Australian Gas Light Company (AGL) return of capital

Find out about the return of capital Australian Gas Light Company (AGL) made to shareholders in 2005.

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Overview

This page contains information about the return of capital Australian Gas Light Company (AGL) made to shareholders in 2005.

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 AGL and received the return of capital in 2005
- 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

AGL Limited announced a capital return on 24 February 2005 with completion to shareholders on 29 April 2005.

Components of the capital return

The capital return was $0.50 per share. This payment was a capital payment with no dividend component.

Are there any tax consequences for me?

There are two tax consequences to consider.

What are the capital gains tax consequences for me?

A CGT event happened on 29 April 2005, when AGL made a capital return on the shares that you held in the company.

If you no longer held the shares when the return of capital was paid

If you disposed of the shares after the record date and before the return of capital was received, it is a CGT event.

How do I treat the capital gain?

If you made a capital gain on this CGT event, you must include it in your calculations on your tax return.

What to read/do next

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Background

AGL Limited announced a capital return on 24 February 2005 with completion to shareholders on 29 April 2005.

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AGL Limited announced a return of capital ('capital return') on 24 February 2005. All AGL shareholders on 13 April 2005 (the record date) received the capital return. The capital return was completed on 29 April 2005.

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Components of the capital return

The capital return was $0.50 per share. This payment was a capital payment with no dividend component.

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The capital return was $0.50 per share. This payment was a capital payment (it was not classed as a dividend for any purpose and had no dividend component).

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Are there any tax consequences for me?

There are two tax consequences to consider.

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There are two tax consequences.

- The capital return on your shares is a capital gain tax event that may have resulted in a capital gain for you. Depending on the outcome, you may have to include some details on your 2004-05 tax return.

- As a result of the return of capital, you must adjust the cost base of your AGL shares.

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What are the capital gains tax consequences for me?

A CGT event happened on 29 April 2005, when AGL made a capital return on the shares that you held in the company.

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A CGT event happened on 29 April 2005, when AGL made a capital return on the shares that you held in the company.

You received $0.50 for each share that you held on the record date. This amount represents your capital proceeds.

If you held the shares when the return of capital was paid

For AGL shares you acquired after 19 September 1985* you must:

- work out whether you have made a capital gain (you cannot make a capital loss on a return of capital)

- adjust the cost base and reduced cost base of your AGL shares.

  * Shares acquired before 20 September 1985 are pre-CGT assets and you therefore disregard any capital gain or capital loss you make on them.

Did I make a capital gain?

You have made a capital gain if your cost base per share on the payment date (29 April 2005) was less than the amount you received for each share ($0.50). For each of these shares, you have made a capital gain of $0.50 minus the cost base of the share.

For shares with a cost base equal to or greater than $0.50, 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 2004-05.

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

For the shares you made a capital gain on - reduce their cost base and reduced cost base to nil.

For your other shares - reduce the cost base and reduced cost base by $0.50 each. If any of your shares had a cost base of exactly $0.50, their new cost base and reduced cost base will be nil.

For more information on how to work out the cost base and the reduced cost base of shares, see the Guide to capital gains tax 2004-05.

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If you no longer held the shares when the return of capital was paid

If you disposed of the shares after the record date and before the return of capital was received, it is a CGT event.

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If you disposed of the shares after the record date and before the return of capital was received, the return of capital is a CGT event separate from the CGT event on disposal. The cost base for the return of capital is nil. Therefore, you have made a capital gain from this event of $0.50 per share disposed.

For AGL shares you acquired after 19 September 1985*, use the table in How do I treat the capital gain? to decide which method to use to calculate the amount to include in your net capital gain or loss for the year of income that comes from the capital return.

> * Shares acquired before 20 September 1985 are pre-CGT assets and you therefore disregard any capital gain or capital loss you make on them.

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How do I treat the capital gain?

If you made a capital gain on this CGT event, you must include it in your calculations on your tax return.

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If you made a capital gain on this CGT event, you must include it in your calculations when completing item **17** on your *Tax return 2004-05 (supplementary section)*.

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

If you acquired your AGL shares:	You calculate your capital gain using the:
before 21 September 1999	indexed cost base or discount method, whichever gives you the better result.*

on or after 21 September 1999 *and* before 29 April 2004	discount method (after applying any capital losses - including unapplied capital losses from previous years).
on or after 29 April 2004	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 2004-05.

Note

> If you did not make a capital gain on the return of capital, there is nothing you need to include on your 2004-05 tax return regarding this CGT event.

Example 1

> Norman purchased 200 AGL shares in September 1999. At the time of the capital return on 29 April 2005, the cost base of these shares (includes the cost of the shares and brokerage and stamp duty) was $1,950, or $9.75 per share.
>
> Norman received a total of $100 (200 x $0.50) in the return of capital.
>
> Norman must adjust the cost base and reduced cost base of his AGL shares by subtracting the amount of the capital return. The new cost base for his share parcel is $1,850 ($1,950 - $100), or $9.25 per share.
>
> Norman has not made a capital gain on his shares as a result of the capital return so he does not have to put anything on his tax return to reflect this event.

Example 2

> Sarah sold 500 AGL shares on 20 April 2005; Sarah acquired these shares in March 2004. Sarah made a $1,250 capital gain on the sale. As a consequence of this sale, she held no AGL shares at the time of the capital return on 29 April 2005.

As Sarah held the shares for more than 12 months, she is able to use the discount method to work out her net capital gain on their sale.

Because she held AGL shares on the record date (13 April 2005), Sarah is eligible to receive the capital return. Sarah received $250 ($500 x $0.50) in the return of capital.

Calculating the capital gain

Sarah made a capital gain from the return of capital as follows:

Capital proceeds (500 x $0.50)	$250
less total cost base (500 x $0.00)	$0
Capital gain	$250

Because Sarah had held the shares she sold and for which the capital return was paid for more than 12 months, she applies the CGT discount to her capital gains on both the capital return and the disposal (if she had capital losses she would offset them against her capital gain before applying the discount). If Sarah applies the CGT discount, she will include a $750 ($1250 + $250) x 50%) net capital gain on her tax return for the year ended 30 June 2005.

Recording the capital gain on the tax return

Assuming that these were her only CGT events for the 2004-05 year, Sarah would complete item **17** on her 2005 tax return (supplementary section) showing:

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

Net capital gain: $750

Total current year capital gains: $1,500 ($1,250 on sale of shares + $250 for capital return)

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What to read/do next

Guidance notes about this return of capital and tax implications of owning shares.

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For more information about this return of capital, see Class Ruling CR 2005/23: Return of capital: Australian Gas Light Company. This is a Tax Office 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 2004-05 (NAT 2632-6.2005) - 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 2004-05 (NAT 4151-6.2005) - 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 2004-05 (NAT 4152-6.2005) - shorter than the Guide to capital gains tax 2004-05, 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.
  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 - for information on these CGT issues, you will need to refer to the Guide to capital gains tax 2004-05.

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

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