NIB holdings limited (nib) - 2011 return of capital (capital return)

Find out about the return of capital NIB holdings limited made to shareholders in July 2011.

3 February 2016

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 nib and received the return of capital in July 2011
- 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

All shareholders who held nib shares on 13 July 2011 (record date) were entitled to receive the capital return.

The capital return was completed on 21 July 2011.

Components of the capital return

The capital return was $0.1607 per share. This payment was a capital payment. It was not a dividend for any purpose and had no dividend component.

Are there any tax consequences for me?

There are two tax consequences. You need to:

- work out whether you have made a capital gain (you cannot make a capital loss on a capital return)
- adjust the cost base (and reduced cost base) of any nib shares you owned on 21 July 2011.

What is the capital gains tax (CGT) effect?

I owned shares when I received the capital return on 21 July 2011

I sold my shares before receiving the capital return on 21 July 2011

More information

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What is the capital gains tax (CGT) effect?

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A CGT event happened on 21 July 2011, when nib paid a capital return on your nib shares.

The capital return is a non-assessable payment. If you continued to own your nib shares after 21 July 2011, you must adjust the cost base of your shares as a result of receiving the non-assessable payment.

You received $0.1607 for each share that you held on 13 July 2011. This amount is your capital proceeds.

You must include the capital gain on your 2011-12 tax return (supplementary section) if you have made a capital gain.

For more information on non-assessable payments, see Non-assessable payments.

What is the cost base (and reduced cost base) of my shares?

If you acquired your nib shares under the demutualisation of nib on 1 October 2007, the cost base (and reduced cost base) of each of your nib shares is $0.85.

If you purchased your nib shares after they were listed in October 2007, the cost base (and reduced cost base) of each of your nib shares is the price you paid for them (plus any incidental costs such as brokerage).

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I owned shares when I received the capital return on 21 July 2011

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Did I make a capital gain on the capital return?

You made a capital gain if your cost base per share on 13 July 2011 was less than the amount of $0.1607 you received for each nib share.

For each of these shares, you made a capital gain of $0.1607 minus the cost base of the share.

If you had owned your nib 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 to or greater than $0.1607, you have made no capital gain as a result of the return of capital.

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

> Attention
>
> **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).**
>
> **Note -** if you did not make a capital gain on the return of capital, there is nothing you need to include on your 2011-12 tax return regarding this CGT event.

How do I adjust the cost base (and reduced cost base) of my shares?

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

Where you have not made a capital gain, you reduce the cost base (and reduced cost base) of each of your nib shares by $0.1607.

If any of your shares had a cost base of exactly $0.1607, their new cost base and reduced cost base is nil.

Example 1

Duncan was issued 2,000 nib shares under the demutualisation of nib on 1 October 2007.

The cost base of his shares was their market value on the day they were issued to him - this was $1,700, or $0.85 per share.

There were no CGT events affecting the cost base of his shares before the capital return on 21 July 2011.

Duncan was entitled to receive the capital return because he owned nib shares on 13 July 2011. Duncan still owned his 2,000 nib shares on 21 July 2011.

Duncan received a total capital return of $321.40 (2000 x $0.1607) in the capital return.

Duncan has not made a capital gain on his shares because the capital return amount of $321.40 he received is less than their cost base of $1,700. Duncan does not have to include anything on his 2011-12 tax return regarding this capital return.

Duncan must adjust the cost base (and reduced cost base) of his nib shares by subtracting the amount of the capital return.

The new cost base for his share parcel is $1,378.60 ($1,700 - $321.40), or $0.69 per share ($1,378.60 divided by 2,000 shares).

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I sold my shares before receiving the capital return on 21 July 2011

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Did I make a capital gain on the sale of my nib shares?

A CGT event happened when you sold your nib 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 nib shares for more than 12 months you can apply the CGT discount to reduce the capital gain by half.

Did I make a capital gain on the capital return?

Another CGT event happened on 21 July 2011 when you received the capital return on the nib shares you owned on 13 July 2011.

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

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

Example 2

Janet purchased 1,000 nib shares in August 2009. She paid $800 for the shares ($0.80 per share) plus $20 brokerage so her cost base (and reduced cost base) when she purchased them is $820.

As Janet still owned her 1,000 nib shares on 13 July 2011 she was entitled to receive the capital return.

Janet sold her 1,000 nib shares on 19 July 2011 for $1.24 per share. She received $1,240 and paid $25 brokerage.

Janet received a total capital return of $160.70 (1,000 x $0.1607) in the capital return.

Calculating the capital gain on the sale of her shares

Capital proceeds		$1,240
Cost base	amount paid for the shares, plus	$820
	brokerage on purchase, plus	$20
	brokerage on sale	$25
Total cost base		$865
* **Capital gain** (capital proceeds minus total cost base)	$1,240 - $865 =	$375

As Janet owned her nib shares for more than 12 months she can apply the CGT discount to reduce her gain by half to $187.50.

Janet must take the $187.50 into account in working out her total net capital gains to include at the CGT item of her 2011-12 tax return (supplementary section).

The capital gain on the capital return

Because Janet had sold all of her nib shares by 21 July 2011 when she was paid the capital return, she has made a capital gain of $160.70 (the capital return amount).

As Janet had owned her nib shares for more than 12 months she can apply the CGT discount to reduce her gain by half to $80.35.

Recording the capital gains on the tax return

Assuming that Janet has no other capital gains or capital losses for the 2011-12 year, she will include at the CGT item in her tax return (supplementary section):

- total current year capital gains of $535 (the $375 capital gain she made on the sale of her nib shares plus the capital gain of $160.70 on the capital return), and
- total net capital gains of $267 (the $187.50 net capital gain she made on the sale of her nib shares plus the net capital gain of $80.35 on the capital return).

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More information

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For more information about this return of capital, see Class Ruling CR 2011/56 Income Tax: return of capital - nib holdings limited. This is an ATO ruling on the tax consequences arising from this return of capital.

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

You and your shares (NAT 2632) - 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) - 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, distribution of gains from managed funds, and non-assessable payments from companies or managed funds.

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

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