Merger of MyState Financial Credit Union of Tasmania Limited and Tasmanian Perpetual Trustees Limited

Find out about the tax implications of the merger of two Tasmanian Credit unions.

30 August 2016

Overview

This page contains information about the tax consequences for taxpayers who transferred all their MSF member shares to MyState Limited in return for MyState shares under the MSF scheme of arrangement. This occurred at the time MyState Financial Credit Union of Tasmania Limited (MSF) merged with Tasmanian Perpetual Trustees Limited (TPX) to become wholly owned subsidiaries of MyState Limited (MyState).

This information applies to you if all of the following apply:

- you are an Australian resident for tax purposes
- you are not a temporary resident
- you participated in the MSF scheme (that is, you disposed of your MSF member shares in exchange for shares in MyState)
- you held your MSF member shares on capital account
- you did not acquire your MSF member shares through an employee share scheme

Attention

If you purchased your MSF member share for $10 on or after 20 September 1985, transferred your MSF member share for shares in MyState under the MSF merger and then sold your MyState shares under the share sale facility free from brokerage, you will make a net capital gain of $957.50. You need to return this net capital gain in your 2010 income tax return.

This net capital gain will result regardless of whether you elected scrip for scrip rollover relief when you transfer your MSF member share for shares in MyState.

If you have made a capital gain and held your MSF member shares for at least 12 months, you may be entitled to the capital gains tax (CGT) discount of 50%.

If you purchased your MSF member share for $10 prior to 20 September 1985, transferred your MSF member share for shares in MyState under the MSF merger and then sold your MyState shares under the share sale facility free from brokerage, you will make a capital loss of $211.10. You can offset this against capital gains made in the same year or carry it forward to offset against future capital gains.

This document provides further information and examples to explain the tax consequences.

Attention

People who find they have lodged their income tax returns without including the proper CGT amounts should amend their income tax returns. People who amend their income tax returns before we contact them for an audit will be entitled to a reduction in any penalties that might apply.

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What happened?

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On 10 October 2008, MSF and TPX agreed to merge the two companies. Under the agreement, MSF and TPX became wholly owned subsidiaries of MyState Limited.

On 17 September 2009 (the implementation date), in accordance with the terms of the MSF scheme, MSF members transferred all their MSF member shares to MyState in return for MyState shares.

MSF members received 387 MyState shares for each MSF member share they transferred. MSF members could then choose to keep their MyState shares or sell all of them through a share sale facility, free from brokerage charges. If members chose to sell their MyState shares, they received $2.50 for each share.

The ATO accepts that the market value of each MyState share on the implementation date was $3.0455.

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Are there any tax consequences for me?

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If you participated in the MSF scheme, a number of tax consequences may apply to you.

- Disposing of your MSF member shares (that is, exchanging them for MyState shares) is a capital gains tax (CGT) event that may have given you a capital gain or capital loss. Refer to What are the CGT consequences of exchanging my MSF member shares.
- If you made a capital gain from the disposal of your MSF member shares, you may elect to choose scrip for scrip rollover relief. If you choose scrip for scrip rollover relief, any capital gain made on the disposal of your MSF member shares is disregarded. Refer to Scrip for scrip rollover relief.
- Selling your MyState shares through the share sale facility free from brokerage charges is a CGT event that may result in a capital gain or capital loss for you. Refer to What are the CGT consequences when I sell or otherwise dispose of my MyState shares?
- If you participated in the MSF scheme and did not sell your MyState Shares under the share sale facility offered under the MSF scheme,

you will have another CGT event when you eventually sell those MyState shares.

- If you purchased your MSF member shares before 20 September 1985, CGT event K6 may apply. Refer to If you acquired your MSF member shares prior to 20 September 1985.

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What are the CGT consequences of exchanging my MSF member shares?

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A CGT event happened when you exchanged your MSF member shares on 17 September 2009 for MyState shares. You may have made a capital gain or a capital loss, depending on the cost base (or reduced cost base) of your MSF member shares and the amount you received for them (your capital proceeds).

Your capital proceeds for each MSF member share were $1,178.60 - that is, 387 (the number of MyState shares you received for each MSF member share) multiplied by $3.0455 (the market value of each MyState share on 17 September 2009).

You may have owned MSF member shares that had different cost bases (or reduced cost bases), so it is possible for you to have made a capital loss and a capital gain on different MSF member shares. The following table will help you.

For each MSF member share with a	You have made	Equal to
Cost base* of less than $1,178.60	a capital gain	$1,178.60 minus the cost base of your MSF member share

Reduced cost base* of more than $1,178.60	a capital loss	the reduced cost base of your MSF Member Share minus $1,178.60

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

Example1: Calculating the cost base of a MSF member share

Ivan acquired one MSF member share on 30 July 2007 for $10. Ivan has not had any incidental costs, ownership costs or enhancement costs relating to his MSF member share.

Ivan's cost base is $10. If you made a capital gain, you may be able to elect scrip for scrip rollover relief and disregard this capital gain. Scrip for scrip rollover relief is discussed below. Example 2 explains the CGT consequences if you choose scrip for scrip rollover relief. Example 3 explains the CGT consequences if you do not choose scrip for scrip rollover relief.

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Scrip for scrip rollover relief

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Scrip for scrip rollover allows you to defer a CGT gain until a later CGT event happens to your shares. Scrip for scrip rollover relief is available for this merger. You don't have to choose the rollover if you don't want to.

Further information

For more information on scrip for scrip rollover relief, see **Takeovers and mergers, scrip-for-scrip rollover**.

If you choose scrip for scrip rollover

If you choose scrip for scrip rollover, the capital gain made from exchanging your MSF member shares is disregarded and the cost base of your MyState shares is now based on the cost base of the original MSF member shares.

Attention

When you eventually dispose of your MyState shares, if the combined period that you owned the original MSF member shares and the relevant MyState shares is at least 12 months, you can apply the CGT discount.

Example 2: Exchanging MSF member shares for MyState shares and electing rollover relief

Ivan acquired one MSF member share on 30 July 2007 for $10. On 17 September 2009, Ivan transferred his MSF member share to MyState Limited in exchange for 387 MyState shares. The MyState shares were valued at $3.0455 each on 17 September 2009.

Ivan calculates his capital gain or loss as follows:

- Cost base of his MSF member share = $10
- Capital proceeds from his MSF member share = $1,178.60 (387 x $3.0455)
- Capital gain made on 17 September 2009 = $1,168.60 ($1,178.60 - $10).

However, at this time, Ivan elects for scrip for scrip rollover relief, so he disregards this capital gain. Ivan does not need to include any amount in his 2009-10 tax return from the exchange of his MSF member share. He will keep records showing this election and the new cost base for his MyState shares.

The new cost base of Ivan's 387 MyState shares is $10 (that is, $0.02584 per share). Ivan will use this cost base for his calculations when he eventually sells or otherwise disposes of some or all of his MyState shares.

If you do not choose scrip for scrip rollover

If you have made a capital loss, or have made a capital gain but do not choose scrip for scrip rollover, include these amounts in item **18 Capital gains** in the supplementary section of your 2009-10 tax return.

The cost base of each of your new MyState shares is $3.0455.

> Attention **If you have made a capital gain and held your MSF member shares for at least 12 months, you may be entitled to the CGT discount of 50%.**

Example 3: Exchanging MSF member shares for MyState shares but not electing rollover relief

Kathy acquired one MSF member share on 30 July 2007 for $10. On 17 September 2009, Kathy transferred her MSF member share to MyState Limited in exchange for 387 MyState shares. The MyState shares were valued at $3.0455 each on 17 September 2009.

Kathy calculates her capital gain or loss as follows:

- Cost base of her MSF member share = $10
- Capital proceeds from her MSF member share = $1,178.60 (387 x $3.0455)
- Capital gain made on 17 September 2009 = $1,168.60 ($1,178.60 - $10).
- Kathy does not elect scrip for scrip rollover relief.

As Kathy held her MSF member share on capital account for more than 12 months, she is entitled to the CGT discount of 50%. Kathy did not have any capital losses from this year or any unapplied net capital losses from earlier years, so she is able to apply the 50% CGT discount to the current year capital gain of $1,168.60. Kathy's capital gain is therefore reduced to $584.30.

Kathy will include the details of this capital gain at item **18 Capital gains** in the supplementary section of her 2009-10 tax return by showing $1,168 at label H (Total current year capital gains) and $584 at label A (Net capital gain).

The cost base of Kathy's 387 MyState shares is $1,178.60 (that is, $3.0455 per share). Kathy will use this cost base for her calculations when she eventually sells or otherwise disposes of some or all of her MyState shares.

What are the CGT consequences when I sell or otherwise dispose of my MyState shares?

A CGT event happens when you sell or otherwise dispose of your MyState shares - including selling them via the share sale facility offered as part of the MSF scheme,

You may make a capital gain or a capital loss on the disposal of your MyState shares, depending on their cost base, or reduced cost base, and the amount you receive for them (your capital proceeds). If your capital proceeds are more than cost base of your MyState shares, you will make a capital gain. If your capital proceeds are less than the reduced cost base of your MyState shares, you will make a capital loss.

If you sold your MyState shares via the share sale facility offered as part of the MSF scheme, your capital proceeds were $2.50 per share.

Attention

Your MyState shares may have had different cost bases or reduced cost bases, so it is possible for you to have made both a capital loss and a capital gain on different MyState shares.

Further information

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

If you sold some or all of your MyState shares on or before 30 June 2010 (including selling them via the share sale facility offered as part of the MSF scheme), you will need to include the details of your capital gain or capital loss at item **18 Capital gains** in the supplementary section of your 2009-10 tax return.

Example 4: Selling MyState shares via the share sale facility after electing rollover relief when exchanging MSF member shares for MyState shares

Ivan acquired 387 MyState shares on 17 September 2009 in exchange for his MSF member share. Ivan had originally purchased his MSF member share on 30 July 2007 for $10.

Ivan elected for scrip for scrip rollover relief to disregard any capital gain when he exchanged his MSF member share for the MyState shares, so the cost base of Ivan's 387 MyState shares is now $10 (that is, $0.02584 per share) - refer to example 2 to see how this was worked out.

Ivan then sold all of his MyState shares for $2.50 each via the share sale facility without any brokerage costs that was offered as part of the MSF scheme. Ivan calculates his capital gain or capital loss from selling his MyState shares as follows:

- cost base of his 387 MyState shares = $10, (387 x $0.02584 per share)
- capital proceeds from his 387 MyState shares = $967.50, (387 x $2.50 per share)
- capital gain made when selling his MyState shares = $957.50, ($967.50 - $10).

As Ivan held his MyState shares and the MSF member share for a combined period of more than 12 months, he is entitled to the CGT discount of 50%. Ivan did not have any capital losses from this year or any unapplied net capital losses from earlier years, so he can apply the 50% CGT discount to the current year capital gain of $957.50. Ivan's capital gain is therefore reduced to $478.75.

Ivan writes $957 at label H (Total current year capital gains) and $478 at label A (Net capital gain) at item **18 Capital gains** in the supplementary section of his 2009-10 tax return.

Example 5: Selling MyState shares via the share sale facility but not electing rollover relief when exchanging MSF member shares for MyState shares

Kathy acquired 387 MyState shares on 17 September 2009 in exchange for her MSF member share. Kathy had originally purchased her MSF member share on 30 July 2007 for $10.

Kathy chose not to elect scrip for scrip rollover relief to disregard any capital gain at the time she exchanged her MSF member share. Kathy calculated a capital gain from the exchange of her MSF member share with MyState shares of $1,168.60 (prior to the 50% CGT discount - refer to example 3 to see how this was worked out). The cost base of Kathy's 387 MyState shares is $1,178.60 (that is, $3.0455 per share).

Kathy then sold all of her MyState shares for $2.50 each via the share sale facility without any brokerage costs that was offered as part of the MSF scheme.

Kathy calculates her capital gain or capital loss from the disposal of her MyState shares as follows:

- reduced cost base of her 387 MyState shares = $1,178.60, (387 x $3.0455)
- capital proceeds from her 387 MyState shares = $967.50, (387 x $2.50)
- capital loss made when selling her MyState shares = $211.10, ($967.50 - $1,178.60).

Kathy has to take into account both the capital gain from the exchange of her MSF member share and the capital loss from the sale of the MyState shares when working out her answer to item **18 Capital gains** in the supplementary section of her 2009-10 tax return, as follows.

Kathy first subtracts her capital loss of $211.10 from her capital gain of $1,168.60. As Kathy has no other current year losses or unapplied net capital losses from earlier years, she can apply the

50% CGT discount to this reduced capital gain of $957.50. Kathy's capital gain for the year is therefore $478.75.

Kathy writes $478 at label A (Net capital gain) at item **18 Capital gains** in the supplementary section of her 2009-10 tax return.

Example 6: Selling MyState shares on the ASX after electing rollover relief when exchanging MSF member shares for MyState shares

Arthur acquired 387 MyState shares on 17 September 2009 in exchange for his MSF member share. Arthur had originally purchased his MSF member share on 30 July 2007 for $10.

Arthur also elected for scrip for scrip rollover relief to disregard any capital gain when he exchanged his MSF member share for the MyState shares, so the cost base of Arthur's 387 MyState shares is now $10 (that is, $0.02584 per share).

Arthur did not sell any of his MyState shares via the share sale facility without any brokerage costs that was offered as part of the MSF scheme. Instead, Arthur sold 200 of his shares on the ASX on 15 April 2010 for $3.40 each. Arthur paid $25 in brokerage fees for this sale.

Arthur calculates his capital gain or capital loss from the sale of his 200 MyState shares as follows:

- cost base of his 200 MyState shares = $30.17
  (200 x $0.02584 per share + $25 brokerage costs)
- capital proceeds from his 200 MyState shares = $680.00
  (200 x $3.40 per share)
- capital gain made when selling his 200 MyState shares = $649.83 ($680.00 - $30.17).

As Arthur held the 200 MyState Shares and the MSF Member Share on capital account for a combined period of more than 12 months, he is entitled to the CGT discount of 50%. Arthur did not have any capital losses from this year, or any unapplied net capital losses from earlier years so he is able to apply the 50%

CGT discount to the current year capital gain of $649.83. Arthur's capital gain is therefore reduced to $324.92.

Arthur writes $649 at label H (Total current year capital gains) and $324 at label A (Net capital gain) at item **18 Capital gains** in the supplementary section of his 2009-10 tax return.

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If you acquired your MSF member shares prior to 20 September 1985

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If you acquired, or are taken to have acquired, your MSF member shares before 20 September 1985, you have a pre-CGT asset. Although pre-CGT assets are not generally subject to capital gains tax, special rules (CGT event K6) apply to pre-CGT shares in a company if 75% or more of the company's net value is made up of post-CGT property. In these circumstances, a capital gain (but not a capital loss) may arise at the time another CGT event happens to your pre-CGT shares, because of the special rules in CGT event K6.

In the case of MSF, more than 75% of the company's net value consisted of post-CGT property on the implementation date. As a consequence you may have a capital gain when you exchanged your pre-CGT MSF member shares on 17 September 2009 for MyState shares.

As a general rule, you acquired, or are taken to have acquired, your MSF member shares before 20 September 1985 if:

- you became a member of MSF* itself before 20 September 1985, or
- you acquired shares or membership interests in a credit union before 20 September 1985 that was taken over by MSF before 20 September 1985.

Attention **Note: MSF was previously known as Connect Credit Union, Savings and Loans Credit Union**

Cooperative, and Tasmanian Public Service Savings and Loans Cooperative Society.

If you acquired your MSF member shares when another credit union in which you held a member share was taken over by MSF (for example, Island State Credit Union or CPS Credit Union) and the takeover happened on or after 20 September 1985, your shares in MSF will be post-CGT assets. You should refer to the information in this fact sheet about the disposal of post-CGT MSF member shares to work out your capital gain.

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What are the CGT consequences of exchanging my pre-CGT MSF member shares?

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CGT event K6 happened at the time you exchanged your pre-CGT MSF member shares on 17 September 2009 for MyState shares. Therefore, you will have a capital gain at this time.

The capital gain when CGT event K6 applies is the amount of the capital proceeds from the MSF member shares that is attributable to post-CGT assets owned by the company, less the assets' cost bases.

The capital proceeds for each of your MSF member shares is $1,178.60 - that is, 387 (the number of MyState shares you received for each of your MSF member shares) multiplied by $3.0455 (the market value of each MyState share on 17 September 2009).

The ATO accepts MSF's submission that there are no unrealised gains on the post-CGT property. Therefore, there is no net capital gain under CGT event K6.

You do not need to include any amount in your 2009-10 tax return from the exchange of your pre-CGT MSF member shares. You will need to keep records showing the cost base for your MyState shares.

Your cost base for the 387 MyState shares is $1,178.60, or $3.0455 per share. You will use this cost base when you sell or otherwise dispose of some or all of your MyState shares.

Further information

For more information on CGT event K6 generally, see **Taxation Ruling TR 2004/18**.

Example 7: Exchanging pre-CGT MSF member shares for MyState shares

Helen acquired one MSF member share before 20 September 1985 for $10. On 17 September 2009, Helen transferred her MSF member share to MyState Limited in exchange for 387 MyState shares. The MyState shares were valued at $3.0455 each on 17 September 2009.

Helen does not make a capital gain from CGT event K6, as explained above. Therefore, Helen does not need to include any amount in her 2009-2010 tax return from the exchange of her MSF member share. The cost base of Helen's 387 MyState shares is $1,178.60, or $3.0455 per share. Helen will use this cost base for her calculations when she eventually sells or otherwise disposes of some or all of her MyState shares.

What are the CGT consequences when I sell or otherwise dispose of my MyState shares?

A CGT event happens when you sell or otherwise dispose of your MyState shares - including selling them via the share sale facility offered as part of the MSF scheme. To calculate the capital gain or loss from this CGT event, refer to the fact sheet information on What are the CGT consequences when I sell or otherwise dispose of my MyState shares?

Example 8: Selling MyState shares via the share sale facility after exchanging pre-CGT MSF member shares for MyState shares

Helen acquired 387 MyState Shares on 17 September 2009 in exchange for her MSF Member Share. Helen had originally purchased her MSF member share before 20 September 1985 for $10.

Helen does not make a capital gain from CGT event K6 for the exchange of her MSF member share - refer to example 7.

Helen then sold all of her MyState shares on 22 September 2009 in the share sale facility without any brokerage costs that was offered as part of the MSF scheme. The MyState shares were sold for $2.50 each.

Helen calculates her capital gain or capital loss from the disposal of her MyState shares as follows:

- cost base (reduced cost base of her 387 MyState shares = $1,178.60 (387 x $3.0455)
- capital proceeds from her 387 MyState shares = $967.50 (387 x $2.50)
- capital loss made when selling her MyState shares = $211.10 ($967.50 - $1,178.60).

Helen can use her capital loss of $211.10 to reduce any capital gains she made in the 2009-10 income year. If she made no capital gains in 2009-10, she can carry forward her capital loss to her next year's tax return, and so on, until she is able to use it.

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What to read next

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For details of this merger, refer to:

- Class Ruling CR 2009/41 - *Income tax: scrip for scrip: merger of MyState Financial Credit Union of Tasmania Limited and Tasmanian Perpetual Trustees Limited*

- **Class Ruling CR 2010/20** - *Income tax: scrip for scrip: merger of MyState Financial Credit Union of Tasmania Limited and Tasmanian Perpetual Trustees Limited (MyState Financial Credit Union of Tasmania shareholders)*
- **Class Ruling CR 2010/21** - *Income tax: scrip for scrip: merger of MyState Financial Credit Union of Tasmania Limited and Tasmanian Perpetual Trustees Limited (Tasmanian Perpetual Trustees shareholders)*.

For more information about the tax implications of owning shares generally, refer to:

- **You and your shares** (NAT 2632) - this publication is for individuals investing in shares or convertible notes and offers guidance on the tax of dividends from investments (including an explanation of the 45-day holding rule), allowable deductions from dividend income and record-keeping requirements for investors
- **Guide to capital gains tax** (NAT 4151) - 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) - shorter than the *Guide to capital gains tax,* this publication covers the sale, gift or other disposal of shares or units, and the distribution of capital gains from managed funds and non-assessable payments from companies or managed funds. It does not cover the 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 - for these you will need to refer to the *Guide to capital gains tax*.

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

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Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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