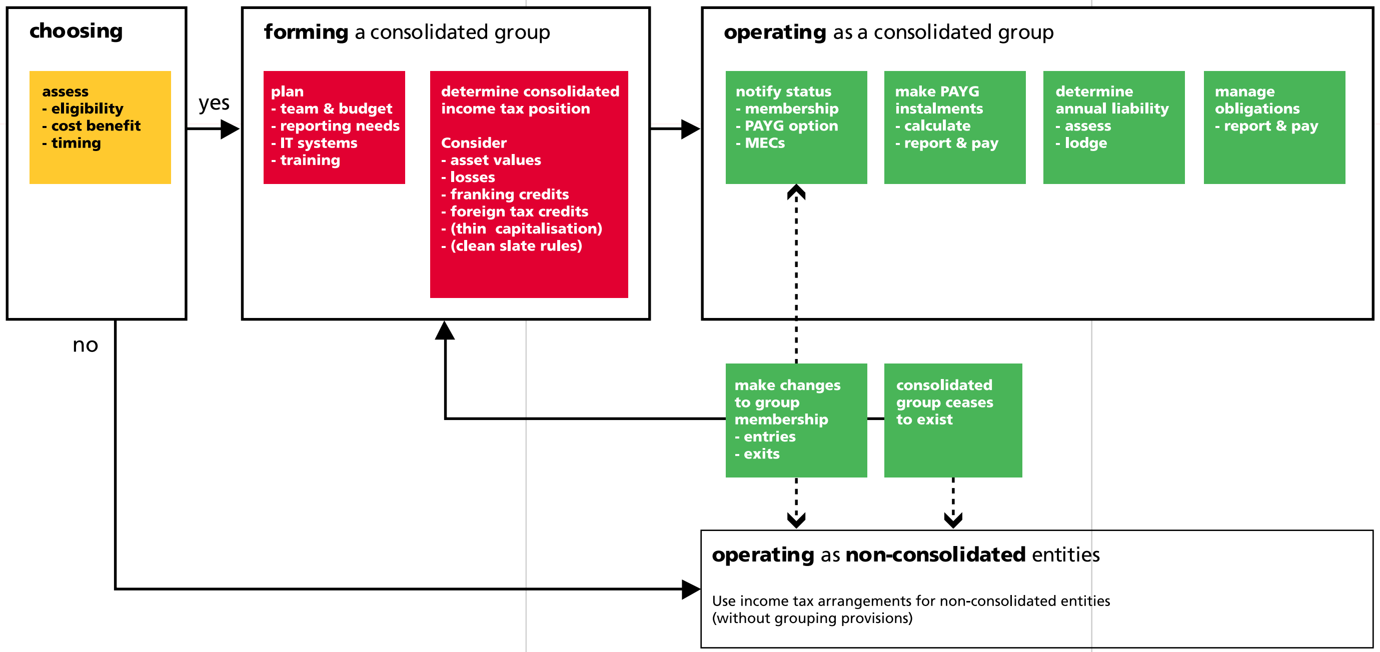
Consolidation walk through

a guide to forming and operating as a consolidated group for income tax

Australian
Taxation Office

Consolidation pathway



This display represents current Government policy. Legislation is yet to be passed by Parliament.

Consolidation—policy overview

The intent of reform

To improve the efficiency of business

Consolidation removes complexities in the taxation of wholly-owned groups.

For example, consolidation allows assets to be moved between group members with no income tax consequences.

To make it simpler for business

Consolidation will increase the efficiency of the Australian economy.

The consolidation arrangements reduce compliance costs. A consolidated group is taxed as a single entity so there are single income tax returns and single PAYG instalments.

To improve the integrity of the tax system

Existing grouping provisions provide opportunities for tax avoidance through loss creation and value shifting. Consolidation will remove these opportunities.

What is consolidation?

A tax initiative commencing 1 July 2002

Consolidation is part of the Government's Business Tax Reform Package.

The material on display represents the current policy position of Government. Legislation to give effect to this policy position is yet to be passed by Parliament.

A measure applying to income tax

Consolidation simplifies the income tax system for grouped enterprise taxpayers. It does not affect PAYG withholding, GST and FBT arrangements.

A measure affecting some, but not all, businesses

Consolidation is only relevant to 100% wholly-owned groups. It does not apply to sole traders and single entity businesses (company, trust or partnership).

'Single entity' taxation for wholly-owned groups

Consolidation allows a head company and its wholly-owned members to be treated as a single income tax entity.

Potential benefits?

Benefits for business

Businesses can be structured for efficiency—income tax consequences no longer impede optimal organisation.

For example consolidation will let you:

- transfer assets within a group without income tax consequences
- pool and retain losses, franking credits and foreign tax credits—even if a member leaves a group
- preserve the status of pre-Capital Gains Tax assets and membership interests of a joining member

Ongoing compliance costs are reduced—income tax is now simpler to administer.

Special provisions apply to entities with Substituted Accounting Periods and foreign bank branches.

Benefits for the community

The integrity of the income tax system is strengthened. Consolidation removes distortions in the way wholly-owned groups are taxed, reducing the risk of tax avoidance.

Potential costs?

Consolidation may require short term expenditure for:

- changes to business information systems
- advisory services
- accounting and legal fees
- market valuation of assets.

What if we decide not to consolidate?

Existing grouping provisions will be repealed. From 1 July 2002, a wholly-owned group that does not choose to consolidate, cannot:

- transfer losses or excess foreign tax credits between entities within the group
- transfer assets between entities without triggering the capital gains provisions
- use the existing inter-corporate dividend rebate for franked or unfranked dividends.