Compiled UIG Interpretation **Interpretation 1052**

Tax Consolidation Accounting

This compiled Interpretation applies to annual reporting periods beginning on or after 1 July 2021. Earlier application is permitted for annual reporting periods beginning on or after 1 January 2014 but before 1 July 2021. It incorporates relevant amendments made up to and including 6 March 2020.

Prepared on 29 October 2021 by the staff of the Australian Accounting Standards Board.

Australian Government

Australian Accounting Standards Board

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UIG Interpretation 1052

Interpretation 1052 was issued in June 2005.

This compiled version of Interpretation 1052 applies to annual reporting periods beginning on or after 1 July 2021. It incorporates relevant amendments contained in other AASB pronouncements up to and including 6 March 2020 (see Compilation Details).

Urgent Issues Group Interpretation 1052
Tax Consolidation Accounting

Issue

1 The tax consolidation legislation includes both mandatory requirements, which are applicable to all entities, and the tax consolidation system provisions, which entities can elect to adopt. The tax consolidation system allows groups comprising a parent entity and its wholly-owned subsidiaries (all being Australian residents for tax purposes) to elect to consolidate and be treated as a single entity for income tax purposes. It also allows Australian-resident wholly-owned subsidiaries of a non-resident company to elect to consolidate for income tax purposes, in various combinations, with an eligible subsidiary being appointed as the head entity of the multiple entry consolidated (MEC) group.

2 The principal tax consolidation legislation was enacted through a series of Acts over a long period. The first Act, the *New Business Tax System (Consolidation) Act (No. 1) 2002*, was passed by Parliament in June 2002. However, its commencement was linked to the second principal tax consolidation Act, which was enacted in October 2002. The third and fourth principal tax consolidation Acts were enacted in November 2002 and March 2003 respectively. Amendments and additional requirements have been included in other taxation Acts as well. However, the tax consolidation regime or system commenced with effect from 1 July 2002.

3 Under the legislation, if a group chooses to be taxed as a consolidated entity, each of the entities in the tax-consolidated group will be taken to be "part" of the head entity for the purposes of the tax consolidation legislation. A single consolidated annual tax return will be required to be prepared for the tax-consolidated group. Transactions between entities in the tax-consolidated group will be ignored for tax purposes. The head entity will be liable for the current income tax liabilities of that group. Each entity in the group will be jointly and severally liable for the current income tax liability of the group where the head entity defaults, subject to the terms of a valid tax sharing agreement between the entities in the group.

4 Accounting Standard AASB 112 *Income Taxes* contains the general requirements for accounting for income taxes. However, there are different views on many issues concerning the recognition of income tax amounts (expense/income, assets and liabilities) under the tax consolidation system which are only relevant to an entity once it is applying the tax consolidation system. For example, the issues raised include whether each entity in a tax-consolidated group should still recognise income tax amounts, whether deferred tax balances previously recognised by subsidiaries in the group should be recognised by the head entity, the accounting for intragroup tax funding (or contribution) arrangements, and potential contingent liability disclosures by subsidiaries in respect of tax liabilities borne by the head entity.

5 Concern has been expressed that, in the absence of authoritative guidance, diverse or unacceptable practices may occur or develop in accounting for the effects of the tax consolidation system. This will undermine the relevance and reliability of general purpose financial statements.

6 The principal issues are:

(a) Once tax consolidation is adopted:

(i) should current taxes in relation to wholly-owned subsidiaries' transactions be recognised by the subsidiaries and/or the head entity, or only by the group on consolidation?

(ii) should the deferred tax effects of the assets and liabilities of wholly-owned subsidiaries be recognised by the subsidiaries or the head entity, or only by the group on consolidation?

(b) How should tax funding (or contribution) arrangements be accounted for?

(c) What disclosures are appropriate?

Consensus

Income tax recognition for the period

7 **The head entity and each subsidiary in a tax-consolidated group is required by AASB 112 to account for the current and future tax consequences of its assets and liabilities and transactions and other events of the current period.**

8 **The consolidated current and deferred tax amounts for a tax-consolidated group shall be allocated among the entities in the group when they issue separate financial statements. This Interpretation does not require a single allocation method. However, the method adopted shall be systematic, rational and consistent with the broad principles established in AASB 112.**

9 **The following methods are examples of acceptable allocation methods:**

(a) a "stand-alone taxpayer" approach for each entity, as if it continued to be a taxable entity in its own right;

(b) a "separate taxpayer within group" approach for each entity, on the basis that the entity is subject to tax as part of the tax-consolidated group. This method requires adjustments for transactions and events occurring within the tax-consolidated group that do not give rise to a tax consequence for the group or that have a different tax consequence at the level of the group; and

(c) subject to paragraph 10, a "group allocation" approach, under which the current and deferred tax amounts for the tax-consolidated group are allocated among each entity in the group.

10 **The following group allocation methods, for example, are not acceptable:**

(a) a method that allocates only current tax liabilities to an entity in the group that has taxable temporary differences;

(b) a method that allocates deferred taxes to an entity in the group using a method that is fundamentally different from the temporary difference approach required by AASB 112; and

(c) a method that allocates no current or deferred tax expense to an entity in the group that has taxable income because the tax-consolidated group has no current or deferred tax expense.

Tax consolidation adjustments

11 **Specific tax consolidation adjustments shall be accounted for by a subsidiary in a tax-consolidated group as follows:**

(a) current tax liabilities (or assets) recognised for the period by the subsidiary shall be accounted for as immediately assumed by the head entity;

(b) deferred tax assets arising from unused tax losses and unused relevant tax credits recognised for the period by the subsidiary shall be accounted for as immediately assumed by the head entity;

(c) assets and liabilities (if any) arising for the subsidiary under a tax funding arrangement shall be recognised as amounts receivable from or payable to other entities in the group; and

(d) any difference between the net tax amount derecognised under paragraphs (a) and (b) and the net amount recognised under paragraph (c) shall be recognised as a contribution by (or distribution to) equity participants between the subsidiary and the head entity.

12 **In addition to the tax effects of its own transactions, events and balances, the head entity in a tax-consolidated group shall recognise:**

(a) the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused relevant tax credits assumed from the subsidiaries in the group;

(b) **assets and liabilities (if any) arising for the head entity under a tax funding arrangement – as amounts receivable from or payable to other entities in the group; and**

(c) **any difference between the net tax amount recognised under paragraph (a) and the net amount recognised under paragraph (b) – as a contribution by (or distribution to) equity participants between the head entity and its subsidiaries.**

13 **This Interpretation does not prescribe which account or accounts shall be adjusted for contributions by (or distributions to) equity participants arising under paragraph 11(d) or 12(c).**

14 **Where a subsidiary in the tax-consolidated group is not a direct subsidiary of the head entity, any contribution by (or distribution to) equity participants shall be accounted for as contributions or distributions through the interposed parents.**

15 **Where the head entity is in default of its payment obligations under the tax consolidation system, or such default is probable, a subsidiary in the tax-consolidated group shall recognise a liability (if any) arising under the joint and several liability requirements of the tax consolidation system or their tax sharing agreement (if any).**

Disclosures

16 **The following information shall be disclosed separately by a head entity and by a subsidiary in a tax-consolidated group:**

(a) **the relevance of the tax consolidation system to the entity, including the part of the reporting period for which it applies to the entity where it is not applicable for the whole of the reporting period, and the name of the head entity;**

(b) **the method adopted for measuring the current and deferred tax amounts;**

(c) **information about the nature of any tax funding arrangement and any tax sharing agreement, including significant terms and conditions that may affect the amount, timing and uncertainty of future cash flows; and**

(d) **the net amount recognised for the period as tax-consolidation contributions by (or distributions to) equity participants, its major components and the accounts affected.**

Application

17 [Deleted by the AASB]

18 **This Interpretation applies to annual reporting periods ending on or after 31 December 2005.**
[Note: For application dates of paragraphs changed or added by an amending pronouncement, see Compilation Details.]

19 **This Interpretation may be applied to annual reporting periods beginning on or after 1 January 2005 that end before 31 December 2005, permitting early application only in the context of adopting all Australian equivalents to International Financial Reporting Standards for such periods. An entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act may apply this Interpretation to such an annual reporting period when an election has been made in accordance with subsection 334(5) of the Corporations Act in relation to AASB 1048 *Interpretation of Standards*. When an entity applies this Interpretation to such an annual reporting period, it shall disclose that fact.**

20 [Deleted by the AASB]

21 **When applied or operative, this Interpretation supersedes Abstract 52 *Income Tax Accounting under the Tax Consolidation System*, as issued in December 2003. The Interpretation also supersedes, in part, Abstract 39 *Effect of Proposed Tax Consolidation Legislation on Deferred Tax Balances*, as issued in December 2002.**

22 **Abstract 52 and Abstract 39 have been withdrawn with effect for annual reporting periods beginning on or after 1 January 2005.**

23 **For the purposes of this Interpretation, references to "tax-consolidated group", "head entity" and "wholly-owned subsidiaries" respectively include a multiple entry consolidated (MEC) group, the head entity of the MEC group, and the other entities that are members of the MEC group.**

Discussion

The tax consolidation system

24 All mandatory requirements included in enacted or substantively enacted tax consolidation legislation are relevant to an entity, and are taken into account in measuring and recognising income tax amounts. Where an entity is applying the tax consolidation system, the elective tax consolidation requirements are also relevant to the entity. This Interpretation addresses the accounting for income tax amounts where the entity is applying the tax consolidation system during the reporting period (whether for the whole of or a part of the period).

25 Under the tax consolidation system, the head entity in the tax-consolidated group is liable for income taxes arising in relation to the transactions and other events of the wholly-owned subsidiaries in the tax-consolidated group subsequent to the adoption of tax consolidation, with the exception that transactions between entities in the group are ignored for tax purposes. This means that the subsidiaries' transactions, events and balances continue to be subject to income tax.

Implementation of the tax consolidation system

26 The implementation date of tax consolidation for an entity is the date from which the tax consolidation system will be applied to the taxation obligations of the entities in the tax-consolidatable group, that is, the date from which a consolidated tax return will be prepared. If the entity (or its head entity) has chosen an implementation date that is *prior to or the same as* the end of the reporting period, then the accounting for income tax amounts is required to reflect the full effects of the tax consolidation system from the implementation date. The implementation date would normally be expected to be specified by the entity or its head entity in a formal resolution of the board of directors or other governing body or of management delegated to determine the implementation date for the entity or group.

27 The implementation date for an entity can be different from the date on which the entity (or its head entity) makes the decision to adopt the tax consolidation system, and from the date on which the decision is formally notified to the Australian Taxation Office. Formal notification can occur up to the date of lodgement of the first consolidated income tax return, which may be after the completion of the financial statements for the reporting period. However, if the implementation date is determined prior to the completion of the financial statements, the appropriate accounting depends on the implementation date, as explained in the preceding paragraph, rather than on the decision date or the date of formal notification to the taxation authority. Where the implementation date is not determined prior to the completion of the financial statements, the financial statements are not prepared in accordance with the requirements set out in this Interpretation. Those financial statements are not amended and reissued where the implementation date, as subsequently determined, retrospectively falls in that previous reporting period. This Interpretation does not address the accounting prior to the implementation of tax consolidation by a group.

Formation of, or subsidiary joins, the tax-consolidated group

28 When a tax-consolidated group is first formed, it comprises the head entity and all the wholly-owned subsidiaries that satisfy the requirements of the tax consolidation legislation at that time. A subsidiary joins an existing tax-consolidated group when it becomes wholly owned by the head entity and satisfies those requirements. The subsidiary may previously have been a partly-owned subsidiary of the head entity, or may be a newly acquired subsidiary. When a subsidiary becomes part of a tax-consolidated group, the subsidiary's transactions, events and balances continue to be subject to income tax, even though it is the head entity in the tax-consolidated group that is then liable for the income taxes.

Income tax allocation

29 The view adopted in this Interpretation is that a subsidiary in a tax-consolidated group has taxable profits (or tax losses) as defined in AASB 112, since income taxes are payable or recoverable on the subsidiary's profits or losses as determined in accordance with the rules of the taxation authority – even though the income taxes are payable (recoverable) by the head entity and not the subsidiary itself. Therefore, this Interpretation requires subsidiaries in the tax-consolidated group to recognise current and deferred tax amounts: each entity in the tax-consolidated group in substance remains taxable, and the legal form of the tax-consolidation arrangement should not determine the accounting. Consequently, the head entity does not recognise any initial tax balances relating to the assets and liabilities of subsidiaries when they join the tax-consolidated group (with the possible exception of tax-loss/tax-credit deferred tax assets). The consolidated

financial statements covering the tax-consolidated group continue to include income taxes in accordance with AASB 112.

30 Under AASB 112, deferred tax liabilities and assets arise from temporary differences and from unused tax losses and tax credits. Temporary differences are differences between the carrying amount of an asset or a liability in the statement of financial position and its tax base. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

31 The head entity continues to recognise current and deferred taxes in relation to its own transactions, events and balances. The head entity also recognises, as tax consolidation adjustments, current tax liabilities (or assets) and deferred tax assets relating to tax losses and relevant tax credits that are assumed from the subsidiaries. These deferred tax assets are recognised in accordance with the recognition criteria in paragraph 34 of AASB 112. Relevant tax credits are those assumed by the head entity from the subsidiaries under the tax consolidation system. Subsequent references in this Interpretation to tax credits are only to such tax credits.

32 The subsidiaries in the group are also required to recognise deferred taxes, since amounts are attributed to their assets and liabilities for tax purposes – even though the tax transactions occur (from a legal perspective) in the head entity instead. When a subsidiary joins a tax-consolidated group, the tax bases of its assets and liabilities are determined by reference to the tax values applying under tax consolidation. The tax effects of any change in the tax base are recognised in accordance with paragraph 65 of AASB 112.

33 This Interpretation permits the use of different methods for measuring the current and deferred tax amounts to be recognised initially for each reporting period by the entities in the tax-consolidated group (including the head entity), provided that the method is systematic, rational and consistent with the broad principles in AASB 112. Paragraph 9 indicates that "stand-alone taxpayer", "separate taxpayer within group" and "group allocation" approaches can be acceptable methods. The specific tax consolidation adjustments required by paragraphs 11 to 15 are recognised only after the application of the chosen method.

Stand-alone taxpayer approach

34 Under this approach, each entity in the tax-consolidated group measures its current and deferred taxes as if it continued to be a separate taxable entity in its own right. This approach means, for example, that an entity recognises tax in relation to its intragroup transactions. The entity also assesses the recovery of its unused tax losses and tax credits only in the period in which they arise, and before assumption by the head entity, in accordance with AASB 112 applied in its own circumstances, without regard to the circumstances of the tax-consolidated group.

35 When recognising deferred taxes in the separate financial statements of each entity in the tax-consolidated group under this approach, temporary differences are measured by reference to the carrying amounts of assets and liabilities in the entity's statement of financial position and their tax bases applying under tax consolidation, as those are the only available tax bases. Therefore, consolidation adjustments to reflect business combinations or other transactions within the group are ignored. As a result, deferred taxes associated with these adjustments are recognised only on consolidation and not in the separate financial statements of an entity in the group under the stand-alone taxpayer approach.

Separate taxpayer within group approach

36 The "separate taxpayer within group" approach involves the calculation of current and deferred taxes for each entity in the tax-consolidated group on the basis that the entity is subject to tax as part of the tax-consolidated group. Therefore, adjustments are made in each entity in relation to its transactions that do not give rise to a tax consequence for the group or that have a different tax consequence at the level of the group. For example, adjustments are required in relation to:

(a) unrealised profits and losses on the intragroup sale or transfer of inventory or other assets;

(b) management fees and other charges between entities in the group; and

(c) tax losses/credits that are not expected to be recoverable by the entity on a stand-alone basis but which are expected to be recoverable in the context of the group.

37 When recognising deferred taxes in the separate financial statements of each entity in the tax-consolidated group under this approach, temporary differences are measured by reference to the carrying amounts of assets and liabilities either in the entity's statement of financial position or at the level of the tax-consolidated group and their tax bases applying under tax consolidation. These alternative approaches illustrate that there are a range of acceptable methods for allocating group current and deferred taxes in accordance with the criteria in paragraph 8.

38 Each entity in the tax-consolidated group assesses the recovery of its unused tax losses and tax credits only in the period in which they arise, and before assumption by the head entity, in accordance with AASB 112 applied in the context of the group. Thus, each entity initially recognises such deferred tax assets arising during a period to the extent that they are recoverable by the group, whether as a reduction of the current tax of other entities in the group or as a deferred tax asset of the head entity. When several entities in a tax-consolidated group derive tax losses/credits in the same period but not all of the aggregate amount of the tax losses/credits is expected to be utilised as a reduction of a current tax liability or recognised as a deferred tax asset by the head entity, the aggregate amount expected to be utilised or recognised is apportioned on a systematic and reasonable basis between those entities for their initial tax-loss/tax-credit deferred tax asset recognition.

Group allocation approach

39 A "group allocation" approach may be most appropriate where the tax return for the tax-consolidated group is prepared directly on a consolidated basis. Under this approach, current and deferred taxes are allocated to the entities in the group in a systematic manner that is consistent with the broad principles in AASB 112. Paragraph 10 identifies a number of potential group allocation methods that do not satisfy this criterion. Other unacceptable allocation methods include:

(a) a method that allocates current taxes only to entities in the group that have accounting profits, with no allocation to entities that have accounting losses; and

(b) a method that allocates current taxes to entities in the group on an arbitrary basis, for example on the basis of sales revenue, total assets, net assets or operating profits, without adjustment for material items that are not assessable or deductible for tax purposes.

40 A group allocation approach based on the terms of any tax funding arrangement between the entities in the group would be acceptable only where it satisfies the criteria in paragraph 8.

Tax consolidation adjustments

Current taxes

41 Following the implementation of tax consolidation for the tax-consolidated group, both the head entity and the subsidiaries in the group continue to recognise in each reporting period current tax amounts. However, it is the head entity that normally will settle or recover with the taxation authority current tax liabilities or assets that arise in relation to the subsidiaries. That is, the current tax liability is effectively assumed by the head entity or the current tax asset benefits the head entity. Therefore, a subsidiary's current tax liability or asset needs to be derecognised immediately after its initial recognition in each reporting period.

42 The derecognition of a subsidiary's current tax liability (or asset) is treated under this Interpretation as a contribution by (or distribution to) the head entity, in conjunction with any tax funding arrangement amounts, on the basis that the transaction is with the parent in its capacity as the parent. The definition of "income" (or "expenses") in the *Framework for the Preparation and Presentation of Financial Statements*[1] cannot be satisfied, as the decrease in the subsidiary's current tax liability (or asset) results from a contribution by or distribution to equity participants. This Interpretation does not prescribe which equity accounts are to be adjusted by subsidiaries for tax-consolidation contributions or distributions.

43 The assumption by the head entity of the current tax liability (or asset) arising in a subsidiary in the tax-consolidated group is recognised by the head entity as a contribution to (or distribution from) the subsidiary (not as a component of tax expense or tax income), unless a tax funding arrangement between the entities results in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. There will be no net contribution (or distribution) where the amounts arising for the period under a tax funding arrangement equate to the amounts initially recognised by the subsidiary for its current taxes and any tax losses/credits assumed by the head entity under the tax consolidation system. Nevertheless, the head entity recognises the assumed current tax amounts as current tax liabilities (assets), adding to its own current tax amounts, since they are also due to or from the same taxation authority.

44 Similarly, the subsidiary recognises the assumption of its current tax liability or asset as a contribution by or distribution to the head entity, in conjunction with any tax funding arrangement amounts. Thus, the subsidiary continues to recognise tax expense (income) even though it derecognises its current tax liability or asset. The subsidiary may choose to classify a tax-consolidation equity contribution from the head entity

1 The reference is to the *Framework for the Preparation and Presentation of Financial Statements* adopted by the AASB in 2004 and in effect when the Interpretation was developed.

as contributed equity other than paid-in capital. A transaction that would result in an equity reduction for the subsidiary may be subject to legal restrictions concerning capital distributions.

45 When the tax consolidation adjustments required by this Interpretation result in the recognition of a distribution to an entity, that entity accounts for the distribution in accordance with the requirements of AASB 127 *Separate Financial Statements* and AASB 139 *Financial Instruments: Recognition and Measurement* concerning dividends and other distributions. Distributions arising from tax consolidation adjustments may take the form of either a return of capital or a return on capital. The particular circumstances of a distribution need to be considered in determining the appropriate accounting.

Indirect subsidiaries

46 The head entity's equity investment in subsidiaries relates to the ownership interests it holds directly in subsidiaries. This means that the head entity's assumption of current tax liabilities or assets in relation to indirect subsidiaries needs to be accounted for, in conjunction with any tax funding arrangement amounts, as equity contributions or distributions (if any) via the interposed parents, as each parent in turn holds the investment in the next layer of subsidiaries.

47 In the case of multiple entry consolidated (MEC) groups, some or all of the subsidiaries in the tax-consolidated group may not be direct or indirect subsidiaries of the head entity in the group. However, in that case, the assumption by the head entity of the other entities' current tax liabilities or assets is treated, in conjunction with any tax funding arrangement between the entities, as equity contributions or distributions via the foreign parent of the head entity, again on the basis that the transactions in substance are transfers via each interposed parent.

48 The entries for interposed parents would not be recognised in the consolidated financial statements for the group, as they concern transactions within the group. However, they would be recognised in each parent's separate financial statements or consolidated financial statements of sub-groups, if prepared. For example, a contribution from an interposed entity's parent would give rise to a contribution by the interposed entity to its subsidiary. Similarly, a distribution from a subsidiary of the interposed entity would give rise to a distribution by the interposed entity to its parent.

Deferred taxes

49 Following the implementation of tax consolidation for the tax-consolidated group, both the head entity and the subsidiaries in the group continue to recognise deferred tax amounts. The tax consolidation system results in subsidiaries' tax losses/credits being assumed by the head entity, but does not address deferred tax assets and liabilities arising from temporary differences. Therefore, such deferred taxes continue to be recognised by each entity in the tax-consolidated group and are not transferred to the head entity.

Tax losses/credits

50 A subsidiary derecognises any tax-loss/tax-credit deferred tax asset that it has initially recognised in a reporting period where the tax losses/credits are transferred to the head entity under tax consolidation. The amount (if any) paid or payable by the head entity for the transferred tax losses/credits is determined in accordance with any tax funding arrangement between the entities. Where the arrangement does not provide for a funding contribution from the head entity to the subsidiary equal to the asset derecognised by the subsidiary (or recognised by the head entity), the assumption of the tax losses/credits results in a contribution to or distribution by the subsidiary in the same manner as with current tax liabilities or assets.

51 Where unutilised and unrecognised tax losses/credits are subsequently recognised by the head entity, the deferred tax income arising is recognised only by the head entity and not treated as an adjustment of the previous accounting by the originating subsidiaries for the tax losses/credits assumed by the head entity. However, if a tax funding arrangement between the entities provides compensation to the subsidiaries in the period in which the tax losses/credits are utilised by the head entity, the compensation is accounted for as contributions by an equity participant.

Tax funding arrangements and tax sharing agreements

52 The entities in a tax-consolidated group may choose to enter into a tax funding (or contribution) arrangement in order to fund tax amounts. This Interpretation does not establish any specific requirements for the nature and terms of tax funding arrangements. However, the Interpretation requires an entity subject to any form of tax funding arrangement to account for the inter-entity assets and liabilities (if any) that arise for it under the arrangement. These amounts are treated as arising through equity contributions or distributions, in the same way as the head entity's assumption of subsidiaries' current tax amounts and tax

losses/credits, and therefore alter the net amount recognised as tax-consolidation contributions by or distributions to equity participants. As noted in paragraph 43, there will be no net contribution (or distribution) where the amounts arising for the period under a tax funding arrangement equate to the amounts initially recognised by a subsidiary for its current taxes and any tax losses/credits assumed by the head entity.

53 The entities may also establish a tax sharing agreement to determine the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or the treatment of entities leaving the tax-consolidated group. A tax sharing agreement that satisfies the specific tax law requirements has the effect in default circumstances that the liability of subject entities is limited to their contribution as determined in accordance with the agreement. Tax sharing agreements that operate only in the event of default by the head entity normally would not give rise to accounting entries where the possibility of default was remote. A tax sharing agreement may also be used to determine the consequences of a subsidiary leaving the group. Any payments under a tax sharing agreement are accounted for in the same way as tax funding arrangement amounts.

Temporary differences re investments in subsidiaries

54 The head entity may be required to recognise a deferred tax asset or liability in its separate financial statements in relation to temporary differences arising on its investments in subsidiaries in the tax-consolidated group. Differences between the carrying amounts of the investments and the associated tax bases may arise due to the head entity's accounting for tax-consolidation contributions by or distributions to equity participants, whereas the tax bases of the investments may indirectly reflect the aggregate tax values of the subsidiaries' assets and liabilities. Paragraphs 39 and 44 of AASB 112 specify the circumstances in which such deferred taxes are not required to be recognised.

Subsidiary leaves the tax-consolidated group

55 A wholly-owned subsidiary leaves the tax-consolidated group when it no longer is wholly owned as required by the tax consolidation legislation. This can occur, for example, when the head entity (or another entity in the group) sells the subsidiary or when the subsidiary issues shares to parties outside the group. A subsidiary may leave the tax-consolidated group but remain part of the group of entities where the parent entity continues to control the subsidiary. It may become part of another tax-consolidated group, under a different head entity, or it may become the head entity of its own tax-consolidated group, including its own wholly-owned subsidiaries.

56 Where a subsidiary leaves the tax-consolidated group, the head entity continues to recognise current taxes that arose in relation to the subsidiary as a member of the tax-consolidated group, since the head entity continues to be liable under the tax consolidation system for those taxes. It is only after the subsidiary leaves the group and does not become a subsidiary in another tax-consolidated group that it starts to recognise its own new current tax liabilities or assets without having to derecognise them for their assumption by a head entity.

57 Any tax losses/credits assumed by the head entity from the subsidiary when it joined the group or whilst a member of the group remain with the head entity when the subsidiary leaves the group, and so the head entity continues to recognise deferred tax assets based on those tax losses/credits to the extent that it is probable that they will be recovered by the head entity. However, the subsidiary continues to recognise deferred tax liabilities and assets based on temporary differences. The temporary differences are likely to change where, under the particular allocation method previously adopted, they were not determined by reference to the carrying amounts of the subsidiary's assets and liabilities in its statement of financial position. Furthermore, the tax bases are those applicable to the subsidiary's assets and liabilities under tax law, and may be reset if the subsidiary joins another tax-consolidated group.

58 As noted in paragraph 55, a subsidiary may leave the tax-consolidated group but remain part of the group of entities where the parent continues to control the subsidiary. The change in the structure of the group results from an intragroup transaction which is eliminated in preparing the consolidated financial statements. Therefore, the carrying amounts of the subsidiary's assets and liabilities in those statements would not change. However, the temporary differences at the group level may be different where the subsidiary is now under another head entity in the group, due to its asset tax values being reset upon joining the second tax-consolidated group. In this case, the group's deferred tax balances would change despite the subsidiary remaining within the group.

Disclosures

59 A number of specific disclosures are required by this Interpretation in addition to those required by AASB 112, to assist users of the financial statements of the head entity or of a wholly-owned subsidiary to understand the impact of tax consolidation upon the entity. Disclosures concerning the relevance of tax consolidation to an entity would normally include, where applicable, a statement that the adoption of the tax consolidation system had not yet been formally notified to the Australian Taxation Office. Other accounting standards may also require disclosures that are relevant to tax consolidation. For example, AASB 124 *Related Party Disclosures* requires disclosure of the identity of certain controlling entities, which may or may not include the head entity in the tax-consolidated group, as well as disclosures concerning transactions and balances with related parties, which includes other entities in the tax-consolidated group.

60 AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* requires the disclosure of contingent liabilities. Wholly-owned subsidiaries in a tax-consolidated group have contingent liabilities as a result of their joint and several liability in default circumstances, which is in effect a guarantee by the subsidiaries. If the probability of default by the head entity or leaving the tax-consolidated group is remote, disclosure of the contingent liability is not required.

Initial application of this Interpretation

61 Where Abstract 52 was previously applied by an entity in accounting for tax consolidation, the accounting policies adopted under that Abstract can no longer continue to be applied by the entity. When application of this Interpretation begins in the context of adopting all Australian equivalents to International Financial Reporting Standards (IFRSs), AASB 1 *First-time Adoption of Australian Accounting Standards* requires an entity to use the same accounting policies in its opening Australian-equivalents-to-IFRSs statement of financial position as for all periods presented in its first Australian-equivalents-to-IFRSs financial statements. AASB 1 notes that this may require an entity to apply accounting policies that differ from those used previously. Any adjustments at the date of transition to Australian equivalents to International Financial Reporting Standards are recognised directly in retained earnings or, if appropriate, another category of equity.

62 Initial application of this Interpretation in the context of AASB 1 requires the head entity in the tax-consolidated group to derecognise at the date of transition to Australian equivalents to IFRSs any temporary-difference (or timing-difference) deferred tax balances recognised in relation to subsidiaries in the group. However, the head entity continues to recognise any current tax liability or asset and any tax-loss/tax-credit deferred tax asset (if appropriate) relating to the subsidiaries. Any adjustment is recognised via retained earnings.

63 The head entity (and any interposed parents) also needs to determine whether the application of this Interpretation from the date tax consolidation was implemented to the date of transition would have resulted in carrying amounts for investments in subsidiaries that are materially different from those previously determined at the date of transition. This is particularly likely to be the case where there was no tax funding arrangement and there were no dividends or other distributions from subsidiaries to fund the head entity. Dividends or other distributions used to fund the head entity are likely to offset any equity contributions that would otherwise arise on the retrospective application of this Interpretation. Any adjustment of investment carrying amounts at the date of transition is recognised via retained earnings.

64 At the date of transition, subsidiaries in the tax-consolidated group recognise deferred tax balances measured in accordance with an allocation method that meets the requirements of this Interpretation. Similarly to the head entity, subsidiaries (including interposed parents) may have to account for contributions by or distributions to equity participants in relation to the head entity's assumption of current taxes and tax losses/credits in conjunction with any tax funding arrangement amounts.

65 However, it may be appropriate for subsidiaries to reclassify as deferred tax balances at the date of transition the non-current inter-entity balances that arose under tax funding arrangements, without having to recognise contributions or distributions to the head entity. This would be the case where the pre-date-of-transition tax funding arrangement covered both current and deferred taxes, with the intention of reflecting in a subsidiary the tax amounts relating to its transactions and balances, which it could not recognise directly. Under Abstract 52, the subsidiary would have recognised the amounts as current and deferred tax expense (income) and as current and non-current inter-entity balances, with no contributions by or distributions to equity participants. In substance, this is the same outcome required by this Interpretation, based on the principle that there is no such contribution or distribution where the tax funding arrangement amounts equate to the amounts initially recognised by the subsidiary. For this approach to be justified, it would be expected that the tax funding arrangement would be revised during the reporting period in which

Australian equivalents to IFRSs are adopted to address only current tax amounts and tax losses/credits, so that under this Interpretation no contributions or distributions to equity participants would normally arise in the future. The head entity would also need to reverse existing inter-entity balances relating to deferred tax balances arising from subsidiaries' temporary (or timing) differences that were previously recognised by the head entity under Abstract 52, supporting the view that in substance no contribution by or distribution to equity participants had occurred. When this approach is appropriate, the head entity is not required to adjust the carrying amounts of its investments in the relevant subsidiaries at the date of transition.

66 If the tax funding arrangement is not amended as indicated in paragraph 65, this would indicate that the original substance of the arrangement was not to effectively reflect tax balances in the subsidiary, and could result in the recognition of contributions or distributions by affected entities both on transition and on an on-going basis under this Interpretation. Furthermore, in this case the adjustment or writing-off of inter-entity balances arising from the pre-date-of-transition tax funding arrangement is a contribution by or distribution to equity participants in the period in which this occurs, rather than a date-of-transition adjustment, since the application of this Interpretation does not alter the terms of any previous tax funding arrangement.

67 Entities may decide in any case to revise the terms of a tax funding arrangement in response to the requirements of this Interpretation. For example, tax funding arrangements previously may have covered both current and deferred tax amounts since Abstract 52 required the head entity to recognise both current and deferred taxes in relation to subsidiaries. As the head entity no longer recognises subsidiaries' deferred taxes (other than in respect of tax losses/credits) under this Interpretation, entities may prefer tax funding arrangements to address only current tax amounts and deferred tax assets relating to tax losses/credits.

Appendix A
Australian simplified disclosures for Tier 2 entities

This appendix is an integral part of the Standard.

AusA1 **Paragraphs 16, 59 and 60 do not apply to entities preparing general purpose financial statements that apply AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.**

Illustrative examples

These examples accompany, but are not part of, Interpretation 1052.

IE1 These examples are a simplified illustration of the ongoing tax consolidation accounting required by the Interpretation, both with and without a tax funding arrangement between the entities. Other methods may equally comply with the requirements of the Interpretation. For simplicity, the examples assume that all current and deferred tax amounts are recognised as part of tax expense (income). Paragraph 58 of Accounting Standard AASB 112 *Income Taxes* may require the recognition of tax amounts directly in equity or as part of the initial accounting for a business combination.

IE2 Any contribution by the head entity to a subsidiary upon assuming the subsidiary's current tax liability and tax losses/credits is recognised in the example journal entries by the head entity as "investment in subsidiary" and by the subsidiary as "other contributed equity". This is illustrative only as the Interpretation does not prescribe which accounts are to be adjusted for tax-consolidation contributions by or distributions to equity participants. Similarly, the treatment of a distribution by the subsidiary to the head entity in Example 4 is only illustrative.

IE3 The journal entries shown in the examples include the usual consolidation eliminations, such as inter-entity receivables and payables and equity contributions and investments. The group outcome shown in the examples reflects only tax relating to the subsidiary or subsidiaries. The examples do not illustrate taxes recognised by the head entity in relation to its own transactions, events and balances.

Basic examples

Example 1 – No tax funding arrangement

IE4 In this example, no tax funding arrangements have been established and there are no transactions between entities in the tax-consolidated group. The subsidiary's initial tax accounting is based on a systematic and rational method consistent with the broad principles of AASB 112, as required by the Interpretation. For the purpose of this simple illustration of specific tax consolidation adjustments, it is not necessary to identify the specific method adopted for the initial recognition of income taxes for the period by the subsidiary.

(1) Subsidiary	$	$
Dr Current tax expense	8,000	
Dr Deferred tax expense	2,000	
Cr Current tax liability		8,000
Cr Deferred tax liability		2,000
Initial tax recognition for period in subsidiary		
Dr Current tax liability	8,000	
Cr Other contributed equity		8,000
Current tax derecognised as assumed by the head entity		
(2) Head entity (parent)		
Dr Investment in subsidiary	8,000	
Cr Current tax liability		8,000
Assumption of current tax liability re subsidiary		
(3) Consolidation adjustment		
Dr Other contributed equity – subsidiary	8,000	
Cr Investment in subsidiary		8,000
Elimination of equity contribution		

(4) Group outcome re subsidiary	$	$
Increase in current tax liability		8,000
Increase in deferred tax liability		2,000
Tax expense		10,000

Example 2 – With tax funding arrangement (equivalent charge)

IE5 In this case there are no transactions between entities in the tax-consolidated group, other than those required under a tax funding arrangement. The journal entries illustrate a tax funding arrangement under which the intercompany charge equals the current tax liability of the subsidiary, resulting in neither a contribution by the head entity to the subsidiary nor a distribution by the subsidiary to the head entity.

(1) Subsidiary	$	$
Dr Current tax expense	8,000	
Dr Deferred tax expense	2,000	
Cr Current tax liability		8,000
Cr Deferred tax liability		2,000
Initial tax recognition for period in subsidiary		
Dr Current tax liability	8,000	
Cr Intercompany payable		8,000
Current tax derecognised as assumed by the head entity, in return for payment under tax funding arrangement		
(2) Head entity (parent)		
Dr Intercompany receivable	8,000	
Cr Current tax liability		8,000
Assumption of current tax liability re subsidiary		
(3) Consolidation adjustment		
Dr Intercompany payable	8,000	
Cr Intercompany receivable		8,000
Elimination of balances		
(4) Group outcome re subsidiary		
Increase in current tax liability		8,000
Increase in deferred tax liability		2,000
Tax expense		10,000

Example 3 – With tax funding arrangement (non-equivalent charge)

IE6 In this case there are no transactions between entities in the tax-consolidated group, other than those required under a tax funding arrangement. The journal entries illustrate a tax funding arrangement under which the intercompany charge is less than the current tax liability of the subsidiary, resulting in a contribution by the head entity to the subsidiary.

(1) Subsidiary	$	$
Dr Current tax expense	8,000	
Dr Deferred tax expense	2,000	
Cr Current tax liability		8,000
Cr Deferred tax liability		2,000
Initial tax recognition for period in subsidiary		
Dr Current tax liability	8,000	
Cr Intercompany payable		5,000
Cr Other contributed equity		3,000
Current tax derecognised as assumed by the head entity		

(2) Head entity (parent)

Dr Intercompany receivable	5,000	
Dr Investment in subsidiary	3,000	
Cr Current tax liability		8,000
Assumption of current tax liability re subsidiary		

(3) Consolidation adjustments

Dr Intercompany payable	5,000	
Cr Intercompany receivable		5,000
Elimination of balances		

(4) Group outcome re subsidiary

Increase in current tax liability	8,000
Increase in deferred tax liability	2,000
Tax expense	10,000

IE7 If the intercompany charge under the tax funding arrangement instead exceeded the subsidiary's current tax liability, the excess would be a distribution by the subsidiary to the head entity.

Tax loss examples

Example 4 – "Stand-alone taxpayer" approach; assumption of tax losses; no tax funding arrangement

IE8 The subsidiary in this example has incurred unused tax losses of $100,000 during the reporting period. The head entity expects to recover the tax losses in full. Based on the "stand-alone taxpayer" income tax recognition method adopted by the subsidiary, it has no current tax liability but initially recognises a deferred tax asset of $18,000 arising from these losses ($60,000 losses × tax rate 30%); that is, only part of the potential tax loss asset can be recognised by the subsidiary in its particular circumstances. There is no tax funding arrangement between the entities, resulting in a distribution by the subsidiary to the head entity.

(1) Subsidiary	$	$
Dr Deferred tax asset re losses	18,000	
Cr Current tax income		18,000
Initial tax recognition for period in subsidiary		
Dr Distribution to head entity	18,000	
Cr Deferred tax asset re losses		18,000
Tax loss asset derecognised as assumed by the head entity		
(2) Head entity (parent)		
Dr Deferred tax asset re losses	18,000	
Cr Distribution from subsidiary		18,000
Assumption of tax loss asset ex subsidiary		
Dr Deferred tax asset re losses	12,000	
Cr Current tax income		12,000
Recognition of additional tax asset		
(3) Consolidation adjustment		
Dr Distribution from subsidiary	18,000	
Cr Distribution to head entity		18,000
Elimination of equity distribution		
(4) Group outcome re subsidiary		
Increase in deferred tax asset re losses		30,000
Tax income		30,000

IE9 The consolidation adjustment above is in generic terms, and in practice would reflect the accounts in which the distribution was recognised. For example, if the subsidiary recognised the distribution to the head entity as a reduction in retained earnings, and the head entity recognised the distribution as revenue, then the consolidation adjustment would reverse those entries to give the results from the group's perspective. As another example, the distribution may have been recognised by the subsidiary as a reduction in reserves and by the head entity as a reduction in its investment account. The consolidation adjustment then would reverse those entries. The accounting adopted for the distribution does not affect the group tax outcome.

IE10 In future reporting periods, the subsidiary's measurement of current and deferred taxes does not take into account the $40,000 of unused tax losses remaining from the $100,000 tax loss. As the tax loss is assumed by the head entity at the end of the period, it is then regarded as no longer available to the subsidiary. The subsidiary's accounting is also unaffected if the head entity is required in a later period to derecognise part or all of its tax-loss deferred tax asset due to the recognition requirements in AASB 112 ceasing to be met.

Example 5 – "Stand-alone taxpayer" approach; assumption of tax losses; tax funding arrangement

IE11 The subsidiary in this example has incurred unused tax losses of $100,000 during the reporting period. The head entity expects to recover the tax losses in full. Based on the "stand-alone taxpayer" income tax recognition method adopted by the subsidiary, it has no current tax liability but initially recognises a deferred tax asset of $18,000 arising from these losses ($60,000 losses × tax rate 30%); that is, only part of the potential tax loss asset can be recognised by the subsidiary in its particular circumstances. The tax funding arrangement with the head entity is based on the subsidiary's current tax liability (asset) and the tax losses that the head entity expects to recover.

(1) Subsidiary	$	$
Dr Deferred tax asset re losses	18,000	
Cr Current tax income		18,000
Initial tax recognition for period in subsidiary		
Dr Intercompany receivable	30,000	
Cr Deferred tax asset re losses		18,000
Cr Other contributed equity		12,000
Tax loss asset derecognised as assumed by the head entity		
(2) Head entity (parent)		
Dr Deferred tax asset re losses	18,000	
Dr Investment in subsidiary	12,000	
Cr Intercompany payable		30,000
Assumption of tax loss asset ex subsidiary		
Dr Deferred tax asset re losses	12,000	
Cr Current tax income		12,000
Recognition of additional tax asset		
(3) Consolidation adjustments		
Dr Intercompany payable	30,000	
Cr Intercompany receivable		30,000
Elimination of balances		
Dr Other contributed equity – subsidiary	12,000	
Cr Investment in subsidiary		12,000
Elimination of equity contribution		
(4) Group outcome re subsidiary		
Increase in deferred tax asset re losses		30,000
Tax income		30,000

IE12 In this scenario, the head entity recognises a contribution to the subsidiary as it will pay more under the tax funding arrangement for the assumption of tax losses than the subsidiary can recognise initially as a deferred tax asset. The head entity then also recognises the additional deferred tax asset, as appropriate in relation to the tax position of the tax-consolidated group, giving rise to tax income for the head entity. The outcome is that the group recognises tax income of $30,000 arising in relation to the subsidiary. This comprises the tax income of $18,000 initially recognised by the subsidiary, adjusted for the additional $12,000 deferred tax asset relating to the subsidiary's losses that is recognised by the head entity.

IE13 As in Example 4, in future reporting periods the subsidiary's measurement of current and deferred taxes does not take into account the $40,000 of unused tax losses remaining from the $100,000 tax loss. As the tax loss is assumed by the head entity at the end of the period, it is then regarded as no longer available to the subsidiary. The subsidiary's accounting is also unaffected if the head entity is required in a later period to derecognise part or all of its tax-loss deferred tax asset due to the recognition requirements in AASB 112 ceasing to be met.

Example 6 – "Separate taxpayer within group" approach; assumption of tax losses; tax funding arrangement

IE14 The subsidiary in this example has incurred unused tax losses of $100,000 during the reporting period. The head entity expects to recover the tax losses in full. Based on the "separate taxpayer within group" income tax recognition method adopted by the subsidiary, it has no current tax liability and initially recognises a deferred tax asset of $30,000 arising from these losses ($100,000 losses × tax rate 30%); that is, the whole of the potential tax loss asset is recognised by the subsidiary. This is so even if in its own circumstances the subsidiary expected to recover only $60,000 of the tax losses. The tax funding arrangement with the head entity is based on the subsidiary's current tax liability (asset) and the tax-loss deferred tax asset recognised by the subsidiary.

(1) Subsidiary	$	$
Dr Deferred tax asset re losses	30,000	
Cr Current tax income		30,000
Initial tax recognition for period in subsidiary		
Dr Intercompany receivable	30,000	
Cr Deferred tax asset re losses		30,000
Tax loss asset derecognised as assumed by the head entity		
(2) Head entity (parent)		
Dr Deferred tax asset re losses	30,000	
Cr Intercompany payable		30,000
Assumption of tax loss asset ex subsidiary		
(3) Consolidation adjustment		
Dr Intercompany payable	30,000	
Cr Intercompany receivable		30,000
Elimination of balances		
(4) Group outcome re subsidiary		
Increase in deferred tax asset re losses		30,000
Tax income		30,000

IE15 No contribution by or distribution to equity participants is recognised in this case as the tax funding arrangement amount equals the tax amounts recognised by the subsidiary that are assumed by the head entity. Despite the application of a different method for the initial recognition of income tax by the subsidiary, and a different basis for the tax funding arrangement between the entities, the group outcome is the same as in Examples 4 and 5.

IE16 As in Examples 4 and 5, if the subsidiary in this case had not been able to recognise a deferred tax asset in relation to all of its tax losses arising during the reporting period, in future periods the subsidiary's measurement of current and deferred taxes would not take into account the remaining unused tax losses. As the tax loss is assumed by the head entity at the end of the period, it is then regarded as no longer available to the subsidiary. The subsidiary's accounting is also unaffected if the head entity is required in a later period to derecognise part or all of its tax-loss deferred tax asset due to the recognition requirements in AASB 112 ceasing to be met.

Intragroup sales examples

Example 7 – "Stand-alone taxpayer" approach; intragroup sales; no tax funding arrangement

IE17 In this example the head entity H has two subsidiaries A and B in the tax-consolidated group. The subsidiaries measure tax amounts for their separate financial statements on a "stand-alone taxpayer" basis, as allowed by the Interpretation. There is no tax funding arrangement between the entities. In year 1, subsidiary A sells inventory purchased for $1,000 from an external party to subsidiary B for $1,500 cash. By the end of year 1, subsidiary B has not sold the inventory outside the group. In year 2, subsidiary B sells the inventory to a party outside the group for $1,800 cash.

Year 1

IE18 Subsidiary A recognises tax expense of $150 (profit of $500 × tax rate 30%) in relation to its sale of inventory to subsidiary B, even though the transaction is ignored under the tax consolidation system as it is a transaction between entities in the tax-consolidated group. Subsidiary B recognises no tax as it has not yet sold the inventory purchased from subsidiary A, and the taxable temporary difference for its inventory (carrying amount of $1,500 but tax base of $1,000) is not recognised under the AASB 112 exception concerning the initial recognition of an asset or liability in certain circumstances. The head entity and the group recognise no tax in relation to subsidiary A's profitable sale, since no external sale has occurred. The relevant journal entries:

(1) Subsidiary A	$	$
Dr Bank	1,500	
Cr Sales		1,500
Sale of inventory to fellow-subsidiary B		
Dr Cost of sales	1,000	
Cr Inventory		1,000
Recognition of cost of sales		
Dr Current tax expense	150	
Cr Current tax liability		150
Initial tax recognition in selling subsidiary		
Dr Current tax liability	150	
Cr Other contributed equity		150
Current tax derecognised as assumed by the head entity		
(2) Subsidiary B		
Dr Inventory	1,500	
Cr Bank		1,500
Purchase of inventory from fellow-subsidiary A		
(3) Consolidation adjustments		
Dr Sales	1,500	
Cr Cost of sales		1,000
Cr Inventory		500
Elimination of intragroup sale and unrealised profit in inventory		

	$	$
Dr Other contributed equity – A	150	
Cr Current tax expense		150
Elimination of asymmetrical equity contribution; reversal of tax on intragroup transaction		

(4) Group outcome re subsidiaries

Change in current tax liability	–
Tax expense	–

IE19 The second consolidation adjustment journal entry eliminates the $150 recognised by subsidiary A as a contribution by the head entity via an adjustment of tax expense (income), since the head entity has not recognised any tax-related contribution to the subsidiary. The outcome is that the group does not recognise any tax expense in relation to subsidiary A (or B) or any equity contributions between the subsidiaries and the head entity. (The inventory is recognised at $1,000 by the group.)

Year 2

IE20 Subsidiary B sells the inventory in year 2 for a profit of $300, realising a profit for the group of $800. As an external sale has occurred, this profit is assessable to the head entity in relation to the tax-consolidated group. Subsidiaries A and B continue to recognise their own tax balances based on the stand-alone taxpayer method. There are no entries for subsidiary A in year 2 relating to the inventory. The journal entries for the other entities in the group:

(1) Subsidiary B	$	$
Dr Bank	1,800	
Cr Sales		1,800
Sale of inventory outside the group		
Dr Cost of sales	1,500	
Cr Inventory		1,500
Recognition of cost of sales		
Dr Current tax expense	240	
Cr Current tax liability		240
Initial tax recognition in selling subsidiary ($800 × 30%)		
Dr Current tax liability	240	
Cr Other contributed equity		240
Current tax derecognised as assumed by the head entity		

(2) Head entity (parent)

Dr Investment in subsidiary B	240	
Cr Current tax liability		240
Assumption of current tax liability re subsidiary		

(3) Consolidation adjustments

Dr Opening retained earnings – A	500	
Cr Inventory		500
Reinstate elimination of unrealised profit in inventory		

	$	$
Dr Inventory	500	
Cr Cost of sales		500
Unrealised profit in inventory now realised		
Dr Other contributed equity – A	150	
Cr Opening retained earnings		150
Reinstate opening balances re subsidiary A		
Dr Other contributed equity – B	240	
Cr Investment in subsidiary B		240
Elimination of equity contribution		

(4) Group outcome re subsidiaries

Increase in current tax liability	240
Tax expense	240

IE21 In this case, subsidiary B recognises a tax expense of $240 even though its accounting profit on the sale of the inventory is only $300. This is because the tax base of the inventory from the perspective of the group is $1,000, being the original cost to subsidiary A when purchased from an external party. Even under the stand-alone taxpayer approach to measuring the subsidiary's taxes, tax values are based on those of the tax-consolidated group, as no other tax values are available. The tax expense of $240 recognised by subsidiary B in year 2 is not divided between the various subsidiaries that held the inventory within the group. Subsidiary A's tax expense of $150 in year 1 (which was eliminated on consolidation) is not revised.

IE22 If there was a tax funding arrangement between the entities, the intercompany amounts arising under the arrangement would affect the amounts recognised as equity contributions or distributions. A tax funding arrangement does not alter the tax expense (income) recognised by an entity.

Example 8 – "Separate taxpayer within group" approach; intragroup sales; no tax funding arrangement

IE23 The facts are the same as set out in Example 7 (see paragraph IE17), except that the subsidiaries A and B measure tax amounts for their separate financial statements on a "separate taxpayer within group" basis, as allowed by the Interpretation. Thus, in this example there is no tax funding arrangement between the entities; in year 1, subsidiary A sells inventory costing $1,000 to subsidiary B for $1,500 cash; and in year 2, subsidiary B sells that inventory to a party outside the group for $1,800 cash.

Year 1

IE24 Subsidiary A does not recognise any tax expense in relation to its sale of inventory to subsidiary B, since the transaction is ignored under the tax consolidation system as it is a transaction between entities in the tax-consolidated group. Subsidiary B recognises no tax as it has not yet sold the inventory purchased from subsidiary A, and the taxable temporary difference for its inventory (carrying amount of $1,500 but tax base of $1,000) is not recognised under the AASB 112 exception concerning the initial recognition of an asset or liability in certain circumstances. The head entity and the group recognise no tax in relation to subsidiary A's profitable sale, since no external sale has occurred.

IE25 Thus there are no tax-related journal entries in year 1 concerning the intragroup sale of inventory. The inventory-related journal entries are the same as shown for Example 7 in year 1.

Year 2

IE26 Subsidiary B sells the inventory in year 2 for a profit of $300, realising a profit for the group of $800. As an external sale has occurred, this profit is assessable to the head entity in relation to the tax-consolidated group. The inventory-related journal entries are the same as shown for Example 7 in year 2. The tax-related journal entries:

(1) Subsidiary B	$	$
Dr Current tax expense	240	
Cr Current tax liability		240
Initial tax recognition in selling subsidiary ($800 × 30%)		
Dr Current tax liability	240	
Cr Other contributed equity		240
Current tax derecognised as assumed by the head entity		
(2) Head entity (parent)		
Dr Investment in subsidiary B	240	
Cr Current tax liability		240
Assumption of current tax liability re subsidiary		
(3) Consolidation adjustment		
Dr Other contributed equity – B	240	
Cr Investment in subsidiary B		240
Elimination of equity contribution		
(4) Group outcome re subsidiaries		
Increase in current tax liability		240
Tax expense		240

IE27 The group outcomes are the same under both Examples 7 and 8, illustrating that the method adopted for subsidiaries' initial tax recognition for a period does not affect the accounting results for the tax-consolidated group. However, the different income tax allocation methods can result in different reporting in the separate financial statements of the subsidiaries, as indicated for subsidiary A. Subsidiary B has the same result under both Examples because in each case the same tax base applied to the intragroup inventory that it sold during year 2.

References

Australia

The Urgent Issues Group discussed Issues Paper 04/3 “Revision of Various UIG Abstracts for 2005” and/or Issue Summary 04/6 “Tax Consolidation Accounting” in relation to this Interpretation at meetings on 10 June, 5 October and 25 November 2004 and 10 February and 22 March 2005. In developing the superseded revised Abstract 52, the UIG discussed Issue Summary 03/9 “Tax Consolidation Accounting Implementation Guidance” at meetings on 18 September, 30 October and 4 December 2003.

- AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*
- AASB 112 *Income Taxes*
- AASB 124 *Related Party Disclosures*
- AASB 127 *Consolidated and Separate Financial Statements*
- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*
- AASB 139 *Financial Instruments: Recognition and Measurement*

Canada

- CICA Handbook Section 3465 *Income Taxes*

International Accounting Standards Board

- International Accounting Standard IAS 12 *Income Taxes*

United Kingdom

- Financial Reporting Standard FRS 19 *Deferred Tax*

United States of America

- Statement of Financial Accounting Standards SFAS 109 *Accounting for Income Taxes*

Compilation details
UIG Interpretation 1052 *Tax Consolidation Accounting* (as amended)

Compilation details are not part of Interpretation 1052.

This compiled Interpretation applies to annual reporting periods beginning on or after 1 July 2021. It takes into account amendments up to and including 6 March 2020 and was prepared on 29 October 2021 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Interpretation issued by the AASB. Instead, it is a representation of Interpretation 1052 (June 2005) as amended by other pronouncements, which are listed in the table below.

Table of pronouncements

Pronouncement	Month/date issued	Effective date *(annual periods … on or after …)*	Application, saving or transitional provisions
Interpretation 1052	Jun 2005	*(ending)* 31 Dec 2005	see (a) below
AASB 2007-8	24 Sep 2007	*(beginning)* 1 Jan 2009	see (b) below
AASB 2007-10	13 Dec 2007	*(beginning)* 1 Jan 2009	see (b) below
AASB 2009-12	15 Dec 2009	*(beginning)* 1 Jan 2011	see (c) below
AASB 2010-2	30 Jun 2010	*(beginning)* 1 Jul 2013	see (d) below
AASB 2013-9	20 Dec 2013	Pt A *(ending)* 20 Dec 2013 Pt B *(beginning)* 1 Jan 2014	see (e) below see (f) below
AASB 2014-5	12 Dec 2014	*(beginning)* 1 Jan 2018	see (g) below
AASB 2015-8	22 Oct 2015	*(beginning)* 1 Jan 2017	see (g) below
AASB 2016-7	9 Dec 2016	*(beginning)* 1 Jan 2017	see (h) below
AASB 2019-1	21 May 2019	*(beginning)* 1 Jan 2020	see (i) below
AASB 1060	6 Mar 2020	*(beginning)* 1 Jul 2021	see (j) below

(a) Entities may elect to apply this Interpretation to annual reporting periods beginning on or after 1 January 2005 that end before 31 December 2005.

(b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.

(c) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2011.

(d) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 July 2009 but before 1 July 2013, provided that AASB 1053 *Application of Tiers of Australian Accounting Standards* is also applied to such periods.

(e) Entities may elect to apply Part A of this Standard to annual reporting periods beginning on or after 1 January 2005 that end before 20 December 2013, provided that AASB CF 2013-1 *Amendments to the Australian Conceptual Framework* and AASB 1048 *Interpretation of Standards* (December 2013) are also applied to such periods.

(f) Earlier application of Part B of this Standard is not permitted.

(g) The amendments made by AASB 2014-5 are no longer required to apply to annual reporting periods beginning on or after 1 January 2017 but before 1 January 2018, as a consequence of AASB 2015-8 deferring the effective date of AASB 15 *Revenue from Contracts with Customers* (and its consequential amendments in AASB 2014-5) from 1 January 2017 to 1 January 2018.

(h) AASB 2016-7 deferred the effective date of AASB 15 (and its consequential amendments in AASB 2014-5) for not-for-profit entities to annual reporting periods beginning on or after 1 January 2019, instead of 1 January 2018. However, earlier application of Interpretation 1052 (2005) incorporating the amendments that relate to AASB 15 is permitted, provided that AASB 15 is also applied.

(i) Entities may elect to apply this Standard to annual periods beginning before 1 January 2020.

(j) Entities may elect to apply this Standard to annual periods beginning before 1 July 2021.

Table of amendments

Paragraph affected	How affected	By … [paragraph/page]
5	amended	AASB 2007-10 [119]
17	amended deleted	AASB 2007-8 [7, 8] AASB 2019-1 [page 38]
19	amended amended	AASB 2007-8 [6] AASB 2009-12 [27]

Paragraph affected	How affected	By … [paragraph/page]
20	amended deleted	AASB 2007-8 [8] AASB 2013-9B [37, 38]
23A-23B (and preceding heading)	added deleted	AASB 2010-2 [56] AASB 1060 [page 68]
26	amended	AASB 2007-8 [6]
27	amended	AASB 2007-10 [120]
30	amended	AASB 2007-8 [6]
35	amended	AASB 2007-8 [6]
37	amended	AASB 2007-8 [6]
42	amended amended	AASB 2013-9A [22 AASB 2019-1 [page 38]
45	amended	AASB 2014-5 [72]
57	amended	AASB 2007-8 [6]
59	amended	AASB 2007-10 [119]
61	amended amended	AASB 2007-8 [6] AASB 2007-10 [119]
Appendix A	added	AASB 1060 [page 68]
References	amended	AASB 2014-5 [73]