Status: **legally binding**

Class Ruling

Canva, Inc – scrip for scrip roll-over

Relying on this Ruling

This publication (excluding appendix) is a public ruling for the purposes of the *Taxation Administration Act 1953*.

If this Ruling applies to you, and you correctly rely on it, we will apply the law to you in the way set out in this Ruling. That is, you will not pay any more tax or penalties or interest in respect of the matters covered by this Ruling.

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What this Ruling is about

1. This Ruling sets out the income tax consequences for certain shareholders of the entity formerly known as Canva, Inc. (now registered as Canva Australia Holdings Pty. Ltd.) (Canva), who exchanged their shares for replacement shares in the new Canva, Inc. (New Canva) in connection with the restructure of the Canva corporate group which commenced on 13 February 2025 (AEDT) (Restructure).

2. Details of this scheme are set out in paragraphs 23 to 48 of this Ruling.

3. All legislative references in this Ruling are to the *Income Tax Assessment Act 1997*, unless otherwise indicated.

Who this Ruling applies to

4. This Ruling applies to you if:

- immediately before and at the time of the Restructure
  - you were a resident of Australia (as defined in subsection 6(1) of the *Income Tax Assessment Act 1936*), a temporary resident within the meaning of subsection 995-1(1), or a resident trust for CGT purposes within the meaning of subsection 995-1(1)
  - you held shares in Canva (Canva shares), being preferred stocks, FF preferred stocks or common stocks in Canva (if you are a partner in a venture capital limited partnership (VCLP) or an early stage venture capital limited partnership (ESVCLP), this includes your interest in the shares held by the partnership)

  - if you were a temporary resident within the meaning of subsection 995-1(1), your shares in Canva were not taxable Australian property within the meaning of section 855-15
  - you held your Canva shares on capital account – that is, your Canva shares were neither held as revenue assets (as defined in section 977-50) nor as trading stock (as defined in subsection 995-1(1)), and
- as a result of the Restructure, your Canva shares were replaced with shares in New Canva (New Canva shares).

5. This Ruling does not apply to anyone who is subject to the taxation of financial arrangements rules in Division 230 in relation to the scheme outlined in paragraphs 23 to 48 of this Ruling.

Note: Division 230 will not apply to individuals unless they have made an election for it to apply.

When this Ruling applies

6. This Ruling applies from 1 July 2024 to 30 June 2025.

Ruling

CGT event C2 happens

7. CGT event C2 happened to each of your Canva shares when it was cancelled as part of the Restructure.

8. The time of the CGT event is the date when your Canva shares were cancelled (paragraph 104-25(2)(b)).

9. Subject to the application of Subdivision 124-M and section 768-915:

- You will make a capital gain if the capital proceeds received for a share exceeds its cost base. The capital gain is the amount of the excess.
- You will make a capital loss if the reduced cost base of a share exceeds the capital proceeds. The capital loss is the amount of the difference (subsection 104-25(3)).

10. The capital proceeds are equal to the market value of the New Canva share you received in respect of the cancellation of your Canva share, worked out at the time your Canva share ended (paragraph 116-20(1)(b)).

Availability of scrip for scrip roll-over relief under Subdivision 124-M

11. Paragraphs 12 to 20 of this Ruling apply to you if you were a resident of Australia or a resident trust for CGT purposes.

12. You will be able to choose to obtain scrip for scrip roll-over relief under section 124-780 for each Canva share that was exchanged for a New Canva share if:

- you would, apart from the roll-over, make a capital gain from CGT event C2 happening to a Canva share

- any capital gain that may be made upon a CGT event happening in relation to the New Canva share received as part of the Restructure would not be disregarded (except because of a roll-over) (paragraph 124-795(2)(a)), and
- if section 124-782 applies to you, you make a joint election with New Canva to obtain roll-over relief, and you inform New Canva of the cost base of your Canva share worked out just before CGT event C2 happened in relation to it.

Consequences if you choose scrip for scrip roll-over relief

Capital gain is disregarded

13. If you choose to obtain scrip for scrip roll-over relief, the capital gain that you would otherwise have made from CGT event C2 happening to your Canva share is disregarded (subsection 124-785(1)).

Cost base and reduced cost base

14. If you choose to obtain the scrip for scrip roll-over relief, the first element of the cost base and reduced cost base of each New Canva share you received in exchange is worked out by attributing to it the cost base of the corresponding Canva share for which it was exchanged (subsections 124-785(2) and (4)).

Acquisition date

15. If you choose scrip for scrip roll-over relief, you are taken, for the purposes of applying the CGT discount, to have acquired each of your New Canva shares when you acquired the corresponding Canva share for which it was exchanged (table item 2 of subsection 115-30(1)).

Consequences if you do not, or cannot, choose scrip for scrip roll-over relief

Capital gain is not disregarded

16. If you do not, or cannot, choose the scrip for scrip roll-over relief, the capital gain you made from the cancellation of your Canva share will not be disregarded.

17. You must take into account any capital gain or capital loss from CGT event C2 happening on the cancellation of your Canva share in working out your net capital gain or net capital loss for the income year in which the CGT event C2 happened (sections 102-5 and 102-10). You must include any net capital gain worked out in your assessable income for the income year.

Capital gain may be a discount capital gain

18. If you do not, or cannot, choose the scrip for scrip roll-over relief, you can treat any resulting capital gain as a 'discount capital gain' provided that the conditions of Subdivision 115-A are met. You must have held the relevant Canva share for at least 12 months before the CGT event.

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Cost base and reduced cost base

19. If you do not, or cannot, choose the scrip for scrip roll-over relief, the first element of the cost base and reduced cost base of each New Canva share acquired as part of the Restructure is equal to the market value of the Canva share exchanged in respect of acquiring the New Canva share. The market value of the Canva share is worked out at the time of the acquisition of the New Canva share (subsections 110-25(2) and 110-55(2)).

Acquisition date

20. If you do not, or cannot, choose the scrip for scrip roll-over relief, the acquisition date of your New Canva share is the date on which the share was issued to you (table item 2 of section 109-10).

Consequences for temporary residents

21. If you were a temporary resident, any capital gain or capital loss you made from CGT event C2 happening to your Canva share is disregarded (subsection 768-915(1)).

Consequences for certain venture capital investors

22. New Canva is taken to meet the requirements of subsections 118-425(2) to (7) pursuant to the application of subsection 118-425(8). To this extent, New Canva will continue to be a company that is an eligible venture capital investment on the basis that Canva was an eligible venture capital investment at the time that the shares being exchanged were acquired. A venture capital partnership should satisfy itself whether its investment made in New Canva meets the requirement in paragraph 118-425(1)(d) that the amount invested in New Canva (together with any of its connected entities) by the investor does not exceed 30% of the partnership's committed capital (as defined in section 118-445).

Scheme

23. The following description of the scheme is based on information provided by the applicant. If the scheme is not carried out as described, this Ruling cannot be relied upon.

Background

24. Canva was incorporated in the State of Delaware in the United States of America (US) on 28 June 2012 under the *Delaware General Corporation Law* (DGCL).

25. Canva is a resident of Australia (as defined in subsection 6(1) of the *Income Tax Assessment Act 1936*) and a resident of the US for tax purposes.

26. Canva is the head company of the Canva income tax consolidated group comprising Canva, Canva Pty Ltd (CPL) and its wholly owned Australian subsidiaries. Canva also owns shares in various non-Australian subsidiaries directly and indirectly through CPL.

Status: **legally binding**

27. Canva had the following classes of shares on issue:

- Class A common stock
- Class B common stock
- FF preferred stock, and
- preferred stock.

Restructure

28. As part of the restructuring of the Canva global corporate group, commencing on 13 February 2025 (AEDT), New Canva was incorporated as the ultimate holding company of the Canva group.

29. Participation in the Restructure was available on the same terms to all interest holders of a particular type in Canva.

30. Post-Restructure, CPL intends to continue its business operations in substantially the same manner.

Detailed steps of the Restructure

31. In carrying out the Restructure, the steps detailed at paragraphs 32 to 45 of this Ruling were undertaken.

Step 1: Incorporation of new company

32. New Canva was incorporated in Delaware as a wholly owned subsidiary. Canva owned all the shares in New Canva.

Step 2: Incorporation of Merger Sub

33. A wholly owned subsidiary of New Canva was incorporated in Delaware in the US (Merger Sub). New Canva owned all the shares in Merger Sub.

Step 3: The Merger

34. Pursuant to section 251(g) of the DGCL, the following steps occurred (collectively, the Merger):

- Canva surrendered its shares in New Canva.
- Merger Sub merged with and into Canva under a 'reverse triangular merger'.
- All shares of Canva were immediately cancelled and converted into a right to receive the same number of shares in New Canva, with the same rights, privileges and preferences as applied to the previously outstanding shares of Canva.
- Canva survived the merger as a wholly owned subsidiary of New Canva.

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35. The Merger happened in accordance with section 251(g) of the DGCL and subject to and upon the terms and conditions of a merger agreement (Merger Agreement) entered into between Canva, New Canva and Merger Sub (collectively, the Parties).

36. The Merger became effective on 13 February 2025 (AEDT) (12 February 2025 US Eastern Standard Time (EST)) (Effective Time).

37. At the Effective Time, by virtue of the Merger and without any further action by the Parties or Canva shareholders:

- Merger Sub was merged with and into Canva, the separate corporate existence of Merger Sub ceased, and Canva continued as the surviving corporation of the Merger with all the contractual rights and obligations of Merger Sub being assumed by Canva as a result of the Merger. Under the DGCL, Merger Sub did not dissolve. Rather, the separate corporate existence of Merger Sub ceased to exist, and Canva continued as the surviving corporation, assuming all contractual rights and obligations of Merger Sub.
- All shares of Canva held by shareholders were cancelled under section 251(g) of the DGCL. In exchange, New Canva issued an identical number of shares with the same terms as the cancelled Canva shares. As a result, shareholders of Canva ceased to hold shares in Canva but instead became shareholders of New Canva.
- The ownership percentage or rights of shares held by Canva shareholders in Canva were the same as the ownership percentage and rights of shares they hold in New Canva. No monetary consideration was required for the exchange of Canva shares for New Canva shares.
- The rights attached to each New Canva share are equivalent to those attached to each cancelled Canva share, with the relative value of each New Canva share being identical to each cancelled Canva share.
- The outstanding shares of Merger Sub held by New Canva were, by operation of the DGCL, converted into shares of Canva, resulting in Canva surviving the Merger as a wholly owned subsidiary of New Canva.
- The New Canva shares held by Canva immediately prior to the Merger were surrendered.

38. The Merger was completed at the Effective Time (Merger Closing Date), and Canva became a wholly owned subsidiary of New Canva.

39. At the Effective Time, pursuant to the Merger Agreement, Canva transferred to New Canva, and New Canva assumed all rights and agreed to perform all obligations of Canva with respect to, Canva's stock options and restricted stock units (RSUs). The assumption of equity plans, equity awards and agreements was effected pursuant to the Merger Agreement and board actions by Canva and New Canva boards.

40. Under section 10 of the Merger Agreement, existing holders of stock options and RSUs in Canva were issued corresponding New Canva stock options and RSUs, which mirrored the terms and economic conditions of the existing Canva stock plans.

Step 4: Conversion to a Delaware limited liability company

41. On the day after the Merger Closing Date (US EST), Canva converted to a Delaware limited liability company (Canva LLC), carried out in accordance with section 18-

Status: **legally binding**

214 of the *Delaware Limited Liability Company Act* (DLLCA) and section 266 of the DGCL (conversion). The conversion became effective on 13 February 2025 (AEDT and US EST), being the date on which Canva filed the certificate of conversion (executed in accordance with the DGCL) with the Delaware Secretary of State.

42. Under Delaware law:

- Canva LLC's existence post-conversion will be deemed to have commenced on 28 June 2012, the original incorporation date of Canva.
- Canva (prior to the conversion) and Canva LLC (post conversion) are considered to be the same legal entity. The conversion did not constitute a dissolution of Canva. The conversion involved a change of corporate form only, with the entity retaining the same assets and liabilities both before and after the conversion.

43. In connection with the conversion:

- The shares of Canva were converted into membership interests in Canva LLC under section 18-214(i) of the DLLCA and section 266(g) of the DGCL.
- Canva LLC maintained a separate legal existence, distinct from its members, for US corporate law purposes.
- Under Delaware corporate law, Step 4 required the consent of Canva shareholders holding a majority of voting power of Canva's share capital.

Step 5: Transfer of registration in Australia

44. On 12 March 2025 (AEDT and US EST), Canva LLC registered as Canva Australia Holdings Pty. Ltd. (Canva Australia Holdings), a proprietary company limited by shares under Part 5B.1 of the *Corporations Act 2001*, transferring its registration from the US to Australia.

Step 6: US 'check-the-box' election

45. A US 'check the box' election was made in respect of Canva Australia Holdings by filing US Internal Revenue Service Form 8832. The election classified Canva Australia Holdings as a 'disregarded entity' for US federal income tax purposes, effective from the time Canva LLC's registration was transferred to Australia.

Other matters

46. Just before the Effective Time:

- Canva had more than 300 members and did not have a concentrated ownership of the nature described in section 124-810, and
- you, Canva and New Canva were not all members of the same linked group as defined in section 170-260.

47. Other than New Canva shares issued to you in exchange for your Canva shares, no equities were issued and no member of the Canva group owes new debt under the arrangement to an entity that is not a member of the group, in relation to the issuing of the New Canva shares for the purposes of paragraph 124-780(3)(f).

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Venture capital investors

48. If you are a VCLP or an ESVCLP, your current investment in Canva qualifies as an early venture capital investment at the Effective Time and was not the result of any earlier scrip for scrip arrangement since originally acquired.

Commissioner of Taxation
28 May 2025

Status: **not legally binding**

Appendix – Explanation

This Explanation is provided as information to help you understand how the Commissioner's view has been reached. It does not form part of the binding public ruling.

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Subdivision 124-M roll-over for residents

49. A scrip for scrip roll-over under Subdivision 124-M enables a shareholder to disregard a capital gain from a share that is disposed of if the shareholder receives a replacement share in exchange. It also provides special rules for calculating the cost base of the replacement share.

50. Subdivision 124-M contains a number of conditions for, and exceptions to, a shareholder being eligible to choose scrip for scrip roll-over. The main requirements that are relevant to the scheme that is the subject of this Ruling are:

- shares in the original company are exchanged for shares in another replacement company (subparagraph 124-780(1)(a)(i))
- the exchange is in consequence of a single arrangement that satisfies subsection 124-780(2) or 124-780(2A)
- the conditions for the roll-over in subsection 124-780(3) are satisfied
- further conditions in subsections 124-780(4) and 124-780(5), if applicable, are satisfied, and
- exceptions for the scrip for scrip roll-over in section 124-795 are not applicable.

51. The scheme that is the subject of this Ruling satisfies the requirements for roll-over under Subdivision 124-M.

Temporary residents

52. If you were a temporary resident within the meaning of subsection 995-1(1) immediately before and at the time of the Restructure, any capital gain or capital loss you made from CGT event C2 happening to your Canva share is disregarded (subsection 768-915(1)).

Status: **not legally binding**

References

Legislative references:

- ITAA 1936 6(1)
- ITAA 1997 102-5
- ITAA 1997 102-10
- ITAA 1997 104-25(2)(b)
- ITAA 1997 104-25(3)
- ITAA 1997 109-10
- ITAA 1997 110-25(2)
- ITAA 1997 110-55(2)
- ITAA 1997 Subdiv 115-A
- ITAA 1997 115-30(1)
- ITAA 1997 116-20(1)(b)
- ITAA 1997 118-425(1)(d)
- ITAA 1997 118-425(2)
- ITAA 1997 118-425(3)
- ITAA 1997 118-425(4)
- ITAA 1997 118-425(5)
- ITAA 1997 118-425(6)
- ITAA 1997 118-425(7)
- ITAA 1997 118-425(8)
- ITAA 1997 118-445
- ITAA 1997 Subdiv 124-M
- ITAA 1997 124-780
- ITAA 1997 124-780(1)(a)(i)
- ITAA 1997 124-780(2)
- ITAA 1997 124-780(2A)
- ITAA 1997 124-780(3)
- ITAA 1997 124-780(3)(f)
- ITAA 1997 124-780(4)
- ITAA 1997 124-780(5)
- ITAA 1997 124-782
- ITAA 1997 124-785(1)
- ITAA 1997 124-785(2)
- ITAA 1997 124-785(4)
- ITAA 1997 124-795
- ITAA 1997 124-795(2)(a)
- ITAA 1997 124-810
- ITAA 1997 170-260
- ITAA 1997 Div 230
- ITAA 1997 768-915
- ITAA 1997 768-915(1)
- ITAA 1997 855-15
- ITAA 1997 977-50
- ITAA 1997 995-1(1)
- Corporations Act 2001 Pt 5B.1
- Delaware General Corporation Law 251(g)
- Delaware General Corporation Law 266
- Delaware General Corporation Law 266(g)
- Delaware Limited Liability Company Act 18-214
- Delaware Limited Liability Company Act 18-214(i)

ATO references

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