UXC Limited - 2011-12 return of capital

Find out the tax consequences for shareholders who received a return of capital on their UXC shares.

Last updated 9 August 2012

This information applies to you if:

- you are an individual, not a company or trust
- you held shares in UXC and received the return of capital in December 2011
- you acquired your shares under an employee share scheme (ESS) **and** have been taxed on the discount amount under the ESS provisions
- 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.

Return of capital

All shareholders who held UXC shares at 7pm on 2 December 2011 (record date) were entitled to receive the return of capital.

The payment date of the return of capital was 7 December 2011.

The return of capital was $0.02 per share. The payment was a capital payment. It was not a dividend for any purpose and had no dividend component.

Tax consequences

There are two tax consequences. You need to:

- work out whether you have made a capital gain by comparing the cost base of your shares with the return of capital you received
- adjust the cost base (and reduced cost base) of any UXC shares you owned on 7 December 2011.

Capital gains tax (CGT) implications

A CGT event happened on 7 December 2011 when UXC paid a return of capital on your UXC shares.

If you owned shares when you received the return of capital on 7 December 2011

If you owned shares when you received the return of capital on 7 December 2011

If you sold your shares just before receiving the return of capital on 7 December 2011

A CGT event happened when you sold your UXC shares.

More information

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Capital gains tax (CGT) implications

A CGT event happened on 7 December 2011 when UXC paid a return of capital on your UXC shares.

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The return of capital is a non-assessable payment. If you continued to own your UXC shares after 7 December 2011, you must adjust the cost base (and reduced cost base) of your shares as a result of receiving the non-assessable payment.

You received $0.02 for each UXC share that you held at 7pm on 2 December 2011. This amount is your capital proceeds.

Cost base (and reduced cost base) of shares

The cost base (and reduced cost base) of each of your UXC shares is the price you paid for them (plus any incidental costs such as brokerage).

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If you owned shares when you received the return of capital on 7 December 2011

If you owned shares when you received the return of capital on 7 December 2011

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Capital gain on the return of capital

You made a capital gain if your cost base per share on 2 December 2011 was less than the amount of $0.02 you received for each UXC share. For each of these shares, you made a capital gain of $0.02 minus the cost base of the share.

If you had owned your UXC shares for more than 12 months, you can apply the CGT discount to reduce the capital gain by half.

For shares with a cost base equal or greater than $0.02, you have made no capital gain as a result of the return of capital.

	For information about how to work out the cost base (and reduced cost base) for shares, refer to **Guide to capital gains tax** (NAT 4151).
	If you did not make a capital gain on the return of capital, you do not need to include anything in your 2011-12 tax return about this CGT event. If you made a capital gain on this CGT event, you must include it in your calculations when completing the CGT item on your 2011-12 tax return (supplementary section).

Adjusting the cost base (and reduced cost base) of shares

Where you have made a capital gain, you reduce the cost base (and reduced cost base) of your UXC shares to nil.

Where you have not made a capital gain, you reduce the cost base (and reduced cost base) of each of your UXC shares by $0.02.

If any of your shares had a cost base of exactly $0.02, their new cost base and reduced cost base is nil.

Example

Elliot purchased 5,000 UXC shares in March 2009. The cost base of his shares was the price he paid for them plus brokerage - this was $1,500 or $0.30 per share.

There were no CGT events affecting the cost base of his shares before the return of capital on 7 December 2011.

Elliot was entitled to receive the capital return because he owned UXC shares on 2 December 2011. Elliot still owned his 5,000 UXC shares on

7 December 2011.

Elliot received a total of $100 (5,000 x $0.02) in the return of capital.

Elliot has not made a capital gain on his shares because the return of capital amount of $100 he received is less than their cost base of $1,500. Elliot does not have to include anything on his tax return about this return of capital.

Elliot must adjust the cost base (and reduced cost base) of his UXC share by subtracting the amount of the return of capital.

The new cost base for his share parcel is $1,400 ($1,500 - $100), or $0.28 per share (1,400 divided by 5,000 shares).

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If you sold your shares just before receiving the return of capital on 7 December 2011

A CGT event happened when you sold your UXC shares.

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Capital gain on the sale of UXC shares

You made a capital gain if your cost base per share at the time you sold them was less than the amount you received for each share.

If you had owned your UXC shares for more than 12 months you can apply the CGT discount to reduce the capital gain by half.

Capital gain on the capital return

Another CGT event happened on 7 December 2011 when you received the return of capital on the UXC shares that you owned on 2 December 2011.

Your capital gain is the amount of the return of capital you received.

If you had owned your UXC shares for more than 12 months you can apply the CGT discount to reduce the capital gain by half (after applying any current year or previous year unapplied capital losses to the gain).

Example

Claire purchased 4,000 UXC shares in April 2010. She paid $2,040 for the shares ($0.51 per share) plus $20 brokerage so her cost base (and reduced cost base) when she purchased them is $2,060.

As Claire still owned her 4,000 UXC shares on 2 December 2011 she was entitled to receive the return of capital.

Claire sold her 4,000 UXC shares on 5 December 2011 for $0.45 per share. She received $1,800 and paid $25 brokerage.

Claire received a total of $80 (4,000 x $0.02) in the return of capital on 7 December 2011.

Calculating the capital gain or loss on the sale of her shares

Capital proceeds		$1,800
Cost base	amount paid for the shares, plus	$2,040
	brokerage on purchase, plus	$20
	brokerage on sale	$25
Total reduced cost base		$2,085
Capital loss (capital proceeds minus total reduced cost base)	$1,800 - $2,085 =	($285)

The CGT discount will not apply in this case as Claire has made a capital loss.

Claire must take the $285 capital loss into account in working out her total net capital gains to include at the CGT item of her 2011-12 tax return (supplementary section).

Capital gain on the return of capital payment

Because Claire had sold all of her UXC shares by 7 December 2011 when she was paid the return of capital, she has made a capital gain of $80 (the return of capital amount received).

Applying the capital loss to the capital gain

Assume that Claire has no other capital gains or capital losses for the 2011-12 year and no unapplied capital loses from earlier years.

Claire must apply the capital loss from the sale of her shares to the capital gain made on the return of capital as follows:

> $80 capital gain minus $285 capital loss = $205 capital loss

Claire's capital loss for the year is greater than her capital gain. She therefore reduces the capital gain to zero and has a net capital loss to carry over and use to reduce future capital gains.

> Attention **If a capital gain remains after applying current and prior year capital losses, the CGT discount can be used to reduce the gain by half.**

Recording the capital loss on the tax return

Claire will include at the CGT item in her tax return (supplementary section):

- total current year capital gains of $80
- net capital losses carried forward to later income years $205
- net capital gain of $0.

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More information

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For more information about this return of capital, refer to Class Ruling CR 2012/15 Income tax: Return of capital - UXC Limited. This is a ruling on the tax consequences arising from the bonus share plan.

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

- You and your shares (NAT 2632) - this 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) - this 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 covers the sale, gift or other disposal of shares or units, distribution of gains from managed funds, and non-assessable payments from companies or managed funds.

For more information on non-assessable payments, refer to Non-assessable payments.

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

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