Separation of News Corporation from Twenty-First Century Fox, Inc.

How to find out about the separation of News Corporation from Twenty-First Century Fox, Inc.

21 July 2017

This document contains information for current or former shareholders in Twenty-First Century Fox, Inc. (21CF) after the separation of News Corporation (News Corp).

This information applies to you if – you:

- are an individual, not a company or trust
- are an Australian resident for tax purposes
- held Class A common stock and/or Class B voting common stock in 21CF on 21 June 2013 (record date)
- hold your shares as an investment asset, not
  - as trading stock
  - as part of carrying on a business
  - to make a short-term or one-off commercial gain.

The separation

21CF (then News Corporation) separated its media and entertainment and its publishing businesses into two independent publicly traded companies – 21CF and the new News Corporation (new News Corp) – on 28 June 2013 (the Separation). This was completed by distributing shares to its shareholders of the new News Corp.

The Separation involved a distribution under which you received:

- one Class A common stock in new News Corp for every four Class A common stock held in 21CF
- one Class B voting common stock in new News Corp for every four Class B voting common stock held in 21CF.

You were entitled to the distribution if you held Class A common stock or Class B voting common stock in 21CF on 21 June 2013 (Record date).

You received a capital distribution worth $4.15 for each 21CF Class A common stock from the Separation.

You received a capital distribution worth $4.12 for each 21CF Class B voting common stock from the Separation.

Cost base of your new News Corp shares

Calculate the cost base of your new News Corp shares.

Capital gains implications

You will make a capital gain if the capital proceeds exceed your cost-base or reduced cost base.

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Cost base of your new News Corp shares

Calculate the cost base of your new News Corp shares.

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The first element of the cost base and reduced cost base of your new shares received as a result of the distribution from 21CF are as follows – for new News Corp:

- Class A common stock at 28 June 2013, $16.60

- Class B voting common stock at 28 June 2013, $16.50.

CGT event as a result of the distribution

A CGT event happened when you received your distribution on 28 June 2013. The capital proceeds received by a 21CF shareholder are equal to one quarter of the market value of a new News Corp share received at the time of distribution. Specifically, the capital proceeds in relation to each class of shares is as follows:

- $4.15 for each 21CF Class A common stock
- $4.12 for each 21CF Class B voting common stock.

There are different implications for you depending on whether you still held your 21CF shares as of 28 June 2013 when the separation happened.

If you held the shares on 28 June 2013

For 21CF shares you acquired after 19 September 1985* you must both:

- adjust the cost base and reduced cost base of your 21CF shares
- work out whether you have made a capital gain (you cannot make a capital loss on the separation).

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

How do I adjust the cost base and reduced cost base of my 21CF shares?

The cost-base, or reduced cost-base of your 21CF shares is reduced by the amount of the capital proceeds you received (but not below zero). The capital proceeds of the CGT event are:

- $4.15 for each 21CF Class A common stock
- $4.12 for each 21CF Class B voting common stock.

For 21CF shares that had a cost base of less than $4.15 for class A shares and $4.12 for class B shares, reduce your cost base to nil. Your capital gain will be equal to the excess.

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You cannot make a capital loss.

Any capital gain you make as a result of this transaction is a discountable capital gain in accordance with normal rules provided the corresponding 21CF share was acquired at least 12 months before the date of distribution (28 June 2013).

Example 1: Cost base higher than Capital Proceeds

Jan purchased 1,000 Class A shares in 21CF in 2006 for $8.00 per share (i.e. a total cost of $8,000). Jan continued to hold her shares after 28 June 2013. As a result of the Separation Jan received 250 Class A shares in new News Corp.

The cost base of Jan's new shares in new News Corp is $16.60 per share (i.e. a total cost base of $4,150).

Jan will need to determine if she made a capital gain on her 21CF shares. The capital proceeds of $4.15 per share are less than the cost base of $8.00 per share, therefore Jan did not make a capital gain as a result of the Separation and cannot make a capital loss.

However, Jan will need to adjust the cost base of her 21CF shares as a result of the Separation. The first element of her cost base of each 21CF share will now be reduced to $3.85 per share (being $8.00 per share reduced by the capital proceeds from the Separation of $4.15 per share). Jan’s total new cost base of all her 21CF shares is now reduced to $3,850.

Jan will need to record the cost base of her new News Corp shares and adjust her record of the cost base of her 21CF shares.

Example 2: Cost base less than Capital Proceeds

Julie purchased 1,000 Class B shares in 21CF in 2008 for $3.00 per share (i.e. a total cost of $3,000). Julie continued to hold her shares after 28 June 2013. As a result of the Separation, Julie received 250 Class B shares in new News Corp.

The cost base of Julie's new shares in new News Corp is $16.50 per share (i.e. a total cost base of $4,125).

Julie has made a capital gain as the capital proceeds of $4.12 for each 21CF Class B share exceed the cost base of $3.00 per share. Julie has made a capital gain of $1,120 (being 1,000 shares x ($4.12 - $3.00) = $1,120) as a result of the Separation. As Julie has held her shares in 21CF for more than 12 months, she is able to use the discount method to calculate her capital gain. Therefore, assuming Julie has no current or carried forward capital losses, she would need to include $560 (that is her capital gain of $1,120 multiplied by 50%) as her capital gain amount in relation to this transaction.

Julie also needs to adjust the cost base of her 21CF shares as a result of the Separation. As the capital proceeds of $4.12 per share are greater than her cost base of $3.00 per share, Julie’s cost base of her 21CF shares must be reduced to Nil going forward.

If you no longer held 21CF shares on 28 June 2013

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The right to receive the new News Corp shares distributed under the Separation is one of the rights inherent in the 21CF shares held at the Record date (21 June 2013). If you disposed of the shares after 21 June 2013 and before the date of distribution (Separation date) (28 June 2013), you still have the right to receive the new News Corp shares and this is a separate CGT asset.

This right is acquired at the same time when the corresponding 21CF share was acquired. The cost base for this CGT asset is nil. Therefore, you will make a capital gain from this event of $4.15 per Class A share and $4.12 per Class B share. Where the corresponding 21CF share was acquired at least 12 months prior the Separation date you will be eligible for the discount in accordance with normal rules.

Example 3: Shares sold before 28 June 2013

Jim purchased 400 Class A shares in 21CF in 2008 for $6.00 per share. He continued to hold the 21CF shares on 21 June 2013. He sold his shares on 26 June 2013 for $8.50 per share. CGT event A1 happens at this time for the sale transaction. Also, as a result of the Separation, Jim will have received 100 Class A shares in new News Corp. The cost base of Jim's new shares in new News Corp is $16.60 per share (i.e. a total cost base of $1,660). Jim makes a capital gain on the sale transaction of $1,000 (400 x ($8.50 - $6.00)). He is entitled to use the CGT discount method to calculate his capital gain. Therefore, assuming Jim has no current or carried forward capital losses, he will need to include $500 (being the capital gain of $1,000 multiplied by 50%) in his 2012-13 income tax return.

Even though Jim sold his 21CF shares, he retained his right to receive shares in new News Corp on 28 June 2013. The cost base of this right is Nil. The capital proceeds from the satisfaction of the right related to the 21CF Class A shares is $4.15. Jim will make a capital gain of $1,660 (being 400 shares multiplied by $4.15). As the right is considered to be acquired when the corresponding 21CF share was acquired, Jim is able to use the CGT discount method to calculate his capital gain. Therefore, assuming Jim has no current or carried forward capital losses; his discounted capital gain is $830 (being $1,660 multiplied by 50%).

The total discounted capital gain Jim will need to include in his income tax return for the 2012-13 income year is $1,330 ($500 + $830).

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