Jupiters Limited merger with TABCorp Holdings Limited

Find out about the tax consequences of the Jupiters/TABCorp merger.

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This information applies to you if:

- you are an individual **not** a company or trust
- you are an Australian resident for tax purposes
- you held shares in Jupiters at the time of the merger
- you did not acquire your shares under an employee share scheme, and
- any gain or loss you made on the shares is a capital gain or capital loss - this means that you held your shares as an investment asset, **not**

- – as trading stock
  – as part of carrying on a business, or
  – to make a short-term or 'one-off' commercial gain.

Background

In May 2003, Jupiters Limited (Jupiters) and TABCorp Holdings Limited announced that the companies were to merge. The merger was implemented on 13 November 2003. The merged company was called TABCorp.

On 13 November 2003:

- Jupiters paid two dividends to its shareholders
- the closing price for TABCorp shares (the merged company) on the Australian Stock Exchange was $11.28.

What happened under the merger?

Under the merger, you were offered one of three payment options for your Jupiters shares:

- Ordinary option (the default option) - a mixture of TABCorp shares and cash
- Maximum share option - a mixture of TABCorp shares and cash, with more shares than in the default option
- Maximum cash option - a cash payment for all your Jupiters shares.

The three payment options split your Jupiters shareholding into two portions. You received cash for one portion and TABCorp shares for the other. The percentage breakup of your Jupiters shareholding under each of the three options is set out in the table below.

Whatever option you took, for each Jupiter share you received either:

- $5.25, or
- 0.525 of a TABCorp share.

Your proceeds	**Option formula** (percentage breakup of your Jupiters shareholding into: Cash / TABCorp shares)	**For 100 Jupiters shares**
Ordinary option (default option)	54.286% / 45.714%*	$285 / 24 shares
Maximum shares option	52.238% / 47.762%*	$271 / 25 shares
Maximum cash option	100% / not applicable	$525 / nil

* rounded to three decimal places

What are the tax consequences of the merger for me?

There are two tax consequences:

- the dividends you received on your Jupiters shares must be included in your assessable income for 2003-04
- the disposal of your Jupiters shares is a capital gains tax (CGT) event that may have resulted in a capital gain (or capital loss) for you. Depending on the outcome, you may have to include some details on your 2003-04 tax return.

How do I treat the Jupiters dividends?

On 13 November you received:

- a fully franked dividend of $0.75 per share, and
- a fully franked dividend of $0.172 per share.

If you are entitled to the franking credits, include both the franked dividend amounts and the franking credits in your income for the 2003-04 income year - show them at item **11** on your tax return. (You will find the amounts on your dividend statement.) You automatically receive a tax offset equal to the franking credits when we process your return.

If you are **not entitled** to the franking credits, do not include them as income at item **11.** You may not be entitled to the franking credits if you acquired your shares less than 45 days before you disposed of them (because of the 45-day holding rule). You are exempt from this rule if your total franking tax offset entitlements for the year are less than $5,000.

Refund of franking credits

You may be entitled to a refund of any franking credit in excess of the tax you must pay; if so, we refund it automatically when we process your tax return. If you are not required to lodge a tax return for the 2003-04 income year, **Refund of franking credits instructions and application for individuals 2004** explains how to obtain the refund.

What are the capital gains tax consequences for me?

A CGT event happened on 13 November 2003, when the merger between Jupiters and TABCorp Holdings took effect.

You received either cash or a mixture of cash and TABCorp shares for your Jupiters shares depending on which payment option you chose.

Capital gains tax and your Jupiters shares

You may:

- have made a capital gain or a capital loss on your shares, depending on their cost base (or reduced cost base)
- be eligible for scrip-for-scrip rollover if you received TABCorp shares as part of you **capital proceeds** - rollover is only available for Jupiters shares exchanged for TABCorp shares - not for shares exchanged for cash.

Jupiters shares exchanged for cash

For shares you acquired before 20 September 1985 - disregard any capital gain or capital loss you made because the shares are pre-CGT assets.

For shares you acquired after 19 September 1985 - work out if you have made a capital gain or capital loss using the amount you received for each share. The following table will help you.

For each Jupiters share with a:	you have made:	equal to:
cost base* of *less* than $5.25	a capital gain	$5.25 *minus* the cost base of the share
reduced cost base* of *more* than $5.25	a capital loss	the reduced cost base of the share *minus* $5.25

* For information on how to work out the cost base and reduced cost base for shares, see the Guide to capital gains tax.

Note

If your cost base is not less than $5.25 **and** your reduced cost base is not more than $5.25, you have made neither a capital gain nor a capital loss on the exchange of your Jupiters shares for cash. There is nothing you need to include on your 2003-04 tax return regarding this merger.

Jupiters shares exchanged for TABCorp shares

For shares you acquired before 20 September 1985 - disregard any capital gain or capital loss you made because the shares are pre-CGT assets.

For shares you acquired after 19 September 1985 - you can:

- Declare the capital gain or capital loss you made on the merger on your tax return for 2003-04, or
- Choose scrip-for-scrip rollover. (Rollover allows you to disregard a capital gain made from the Jupiters shares that you exchanged for TABCorp shares. Rollover does not apply to a capital loss. See Example 2 below for a sample calculation.)

If rollover does not apply

The capital proceeds you received for your Jupiters shares are based on the market value of the TABCorp shares you received at the time of the merger.

On the day the merger took effect (13 November 2003):

- TABCorp shares were worth $11.28, and
- you received 0.525 of a TABCorp share for each Jupiters share.

Each of your Jupiters share was therefore worth $11.28 × 0.525 = $5.922.

For each Jupiters share with a:	you have made:	equal to:
cost base* of *less* than $5.922	a capital gain	$5.922 *minus* the cost base of the share
reduced cost base* of *more* than $5.922	a capital loss	the reduced cost base of the share *minus* $5.922

* For information on how to work out the cost base and reduced cost base for shares, see the **Guide to capital gains tax**.

Note

If your cost base is not less than $5.922 **and** your reduced cost base is not more than $5.922, you have made neither a capital gain nor a capital loss on the exchange of your Jupiters shares for TABCorp shares. There is nothing you need to include on your 2003-04 tax return regarding this merger.

How do I treat the capital gain or capital loss on my Jupiters shares?

If you made a capital gain on the disposal of your post-CGT Jupiters shares, you must include it in your calculations when completing item **17** on your 2003-04 tax return (supplementary section).

The method you use to work out the amount to include in your item **17** calculations depends on when you acquired those shares. The following table sets out what method you can use.

If you acquired your Jupiters shares:	You calculate your capital gain using the:
Before 21 September 1999	Indexed cost base *or* discount method, whichever gives you the better result*
After 21 September 1999 *and* before 13 November 2002	Discount method (after applying any capital losses - including unapplied capital losses from previous years)
On or after 14 November 2003	'Other' method

* If you choose to index the cost base of shares you acquired before 21 September 1999, you cannot apply the CGT discount when you dispose of them.

For information on the different methods you can use to work out your capital gain, see the **Guide to capital gains tax**.

If you made a capital loss you can offset this loss against other capital gains you made in the 2003-04 income year. If you are unable to offset all the capital loss, you can carry the balance forward to offset against future capital gains.

Capital gains tax and your TABCorp shares

For the TABCorp shares you acquired in exchange for your Jupiters shares under the merger you need to know:

- their cost base
- what CGT method will be available to you when a CGT event (such as being sold or given away) happens to the shares - generally you can only use the discount and indexation methods if you have held your asset for more than 12 months; however, special rules apply if rollover is chosen.

The table sets out the information you need.

Your Jupiters shareholding		TABCorp shares you received in exchange for your Jupiters shareholding		
CGT status	**Rollover option**	**Acquisition cost**	**CGT discount method available**	**CGT indexation method available**
Pre-CGT	not allowed	$11.28	After 13 November 2004	No
Post-CGT	without rollover	$11.28	After 13 November 2004	No
Post-CGT	with rollover	Cost base of the underlying Jupiters shares at the date of the merger	12 months from the date you acquired the underlying Jupiters shares	Yes - see note below

Notes:

Date of the merger was 13 November 2003

Provided that you acquired your Jupiters shares before 21 September 1999. Note: If you have chosen to index the cost base of Jupiters shares you acquired before 21 September 1999, you cannot apply the CGT discount to reduce any capital gain that you make on the disposal of the TABCorp shares that you acquired in exchange for the Jupiters shares.

Example 1: Capital gain and no rollover

Desiree acquired 500 shares in Jupiters before 13 November 2002 - that is, more than 12 months before the merger with TABCorp. The cost base of each of her Jupiters shares was $3.50.

Desiree accepted the ordinary share option in the merger. She received $1422.75 plus 120 TABCorp shares. She did not choose scrip-for-scrip rollover for the shares.

Calculating the capital gain

Desiree calculates her capital gain by deducting the cost base of her Jupiters shares from the capital proceeds (the value of the cash and shares) she received in exchange for them.

The total cost base of her Jupiters shares is $1,750 (500 x $3.50).

Desiree works out her capital proceeds as follows:

The market value of the TABCorp shares she received (120 x $11.28)	$1,353.60
plus the cash she received	$1,422.75
Capital proceeds	$2,776.35

Desiree works out her capital gain as follows:

Total capital proceeds (cash plus shares)	-	cost base	=	capital gain
$2,776.35	-	$1,750	=	$1,026.35

Recording the capital gain on the tax return

Assuming she has no other capital gains and capital losses and chooses the discount method, Desiree will complete item **17** on her

2004 tax return (supplementary section) as follows:

Did you have a capital gains tax event during the year?: Yes

Net capital gain: $513

Total current year capital gains: $1,026

Cost base of Desiree's TABCorp shares

The cost base of each of Desiree's TABCorp shares is $11.28. She will use this to work out her capital gain or capital loss when a CGT event affects the shares (for example, if she sells them).

Desiree can claim the CGT discount (after subtracting any capital losses) if she disposes of her TABCorp shares after 13 November 2004.

Example 2: Capital gain where scrip-for-scrip rollover is chosen

Gunther acquired 1,000 shares in Jupiters before 13 November 2002 - that is, more than 12 months before the merger with TABCorp. The cost base of each of his Jupiters shares was $4.

He accepted the maximum shares option in the merger.

Using the maximum share option formula (not rounded), Gunther exchanged 478.095 Jupiters shares for TABCorp shares and 521.905 Jupiters shares for cash.

Gunther received $2,740.50 plus 251 TABCorp shares.

He chooses rollover for the TABCorp shares. Therefore, no capital gain arises on the related Jupiters shares (478.095 shares).

Calculating his capital gain for the cash received

Gunther received $2,740.50 cash for 521.905 Jupiters shares.

The total cost base of the Jupiters shares exchanged for cash is: 521.905 x $4 = $2,087.62

Gunther's capital gain is as follows:

Capital proceeds (cash)	-	cost base	=	capital gain
$2,740.50	-	$2,087.62	=	$652.88

Recording the capital gain on the tax return

Assuming Gunther has no other capital gains and capital losses and chooses the discount method, Gunther will complete item **17** on his 2004 tax return (supplementary section) as follows:

Did you have a capital gains tax event during the year?: Yes

Net capital gain: $326

Total current year capital gains: $652

Cost base of Gunther's TABCorp shares

Gunther calculates the cost base of each of his TABCorp shares as follows:

Cost base of Jupiters shares exchanged Number of TABCorp shares received	
478.095 x $4 251	= $7.619 (rounded)

Gunther will use $7.619 as the cost base and reduced cost base of his TABCorp shares to work out his capital gain or capital loss when a CGT event affects the shares (for example, if he sells them).

Gunther can claim the CGT discount (after subtracting any capital losses) when he disposes of his TABCorp shares - even if he did this immediately after the merger - because he acquired his Jupiters shares more than 12 months before the merger date.

What to read/do next

For more information about this merger, see **Class Ruling CR 2003/89 - Scrip for scrip rollover: Merger of Jupiters Limited and TABCORP Holdings Limited**. This is a Tax Office ruling on the tax consequences arising from this merger.

For information about the tax implications of owning shares, see the following publications:

- **You and your shares** (NAT 2632-6.2004) - this publication is for individuals investing in shares or convertible notes and offers guidance on the taxation of dividends from investments, allowable deductions from dividend income and record-keeping requirements for investors.

- **Guide to capital gains tax** (NAT 4151-6.2004) - this publication explains how capital gains tax works and will help you to calculate your net capital gain or net capital loss.
- **Personal investors guide to capital gains tax** (NAT 4152-6.2004) - shorter than the **Guide to capital gains tax**, this publication which covers the sale or gift or other disposal of shares or units, distribution of capital gains from managed funds and non-assessable payments from companies or managed funds.

It does not cover CGT consequences for bonus shares, shares acquired under an employee share scheme, bonus units, rights and options, and shares and units where a takeover or demerger has occurred - you will need to refer to the **Guide to capital gains tax**.

- **Refunding franking credits - individuals** for information about the 45-day holding rule.

For help applying this information to your own situation, phone us on **13 28 61**.

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