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Consolidated groups losses schedule 2004 instructions

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Consolidated groups losses schedule 2004 instructions

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CONTENTS

INTRODUCTION 1

Recent changes: loss wastage and same business test 1

Summary of loss wastage measures inserted by amendments to Division 36 of the *Income Tax Assessment Act 1997* (ITAA 1997) 1

Summary of same business test changes 1

Choices-revocable until 31 December 2004 1

Proposed changes to substantially simplify the company loss recoupment rules 1

WHO IS REQUIRED TO COMPLETE THE CONSOLIDATED GROUPS LOSSES SCHEDULE 2004? 2

COMPLETING THE CONSOLIDATED GROUPS LOSSES SCHEDULE 2004 2

Tax file number (TFN) 2

Name of head company 2

Australian business number (ABN) 2

Signature as prescribed in tax return 2

PART A TAX LOSSES AND NET CAPITAL LOSSES CONSOLIDATED – EXCLUDES FOREIGN SOURCE LOSSES AND FILM LOSSES 3

1 Tax losses transferred from joining entities (including head company) at consolidation 3

Continuity of ownership test losses – companies only 3

Same business test losses – companies only 3

Same business transfer tests for companies 4

Other losses – trusts only 4

2 Tax losses transferred from joining entities after consolidation 5

Continuity of ownership test losses – companies only 5

Same business test losses – companies only 6

Other losses – trusts only 6

3 Tax losses utilised 6

Transferred losses 6

Available fraction 7

Increasing the available fraction – value donor concession 8

Group 8

Concessional 8

Other transferred 9

Total 9

4 Transferred tax losses utilised 9

5 Tax losses carried forward to later income years 12

Group 12

Concessional 12

Other transferred 12

Total 12

6 Net capital losses transferred from joining entities (including head company) at consolidation 13

Continuity of ownership test losses – companies only 13

Same business test losses – companies only 13

Same business transfer tests for companies 14

Other losses – trusts only 14

7 Net capital losses transferred from joining entities after consolidation 15

Continuity of ownership test losses – companies only 15

Same business test losses – companies only 15

Other losses – trusts only 15

8 Net capital losses utilised 15

Transferred losses 16

Available fraction 16

Increasing the available fraction – value donor concession 17

Group 18

Concessional 18

Other transferred 18

Total 18

9 Transferred net capital losses utilised 19

10 Net capital losses carried forward to later income years 21

Group 21

Concessional 21

Other transferred 21

11 If you completed item 4 or item 9 in Part A, were the apportionment rules applied? 22

Con_losses_2004_Instructions.indd Sec2:III 3/6/04 4:09:13 PM

PART B CANCELLATION OF TRANSFER OF LOSSES 24
1 Has the head company cancelled the transfer of a loss? 24
2 Details of cancellation of transfer of losses 24

PART C OWNERSHIP TEST AND SAME BUSINESS TEST 25
1 For each joining company that transferred a same business test tax loss or same business test net capital loss to the head company, determine the year of income in which the joining company first failed the continuity of ownership or control tests. 25
Same business test losses – companies only 25
Same business transfer tests for companies 25
Year ownership test failed 2003–2004 26
Year ownership test failed 2002–2003 26
Year ownership test failed 2001–2002 26
Year ownership test failed 2000–2001 26
Year ownership test failed 1999–2000 and earlier income years 26
2 Amount of losses utilised after consolidation, for which the continuity of ownership test is not passed but the same business test is satisfied. 27
Tax losses 27
Net capital losses 27
3 Amount of losses carried forward to later income years for which the same business test must be satisfied before they can be utilised. 28
Tax losses 28
Net capital losses 28

PART D LIFE INSURANCE COMPANIES 29
Virtual PST tax losses carried forward to later income years 29
Virtual PST net capital losses carried forward to later income years 29

PART E FOREIGN SOURCE LOSSES 29
Calculation of a foreign loss 29
Classes of assessable foreign income 30
1 Foreign source losses transferred from joining entities (including head company) – excludes losses of CFCs 30
2 Group/transferred foreign source losses utilised – excludes losses of CFCs 31
Transferred losses 31
Available fraction 31
3 Transferred foreign source losses utilised 32
4 Group foreign source losses carried forward to later income years – excludes losses of CFCs 33
5 Transferred foreign source losses carried forward to later income years – excludes losses of CFCs 33
6 Controlled foreign company (CFC) losses 33
Prior year CFC losses deducted 33
CFC losses carried forward 33

ABBREVIATIONS 34

MORE INFORMATION 34
Publications you may need 34

INFOLINES FOR FURTHER INFORMATION inside back cover

Con_losses_2004_Instructions.indd Sec2:IV 3/6/04 4:09:15 PM

INTRODUCTION

These instructions have been prepared to help you complete the *Consolidated groups losses schedule 2004*. This publication is NOT a guide to income tax law. More information is available on page 34.

These instructions contain a number of abbreviations for names or technical terms. Each term abbreviated is spelt out the first time it is used and there is also a list of abbreviations on page 34.

Recent changes: loss wastage and same business test

Taxation Laws Amendment Act (No. 5) 2003 received Royal Assent on 17 December 2003. The legislation gives effect to the no wastage of current year losses and optional use of prior year losses measures as well as removing an anomaly that prevented a company from accessing the same business test to determine its eligibility to deduct prior year losses.

Summary of loss wastage measures inserted by amendments to Division 36 of the Income Tax Assessment Act 1997 (ITAA 1997)

Subject to certain limitations, companies will:

- be able to choose the amount of prior year losses they wish to deduct from the excess (if any) of their assessable income over total deductions (other than tax losses) in a later year of income, after first applying the prior year losses against any net exempt income. Companies can choose not to deduct prior year losses in order to pay sufficient tax to be able to frank their distributions. A company must choose a nil amount of prior year losses to deduct if it has excess franking offsets for that income year. Similarly a company cannot choose an amount of tax loss that would give rise to an excess franking offset.
- be able to treat a current year loss that would otherwise be used up against franked dividend income as a tax loss for that income year and be able to carry forward the tax loss for consideration as a deduction in a later year of income. The relevant current year loss will be identified by reference to the amount of any excess franking offsets for the income year. The unused franking tax offsets (other than refundable tax offsets) will be converted into an equivalent amount of tax loss and will be able to be carried forward for deduction in a later year of income.

> **NOTE**
>
> Generally companies are not entitled to a refund of excess franking offsets under Division 67 of ITAA 1997 and therefore they do not have refundable tax offsets. However, there is an exception for life insurance companies who may be entitled to a refund of excess franking offsets under Division 67 of ITAA 1997 and would therefore have refundable tax offsets.

These amendments apply to the income year in which 1 July 2002 falls and later income years.

Summary of same business test changes

The new law widens the circumstances in which the same business test will be available to companies, to determine their eligibility to deduct prior year losses, if:

- the company fails the continuity of ownership test, or
- it is not practicable to show that the company meets the continuity of ownership test.

This is achieved by providing a default test time at which the same business test can be applied if the company is unable to determine precisely when it has failed the continuity of ownership test. In the case of tax losses, the test time for application of the same business test is the latest time that the company can show that it has satisfied the continuity of ownership test.

However, if it is not practicable for the company to show that it has maintained the same owners for any period since the start of the loss year, the default test time for application of the same business test is the start of the loss year or, if the company came into being during the loss year, the end of the loss year.

This amendment applies to assessments for the 1997–98 income year and later income years.

Choices – revocable until 31 December 2004

The *Taxation Laws Amendment Act (No. 2) 2004* , which received Royal Assent on 23 March 2004, allows for the revocation of various choices within the Consolidation rules until 31 December 2004. From a losses perspective, these amendments enable the following choices to be revocable until 31 December 2004 – the choice to:

- utilise certain losses over three years rather than under the available fraction method
- cancel the transfer of a loss
- utilise value donor concessions to increase the available fraction for a bundle of losses
- waive the capital injection rules, and
- cancel a loss that can be made by the ongoing head company of a multiple entry consolidated (MEC) group when a new eligible tier 1 company joins the group.

The date of effect for these amendments is 1 July 2002.

Proposed changes to substantially simplify the company loss recoupment rules

On 7 April 2004 the Minister for Revenue and Assistant Treasurer, Senator Helen Coonan announced in a media release (C021/04) a package of measures to substantially simplify the company loss recoupment rules. The media release stated that a simplified continuity of ownership test (COT) will be provided for all widely held companies and eligible subsidiaries, to remove the requirement to trace through ownership interests amounting to less than ten percent of the relevant rights. It also stated that the number of testing times will be reduced and a wider range of entities will be deemed to be beneficial owners. It was emphasised that the underlying company loss recoupment rules would remain, despite these simplifications.

The proposed commencement date provided for the simplified COT is 1 July 2002, to be consistent with the introduction of the consolidation regime. It is proposed

Con_losses_2004_Instructions.indd Sec1:1 3/6/04 4:09:16 PM

that the simplified COT will apply to losses incurred in an income year commencing on or after 1 July 2002 and certain eligible losses incurred before that date.

A position paper to accompany the media release was released by the Department of Treasury, detailing the proposed amendments to assist in the transition to the new rules.

The paper can be located at **www.treasury.gov.au**

It should be noted that while these changes have been announced by the Minister for Revenue and Assistant Treasurer, they had not been enacted as law at the time that this publication was prepared.

WHO IS REQUIRED TO COMPLETE THE CONSOLIDATED GROUPS LOSSES SCHEDULE 2004?

A head company of a consolidated group or multiple entry consolidated (MEC) group that satisfies any one or more of the following tests must complete the *Consolidated groups losses schedule 2004*, and lodge it with the *Company tax return 2004* if:

- It has a total of tax losses and net capital losses carried forward to the 2004–05 income year greater than $100,000.
- It has a total of tax losses and net capital losses transferred from joining entities greater than $100,000.
- It has a total of tax losses and net capital losses utilised greater than $100,000.
- It has a total of foreign source losses carried forward to the 2004–05 income year greater than $100,000.
- It has a total of foreign source losses transferred from joining entities greater than $100,000.
- It has a total of foreign source losses utilised greater than $100,000.
- It has a deduction for earlier year controlled foreign company (CFC) losses greater than $100,000.
- It has a total of CFC losses carried forward to later income years greater than $100,000.
- It is a life insurance company and has a total of virtual pooled superannuation trust (PST) tax losses and virtual PST net capital losses carried forward to the 2004–05 income year greater than $100,000.

A head company may need to complete a *Consolidated groups losses schedule 2004* (the schedule) in respect of certain aspects of its net capital losses. While some of the information requested in the schedule is also requested in the *Capital gains tax (CGT) schedule 2004* (CGT schedule), a head company that completes a consolidated groups losses schedule may also need to complete a CGT schedule.

If the head company completes a *Consolidated groups losses schedule 2004* in respect of any aspect of its losses, **all** relevant parts of the schedule **must be completed**. For example, if a head company completes the schedule as a result of having tax losses and capital losses carried forward to later income years greater than $100,000, details of foreign source losses are required even if the total of these losses is not greater than $100,000.

These instructions are based on provisions relating to consolidated groups. Some of those provisions are modified in Division 719 of ITAA 1997 in relation to MEC groups.

> **NOTE**
>
> In these instructions:
>
> - A reference to an 'unutilised' tax loss includes a reference to a tax loss for which a deduction has not yet been claimed or that has not been reduced by net exempt income. Conversely, a 'utilised' tax loss includes a reference to a tax loss for which a deduction has been claimed or that has been reduced by net exempt income.
> - A reference to an 'unutilised' net capital loss is a reference to a net capital loss which has not been applied against capital gains. Conversely, a 'utilised' net capital loss is one which has been applied against capital gains.
> - A reference to an 'unutilised' foreign source loss is a reference to a foreign source loss which has not been taken into account in reducing assessable foreign income. Conversely, a 'utilised' foreign source loss is one which has been taken into account in reducing assessable foreign income of that class.

COMPLETING THE CONSOLIDATED GROUPS LOSSES SCHEDULE 2004

Tax file number (TFN)

Print the TFN of the head company.

Name of head company

Print the name of the head company.

The name shown must be the same as that shown on the head company's tax return.

Australian business number (ABN)

Print the ABN, if any, of the head company.

Signature as prescribed in tax return

The person who is required to sign, and who signs, the tax return of the head company is also required to sign the *Consolidated groups losses schedule 2004*.

Con_losses_2004_Instructions.indd Sec1:2 3/6/04 4:09:17 PM

PART A TAX LOSSES AND NET CAPITAL LOSSES CONSOLIDATED – EXCLUDES FOREIGN SOURCE LOSSES AND FILM LOSSES

> **NOTE**
> All head companies that are required to complete another part of the *Consolidated groups losses schedule 2004* are also required to complete the relevant details requested in this part.

1 Tax losses transferred from joining entities (including head company) at consolidation

> **NOTE**
> - Do not include net capital losses, foreign source losses or film losses at item 1.
> - Net capital losses transferred from joining entities (including head company) at consolidation are shown at item 6, and foreign source losses at **Part E – Foreign source losses**.
> - Do not include tax losses if this item was completed in an earlier income year
> - For the definition of a tax loss refer to section 995-1 of ITAA 1997.
> - Do not include tax losses transferred after consolidation. Include these losses at item 2.

This item requires information on the amount of tax losses, excluding film losses and foreign source losses, transferred from joining entities, including the head company, to the head company at the date the consolidated group has been brought into existence – that is, the date specified in the notice of choice given to the Commissioner. Refer to section 703-50 of ITAA 1997.

The relevant amount of tax losses transferred at consolidation is to be recorded against labels **A**, **B**, or **C** depending on which loss transfer test has been satisfied.

When an entity joins a consolidated group as a subsidiary member part way through the entity's income year, it calculates its taxable income or loss for the period up to the time it joins the group. Generally, any unused carry forward losses are transferred to the head company if the losses could have been used by the joining entity, assuming sufficient income or gains, in the 'trial year', which generally commences 12 months prior to joining the consolidated group and ends immediately after the joining time. In certain circumstances, the trial year may be a shorter period than 12 months. Refer to subsection 707-120(2) of ITAA 1997.

Whether the losses could have been used by the joining entity in the trial year is determined by applying modified versions of the usual tests for deducting and applying losses.

A joining entity is any eligible entity that joins a consolidated group. For details of who can and cannot be members of a consolidated group refer to sections 703-15 and 703-20 of ITAA 1997.

Continuity of ownership test losses – companies only

Show at label **A** those tax losses that were transferred at consolidation because the continuity of ownership and control tests were satisfied for the ownership test period – that is, from the start of the year when the loss was incurred until immediately after the joining time. Refer to sections 165-12, 165-15 and 707-120 of ITAA 1997.

The following conditions apply:

- There must be persons who beneficially owned (between them) shares carrying (between them) the right to exercise more than 50% of the voting power in the company, and rights to receive more than 50% of the company's dividends and rights to receive more than 50% of the company's capital distributions at all times during the ownership test period. Refer to sections 165-150 to 165-160 of ITAA 1997.
- It is reasonable to assume that there are persons (none of them companies or trustees) who between them have beneficial interests (directly, or indirectly through one or more interposed entities) in shares in the company carrying (between them) a majority of the voting power, and rights to dividend and capital distributions at all times during the ownership test period. Refer to sections 165-150 to 165-160 of ITAA 1997.
- Where tax losses are claimed in an income year ending after 21 September 1999, the company must meet the 'same share and interest' requirement, except where the 'saving' rule applies. Refer to section 165-165 and subsection 165-12(7) of ITAA 1997.
- A modified version of the above rules can apply to a listed public company. Refer to Division 166 of ITAA 1997.

Anti-avoidance provisions are found at Subdivisions 175-A and 175-B of ITAA 1997.

Same business test losses – companies only

Show at label **B** those tax losses that were transferred at consolidation where the continuity of ownership or control tests were failed but the joining company satisfied the same business test.

The following table shows how the same business test applies for companies joining a consolidated group. Refer to subsections 707-120(1) and (3) and subsections 707-125(1) to (3) of ITAA 1997.

Con_losses_2004_Instructions.indd Sec1:3 3/6/04 4:09:19 PM

Same business transfer tests for companies

In these circumstances:	Test the joining entity's business at these points:
1 The loss was made by the joining entity for an income year starting after 30 June 1999	■ just before the end of the income year in which the loss was made ■ the income year in which the joining entity first fails the ownership or control tests if that income year started before the trial year, and ■ the trial year.
2 The loss was made by the joining entity for an income year starting before 1 July 1999	■ just before the ownership or control tests were first failed or, where it is not practicable to point to the actual time the ownership test was failed, just before the relevant default test time shown within the table to section 165-13 of ITAA 1997, and ■ the trial year.

Where a loss is transferred as a result of satisfying the same business test, it may only be transferred again if – in addition to satisfying the usual transfer tests – the entity transferring the loss carried on the same business at these times:

- just before the end of the income year in which the loss was previously transferred to it, and
- during the trial year.

Refer to subsection 707-135(2) of ITAA 1997.

Under the same business test the company must carry on the same business at all the times indicated in the preceding table – that is, throughout the trial year and year of ownership change (if applicable) and other relevant time. The test is not satisfied if at any time the company did not carry on the same business as it did at another required time or it derives assessable income from:

- a business of a kind that it did not carry on before the relevant time, or
- a transaction of a kind that it did not enter into in the course of its business operations before the relevant time.

'Same' means 'identical' and not merely 'similar'. The term 'same business' is to be read as referring to the same business, in the sense of the identical business. However, the term does not mean identical in all respects.

A company may expand or contract its activities without necessarily ceasing to carry on the same business. The organic growth of a business does not necessarily cause the business to fail the same business test provided the business retains its identity.

However, if through a process of evolution a business changes its essential character, the entity would fail the test. Application of the same business test is a question of fact and is usually determined by a process of weighing up various relevant factors.

For more information refer to sections 165-13 and 165-210 of ITAA 1997 and Taxation Ruling TR 1999/9.

To find out how to obtain a copy of the ruling, see the inside back cover.

Other losses – trusts only

Show at label **C** those tax losses that were transferred at consolidation from a trust.

The trust loss legislation in Schedule 2F to the *Income Tax Assessment Act 1936* (ITAA 1936) affects the deductibility of prior year losses by trusts.

The measures generally apply from 7.30pm Australian Eastern Standard Time on 9 May 1995. The legislation applies to two broad categories of trusts:

- fixed trusts – refer to section 272-65 of Schedule 2F to ITAA 1936
- non-fixed trusts (including discretionary trusts) defined in section 272-70 of Schedule 2F to ITAA 1936.

Fixed trusts are subject to the 50% stake test which tests for continuity of interests in the trust during the relevant periods. Refer to Subdivision 269-C of Schedule 2F to ITAA 1936.

The relevant test period for transfer purposes ends when the trial year ends immediately after joining time.

Non-fixed trusts, which are not excepted trusts, are subject to:

- the 50% stake test – if applicable
- the control test – see Subdivision 269-E of Schedule 2F to ITAA 1936, and
- the pattern of distributions test – see Subdivision 269-D of Schedule 2F to ITAA 1936 – if applicable.

Refer to Division 267 of Schedule 2F to ITAA 1936 in relation to the ownership and control tests that apply to non-fixed trusts.

The control test is applied as though the test period ended immediately **after** the joining time.

Where the pattern of distributions test is applied as a transfer test, the income year in which the trust joins the consolidated group is treated as the recoupment year instead of the trial year. Refer to subsection 707-130(2) of ITAA 1997.

A distribution made by a trust after the time it joins a consolidated group is not counted in determining if the pattern of distributions test is passed as a transfer test if it is made from income or capital of the trust that is attributable to a time after the joining time. Refer to subsection 707-130(4) of ITAA 1997.

Con_losses_2004_Instructions.indd Sec1:4 3/6/04 4:09:20 PM

A trust involved in a scheme to take advantage of deductions to the trust may be prevented from making full use of the deductions under the income injection test contained in Division 270 of Schedule 2F to ITAA 1936.

For more information, refer to appendix 9 in the publication *Partnership and trust tax returns 2004 instructions*. To find out how to obtain a copy, see the inside back cover.

Example 1

A consolidated group comes into existence on 1 July 2003. During the 2003–04 income year the following tax losses are transferred to the head company from joining entities which pass the loss transfer tests indicated.

Joining entity	Joining time	Tax loss amount $	Transfer test passed		
			Continuity of ownership	Same business	Other
A Company	1.7.2003	1,500	✓		
B Company	1.7.2003	3,200	X	✓	
C Company	3.2.2004	4,600	✓		
X Fixed trust	1.7.2003	1,800			✓
Y Non-fixed trust	1.7.2003	3,100			✓

The head company completes part A, item 1 on the schedule as follows:

Continuity of ownership test losses	A	1,500.00
Same business test losses	B	3,200.00
Other losses	C	4,900.00

As C Company transferred its continuity of ownership tax losses after consolidation, the amount transferred is recorded at item 2, label **D**.

2 Tax losses transferred from joining entities after consolidation in this income year

NOTE

- Do not include net capital losses, foreign source losses or film losses at item 2.
- Net capital losses transferred from joining entities after consolidation are shown at item 7, and foreign source losses at Part **E – Foreign source losses**.
- Do not include tax losses transferred at consolidation. Include these losses at item 1.
- Do not include tax losses transferred in an earlier income year.
- For the definition of a tax loss refer to section 995-1 of ITAA 1997.

This item requires information on the amount of tax losses, excluding film losses and foreign source losses, transferred from joining entities to the head company **after** the date the consolidated group has been brought into existence – that is, the date specified in the notice of choice given to the Commissioner. Refer to section 703-50 of ITAA 1997.

The relevant amount of tax losses transferred during the income year is to be recorded against labels **D**, **E** or **F** depending on which loss transfer test has been satisfied.

When an entity joins a consolidated group it calculates its taxable income or loss for the period up to the time it joins the group. Generally, any unused carry forward losses are transferred to the head company if the losses could have been used by the joining entity, assuming it had sufficient income or gains, in the 'trial year', which generally commences 12 months prior to joining the consolidated group and ends immediately after the joining time. In certain circumstances, the trial year may be a shorter period than 12 months. Refer to subsection 707-120(2) of ITAA 1997.

Whether the losses could have been used by the joining entity in the trial year is determined by applying modified versions of the usual tests for deducting and applying losses.

A joining entity is any eligible entity that joins a consolidated group. For details of who can and cannot be members of a consolidated group refer to sections 703-15 and 703-20 of ITAA 1997.

Continuity of ownership test losses – companies only

Show at label **D** those tax losses that were transferred after consolidation because the continuity of ownership and control tests were satisfied from the start of the year when the loss was incurred until immediately after the joining time. For more information on the continuity of ownership and control tests see the information on **Part A – Tax losses and net capital losses consolidated**, item 1 on page 3.

Con_losses_2004_Instructions.indd Sec1:5 3/6/04 4:09:21 PM

Same business test losses – companies only

Show at label **E** those tax losses that were transferred after consolidation because the continuity of ownership or control tests were failed but the joining company satisfied the same business test. For more information on the same business test see **Part A – Tax losses and net capital losses consolidated**, item 1 on page 3.

Other losses – trusts only

Show at label **F** those tax losses that were transferred after consolidation by a trust. For more information on the trust loss legislation see the information on **Part A – Tax losses and net capital losses consolidated**, item 1 on page 3.

Example 2

A consolidated group comes into existence on 1 July 2003. During the 2003–04 income year the following tax losses are transferred to the head company from joining entities which pass the loss transfer tests indicated.

Joining entity	Joining time	Tax loss amount $	Transfer test passed		
			Continuity of ownership	Same business	Other
X Company	1.7.2003	1,800	X	✓	
Y Company	2.7.2003	2,300	X	✓	
Z Company	3.2.2004	7,800	✓		
A Fixed trust	8.6.2004	1,100			✓
B Non-fixed trust	8.6.2004	4,500			✓

The head company completes part A, item 2 on the schedule as follows:

Continuity of ownership test losses	D	7,800.00
Same business test losses	E	2,300.00
Other losses	F	5,600.00

As X Company's same business tax losses were transferred at consolidation, the amount transferred is recorded at item 1, label **B**.

3 Tax losses utilised

> **NOTE**
> - Do not include net capital losses, foreign source losses or film losses utilised at item 3.
> - Net capital losses utilised are shown at item 8, and foreign source losses utilised at **Part E – Foreign source losses**.
> - For the definition of a tax loss refer to section 995-1 of ITAA 1997.

This item requires information on the amount of tax losses, excluding film losses and foreign source losses, utilised. A head company utilises a tax loss to the extent it is deducted from an amount of the head company's assessable income or net exempt income.

Subject to various rules, an earlier year tax loss is deducted in a later income year – to the extent that it has not already been utilised – as shown by the following formulae:

- If the head company has no net exempt income and has an excess of assessable income over total deductions – other than tax losses – deduct the tax loss from the excess assessable income. Refer to subsection 36-17(2) of ITAA 1997.
- If the head company has net exempt income and an excess of assessable income over total deductions – other than tax losses – first deduct the tax loss from the net exempt income, with any remaining amount of tax loss then being deducted from the excess assessable income. Refer to subsection 36-17(3) of ITAA 1997.
- If the head company has net exempt income and an excess of total deductions – other than tax losses – over assessable income, deduct the excess deductions from the net exempt income and then deduct the tax loss from any net exempt income that remains. Refer to subsection 36-17(4) of ITAA 1997.

A head company's net exempt income is calculated in accordance with section 36-20 of ITAA 1997.

A head company may be entitled to utilise carry forward losses broadly comprising:

- losses generated by the consolidated group – group losses, and/or
- transferred losses that were generated by an entity before it became a member of the group.

Before utilising a group loss or a transferred loss, a head company is required to pass the continuity of ownership and control tests or the same business test. For more information on the conditions applying to the continuity of ownership test, see the information on **Part A – Tax losses and net capital losses consolidated**, item 1 on page 3. For more information on the same business test, refer to sections 165-13 and 165-210 of ITAA 1997 and Taxation Ruling TR 1999/9. To find out how to obtain a copy of the ruling, see the inside back cover.

Transferred losses

The operation of the continuity of ownership test is modified by Subdivision 707-B of ITAA 1997. Firstly, the loss year is modified so that it starts from when the loss was transferred to the head company. Secondly, in determining whether a head company can use a loss transferred to it from a company as a result of passing the continuity of ownership and control tests, changes in ownership of a loss company **prior** to it joining the consolidated group are recognised. Refer to section 707-210 of ITAA 1997.

Tax losses generated by a consolidated group – group losses – are effectively utilised **before** transferred tax losses. Refer to paragraph 707-310(3)(b) of ITAA 1997.

Concessional tax losses are used after group tax losses and are effectively used before other transferred tax losses. Refer to subsection 707-350(2) of the *Income Tax (Transitional Provisions) Act 1997*.

Con_losses_2004_Instructions.indd Sec1:6 3/6/04 4:09:23 PM

All losses transferred to a head company for the first time from the entity that actually made them constitute a bundle of losses. Losses within the bundle will be categorised by the 'sort' of loss such as a tax loss or net capital loss. Refer to section 707-315 of ITAA 1997.

Available fraction

A single available fraction is worked out for each loss bundle. The available fraction limits the annual rate at which the bundle's losses may be recouped by the head company. However, for utilisation purposes, losses in one bundle may be subject to the available fraction for another loss bundle if certain conditions are satisfied (see **Increasing the available fraction – value donor concession** on page 8).

Where losses are transferred for the first time, the available fraction is calculated like this:

$$\frac{\text{modified market value of the joining loss entity at the initial transfer time}}{\text{adjusted market value of the head company at the initial transfer time}}$$

The modified market value of a joining entity is the amount that would be the market value of the entity at the joining time if:

- the entity has no losses and the balance of its franking account is nil
- the subsidiary members of the group at the time are separate entities and not divisions or parts of the head company of the group
- the entity's market value did **not** include an amount attributable (directly or indirectly) to a membership interest in a member of the group (other than the entity) that is a corporate tax entity or an entity that transferred losses to the head company, and
- a trust (other than a corporate tax entity or a trust with losses) contributes to the joining entity's market value only to the extent attributable to fixed entitlements (at joining time) to income or capital of the trust that is not attributable (directly or indirectly) to membership interests in another member of the group that is a corporate tax entity or a trust with losses.

Refer to section 707-325 of ITAA 1997.

An increase in the value of the loss entity is excluded from the entity's modified market value if the increase results from either of these events:

- an injection of capital into the loss entity, its associate or, if the loss entity is a trust, an associate of the trustee, or
- a non-arm's length transaction that involved the loss entity, its associate or, if the loss entity is a trust, an associate of the trustee.

The rules apply to events that occur in the four years before the loss entity joins the group; however, they do not apply to events that occurred before 9 December 2000. Refer to subsections 707-325(2) and (4) of ITAA 1997 and section 707-329 of the *Income Tax (Transitional Provisions) Act 1997*.

The head company's adjusted market value at the initial transfer time is the amount that would be the market value at that time if:

- the head company did not have a loss of any sort for an income year ending before that time, and
- the balance of the head company's franking account was nil at that time.

Refer to subsection 707-320(1) of ITAA 1997. The value for the head company is worked out on the basis that subsidiary members of the consolidated group are part of the head company.

> **NOTE**
> The Commissioner of Taxation will have a statutory obligation to ensure compliance with the market valuation requirements of the consolidation regime and to form a view as to whether valuations undertaken are accurate. To assist taxpayers meet their obligations, the Tax Office has produced the publication *Consolidation and market valuation*. To find out how to obtain a copy, see the inside back cover.

The available fraction may be increased if the value donor concession applies. The available fraction is adjusted if certain events happen – for example, the consolidated group acquires a new loss entity or the sum of the available fractions in the group exceeds 1. Refer to subsection 707-320(2) of ITAA 1997.

The use of transferred losses is apportioned if their available fraction applied for only part of the income year or when the available fraction changes during the income year. Refer to section 707-335 of ITAA 1997.

Apply the available fraction using a three-step process as follows:

1. Work out the amount of each category of the group's income or gains as specified in column 2 of the table in subsection 707-310(3) of ITAA 1997. This is the group's total income or gains for each category less relevant deductions including group losses and concessional losses (but not transferred losses whose use is limited by their available fraction).
2. Multiply each category amount by the bundle's available fraction. The result is taken to be the head company's only income or gains for that category.
3. On the basis of the step 2 assumption, work out a notional taxable income for the head company.

This process enables the head company to determine the amount of transferred losses of each sort it can use from the loss bundle to determine its actual taxable income.

Tax losses must first be deducted against exempt income. A special rule provides that the head company, in working out its actual taxable income, can offset its transferred tax losses against assessable income provided they have been first utilised against a fraction of its total exempt income. Refer to section 707-340 of ITAA 1997.

Con_losses_2004_Instructions.indd Sec1:7 3/6/04 4:09:25 PM

> **NOTE**
> An example applying the available fraction using the three-step process is included at the end of this part on page 22.

Increasing the available fraction – value donor concession

A loss entity (the 'real loss-maker'), in calculating its available fraction, may add to its modified market value the modified market value of another company (the 'value donor'). Certain losses from the value donor are also able to be notionally transferred to the real loss-maker. This enables those losses to be utilised using the available fraction for the real loss-maker. Only company losses may benefit from the concession to donate value and losses.

The conditions for adding an amount of modified market value from the value donor to the real loss-maker are as follows:

- Both the real loss-maker and the value donor join the group when it first consolidates before 1 July 2004.
- The real loss-maker has a 'test loss' – a tax loss or net capital loss that is **not** a concessional loss.
- The real loss-maker could have transferred its test loss to the value donor under Subdivision 170-A or 170-B of ITAA 1997 (assuming those Subdivisions had not been amended to provide only for transfers involving an Australian branch of a foreign bank) for an income year – generally the trial year.
- The value donor – assuming it had made the test loss – could have transferred it to the head company under Subdivision 707-A.
- The head company chooses to increase the real loss-maker's modified market value by a portion of the value donor's modified market value (see **Choices – revocable until 31 December 2004** on page 1).
- Refer to subsections 707-325(1) and (2) of the *Income Tax (Transitional Provisions) Act 1997*.

The increase in the modified market value of the real loss-maker is worked out using a formula. Refer to subsections 707-325(3) and (4) of the *Income Tax (Transitional Provisions) Act 1997*.

The conditions for donating losses from the value donor (referred to here as the 'loss donor') to the real loss-maker are as follows:

- The loss donor has also donated an amount of modified market value to the real loss-maker (in certain circumstances the amount can be nil).
- The loss to be donated is a tax loss or a net capital loss that is **not** a concessional loss.
- The loss was transferred under Subdivision 707-A from the loss donor to the head company at the time when the consolidated group came into existence.
- The loss donor could have transferred the loss to the real loss-maker, and any other value donor to the real loss-maker, under Subdivision 170-A or 170-B of ITAA 1997 (assuming those Subdivisions had not been amended to provide only for transfers involving an Australian branch of a foreign bank) for an income year – generally the trial year.
- The real loss-maker – and any other value donor of the real loss-maker – could have transferred the loss to the head company under Subdivision 707-A.
- The head company chooses that the loss be included in the real loss-maker's bundle (see **Choices – revocable until 31 December 2004** on page 1).

Refer to subsections 707-327(1), (2) and (3) of the *Income Tax (Transitional Provisions) Act 1997*.

Where a loss is donated, the group's use of the loss is governed by the real loss-maker's available fraction.

A loss can only be taken into account under either the value donor rule or the loss donor rule but not both. Refer to subsection 707-327(6) of the *Income Tax (Transitional Provisions) Act 1997*.

A choice to donate losses must be made by the head company by the later of either the day it lodges its income tax return for the first income year for which it uses transferred losses by the available fraction method or the end of 31 December 2004. When applying Subdivisions 170-A or 170-B for the purposes of the value donor and loss donor rules, the income year is modified and certain conditions apply. Refer to section 707-328 of the *Income Tax (Transitional Provisions) Act 1997*.

> **NOTE**
> An example applying the value donor and loss donor concessions is included at the end of this part on page 23.

Group

Show at label **G** the amount of group tax losses utilised.

Group tax losses are those tax losses that have been generated by the consolidated group. Group tax losses are, effectively, utilised before transferred tax losses. Show transferred tax losses utilised at either label **H** or **I**, as appropriate.

Concessional

A transferred tax loss, in a particular loss bundle, may be used in accordance with the concessional method if the loss meets certain conditions and the head company has chosen to use the concessional method for **all** losses in the bundle that meet these conditions. The conditions are that the tax loss:

- was originally made outside the consolidated group by a company – the real loss-maker – for an income year ending on or before 21 September 1999
- was transferred from the real loss-maker to the head company of the group when the group first consolidates before 1 July 2004
- was transferred because the continuity of ownership and control tests were passed, and
- had not been previously transferred to a group.

Con_losses_2004_Instructions.indd Sec1:8 3/6/04 4:09:26 PM

Refer to subsection 707-350(1) of the *Income Tax (Transitional Provisions) Act 1997*.

Concessional losses may be utilised by the head company over three years, subject to the general loss recoupment tests as modified. Refer to subsection 707-350(3) of the *Income Tax (Transitional Provisions) Act 1997*. This limit on utilisation replaces that which would otherwise apply under the available fraction method.

Tax losses claimed on a concessional basis are effectively utilised before other transferred tax losses. Group tax losses must be utilised before concessional losses. Show at label **H** the amount of concessional tax losses utilised.

Other transferred

Show at label **I** the amount of other transferred tax losses utilised. Other transferred tax losses are tax losses that have been made outside the consolidated group and transferred into the group from an entity when it joined the group. Transferred tax losses utilised on a concessional basis are to be shown at label **H**.

Total

Show at label **R** the total of tax losses utilised at labels **G** to **I**.

Transfer the amount at label **R** to the corresponding label on your tax return.

Example 3

ABC consolidated group comes into existence on 1 July 2003. On that date, tax losses of $1,500 are transferred to the head company from joining entities which satisfy the continuity of ownership and control transfer tests. No other losses are transferred to the head company. ABC group determines that $600 of the tax losses transferred satisfy the conditions for use of the concessional method and the head company makes a choice to apply this method for all the eligible losses (see **Choices – revocable until 31 December 2004** on page 1). The balance of the losses transferred ($900) are to be utilised applying the available fraction method.

For the 2003–04 income year, ABC group has assessable income of $1,950 and deductions of $250. The head company satisfies the modified loss recoupment tests in respect of all the transferred tax losses. ABC group has calculated that it is able to use $30 of the transferred tax losses applying the available fraction method.

For the 2003–04 income year, ABC group determines its taxable income as follows:

Assessable income	$	Deductions	$
Net capital gain	0	Deductions	250
Other assessable income	1,950	Concessional tax losses	200
		Transferred tax losses	30
Total	1,950	Total	480

ABC group's taxable income is $1,470 (that is $1,950 – $480).

NOTE

- Tax losses transferred of $200 – one-third of the total amount transferred – can be utilised applying the concessional method in the first income year ending after the initial transfer time.
- Tax losses of $400 applying the concessional method can be carried forward to the 2004–05 income year. Tax losses of $870 ($900 – $30) applying the available fraction method can be carried forward to the 2004–05 income year.

For the 2003–04 income year, the head company completes part A, item 3 on the schedule as follows:

Group	G	
Concessional	H	200
Other transferred	I	30
Total	R	230

4 Transferred tax losses utilised

NOTE

- Do not include transferred tax losses utilised in accordance with the concessional method which allows the head company to utilise tax losses over three years where certain conditions are met.
- Do not include group tax losses – losses generated by a consolidated group – utilised at item 4.
- Do not include transferred net capital losses, foreign source losses or film losses utilised at item 4.
- Transferred net capital losses utilised are shown at item 9, and foreign source losses at **Part E – Foreign source losses**.
- For the definition of a tax loss refer to section 995-1 of ITAA 1997.

This item requires information on the amount of transferred tax losses, excluding net capital losses, foreign source losses and film losses, utilised. A head company utilises a transferred tax loss to the extent it is deducted from an amount of the head company's assessable income or exempt income.

Show at labels **A**, **D**, **G**, **J**, **M** and **P**, as required, the TFNs of those joining entities that had tax losses from their loss bundles utilised applying the available fraction method. A bundle of losses consists of all the losses of a joining entity that are transferred to the head company at the same time.

If tax losses have been utilised in respect of six or fewer than six loss bundles, complete the number of labels

Con_losses_2004_Instructions.indd Sec1:9 3/6/04 4:09:28 PM

required. If tax losses have been utilised in respect of more than six loss bundles, show the joining entity TFNs for those loss bundles that had the six largest amounts of tax losses utilised.

Show at labels **B**, **E**, **H**, **K**, **N** and **Q**, as required, the corresponding available fractions calculated for the loss bundles for joining entities whose TFNs are recorded at labels **A**, **D**, **G**, **J**, **M** and **P**, respectively. Each available fraction is to be completed to three decimal places (for example, 0.475, 0.520, 0.700).

Where losses are transferred for the first time, the available fraction is calculated like this:

$$\frac{\text{modified market value of the joining loss entity at the initial transfer time}}{\text{adjusted market value of the head company at the initial transfer time}}$$

For details of how the modified market value of the joining loss entity and adjusted market value of the head company are determined see the information on **Part A – Tax losses and net capital losses consolidated**, item 3 on page 6.

Available fractions are calculated and then adjusted to three decimal places. The third decimal place is rounded up if the fourth decimal place is 5 or more.

Where an available fraction has been adjusted as a result of certain events – for example, a new member joined the group and transferred a loss bundle – show the adjusted available fraction applicable at the end of the year of income.

An available fraction cannot be a negative amount or greater than one. If the sum of the group's available fractions would total more than one, each available fraction is proportionally reduced. Refer to subsection 707-320(2) of ITAA 1997.

For more information regarding the calculation of the available fraction, see the information on **Part A – Tax losses and net capital losses consolidated**, item 3 on page 6.

Where the available fraction of a loss bundle has been increased as a result of one company – the value donor – donating value to a loss company, show the increased available fraction.

For more information on the value donor concession, see the information on **Part A – Tax losses and net capital losses consolidated**, item 3 on page 6.

Show at labels **C**, **F**, **I**, **L**, **O** and **R**, as required, the corresponding amount of transferred tax losses utilised from loss bundles of joining entities whose TFNs are recorded at labels **A**, **D**, **G**, **J**, **M** and **P**, respectively. If tax losses have been utilised from more than six loss bundles, show the six largest amounts utilised.

NOTE

- If one company – the value/loss donor – has donated some of its tax losses to another loss company – the real loss-maker – so that they can be used by the group in accordance with the real loss-maker's available fraction, do not include the amount of donated tax losses in the amounts shown for real loss-makers at labels **C**, **F**, **I**, **L**, **O** and **R**, as required.
- Show donated tax losses utilised with the TFN of the value/loss donor company, not the real loss-maker. The available fraction recorded for the value/loss donor in respect of tax losses donated is the available fraction of the real loss-maker company, not the value/loss donor's available fraction.
- If a value/loss donor company has both donated tax losses utilised and non-transferable tax losses utilised, multiple entries are required for the value/loss donor company. Show the donated tax losses utilised with the available fraction of the real loss-maker. Show the non-transferable tax losses utilised with the available fraction of the value/loss donor.

Example 4

A wholly owned group consists of a head company, H Co and two subsidiary companies – A Co, and B Co. The group consolidates on 1 July 2003. At that time, the adjusted market value of the group is $10,000. On 1 July 2003 tax losses are transferred to the head company from joining entities which satisfy the continuity of ownership and control transfer tests.

Details of modified market value and subsidiary losses are as follows:

Co	Transferor TFN	Modified market value ($)	Tax loss $	Transferable to:		
				H Co	A Co	B Co
H	111 111 111	5,000				
A	222 222 222	3,000	1,000	✓		✓
B	333 333 333	2,000	300	✓	✓	
			250	X	X	

In the absence of the value donor concession, the group's available fractions are:

A	B
0.300	0.200

Con_losses_2004_Instructions.indd Sec1:10 3/6/04 4:09:30 PM

A Co and B Co satisfy the conditions for the value donor concession in respect of the transferable tax losses. Assume the recalculated available fractions, applying the value donor concession, are:

A	B
0.900	0.100

B Co also satisfies the loss donor conditions and donates its transferable tax loss of $300 to A Co to be used in accordance with A Co's increased available fraction.

For the 2003–04 income year, the consolidated group has assessable income of $2,200 and deductions of $200. There are no capital gains or assessable foreign or film income. The available fraction amount for each bundle is as follows:

Loss bundle	Income amount $	Multiplied by available fraction	Available fraction amount for bundle ($)
A Co	2,000	0.900	1,800
B Co	2,000	0.100	200

The consolidated group can therefore utilise all of the tax losses in A Co's bundle ($1,000) and can also utilise all of B Co's transferable tax loss ($300) because it is used in accordance with A Co's increased available fraction. B Co's non-transferable tax loss ($250) can only be utilised to the extent of $200.

The head company completes part A, item 4 on the schedule as follows:

	Transferor TFN		Available fraction		
A	222 222 222	B	0.900	C	1,000.00
D	333 333 333	E	0.900	F	300.00
G	333 333 333	H	0.100	I	200.00
J		K		L	.00
M		N		O	.00
P		Q		R	.00

Example 5

A consolidated group determines the following amounts of tax losses utilised from eight loss bundles for the 2003–04 income year:

Co	Transferor TFN	Available fraction	Tax losses utilised $
A	111 111 111	0.105	5,250
B	222 222 222	0.311	4,100
C	333 333 333	0.132	2,350
D	444 444 444	0.183	4,730
E	555 555 555	0.095	1,300
F	666 666 666	0.009	25
G	777 777 777	0.154	3,405
H	888 888 888	0.000	2,100

H Co and B Co have satisfied the value donor and loss donor conditions. H Co has donated its entire modified market value to B Co and also donated transferable losses to B Co, the real loss-maker. B Co's increased available fraction is 0.311 and H Co's reduced available fraction is 0.000.

The head company completes part A, item 4 on the schedule as follows:

	Transferor TFN		Available fraction		
A	111 111 111	B	0.105	C	5,250.00
D	222 222 222	E	0.311	F	4,100.00
G	333 333 333	H	0.132	I	2,350.00
J	444 444 444	K	0.183	L	4,730.00
M	777 777 777	N	0.154	O	3,405.00
P	888 888 888	Q	0.311	R	2,100.00

- Information has been recorded for the loss bundles that had the six largest amounts of tax losses utilised.
- H Co's donated tax losses are shown against its TFN, not the TFN of the real loss-maker, B Co. The available fraction recorded for the value/loss donor, H Co, in respect of tax losses donated, is the increased available fraction of the real loss-maker company, B Co, **not** H Co's reduced available fraction of nil.

Con_losses_2004_Instructions.indd Sec1:11 3/6/04 4:09:32 PM

5 Tax losses carried forward to later income years

NOTE

- Do not include net capital losses, foreign source losses or film losses carried forward to later income years at item 5.
- Net capital losses carried forward to later income years are shown at item 10, and foreign source losses at **Part E – Foreign source losses**.
- For the definition of a tax loss refer to section 995-1 of ITAA 1997.
- The head company must keep a record of its tax losses and account for any adjustments including those made by the Tax Office. These records must be retained for five years after the end of the year in which the losses of the head entity were fully utilised.
- If required, the head company must be able to demonstrate not only the balance of any tax losses being utilised or carried forward, but also how those tax losses arose.

Group

Show at label **S** the amount of group tax losses carried forward to later income years under section 36-17 of ITAA 1997. Group tax losses are those tax losses that have been generated by the consolidated group.

Show transferred tax losses carried forward to later income years at either label **T** or **V**, as appropriate.

Concessional

Show at label **T** the amount of concessional tax losses carried forward to later income years under section 36-17 of ITAA 1997. Concessional tax losses are tax losses that meet certain conditions and may be utilised by the head company over three years, subject to the general loss recoupment tests as modified.

For more information see the information on **Part A – Tax losses and net capital losses consolidated**, item 3 on page 6.

If the head company wishes to use the concessional method it must choose to do so by the later of the day it lodges its income tax return for the income year in which it first uses any of its transferred losses and the end of 31 December 2004 (see **Choices – revocable until 31 December 2004** on page 1). The choice, if made, must be for all eligible losses in a particular bundle. Where a head company has not made a choice whether to use the concessional method in respect of transferred losses meeting the relevant conditions, show the amount of these losses carried forward to later income years at label **V**.

Other transferred

Show at label **V** the amount of other transferred tax losses carried forward to later income years under section 36-17 of ITAA 1997. Other transferred tax losses are tax losses that have been made outside the consolidated group and transferred into the group from an entity when it joined the group. Where a choice has been made to use the concessional method in respect of eligible transferred losses, show the amount of these losses at label **T**.

Total

Show at label **U** the total of tax losses carried forward to later income years at labels **S** to **V**.

Transfer the amount at label **U** to the corresponding label on your tax return.

NOTE

New loss wastage rules (see **Recent changes: loss wastage and same business test** on page 1) apply in relation to amounts that are included in item 10, label **U** of the company tax return. For more information on how this amount is calculated, refer to the information on item 10, label **U – Tax losses carried forward to later income years** in the *Company tax return instructions 2004*.

Example 6

AAA consolidated group comes into existence on 1 July 2003. On that date tax losses of $2,500 are transferred to the head company from joining entities which satisfy the continuity of ownership and control transfer tests. No other losses are transferred to the head company. AAA group determines that $900 of the tax losses transferred satisfy the conditions for use of the concessional method and the head company makes a choice to apply this method for all the eligible losses (see **Choices – revocable until 31 December 2004** on page 1). The balance of the losses transferred ($1,600) are to be utilised applying the available fraction method.

For the 2003–04 income year, the head company of the AAA group is able to utilise $500 of the transferred tax losses – $300 using the concessional method and $200 using the available fraction method.

The head company completes part A, item 5 on the schedule as follows:

Group	S	.00
Concessional	T	600.00
Other transferred	V	1,400.00
Total	U	2,000.00

Con_losses_2004_Instructions.indd Sec1:12 3/6/04 4:09:35 PM

6 Net capital losses transferred from joining entities (including head company) at consolidation

NOTE

- Do not include tax losses, film losses or foreign source losses at item 6.
- Tax losses transferred from joining entities (including head company) at consolidation are shown at item 1, and foreign source losses at **Part E – Foreign source losses**.
- Do not include net capital losses transferred after consolidation. Include these losses at item 7.
- Net capital loss has the meaning given by sections 102-10 and 165-114 of ITAA 1997.
- Do not include net capital losses if this item was completed in an earlier income year.

This item requires information on the amount of net capital losses, transferred from joining entities, including the head company, to the head company at the date the consolidated group has been brought into existence – that is, the date specified in the notice of choice given to the Commissioner. Refer to section 703-50 of ITAA 1997.

The relevant amount of net capital losses transferred at consolidation is to be recorded against labels **A**, **B**, or **C** depending on which loss transfer test, if any, has been satisfied.

When an entity joins a consolidated group as a subsidiary member part way through the entity's income year, it calculates its taxable income or loss for the period up to the time it joins the group. Generally, any unused carry forward losses are transferred to the head company if the losses could have been used by the joining entity, assuming sufficient income or gains, in the 'trial year', which generally commences 12 months prior to joining the consolidated group and ends immediately after the joining time. In certain circumstances, the trial year may be a shorter period than 12 months. Refer to subsection 707-120(2) of ITAA 1997.

Whether the losses could have been used by the joining entity in the trial year is determined by applying modified versions of the usual tests for deducting and applying losses.

A joining entity is any eligible entity that joins a consolidated group. For details of who can and cannot be members of a consolidated group refer to sections 703-15 and 703-20 of ITAA 1997.

Continuity of ownership test losses – companies only

Show at label **A** those tax losses that were transferred at consolidation because the continuity of ownership and control tests were satisfied for the ownership test period, that is, from the start of the year when the loss was incurred until immediately after the joining time. Refer to sections 165-12, 165-15 and 707-120 of ITAA 1997.

The following conditions apply:

- There must be persons who beneficially owned (between them) shares carrying (between them) the right to exercise more than 50% of the voting power in the company, and rights to receive more than 50% of the company's dividends and rights to receive more than 50% of the company's capital distributions at all times during the ownership test period. Refer to sections 165-150 to 165-160 of ITAA 1997.
- It is reasonable to assume that there are persons (none of them companies or trustees) who between them have beneficial interests (directly, or indirectly through one or more interposed entities) in shares in the company carrying (between them) a majority of the voting power, and rights to dividend and capital distributions at all times during the ownership test period. Refer to sections 165-150 to 165-160 of ITAA 1997.
- Where tax losses are claimed in an income year ending after 21 September 1999, the company must meet the 'same share and interest' requirement, except where the 'saving' rule applies. Refer to section 165-165 and subsection 165-12(7) of ITAA 1997.
- A modified version of the above rules can apply to a listed public company and its 100% subsidiaries. Refer to Division 166 of ITAA 1997.

Anti-avoidance provisions are found at Subdivisions 175-A and 175-B of ITAA 1997.

Same business test losses – companies only

Show at label **B** those tax losses that were transferred at consolidation where the continuity of ownership or control tests were failed but the joining company satisfied the same business test.

The following table shows how the same business test applies for companies joining a consolidated group. Refer to subsections 707-120(1) and (3) and subsections 707-125(1) to (3) of ITAA 1997.

Con_losses_2004_Instructions.indd Sec1:13 3/6/04 4:09:37 PM

Same business transfer tests for companies

In these circumstances:	Test the joining entity's business at these points:
1 The loss was made by the joining entity for an income year starting after 30 June 1999	■ just before the end of the income year in which the loss was made ■ the income year in which the joining entity first fails the ownership or control tests if that income year started before the trial year, and ■ the trial year.
2 The loss was made by the joining entity for an income year starting before 1 July 1999	■ just before the ownership or control tests were first failed or, where it is not practicable to point to the actual time the ownership test was failed, just before the relevant default test time shown within the table to section 165-13 of ITAA 1997, and ■ the trial year.

Where a loss is transferred as a result of satisfying the same business test, it may only be transferred again if – in addition to satisfying the usual transfer tests – the entity transferring the loss carried on the same business at these times:

- just before the end of the income year in which the loss was previously transferred to it, and
- during the trial year.

Refer to subsection 707-135(2) of ITAA 1997.

Under the same business test the company must carry on the same business at all the times indicated in the preceding table – that is, throughout the trial year and year of ownership change (if applicable) and other relevant time. The test is not satisfied if at any time the company did not carry on the same business as it did at another required time or it derives assessable income from:

- a business of a kind that it did not carry on before the relevant time, or
- a transaction of a kind that it did not enter into in the course of its business operations before the relevant time.

'Same' means 'identical' and not merely 'similar'. The term 'same business' is to be read as referring to the same business, in the sense of the identical business. However, the term does not mean identical in all respects.

A company may expand or contract its activities without necessarily ceasing to carry on the same business. The organic growth of a business does not necessarily cause the business to fail the same business test provided the business retains its identity. However, if through a process of evolution a business changes its essential character, the entity would fail the test. Application of the same business test is a question of fact and is usually determined by a process of weighing up various relevant factors.

For more information refer to sections 165-13 and 165-210 of ITAA 1997 and Taxation Ruling TR 1999/9.

To find out how to obtain a copy of the ruling, see the inside back cover.

Other losses – trusts only

Show at label **C** those net capital losses that were transferred at consolidation by a trust.

Example 7

A consolidated group comes into existence on 1 July 2003. During the 2003–04 income year the following net capital losses are transferred to the head company from joining entities which pass the loss transfer tests indicated.

Joining entity	Joining time	Net capital loss amount $	Transfer test passed	
			Continuity of ownership	Same business
A Company	1.7.2003	900	X	✓
B Company	1.7.2003	1,800	✓	
C Company	9.4.2004	3,200	✓	
X Fixed trust	1.7.2003	2,400		
Y Non-fixed trust	1.7.2003	1,100		

The head company completes part A, item 6 on the schedule as follows:

Continuity of ownership test losses	A	1,800.00
Same business test losses	B	900.00
Other losses	C	3,500.00

As C Company's continuity of ownership tax losses were transferred after consolidation, the amount transferred is recorded at item 7, label **D**.

Con_losses_2004_Instructions.indd Sec1:14 3/6/04 4:09:38 PM

7 Net capital losses transferred from joining entities after consolidation

> **NOTE**
> - Do not include tax losses, film losses or foreign source losses at item 7.
> - Tax losses transferred from joining entities after consolidation are shown at item 2, and foreign source losses at **Part E – Foreign source losses**.
> - Do not include net capital losses transferred at consolidation. Include these losses at item 6.
> - Net capital loss has the meaning given by sections 102-10 and 165-114 of ITAA 1997.
> - Do not include net capital losses transferred in an earlier income year.

This item requires information on the amount of net capital losses transferred from joining entities to the head company **after** the date the consolidated group has been brought into existence – that is, the date specified in the notice of choice given to the Commissioner. Refer to section 703-50 of ITAA 1997.

The relevant amount of net capital losses transferred during the income year is to be recorded against labels **D**, **E** or **F** depending on which loss transfer test, if any, has been satisfied.

When an entity joins a consolidated group it calculates its taxable income or loss for the period up to the time it joins the group. Generally, any unused carry forward losses are transferred to the head company if the losses could have been used by the joining entity, assuming sufficient income or gains, in the 'trial year', which generally commences 12 months prior to joining the consolidated group and ends immediately after the joining time. In certain circumstances, the trial year may be a shorter period than 12 months. Refer to subsection 707-120(2) of ITAA 1997.

Whether the losses could have been used by the joining entity in the trial year is determined by applying modified versions of the usual tests for deducting and applying losses.

A joining entity is any eligible entity that joins a consolidated group. For details of who can and cannot be members of a consolidated group refer to sections 703-15 and 703-20 of ITAA 1997.

Continuity of ownership test losses – companies only

Show at label **D** those net capital losses that were transferred after consolidation because the continuity of ownership and control tests were satisfied from the start of the year when the loss was incurred until immediately after the joining time.

For more information on the continuity of ownership and control tests see the information on **Part A – Tax losses and net capital losses consolidated**, item 6 on page 13.

Same business test losses – companies only

Show at label **E** those net capital losses that were transferred after consolidation because the continuity of ownership or control tests were failed but the joining company satisfied the same business test.

For more information on the same business test see the information on **Part A – Tax losses and net capital losses consolidated**, item 6 on page 13.

Other losses – trusts only

Show at label **F** those net capital losses that were transferred after consolidation by a trust.

> **Example 8**
>
> A consolidated group comes into existence on 1 July 2003. During the 2003–04 income year the following net capital losses are transferred to the head company from joining entities which passed the loss transfer tests indicated.

Joining entity	Joining time	Net capital loss amount $	Transfer test passed	
			Continuity of ownership	Same business
X Company	1.7.2003	2,500	X	✓
Y Company	2.7.2003	300	✓	
Z Company	3.2.2004	4,800	X	✓
A Fixed trust	8.6.2004	250		
B Non-fixed trust	8.6.2004	3,200		

The head company completes part A, item 7 on the schedule as follows:

Continuity of ownership test losses	D	3,000.00
Same business test losses	E	4,800.00
Other losses	F	3,450.00

As X Company's same business net capital losses were transferred at consolidation, the amount transferred is recorded at item 6, label **B**.

8 Net capital losses utilised

> **NOTE**
> - Do not include tax losses, film losses or foreign source losses utilised at item 8.
> - Tax losses utilised are shown at item 3, and foreign source losses utilised at **Part E – Foreign source losses**.
> - Net capital loss has the meaning given by sections 102-10 and 165-114 of ITAA 1997.
> - The *Capital gains tax (CGT) schedule 2004* may need to be completed. For more information refer to the publication *Guide to capital gains tax*. To find out how to obtain a copy, see the inside back cover.

This item requires information on the amount of net capital losses utilised. A head company utilises a net capital loss to the extent that it is applied to reduce an amount of the head company's capital gains.

Con_losses_2004_Instructions.indd Sec1:15 3/6/04 4:09:40 PM

Generally a head company makes a capital gain or capital loss if certain events – called CGT events – happen. For more information about CGT events refer to the publication *Guide to capital gains tax*. This publication includes:

- a capital gain or loss worksheet for calculating a capital gain or capital loss for each CGT event, and
- a CGT summary worksheet for calculating the company's net capital gain or capital loss.

A head company may be entitled to utilise carry forward losses broadly comprising:

- losses generated by the consolidated group – group losses – and/or
- transferred losses that were generated by an entity before it became a member of the group.

Before utilising a group loss or a transferred loss, a head company is required to pass the continuity of ownership and control tests or the same business test.

For more information on the conditions applying to the continuity of ownership test, see the information on **Part A – Tax losses and net capital losses consolidated**, item 6 on page 13. For more information on the same business test, refer to sections 165-13 and 165-210 of ITAA 1997 and Taxation Ruling TR 1999/9. To find out how to obtain a copy of the ruling, see the inside back cover.

Transferred losses

The operation of the continuity of ownership test is modified by Subdivision 707-B of ITAA 1997. Firstly, the loss year is modified so that it starts from when the loss was transferred to the head company. Secondly, in determining whether a head company can use a loss transferred to it from a passing the continuity of ownership and control tests, changes in ownership of a loss company **prior** to it joining the consolidated group are recognised. Refer to section 707-210 of ITAA 1997.

Net capital losses generated by a consolidated group – group losses – are effectively utilised **before** transferred net capital losses. Refer to paragraph 707-310(3)(b) of ITAA 1997.

Concessional net capital losses are used after group net capital losses and are effectively used before other transferred net capital losses. Refer to subsection 707-350(2) of the *Income Tax (Transitional Provisions) Act 1997*.

All losses transferred to a head company for the first time from the entity that actually made them constitute a bundle of losses. Losses within the bundle will be categorised by the 'sort' of loss such as a tax loss or net capital loss. Refer to section 707-315 of ITAA 1997.

Available fraction

A single available fraction is worked out for each loss bundle. The available fraction limits the annual rate at which the bundle's losses may be recouped by the head company. However, for utilisation purposes, losses in one bundle may be subject to the available fraction for another loss bundle if certain conditions are satisfied (see **Increasing the available fraction – value donor concession** on page 17).

Where losses are transferred for the first time, the available fraction is calculated like this:

$$\frac{\text{modified market value of the joining loss entity at the initial transfer time}}{\text{adjusted market value of the head company at the initial transfer time}}$$

The modified market value of a joining entity is the amount that would be the market value of the entity at the joining time if:

- the entity has no losses and the balance of its franking account is nil
- the subsidiary members of the group at the time are separate entities and not divisions or parts of the head company of the group
- the entity's market value did **not** include an amount attributable (directly or indirectly) to a membership interest in a member of the group (other than the entity) that is a corporate tax entity or an entity that transferred losses to the head company, and
- a trust (other than a corporate tax entity or a trust with losses) contributes to the joining entity's market value only to the extent attributable to fixed entitlements (at joining time) to income or capital of the trust that is not attributable (directly or indirectly) to membership interests in another member of the group that is a corporate tax entity or a trust with losses.

Refer to section 707-325 of ITAA 1997.

An increase in the value of the loss entity is excluded from the entity's modified market value if the increase results from either of these events:

- an injection of capital into the loss entity, its associate or, if the loss entity is a trust, an associate of the trustee, or
- a non-arm's length transaction that involved the loss entity, its associate or, if the loss entity is a trust, an associate of the trustee.

The rules apply to events that occur in the four years before the loss entity joins the group; however, they do not apply to events that occurred before 9 December 2000. Refer to subsections 707-325(2) and (4) of ITAA 1997 and section 707-329 of the *Income Tax (Transitional Provisions) Act 1997*.

The head company's adjusted market value at the initial transfer time is the amount that would be the market value at that time if:

- the head company did not have a loss of any sort for an income year ending before that time, and
- the balance of the head company's franking account was nil at that time.

Refer to subsection 707-320(1) of ITAA 1997. The value for the head company is worked out on the basis that subsidiary members of the consolidated group are part of the head company.

Con_losses_2004_Instructions.indd Sec1:16 3/6/04 4:09:42 PM

> **NOTE**
> The Commissioner of Taxation will have a statutory obligation to ensure compliance with the market valuation requirements of the consolidation regime and to form a view as to whether valuations undertaken are accurate. To assist taxpayers to meet their obligations, the Tax Office has prepared the publication *Consolidation and market valuation*. To find out how to obtain a copy, see the inside back cover.

The available fraction may be increased if the value donor concession applies. The available fraction is adjusted if certain events happen – for example, the consolidated group acquires a new loss entity or the sum of the available fractions in the group exceeds 1. Refer to subsection 707-320(2) of ITAA 1997.

The use of transferred losses is apportioned if their available fraction applied for only part of the income year or when the available fraction changes during the income year. Refer to section 707-335 of ITAA 1997.

Apply the available fraction using a three-step process as follows:

1. Work out the amount of each category of the group's income or gains as specified in column 2 of the table in subsection 707-310(3) of ITAA 1997. This is the group's total income or gains for each category less relevant deductions including group losses and concessional losses (but not transferred losses whose use is limited by their available fraction).
2. Multiply each category amount by the bundle's available fraction. The result is taken to be the head company's only income or gains for that category.
3. On the basis of the step 2 assumption, work out a notional taxable income for the head company.

This process enables the head company to determine the amount of transferred losses of each sort it can use from the loss bundle to determine its actual taxable income.

> **NOTE**
> An example applying the available fraction using the three-step process is included at the end of this part on page 22.

Increasing the available fraction – value donor concession

A loss entity (the 'real loss-maker'), in calculating its available fraction, may add to its modified market value the modified market value of another company (the 'value donor'). Certain losses from the value donor are also able to be notionally transferred to the real loss-maker. This enables those losses to be utilised using the available fraction for the real loss-maker. Only company losses may benefit from the concession to donate value and losses.

The conditions for adding an amount of modified market value from the value donor to the real loss-maker are as follows:

- Both the real loss-maker and the value donor join the group when it first consolidates before 1 July 2004.
- The real loss-maker has a 'test loss' – a tax loss or net capital loss that is **not** a concessional loss.
- The real loss-maker could have transferred its test loss to the value donor under Subdivision 170-A or 170-B of ITAA 1997 (assuming those Subdivisions had not been amended to provide only for transfers involving an Australian branch of a foreign bank) for an income year – generally the trial year.
- The value donor – assuming it had made the test loss – could have transferred it to the head company under Subdivision 707-A.
- The head company chooses to increase the real loss-maker's modified market value by a portion of the value donor's modified market value (see **Choices – revocable until 31 December 2004** on page 1).

Refer to subsections 707-325(1) and (2) of the *Income Tax (Transitional Provisions) Act 1997*.

The increase in the modified market value of the real loss-maker is worked out using a formula. Refer to subsections 707-325(3) and (4) of the *Income Tax (Transitional Provisions) Act 1997*.

The conditions for donating losses from the value donor (referred to here as the 'loss donor') to the real loss-maker are as follows:

- The loss donor has also donated an amount of modified market value to the real loss-maker (in certain circumstances the amount can be nil).
- The loss to be donated is a tax loss or a net capital loss that is **not** a concessional loss.
- The loss was transferred under Subdivision 707-A from the loss donor to the head company at the time when the consolidated group came into existence.
- The loss donor could have transferred the loss to the real loss-maker, and any other value donor to the real loss-maker, under Subdivision 170-A or 170-B of ITAA 1997 (assuming those Subdivisions had not been amended to provide only for transfers involving an Australian branch of a foreign bank) for an income year – generally the trial year.
- The real loss-maker – and any other value donor of the real loss-maker – could have transferred the loss to the head company under Subdivision 707-A.
- The head company chooses that the loss be included in the real loss-maker's bundle (see **Choices – revocable until 31 December 2004** on page 1).

Refer to subsections 707-327(1), (2) and (3) of the *Income Tax (Transitional Provisions) Act 1997*.

Where a loss is donated, the group's use of the loss is governed by the real loss-maker's available fraction.

A loss can only be taken into account under either the value donor rule or the loss donor rule but not both. Refer to subsection 707-327(6) of the *Income Tax (Transitional Provisions) Act 1997*.

Con_losses_2004_Instructions.indd Sec1:17 3/6/04 4:09:44 PM

A choice (see **Choices – revocable until 31 December 2004** on page 1) to donate losses must be made by the head company by the later of the day it lodges its income tax return for the first income year for which it uses transferred losses by the available fraction method or by the end of 31 December 2004.

When applying Subdivisions 170-A or 170-B for the purposes of the value donor and loss donor rules, the income year is modified and certain conditions apply. Refer to section 707-328 of the *Income Tax (Transitional Provisions) Act 1997*.

> **NOTE**
> An example applying the value donor and loss donor concessions is included at the end of this part on page 23.

Group

Show at label **G** the amount of group net capital losses utilised. Group net capital losses are those net capital losses that have been generated by the consolidated group. Group net capital losses are effectively utilised before transferred net capital losses.

Show transferred net capital losses utilised at either label **H** or **I**, as appropriate.

Concessional

A transferred net capital loss, in a particular loss bundle, may be used in accordance with the concessional method if the loss meets certain conditions and the head company has chosen to use the concessional method for **all** losses in the bundle that meet these conditions. The conditions are that the net capital loss:

- was originally made outside the consolidated group by a company – the real loss-maker – for an income year ending on or before 21 September 1999
- was transferred from the real loss-maker to the head company of the group when the group first consolidates before 1 July 2004
- was transferred because the continuity of ownership and control tests were passed, and
- had not been previously transferred to a group.

Refer to subsection 707-350(1) of the *Income Tax (Transitional Provisions) Act 1997*.

Concessional losses may be utilised by the head company over three years, subject to the general loss recoupment tests as modified. Refer to subsection 707-350(3) of the *Income Tax (Transitional Provisions) Act 1997*. This limit on utilisation replaces that which would otherwise apply under the available fraction method.

Net capital losses utilised on a concessional basis are effectively utilised before other transferred net capital losses. Group net capital losses must be utilised before concessional net capital losses.

Show at label **H** the amount of concessional net capital losses utilised.

Other transferred

Show at label **I** the amount of other transferred net capital losses utilised. Other transferred net capital losses are net capital losses that have been made outside the consolidated group and transferred into the group from an entity when it joined the group. Transferred net capital losses utilised on a concessional basis are to be shown at label **H**.

Total

Show at label **J** the total of net capital losses utilised at labels **G** to **I**.

Example 9

CCC consolidated group comes into existence on 1 July 2003. On that date, net capital losses of $1,200 are transferred to the head company from joining entities which satisfy the continuity of ownership and control transfer tests. No other losses are transferred to the head company. CCC group determines that $900 of the net capital losses transferred satisfy the conditions for use of the concessional method and the head company makes a choice to apply this method for all the eligible losses (see **Choices – revocable until 31 December 2004** on page 1). The balance of the losses transferred ($300) are to be utilised applying the available fraction method.

For the 2003–04 income year, CCC group has capital gains of $2,100 and no capital losses. The head company satisfies the modified loss recoupment tests in respect of all the transferred net capital losses. CCC group has calculated that it is able to use $50 of the transferred net capital losses applying the available fraction method.

For the 2003–04 income year, CCC group determines its net capital gain as follows:

Capital gains	$	Losses applied	$
Capital gains	2,100	Concessional net capital losses	300
		Transferred net capital losses	50
Total	2,100	Total	350

CCC group's net capital gain is $1,750 (that is $2,100 – $350).

- Net capital losses transferred of $300 – one-third of total amount transferred – can be utilised applying the concessional method in the first income year ending after the initial transfer time.
- Net capital losses of $600 applying the concessional method can be carried forward to the 2004–05 income year. Net capital losses of $250 ($300 – $50) applying the available fraction method can be carried forward to the 2004–05 income year.

Con_losses_2004_Instructions.indd Sec1:18 3/6/04 4:09:45 PM

For the 2003–04 income year, the head company completes part A, item 8 on the schedule as follows:

Group	G	.00
Concessional	H	300.00
Other transferred	I	50.00
Total	J	350.00

9 Transferred net capital losses utilised

> **NOTE**
>
> - Do not include transferred net capital losses utilised in accordance with the concessional method (which effectively allows the head company to utilise net capital losses over three years where certain conditions are met).
> - Do not include group net capital losses – losses generated by a consolidated group – utilised at item 9.
> - Do not include transferred net capital losses, foreign source losses or film losses utilised at item 9.
> - Transferred tax losses utilised are shown at item 4, and foreign source losses at **Part E – Foreign source losses**.
> - Net capital loss has the meaning given by sections 102-10 and 165-114 of ITAA 1997.

This item requires information on the amount of transferred net capital losses utilised. A head company utilises a net capital loss to the extent that it is applied to reduce an amount of the head company's capital gains.

Show at labels **A**, **D**, **G**, **J**, **M** and **P**, as required, the TFNs of those joining entities that had net capital losses from their loss bundles utilised applying the available fraction method. A bundle of losses consists of all the losses of a joining entity that are transferred to the head company at the same time.

If net capital losses have been utilised in respect of six or fewer than six loss bundles, complete the number of labels required. If net capital losses have been utilised in respect of more than six loss bundles, show the joining entity TFNs for those loss bundles that had the six largest amounts of net capital losses utilised.

Show at labels **B**, **E**, **H**, **K**, **N** and **Q**, as required, the corresponding available fractions calculated for the loss bundles for joining entities whose TFNs are recorded at labels **A**, **D**, **G**, **J**, **M** and **P**, respectively. Each available fraction is to be completed to three decimal places (for example, 0.475, 0.520, 0.700).

Where losses are transferred for the first time, the available fraction is calculated like this:

$$\frac{\text{modified market value of the joining loss entity at the initial transfer time}}{\text{adjusted market value of the head company at the initial transfer time}}$$

For details of how the modified market value of the joining loss entity and adjusted market value of the head company are determined see the information on **Part A – Tax losses and net capital losses consolidated**, item 8 on page 15.

Available fractions are calculated and then adjusted to three decimal places. The third decimal place is rounded up if the fourth decimal place is 5 or more. Where an available fraction has been adjusted as a result of certain events – for example, a new member joined the group and transferred a loss bundle – show the adjusted available fraction applicable at the end of the year of income.

An available fraction cannot be a negative amount or greater than one. If the sum of the group's available fractions would total more than one, each available fraction is proportionally reduced. Refer to subsection 707-320(2) of ITAA 1997.

For more information regarding the calculation of the available fraction, see the information on **Part A – Tax losses and net capital losses consolidated**, item 8 on page 15.

Where the available fraction of a loss bundle has been increased as a result of one company – the value donor – donating value to a loss company, show the increased available fraction.

For more information on the value donor concession, see the information on **Part A – Tax losses and net capital losses consolidated**, item 8 on page 15.

Show at labels **C**, **F**, **I**, **L**, **O** and **R**, as required, the corresponding amount of transferred net capital losses utilised from loss bundles of joining entities whose TFNs are recorded at labels **A**, **D**, **G**, **J**, **M** and **P**, respectively.

If net capital losses have been utilised from more than six loss bundles, show the six largest amounts utilised.

> **NOTE**
>
> - If one company – the value/loss donor – has donated some of its net capital losses to another loss company – the real loss-maker – so that they can be used by the group in accordance with the real loss-maker's available fraction, do not include the amount of donated net capital losses in the amounts shown for real loss-makers at any of labels **C**, **F**, **I**, **L**, **O** and **R**, as required.
> - Show donated net capital losses utilised with the TFN of the value/loss donor company, not the real loss-maker. The available fraction recorded for the value/loss donor in respect of net capital losses donated is the available fraction of the real loss-maker company, **not** the value/loss donor's available fraction.
> - If a value/loss donor company has both donated net capital losses utilised and non-transferable net capital losses utilised, multiple entries are required for the value/loss donor company. Show the donated net capital losses utilised with the available fraction of the real loss-maker. Show the non-transferable net capital losses utilised with the available fraction of the value/loss donor.

Con_losses_2004_Instructions.indd Sec1:19 3/6/04 4:09:47 PM

Example 10

A wholly owned group consists of a head company, H Co, and two subsidiary companies – X Co, and Y Co. The group consolidates on 1 July 2003. At that time, the adjusted market value of the group is $10,000. On 1 July 2003 net capital losses are transferred to the head company from joining entities which satisfy the continuity of ownership and control transfer tests. Details of modified market value and subsidiary losses are as follows:

Co	Transferor TFN	Modified market value ($)	Tax loss $	Transferable to:		
				H Co	X Co	Y Co
H	111 111 111	4,000				
X	222 222 222	4,000	1,200	✓		✓
Y	333 333 333	2,000	500	✓	✓	
			300	X	X	

In the absence of the value donor concession, the group's available fractions are:

X	Y
0.400	0.200

X Co and Y Co satisfy the conditions for the value donor concession in respect of the transferable net capital losses. Assume the recalculated available fractions applying the value donor concession are:

X	Y
0.900	0.100

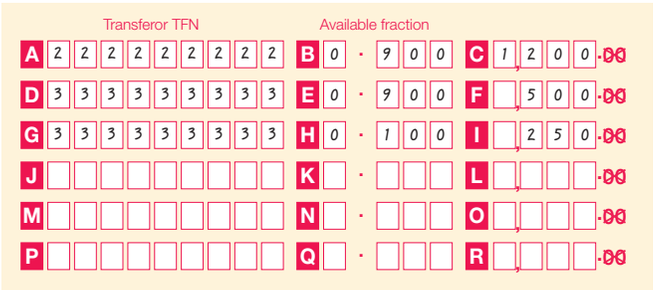
Y Co also satisfies the loss donor conditions and donates its transferable net capital loss of $500 to X Co to be used in accordance with X Co's increased available fraction.

For the 2003–04 income year, the consolidated group has capital gains of $2,000. The available fraction amount for each bundle is as follows:

Loss bundle	Income amount $	Multiplied by available fraction	Available fraction amount for bundle ($)
X Co	2,000	0.900	1,800
Y Co	2,000	0.100	200

The consolidated group can therefore utilise all of the net capital losses in X Co's bundle ($1,200) and can also utilise all of Y Co's transferable net capital loss ($500) because it is used in accordance with X Co's increased available fraction. Y Co's non-transferable net capital loss ($300) can only be utilised to the extent of $200.

The head company completes part A, item 9 on the schedule as follows:



Example 11

A consolidated group determines the following amounts of net capital losses utilised from eight loss bundles for the 2003–04 income year:

Co	Transferor TFN	Available fraction	Tax losses utilised $
A	111 111 111	0.129	2,390
B	222 222 222	0.011	33
C	333 333 333	0.324	3,950
D	444 444 444	0.175	4,655
E	555 555 555	0.000	1,920
F	666 666 666	0.157	3,515
G	777 777 777	0.083	1,250
H	888 888 888	0.108	4,975

C Co and E Co have satisfied the value donor and loss donor conditions. E Co has donated its entire modified market value to C Co and also donated transferable losses to C Co, the real loss-maker. C Co's increased available fraction is 0.324 and E Co's reduced available fraction is 0.000.

The head company completes part A, item 9 on the schedule as follows:

- Information has been recorded for the loss bundles that had the six largest amounts of net capital losses utilised.
- E Co's donated net capital losses are shown against its TFN, not the TFN of the real loss-maker, C Co. The available fraction recorded for the value/loss donor, E Co, in respect of net capital losses donated is the increased available fraction of the real loss-maker company, C Co, **not** E Co's reduced available fraction of nil.

Con_losses_2004_Instructions.indd Sec1:20 3/6/04 4:09:49 PM

10 Net capital losses carried forward to later income years

NOTE

- Do not include tax losses, film losses or foreign source losses carried forward to later income years at item 10.
- Tax losses carried forward to later income years are shown at item 5, and foreign source losses at **Part E – Foreign source losses**.
- Net capital loss has the meaning given by sections 102-10 and 165-114 of ITAA 1997.
- The head company must keep a record of its net capital losses and account for any adjustments including those made by the Tax Office. These records must be retained for five years after a CGT event has occurred or the losses recouped, whichever is the later.
- If required, the head company must be able to demonstrate not only the balance of any net capital losses being utilised or carried forward, but also how those net capital losses arose.

Group

Show at label **S** the amount of group net capital losses carried forward to later income years under section 102-15 of ITAA 1997. Group net capital losses are those net capital losses that have been generated by the consolidated group.

Show transferred net capital losses carried forward to later income years at either label **T** or **U**, as appropriate.

Concessional

Show at label **T** the amount of concessional net capital losses carried forward to later income years under section 102-15 of ITAA 1997. Concessional net capital losses are net capital losses that meet certain conditions and may be utilised by the head company over three years, subject to the general loss recoupment tests as modified.

For more information see the information on **Part A – Tax losses and net capital losses consolidated**, item 8 on page 15.

If the head company wishes to use the concessional method it must choose to do so by the later of the day it lodges its income tax return for the income year in which it first uses any of its transferred losses or at the end of 31 December 2004 (see **Choices – revocable until 31 December 2004** on page 1). The choice, if made, must be for all eligible losses in a particular bundle.

Where a head company has not made a choice whether to use the concessional method in respect of transferred losses meeting the relevant conditions, show the amount of these losses carried forward to later income years at label **U**.

Other transferred

Show at label **U** the amount of other transferred net capital losses carried forward to later income years under section 102-15 of ITAA 1997. Other transferred net capital losses are net capital losses that have been made outside the consolidated group and transferred into the group from an entity when it joined the group. Where a choice has been made to use the concessional method in respect of eligible transferred losses, show the amount of these losses at label **T**.

Total

Show at label **V** the total of net capital losses carried forward to later income years at labels **S** to **U**.

Transfer the amount at label **V** to the corresponding label on your tax return.

Example 12

XYZ consolidated group comes into existence on 1 July 2003. On that date, net capital losses of $2,100 are transferred to the head company from joining entities which satisfy the continuity of ownership and control transfer tests. No other losses are transferred to the head company. XYZ group determines that $1,200 of the net capital losses transferred satisfy the conditions for use of the concessional method and the head company makes a choice to apply this method for all the eligible losses (see **Choices – revocable until 31 December 2004** on page 1). The balance of the losses transferred ($900) are to be utilised applying the available fraction method.

For the 2003–04 income year, the head company of the XYZ group is able to utilise $600 of the transferred net capital losses – $400 using the concessional method and $200 using the available fraction method.

The head company completes part A, item 10 on the schedule as follows:

Group	S	
Concessional	T	800
Other transferred	U	700
Total	V	1,500

Con_losses_2004_Instructions.indd Sec1:21 3/6/04 4:09:53 PM

11 If you completed item 4 or item 9 in Part A, were the apportionment rules applied?

If transferred tax losses or transferred net capital losses have been utilised from any loss bundle applying the available fraction method, you must complete this item.

The use of transferred losses is apportioned if their available fraction applied for only part of the income year or when the available fraction changes during the income year. Apportionment applies if:

- losses in a bundle are transferred to the head company by a subsidiary member that is joining part way through the head company's income year, or
- available fractions are adjusted during the income year. Adjustments to available fractions are required if additional loss bundles are transferred to the head company at a later time or because there has been a capital injection or a non-arm's length transaction. Refer to subsection 707-320(2) of ITAA 1997. In these cases, available fractions will have different numerical values for different periods of the income year.

Apportionment in the first case ensures that a subsidiary's losses are only offset against income generated by the group after the subsidiary becomes a member.

Apportionment in the second case ensures that an adjusted available fraction that is less than the previous fraction only applies from the date of the event that triggered the adjustment.

Note that if a consolidated group is formed part way through the head company's income year, the head company's use of its own prior year losses (transferred to itself under Subdivision 707-A on consolidation) will be unrestricted in respect of income broadly attributable to the pre-consolidation period. This is achieved by treating the losses actually incurred by the head company, which are subsequently transferred to itself at consolidation, as being in a bundle with an available fraction of one for the part of the head company's income year which is prior to the formation of the consolidated group.

Refer to section 707-335 of ITAA 1997.

If the answer is yes, print **Y** at label **W**.

If the answer is no, print **N** at label **W**.

Example 13 Applying the available fraction using the three-step process

XYZ consolidated group is working out the group's taxable income for the 2003–04 income year.

For the income year, the group has capital gains of $900 and capital losses of $200.

The group's only other assessable income is $9,000. Deductions relating to that income are $990. The group has a tax loss carried forward from the previous income year of $60.

The group's remaining transferred losses at that time, and their available fractions, are set out in the table.

The continuity of ownership and control tests or same business tests are passed in respect of the recoupment of all these losses.

Loss bundle	Available fraction	Unused transferred losses
Bundle 1	0.146	$50 net capital losses $3,000 tax losses (not film)
Bundle 2	0.214	$100 net capital losses $5,000 tax losses (not film)

Step 1: Work out the categories of group income or gains.

Income or gains	Amount excluding group losses $	Less: Other allowable deductions/ reductions ($)	Less: Group/ concessional losses of that sort ($)	Column 5 Income/ gains available for the bundle H Co $
Capital gains	900	200	0	700
Other assessable income	9,000	990	60	7,950

Step 2: Calculate the fraction of the income/gain that is attributable to each bundle.

Column 1 Income or gains	Loss Bundle	Column 5 Amount $	Multiplied by available fraction	Available fraction amount for bundle $
Capital gains	Bundle 1	700	0.146	102
	Bundle 2	700	0.214	150
Other assessable income	Bundle 1	7,950	0.146	1,161
	Bundle 2	7,950	0.214	1,701

Step 3(a): Work out a notional taxable income for bundle 1.

As a result of step 2, it is assumed that XYZ group's only capital gain is $102. On the basis of that assumption, the whole of the $50 net capital loss from bundle 1 can be used. This results in a (notional) net capital gain for bundle 1 of $52 ($102 – $50).

Notional taxable income for bundle 1:

Assessable income	$	Deductions	$
Net capital gain	52	Tax losses (bundle 1)	1,213
Other assessable income	1,161		
Total	1,213	Total	1,213

Therefore, XYZ group is able to use $1,213 of its tax losses from bundle 1.

Step 3(b): Work out a notional taxable income for bundle 2.

As a result of step 2, it is assumed that XYZ group's only capital gain is $150. On the basis of that assumption, the whole of the $100 net capital loss from bundle 2 can be used. This results in a (notional) net capital gain for bundle 2 of $50 ($150 – $100).

Con_losses_2004_Instructions.indd Sec1:22 3/6/04 4:09:55 PM

Notional taxable income for bundle 2:

Assessable income	$	Deductions	$
Net capital gain	50	Tax losses (bundle 2)	1,751
Other assessable income	1,701		
Total	1,751	Total	1,751

Therefore, XYZ group is able to use $1,751 of its tax losses from bundle 2.

Determine XYZ group's actual taxable income or gain

First work out XYZ group's net capital gain

Capital gain	900	Group capital losses	200
		Net capital losses:	
		(bundle 1)	50
		(bundle 2)	100
Total	900	Total	350

XYZ group's net capital gain is $550 ($900 – $350).

Assessable income	$	Deductions	$
Net capital gain	550	Deductions	990
Other assessable income	9,000	Group loss	60
		Tax losses:	
		(bundle 1)	1,213
		(bundle 2)	1,751
Total	9,550	Total	4,014

XYZ group's taxable income is $5,536 ($9,550 – $4,014).

Example 14 Value donor and loss donor rules

A wholly owned group consists of a head company, H Co and three subsidiary companies – A Co, B Co and C Co.

B Co is a subsidiary of A Co but is not a subsidiary of C Co. The group consolidates on 1 July 2003. On that date, the adjusted market value of the group is $10,000.

Details of modified market value, subsidiary losses and companies to which they could be transferred (assuming Subdivisions 170-A and 170-B had not been amended to provide only for transfers involving an Australian branch of a foreign bank) are as follows:

Co	Modified market value $	Tax loss		Net capital loss		Transferable to			
		Year	$	Year	$	H Co	A Co	B Co	C Co
H	4,000								
A	3,000	2001	400			✓		✓	✓
B	500			1999	200	X	✓		X
C	2,500	2000	80			X	X	X	
		2001	100			✓	✓	✓	

In the absence of the value donor concession, the group's available fractions are:

A	B	C	Total
0.300	0.050	0.250	0.600

A Co and C Co each have a loss that is transferable to all other group members. B Co has a loss that is only transferable to A Co.

While there are various options for donating modified market value and losses, it is assumed, in this example, that modified market value and losses are to be donated to A Co.

Donating modified market value and losses to A Co

- H Co: modified market value can be added to A Co's modified market value.
- C Co: modified market value can also be added to A Co's modified market value. Assume only 60% of C Co's value is added. Note that some value is to remain with C Co which has a non-transferable loss. C Co's 2001 loss is moved to A Co's bundle.
- B Co: could move modified market value to A Co, but cannot donate its loss to A Co because B Co's loss is **not** transferable to C Co – one of A Co's other value donors. Therefore, it is determined that B Co will retain its modified market value and loss.

A Co receives 100% of H Co's modified market value and 60% of C Co's modified market value. A Co's available fraction is recalculated as:

[$3,000 + $4,000 + (60% x $2,500)]÷$10,000 = 0.85

Con_losses_2004_Instructions.indd Sec1:23 3/6/04 4:09:57 PM

C Co's available fraction is recalculated as:

(40% x $2,500)÷$10,000 = 0.1

B Co's available fraction remains at 0.05.

Therefore, the group's available fractions and the losses to which they apply are:

Co	Available fraction	Tax loss		Net capital loss		Comments
		Year	$	Year	$	
A	0.850	2001	400			
		2001	100			From C Co's bundle
B	0.050			1999	200	
C	0.100	2000	80			

PART B CANCELLATION OF TRANSFER OF LOSSES

NOTE

All head companies that are required to complete another part of the *Consolidated groups losses schedule 2004* are also required to complete the relevant details requested in this part.

1 Has the head company cancelled the transfer of a loss?

A head company can make a choice to cancel the transfer of a loss of a joining entity. If the choice is made, the transfer is taken never to have occurred and the loss can never be used by any entity for all income years ending after the joining time. Refer to sections 707-145 and 707-150 of ITAA 1997.

If the answer is yes print **Y** at label **A**, and complete item 2.

If the answer is no print **N** at label **A**, and do not complete item 2. Go to part **C**.

2 Details of cancellation of transfer of losses

Show at labels **B**, **D**, **F** and **H** the TFNs of those joining entities where there has been a cancellation of the transfer of one or more losses during the income year. If the cancellation of the transfer of a loss has occurred in respect of four or fewer than four joining entities, complete the number of labels required. If the cancellation of the transfer of a loss has occurred in respect of more than four joining entities, show the TFNs for those joining entities for which there was the cancellation of the transfer of the four largest **total** amount of losses.

Show at labels **C**, **E**, **G** and **I**, as required, the total amount of the cancellation of the transfer of one or more losses for joining entities whose TFNs are recorded at labels **B**, **D**, **F** and **H** respectively.

Example 15

XXX consolidated group comes into existence on 1 July 2003. For the 2003–04 income year, the head company cancelled the transfer of one or more losses of six joining entities as follows:

TFN	Amount of cancellation of transfer of loss ($)				Total
	Tax	Film	Net capital	foreign	
111 111 111	100	180			280
222 222 222			230		230
333 333 333				250	250
444 444 444	80		220		300
555 555 555			110		110
666 666 666	320				320

The head company completes part B, item 2 on the schedule as follows:

Joining entity TFN

B	111 111 111	C	280
D	333 333 333	E	250
F	444 444 444	G	300
H	666 666 666	I	320

TFNs and corresponding amounts have been recorded for those joining entities for which there was the cancellation of the transfer of the four largest **total** amount of losses.

Con_losses_2004_Instructions.indd Sec1:24 3/6/04 4:09:59 PM

PART C OWNERSHIP TEST AND SAME BUSINESS TEST

> **NOTE**
> All head companies that are required to complete another part of the *Consolidated groups losses schedule 2004* are also required to complete the relevant details requested in this part.

1 For each joining company that transferred a same business test tax loss or same business test net capital loss to the head company, determine the year of income in which the joining company first failed the continuity of ownership or control tests. Against each of the listed years, show the total amount of losses which first failed the continuity of ownership or control test in that year.

> **NOTE**
> - Do not include transferred film losses or foreign source losses at item 1.
> - Do not include losses transferred by a joining company which satisfied the continuity of ownership and control transfer tests at item 1.
> - Do not include losses transferred by a joining trust at item 1.

The aim of item 1 is to find out (in respect of companies which transferred losses to a head company of a consolidated group because a same business transfer test was satisfied):

- the period of time between the year of failure of the continuity of ownership or control transfer tests and the trial year, and
- the losses that failed the continuity of ownership or control tests at the joining time and/or in the trial year.

When a company joins a consolidated group any unused carry forward losses are transferred to the head company if the losses could have been used by the joining entity, assuming sufficient income or gains in the 'trial year', which generally commences 12 months prior to joining the consolidated group and ends immediately after the joining time. In certain circumstances, the trial year may be a shorter period than 12 months. Refer to subsection 707-120(2) of ITAA 1997.

Whether the losses could have been used by the joining company in the trial year is determined by applying modified versions of the usual tests for deducting and applying losses. A joining company with a carry forward tax loss or net capital loss will need to satisfy a same business test unless the company satisfies the following continuity of ownership test conditions (and the control test):

- There must be persons who beneficially owned (between them) shares carrying (between them) the right to exercise more than 50% of the voting power in the company, and rights to receive more than 50% of the company's dividends and rights to receive more than 50% of the company's capital distributions at all times during the ownership test period. Refer to sections 165-150 to 165-160 of ITAA 1997.
- It is reasonable to assume that there are persons (none of them companies or trustees) who between them have beneficial interests (directly, or indirectly through one or more interposed entities) in shares in the company carrying (between them) a majority of the voting power, and rights to dividend and capital distributions at all times during the ownership test period.
  Refer to sections 165-150 to 165-160 of ITAA 1997.
- Where tax losses are claimed in an income year ending after 21 September 1999, the company must meet the 'same share and interest' requirement, except where the 'saving' rule applies.
  Refer to section 165-165 and subsection 165-12(7) of ITAA 1997.
- A modified version of the above rules can apply to a listed public company and its 100% subsidiaries.
  Refer to Division 166 of ITAA 1997.

Anti-avoidance provisions are found at Subdivisions 175-A and 175-B of ITAA 1997.

Same business test losses – companies only

The following table shows how the same business test applies for companies joining a consolidated group.

Refer to subsections 707-120(1) and (3) and subsections 707-125(1) to (3) of ITAA 1997.

Same business transfer tests for companies

In these circumstances:	Test the joining entity's business at these points:
1 The loss was made by the joining entity for an income year starting after 30 June 1999	■ just before the end of the income year in which the loss was made ■ the income year in which the joining entity first fails the ownership or control tests if that income year started before the trial year, and ■ the trial year.
2 The loss was made by the joining entity for an income year starting before 1 July 1999	■ just before the ownership or control tests were first failed or, where it is not practicable to point to the actual time the ownership test was failed, just before the relevant default test time shown within the table to section 165-13 of ITAA 1997, and ■ the trial year.

Con_losses_2004_Instructions.indd Sec1:25 3/6/04 4:10:01 PM

Where a loss is transferred as a result of satisfying the same business test, it may only be transferred again if – in addition to satisfying the usual transfer tests – the entity transferring the loss carried on the same business at these times:

- just before the end of the income year in which the loss was previously transferred to it, and
- during the trial year.

Refer to subsection 707-135(2) of ITAA 1997.

Under the same business test the company must carry on the same business at all the times indicated in the preceding table – that is, throughout the trial year and year of ownership change (if applicable) and other relevant time. The test is not satisfied if at any time the company did not carry on the same business as it did at another required time or it derives assessable income from:

- a business of a kind that it did not carry on before the relevant time, or
- a transaction of a kind that it did not enter into in the course of its business operations before the relevant time.

'Same' means 'identical' and not merely 'similar'. The term 'same business' is to be read as referring to the same business, in the sense of the identical business. However, the term does not mean identical in all respects. A company may expand or contract its activities without necessarily ceasing to carry on the same business. The organic growth of a business does not necessarily cause the business to fail the same business test provided the business retains its identity. However, if through a process of evolution a business changes its essential character, the entity would fail the test. Application of the same business test is a question of fact and is usually determined by a process of weighing up various relevant factors.

For more information refer to sections 165-13 and 165-210 of ITAA 1997 and Taxation Ruling TR 1999/9. To find out how to obtain a copy of the ruling, see the inside back cover.

Year ownership test failed 2003–2004

Show at label **J** the total amount of tax losses and net capital losses of joining companies which first failed the continuity of ownership or control tests in the 2003–04 income year but satisfied the same business test. If there is no amount, leave blank.

Year ownership test failed 2002–2003

Show at label **K** the total amount of tax losses and net capital losses of joining companies which first failed the continuity of ownership or control tests in the 2002–03 income year but satisfied the same business test. If there is no amount, leave blank.

Year ownership test failed 2001–2002

Show at label **L** the total amount of tax losses and net capital losses of joining companies which first failed the continuity of ownership or control tests in the 2001–02 income year but satisfied the same business test. If there is no amount, leave blank.

Year ownership test failed 2000–2001

Show at label **M** the total amount of tax losses and net capital losses of joining companies which first failed the continuity of ownership or control tests in the 2000–2001 income year but satisfied the same business test. If there is no amount, leave blank.

Year ownership test failed 1999–2000 and earlier income years

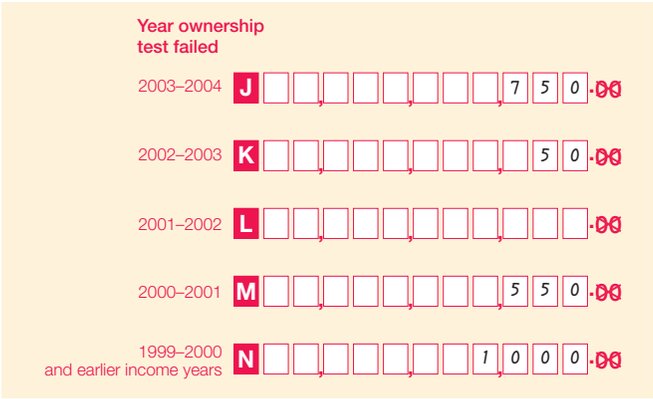
Show at label **N** the total amount of tax losses and net capital losses of joining companies which first failed the continuity of ownership or control tests in the 1999–2000 and earlier income years but satisfied the same business test. If there is no amount, leave blank.

Example 16

A consolidated group comes into existence on 1 July 2003. During the 2003–04 income year the following joining companies transfer tax losses and/or net capital losses because they satisfy the same business transfer test:

Joining company	Loss year	Amount $	Sort of loss	Year of ownership change
A	1993–94	1,000	Tax	1994–95
				2001–02
	2000–01	50	Net capital	2002–03
B	1998–99	350	Tax	2003–04
	2001–02	400	Net capital	2003–04
C	1998–99	550	Net capital	2000–01

For the 2003–04 income year, the head company completes part C, item 1 on the schedule as follows:



The amount of the tax loss incurred by company A ($1,000) is recorded at label **N** because the first change of ownership occurred during the 1994–95 income year.

Con_losses_2004_Instructions.indd Sec1:26 3/6/04 4:10:03 PM

2 Amount of losses utilised after consolidation, for which the continuity of ownership test is not passed but the same business test is satisfied.

> **NOTE**
> - Do not include film losses or foreign source losses utilised at item 2.
> - Do not include at item 2 losses utilised for which the head company satisfied the continuity of ownership test.

Show at item 2 the amount of tax losses and net capital losses utilised by the head company after consolidation where the continuity of ownership test was not passed **after** consolidation but the same business test was satisfied.

Before a head company can utilise a loss generated by the consolidated group, or a loss transferred from a joining entity, it must satisfy the continuity of ownership and control tests or the same business test. Subdivision 707-B of ITAA 1997 modifies the recoupment tests for transferred losses. The loss year is modified so that it starts from when the loss was transferred to the head company. Accordingly, losses transferred to a head company of a consolidated group because they satisfied the same business transfer test are effectively refreshed in the hands of the head company, in that the ownership test period for these losses commences at the time they are transferred to the head company.

However, in determining whether a head company can use a loss transferred to it from a joining company which passed the continuity of ownership and control tests, changes in ownership of the joining company **prior** to it joining the consolidated group are taken into account. In addition, it is assumed that the head company's interest in the joining company remains unchanged from the joining time. This means that, in determining if a head company can utilise a loss transferred to it from a joining company, the head company will satisfy the continuity of ownership test if the joining company would have satisfied the continuity of ownership test in respect of the loss.

For more information on the same business test refer to sections 165-13 and 165-210 of ITAA 1997 and Taxation Ruling TR 1999/9. To find out how to obtain a copy of the ruling, see the inside back cover.

For information on the continuity of ownership test and the same business test for an MEC group, refer to Subdivision 719-F of ITAA 1997 and the *Consolidation reference manual*. To find out how to obtain a copy of the manual, see the inside back cover.

Tax losses

Show at label **O** the amount of tax losses utilised by the head company which did not satisfy the continuity of ownership and control tests but did satisfy the same business test.

Net capital losses

Show at label **P** the amount of net capital losses utilised by the head company which did not satisfy the continuity of ownership and control tests but did satisfy the same business test.

Example 17

A consolidated group comes into existence on 1 July 2003. On that date the following losses are transferred to the head company from a joining company which satisfied the continuity of ownership and control transfer tests:

Year loss incurred	Sort of loss	Amount $
1999-2000	Tax	1,200
1999-2000	Net capital	4,600

During the period from the start of the loss year (1 July 1999) until immediately after the joining time (1 July 2003) there was a 40% change in the persons who controlled the voting power of the head company and had the rights to the company's dividends and capital distributions. The joining company was a 100% subsidiary of the head company during this period.

For the 2003–04 income year the consolidated group generates sufficient capital gains and other assessable income to enable the transferred tax and net capital losses to be fully utilised applying the available fraction method. On 1 August 2003 there is a 20% change in the persons who, at the start of the loss year, controlled the voting power of the head company and had the rights to the company's dividends and capital distributions. The head company does not satisfy the continuity of ownership test because of the change of majority ownership on 1 August 2003 – that is, combined ownership changes of 60% (40% + 20%). However, the head company satisfies the same business test because the consolidated group carried on the same business during the 2003–04 income year as it did immediately before the change of ownership.

In determining whether a head company can use a loss transferred to it from a joining company which passed the continuity of ownership and control tests, changes in ownership of the joining company **prior** to it joining the consolidated group are taken into account.

The head company completes part C, item 2 on the schedule as follows:

Tax losses **O** 1,200.00

Net capital losses **P** 4,600.00

Con_losses_2004_Instructions.indd Sec1:27 3/6/04 4:10:04 PM

3 Amount of losses carried forward to later income years for which the same business test must be satisfied before they can be utilised.

> **NOTE**
>
> - Do not include film losses or foreign source losses utilised at item 3.
> - Do not include at item 3 losses carried forward to later income years for which the head company satisfies the continuity of ownership test.

Show at item 3 the amount of tax losses, excluding film losses, and net capital losses carried forward to later income years for which the head company must satisfy the same business test to utilise these losses.

Before a head company can utilise a loss generated by the consolidated group, or a loss transferred from a joining entity, it must satisfy the continuity of ownership and control tests or the same business test. Subdivision 707-B of ITAA 1997 modifies the recoupment tests for transferred losses. The loss year is modified so that it starts from when the loss was transferred to the head company. Accordingly, losses transferred to a head company of a consolidated group because they satisfied the same business transfer test are effectively refreshed in the hands of the head company, in that the ownership period for these losses starts at the time they are transferred to the head company.

However, in determining whether a head company can use a loss transferred to it from a joining company which passed the continuity of ownership and control tests, changes in ownership of the joining company **prior** to it joining the consolidated group are taken into account. In addition, it is assumed that the head company's interest in the joining company remains unchanged from the joining time. This means that, in determining if a head company can utilise a loss transferred to it from a joining company, the head company will satisfy the continuity of ownership test if the joining company would have satisfied the continuity of ownership test in respect of the loss.

For more information on the same business test refer to sections 165-13 and 165-210 of ITAA 1997 and Taxation Ruling TR 1999/9. To find out how to obtain a copy of the ruling, see the inside back cover.

Tax losses

Show at label **Q** the amount of tax losses carried forward to later income years for which the head company must satisfy the same business test to utilise these losses.

Net capital losses

Show at label **R** the amount of net capital losses carried forward to later income years for which the head company must satisfy the same business test to utilise these losses.

Example 18

A consolidated group comes into existence on 1 July 2003. On that date, tax losses of $2,200 are transferred to the head company from a joining company which satisfies the continuity of ownership and control transfer tests.

For the 2003–04 income year, the consolidated group makes group tax losses of $1,700 and group net capital losses of $3,500 which are carried forward to the 2004–05 income year.

There is a change of majority ownership of the head company during the 2003–04 year but this does not result in the head company joining another consolidated group. The head company must satisfy the same business test in later income years to utilise the losses carried forward comprising tax losses of $3,900 ($2,200 + $1,700) and net capital losses of $3,500.

The head company completes part C, item 3 on the schedule as follows:

Tax losses	Q	3,900.00
Net capital losses	R	3,500.00

Con_losses_2004_Instructions.indd Sec1:28 3/6/04 4:10:06 PM

PART D LIFE INSURANCE COMPANIES

The head company of a consolidated group that has subsidiary members that are life companies is taken to be a life insurance company for the purposes of an assessment of income tax during the period when any subsidiary members of the group are life companies. Only those head companies that have virtual PST tax losses or virtual PST net capital losses carried forward to later income years are required to complete part D.

Virtual PST tax losses carried forward to later income years

Show at label **T** the amount of virtual PST tax losses carried forward to later income years.

The virtual PST component of the complying superannuation class of a life company has a tax loss for the income year if the sum of the virtual PST's assessable income as specified in subsection 320-205(3) of ITAA 1997 is less than the amount of the virtual PST's reductions as specified in subsection 320-205(4) of ITAA 1997.

Virtual PST net capital losses carried forward to later income years

Show at label **U** the amount of virtual PST net capital losses carried forward to later income years.

The virtual PST component of the complying superannuation class of a life company has a net capital loss for the income year if the total of all capital gains made from virtual PST assets during the income year is less than the total of all the capital losses made from virtual PST assets during the income year.

PART E FOREIGN SOURCE LOSSES

> **NOTE**
> All head companies that are required to complete another part of the *Consolidated groups losses schedule 2004* are also required to complete the relevant details requested in this part.

A foreign loss incurred by a taxpayer in an income year, in respect of a class of 'assessable foreign income', can only be used to reduce income of the same class in a later income year. The calculation of such a foreign loss has been modified by the *New Business Tax System (Thin Capitalisation) Act 2001*. For income years beginning on or after 1 July 2001 the calculation of foreign losses excludes debt deductions (except those that are attributable to an overseas permanent establishment). These debt deductions can be applied against Australian source income.

These losses cannot be used to offset income in the other classes or to offset Australian source income.

Broadly, assessable foreign income means:

- foreign income that is included in assessable income for an income year, and
- profits or gains of a capital nature from sources in a foreign country other than capital gains under the CGT provisions.

The excess loss for a class of assessable foreign income may be carried forward indefinitely and used to reduce a later year's assessable foreign income for that class.

However, losses incurred by a company before the 1990–91 income year could only be carried forward for seven years and are therefore no longer available.

Calculation of a foreign loss

The amount of the foreign loss is calculated as follows:

- Where no assessable foreign income was derived for a class during the income year, the foreign loss is equal to the total 'foreign income deductions' for that class.
- Where assessable foreign income was derived for a class during the income year, the foreign loss is equal to the excess of 'foreign income deductions' for that class over the assessable foreign income.

A foreign income deduction, in relation to a class of assessable foreign income, is any deduction that is allowed or allowable from assessable income in an income year, to the extent that the deduction relates to the assessable foreign income of that class other than:

- certain losses relating to foreign investment funds, and
- debt deductions as defined in section 820-40 of ITAA 1997 (except those debt deductions that are attributable to an overseas permanent establishment).

Capital losses are not included under any of the classes of assessable foreign income, but are included under the CGT provisions.

Debt deductions – for example, interest expense incurred in deriving assessable foreign income – can be claimed

Con_losses_2004_Instructions.indd Sec1:29 3/6/04 4:10:07 PM

against Australian source income and are no longer quarantined to particular classes of assessable foreign income. This means that they are not included in the calculation of a foreign loss. All other deductions, including debt deductions that are attributable to an overseas permanent establishment, are quarantined to particular classes of assessable foreign income. Therefore, these deductions must be included in calculating a foreign loss.

Classes of assessable foreign income

Assessable foreign income is divided into four classes, which are:

- interest income, including payments in the nature of interest
  Excluded are:
  - interest that is received in the active conduct of a trade or business – for example, interest on receivables
  - interest derived from money lending – for example, a banking business
  - interest that falls in the offshore banking income class
- modified passive income is passive income other than amounts that fall within the interest class or the offshore banking income class
  Included are:
  - rent
  - royalties
  - dividends
  - annuities
  - capital gains – but not capital gains under the CGT provisions
  - amounts derived from the assignment of – for example, designs, patents or trademarks
- offshore banking income – certain income derived through an offshore banking unit
  Included are:
  - interest, fees and commissions derived in respect of offshore banking transfers
  - dividends paid out of profits derived from the making of offshore banking transfers
- all other foreign source income comprising amounts that do not fall within the other classes.

Example 19

A company in the 2003–04 income year derives modified passive income of $1,000. There are no prior year foreign source losses relating to that class of foreign income. During the year the company incurs the following expenses in relation to the modified passive income:

- foreign income deductions of $1,200
- debt deductions of $600 (that are not attributable to an overseas permanent establishment).

The amount of current year foreign loss in relation to the modified passive class of income is $200. That $200 foreign loss is available to be offset against modified passive income in future years.

The debt deductions of $600 are not included in the calculation of the current year foreign loss, and are allowed to be claimed in the current year against any other domestic income.

1 Foreign source losses transferred from joining entities (including head company) – excludes losses of CFCs

Show at labels **A**, **B**, **C** and **D** the amounts of foreign source losses, if any, for each of the four classes of income that has been transferred from joining entities, including the head company, to the head company during the 2003–04 income year.

When an entity joins a consolidated group as a subsidiary member part way through the entity's income year, it calculates its taxable income or loss for the period up to the time it joins the group. Generally, any unused carry forward losses are transferred to the head company if the losses could have been used by the joining entity, assuming sufficient income, in the 'trial year', which generally commences 12 months prior to joining the consolidated group and ends immediately after the joining time. In certain circumstances, the trial year may be a shorter period than 12 months. Refer to subsection 707-120(2) of ITAA 1997.

Whether the losses could have been used by the joining entity in the trial year is determined by applying modified versions of the usual tests for deducting and applying losses.

A joining entity is any eligible entity that joins a consolidated group. For details of who can and cannot be members of a consolidated group refer to sections 703-15 and 703-20 of ITAA 1997.

Example 20

A consolidated group comes into existence on 1 July 2003. During the 2003–04 income year foreign source losses are transferred to the head company from joining companies listed hereunder which satisfy the continuity of ownership and control transfer tests or the same business transfer test.

Joining company	Joining time	Foreign loss related to claim of assessable foreign income			
		Interest $	Modified passive ($)	Offshore banking ($)	All other ($)
A	1.7.2003	3,400	1,200		
B	1.7.2003	5,400			
C	9.8.2003		3,100		
D	6.6.2004				8,500

The head company completes part E, item 1 on the schedule as follows:

Interest income	A	8,800.00
Modified passive income	B	4,300.00
Offshore banking income	C	.00
All other foreign source income	D	8,500.00

Con_losses_2004_Instructions.indd Sec1:30 3/6/04 4:10:08 PM

2 Group/transferred foreign source losses utilised – excludes losses of CFCs

Show at labels **E**, **F**, **G** and **H** the amounts of group and transferred foreign source losses, if any, relating to each of the four classes of income that were utilised.

A head company utilises a foreign source loss in respect of a class of assessable foreign income to the extent that the loss is taken into account in reducing the head company's assessable foreign income of that class.

Group foreign source losses are those foreign source losses that have been generated by the consolidated group. Group foreign source losses are effectively utilised before transferred foreign source losses.

Transferred foreign source losses are foreign source losses that have been made outside the consolidated group and transferred into the group from an entity when it joins the group.

Before utilising a group loss or a transferred loss, a head company is required to pass the continuity of ownership and control tests or the same business test.

For more information on the conditions applying to the continuity of ownership test, see the information on **Part A – Tax losses and net capital losses consolidated**, item 1 on page 3. For more information on the same business test, refer to sections 165-13 and 165-210 of ITAA 1997 and Taxation Ruling TR 1999/9. To find out how to obtain a copy of the ruling, see the inside back cover.

Transferred losses

Foreign source losses generated by a consolidated group – group losses – are effectively utilised **before** transferred foreign source losses. Refer to paragraph 707-310(3)(b) of ITAA 1997.

All losses transferred to a head company for the first time from the entity that actually made them constitute a bundle of losses. Losses within the bundle will be categorised by the 'sort' of loss such as a tax loss or a foreign source loss in respect of a class of assessable foreign income. Refer to section 707-315 of ITAA 1997.

Available fraction

A single available fraction is worked out for each loss bundle. The available fraction limits the annual rate at which the bundle's losses may be recouped by the head company. Where losses are transferred for the first time, the available fraction is calculated like this:

$$\frac{\text{modified market value of the joining loss entity at the initial transfer time}}{\text{adjusted market value of the head company at the initial transfer time}}$$

The modified market value of a joining entity is the amount that would be the market value of the entity at the joining time if:

- the entity has no losses and the balance of its franking account is nil
- the subsidiary members of the group at the time are separate entities and not divisions or parts of the head company of the group
- the entity's market value did **not** include an amount attributable (directly or indirectly) to a membership interest in a member of the group (other than the entity) that is a corporate tax entity or an entity that transferred losses to the head company, and
- a trust (other than a corporate tax entity or a trust with losses) contributes to the joining entity's market value only to the extent attributable to fixed entitlements (at joining time) to income or capital of the trust that is not attributable (directly or indirectly) to membership interests in another member of the group that is a corporate tax entity or a trust with losses.

Refer to section 707-325 of ITAA 1997.

An increase in the value of the loss entity is excluded from the entity's modified market value if the increase results from either of these events:

- an injection of capital into the loss entity, its associate or, if the loss entity is a trust, an associate of the trustee, or
- a non-arm's length transaction that involved the loss entity, its associate or, if the loss entity is a trust, an associate of the trustee.

The rules apply to events that occur in the four years before the loss entity joins the group; however, they do not apply to events that occurred before 9 December 2000. Refer to subsections 707-325(2) and (4) of ITAA 1997 and section 707-329 of the *Income Tax (Transitional Provisions) Act 1997*.

The head company's adjusted market value at the initial transfer time is the amount that would be the market value at that time if:

- the head company did not have a loss of any sort for an income year ending before that time, and
- the balance of the head company's franking account was nil at that time.

Refer to subsection 707-320(1) of ITAA 1997. The value for the head company is worked out on the basis that subsidiary members of the consolidated group are part of the head company.

> **NOTE**
>
> The Commissioner of Taxation will have a statutory obligation to ensure compliance with the market valuation requirements of the consolidation regime and to form a view as to whether valuations undertaken are accurate. To assist taxpayers meet their obligations, the Tax Office has prepared the publication *Consolidation and market valuation*. To find out how to obtain a copy, see the inside back cover.

The available fraction is adjusted if certain events happen – for example, the consolidated group acquires a new loss entity or the sum of the available fractions in the group exceeds 1. Refer to subsection 707-320(2) of ITAA 1997.

The use of transferred losses is apportioned if their available fraction applied for only part of the income year or when the available fraction changes during the income year. Refer to section 707-335 of ITAA 1997.

Con_losses_2004_Instructions.indd Sec1:31 3/6/04 4:10:10 PM

Apply the available fraction using a three-step process as follows:

1. Work out the amount of each category of the group's income or gains as specified in column 2 of the table in subsection 707-310(3) of ITAA 1997. This is the group's total income or gains for each category less relevant deductions including group losses and concessional losses (but not transferred losses whose use is limited by their available fraction).
2. Multiply each category amount by the bundle's available fraction. The result is taken to be the head company's only income or gains for that category.
3. On the basis of the step 2 assumption, work out a notional taxable income for the head company.

This process enables the head company to determine the amount of transferred losses of each sort it can use from the loss bundle to determine its actual taxable income.

> NOTE
>
> - An example applying the available fraction using the three-step process is included at the end of part A on page 22.
> - The available fraction for a foreign source loss is unaffected by the value donor rules. This means that where a value donor donates value to a loss company – the real loss-maker – the available fraction for a real loss-maker's foreign source loss is the fraction that would have applied had value not been donated. Likewise, the available fraction for a value donor's foreign loss is what it would have been if the value donor had not donated some or all of its value to the real loss-maker. Therefore, a single loss bundle may have two relevant available fractions – one that applies to the bundles' foreign source losses and one that applies to its tax and net capital losses.

3 Transferred foreign source losses utilised

> NOTE
>
> Do not include group foreign source losses – losses generated by a consolidated group – at item 3.

This item requires information on the amount of transferred foreign source losses utilised. Transferred foreign source losses are foreign source losses that have been made outside the consolidated group and transferred into the group from an entity when it joins the group. A head company utilises a foreign source loss in respect of a class of assessable foreign income to the extent that the loss is taken into account in reducing the head company's income of that class.

Show at labels **I**, **L**, **O**, **R**, **U** and **X**, as required, the TFNs of those joining entities that had foreign source losses from their loss bundles utilised applying the available fraction method. A bundle of losses consists of all the losses of a joining entity that are transferred to the head company at the same time.

If foreign source losses have been utilised in respect of six or fewer than six loss bundles, complete the number of labels required. If foreign source losses have been utilised in respect of more than six loss bundles, show the joining entity TFNs for those loss bundles that had the six largest amounts of foreign source losses utilised.

Show at labels **J**, **M**, **P**, **S**, **V** and **Y**, as required, the corresponding available fractions calculated for the loss bundles for joining entities whose TFNs are recorded at labels **I**, **L**, **O**, **R**, **U** and **X**, respectively. Each available fraction is to be completed to three decimal places (for example, 0.475, 0.520, 0.700).

Where losses are transferred for the first time, the available fraction is calculated like this:

$$\frac{\text{modified market value of the joining loss entity at the initial transfer time}}{\text{adjusted market value of the head company at the initial transfer time}}$$

For details of how the modified market value of the joining loss entity and adjusted market value of the head company are determined see the information on **Part E – Foreign source losses**, item 2 on page 31.

Available fractions are calculated and then adjusted to three decimal places. The third decimal place is rounded up if the fourth decimal place is 5 or more.

Where an available fraction has been adjusted as a result of certain events – for example, a new member joined the group and transferred a loss bundle – show the adjusted available fraction applicable at the end of the year of income.

An available fraction cannot be a negative amount or greater than one. If the sum of the group's available fractions would total more than one, each available fraction is proportionally reduced. Refer to subsection 707-320(2) of ITAA 1997.

For more information regarding the calculation of the available fraction, see the information on **Part E – Foreign source losses**, item 2 on page 31.

The available fraction for a foreign source loss is unaffected by the value donor rules. This means that where a value donor donates value to a loss company – the real loss-maker – the available fraction for a real loss-maker's foreign source loss is the fraction that would have applied had value not been donated. Likewise, the available fraction for a value donor's foreign loss is what it would have been if the value donor had not donated some or all of its value to the real loss-maker. Therefore, a single loss bundle may have two relevant available fractions – one that applies to the bundles' foreign source losses and one that applies to its tax and net capital losses.

Show at labels **K**, **N**, **Q**, **T**, **W** and **Z**, as required, the corresponding amount of transferred foreign source losses utilised from loss bundles of joining entities whose TFNs are recorded at labels **I**, **L**, **O**, **R**, **U** and **X**, respectively. The bundle amount may include foreign source losses utilised in relation to one or more classes of assessable foreign income. If foreign source losses have been utilised from more than six loss bundles, show the six largest amounts utilised.

Con_losses_2004_Instructions.indd Sec1:32 3/6/04 4:10:11 PM

Example 21

A consolidated group determines the following amounts of foreign source losses utilised from eight loss bundles for the 2003–04 income year:

Co	Transferor TFN	Available fraction	Foreign losses utilised $
A	111 111 111	0.010	40
B	222 222 222	0.324	4,200
C	333 333 333	0.113	2,300
D	444 444 444	0.102	5,500
E	555 555 555	0.122	700
F	666 666 666	0.095	850
G	777 777 777	0.077	1,300
H	888 888 888	0.136	1,800

The head company completes part E, item 3 on the schedule as follows:

Information has been recorded for the loss bundles that had the six largest amounts of foreign source losses utilised.

4 Group foreign source losses carried forward to later income years – excludes losses of CFCs

> **NOTE**
> Do not show transferred foreign source losses made outside the consolidated group and transferred into the group at item 4. Refer to item 5 below.

Show at labels **A**, **B**, **C** and **D** the amounts of group foreign source losses, if any, relating to each of the four classes of income during the 2003–04 income year that are available to be carried forward to later income years.

Group foreign source losses are those foreign source losses that have been generated by the consolidated group.

5 Transferred foreign source losses carried forward to later income years – excludes losses of CFCs

> **NOTE**
> Do not show group foreign source losses generated by the consolidated group at item 5. Refer to item 4 in the previous column.

Show at labels **E**, **F**, **G** and **H** the amounts of transferred foreign source losses, if any, relating to each of the four classes of income that are available to be carried forward to later income years.

Transferred foreign source losses are foreign source losses that have been made outside the consolidated group and transferred into the group from an entity when it joins the group.

6 Controlled foreign company (CFC) losses

If the head company has an attribution interest in one or more CFCs with losses brought forward from statutory accounting periods that end within prior income years, or losses from statutory accounting periods that end within the 2003–04 income year, show these amounts at item 6.

For modifications relating to losses of a CFC refer to sections 424 to 431 of ITAA 1936. For information on how to calculate the loss of a CFC refer to the publication *Foreign income return form guide*. To find out how to obtain a copy see the next page.

The amounts shown at labels **I** and **J** are the totals of the head company's share of losses of CFCs. The head company's share of a loss of a CFC is calculated by applying its attribution percentage in the CFC to the loss of the CFC.

Prior year CFC losses deducted

Show at label **I** the total of the head company's share of losses of CFCs, if any, from statutory accounting periods that end within prior income years which have been claimed as notional allowable deductions for statutory accounting periods that end within the 2003–04 income year.

CFC losses carried forward

Show at label **J** the total amount of the head company's share of losses of CFCs, if any, that are available to be carried forward to statutory accounting periods that end in later income years.

Con_losses_2004_Instructions.indd Sec1:33 3/6/04 4:10:13 PM

ABBREVIATIONS

ABN	Australian business number
CGT	capital gains tax
Commissioner	Commissioner of Taxation
CFC	controlled foreign company
film loss	film component of tax loss
head company	head company of a group as defined in ITAA 1997
ITAA	Income Tax Assessment Act
MEC group	multiple entry consolidated group
PST	pooled superannuation trust
TFN	tax file number

MORE INFORMATION

Publications you may need

To obtain a copy of these publications see the inside back cover.

- *Company tax return 2004 instructions* (NAT 0656 – 6.2004)
- *Consolidation and market valuation* (NAT 7803 – 1.2004)
- *Consolidation reference manual* (NAT 6835 – 12.2004)
- *Foreign income return form guide* (NAT 1840 – 5.1998)
- *Fund income tax and regulatory return 2004 instructions* (NAT 1601 – 6.2004)
- *Guide to capital gains tax* (NAT 4151 – 6.2004)
- *Income Tax Assessment Act 1936*
- *Income Tax Assessment Act 1997*
- *Income Tax (Transitional Provisions) Act 1997*
- *Partnership and trust tax returns 2004 instructions* (NAT 2297 – 6.2004)
- *Taxation Ruling 1999/9—Income tax: The operation of sections 165-13 and 165-210, paragraph 165-35(b) section 165-126 and section 165-132*

Con_losses_2004_Instructions.indd Sec1:34 3/6/04 4:10:15 PM

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When you phone, follow the instructions to obtain a list of available documents.

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For information about business income tax, fringe benefits tax, GST, PAYG and activity statements including lodgment and payment, accounts and business registration (including Australian business number and tax file number).

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For assistance with all your superannuation enquiries.

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This infoline is for non-business tax questions.

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