Forming

About this section

For income tax purposes, subsidiary members of a consolidated group are taken to be part of the head company. From the date of consolidation, the head company is the taxpayer representing the group.

Forming a consolidated group therefore involves determining a consolidated income tax position for the group at the time of consolidation.

It may also require staff training and system modifications to implement the change, meet group income tax obligations and realise potential compliance costs savings.

This section deals with:

- Planning for systems and staff: Record keeping, reporting and accounting systems, and associated information technology, may need to be changed to enable consolidated reporting of group income tax. Staff may also need training on the consolidation arrangements. → B2-1
- **Determining asset values:** Tax values must be set for each asset that each member brings into the group. → B2-2
- Transferring and using losses: Losses from subsidiary members may be brought into the group and used to offset group income, subject to certain tests.

→ B2-3

- **Transferring franking credits:** The franking surpluses of subsidiary members are effectively transferred to the head company, which operates a single franking account for the group. → B2-4
- The treatment of foreign income tax offsets, excess foreign tax credits, attribution surpluses, conduit foreign income and irrevocable elections: A foreign income tax offset can be claimed for tax paid by joining entities on amounts included in the head company's assessable income; excess foreign tax credits are transferred to the head company under special transitional rules; attribution account surpluses are also transferred to the head company; conduit foreign income of a joining entity becomes conduit foreign income of the head company.
- Application of thin capitalisation rules: Thin capitalisation rules apply to a consolidated group as if it were a single entity.

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Revision history

Section B2-0 first published (excluding drafts) 2 December 2002 and updated 28 May 2003.

Further revisions are described below.

Date	Amendment	Reason
10.7.09	Updated p. 1 to take account of new rules for foreign income tax offsets, conduit foreign income and attributed tax accounts.	Amendments in Tax Laws Amendment (2007 Measures No. 4) Act 2007 and Tax Laws Amendment (Loss Recoupment Rules and Other Measures) Act 2005.

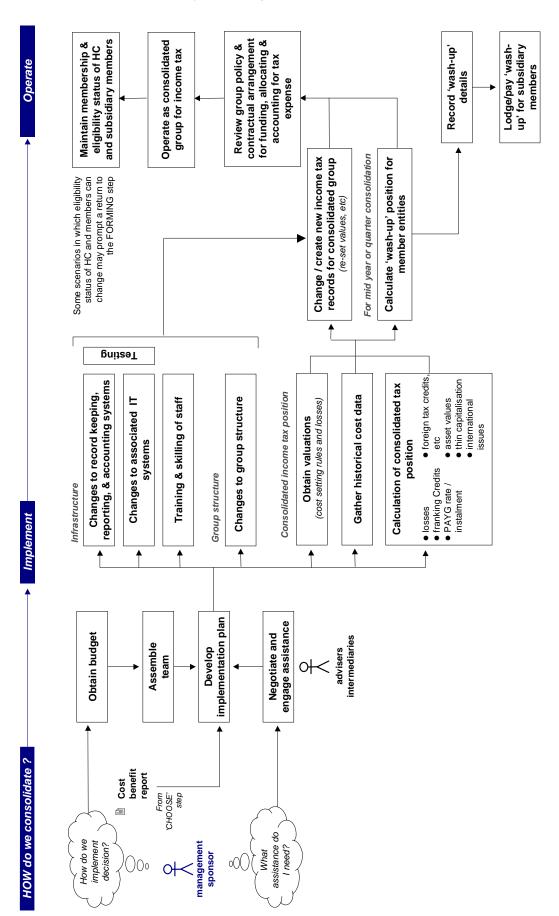
Proposed changes to consolidation

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).

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Figure 1: Consolidation pathway - Forming



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