or reduced cost base of each of the shares (or other membership interests) is set to its tax cost setting amount just before the leaving time for CGT purposes.

14. Incidental costs are defined in section 110-35. The incidental costs described by subsection 110-35(2) that a taxpayer incurs that relate to a CGT event are included in the second element of the cost base or reduced cost base of the CGT asset under subsections 110-25(3) or 110-55(2) respectively.

15. While the cost base or reduced cost base of each of the membership interests held by the head company in a leaving entity is established just before the leaving time as described in paragraphs 12 to 13 of this Determination, this does not prevent an amount of incidental costs being included in the second element of that cost base or reduced cost base where the expenditure is incurred after the member has left the group.

16. Therefore, the incidental costs the head company incurred in disposing of its shares in the subsidiary member to a non-group entity after the subsidiary member left the group could be taken into account in working out the amount of any capital gain or capital loss from a CGT event, and paragraph 40-880(5)(f) prevents any deduction for the incidental costs that would otherwise be available under section 40-880.

---

<sup>2</sup> Section 104-10

<sup>3</sup> The subsidiary member ceases to be a member because it no longer meets the requirement, in subsection 703-15(2), to be a wholly-owned subsidiary of the head company.

## References

---

*Previous draft:*

TD 2010/D6

*Related Rulings/Determinations:*

TR 2006/10; TD 2010/1; TD 2011/8;  
TD 2011/9

*Subject references:*

- blackhole expenditure
- capital expenditure
- capital gains tax
- CGT cost base
- consolidation
- cost setting rules
- leaving entity
- membership interest in an entity
- single entity rule
- tax cost setting rules

*Legislative references:*

- ITAA 1997
- ITAA 1997 40-880
- ITAA 1997 40-880(5)(f)
- ITAA 1997 104-10
- ITAA 1997 110-25(3)
- ITAA 1997 110-35
- ITAA 1997 110-35(2)
- ITAA 1997 110-55(2)
- ITAA 1997 701-1(1)
- ITAA 1997 701-15(3)
- ITAA 1997 701-55(5)
- ITAA 1997 703-15(2)
- ITAA 1997 Div 711
- ITAA 1997 711-15
- TAA 1953

---

ATO references

NO: 1-2GKAF90

ISSN: 1038-8982

ATOLaw topic: Income Tax ~~ Consolidation ~~ capital gains tax  
Income Tax ~~ Consolidation ~~ single entity rule  
Income Tax ~~ Deductions ~~ capital outlay