



# ***CR 2006/88 - Income tax: scrip for scrip rollover: acquisition of Travelscene Limited by S8 Limited***

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 This document has changed over time. This is a consolidated version of the ruling which was published on *12 May 2006*



## Class Ruling

### Income tax: scrip for scrip rollover: acquisition of Travelscene Limited by S8 Limited

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**❶ This publication provides you with the following level of protection:**

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

A public ruling is an expression of the Commissioner's opinion about the way in which a relevant provision applies, or would apply, to entities generally or to a class of entities in relation to a particular scheme or a class of schemes.

If you rely on this ruling, we must apply the law to you in the way set out in the ruling (or in a way that is more favourable for you if we are satisfied that the ruling is incorrect and disadvantages you, and we are not prevented from doing so by a time limit imposed by the law). You will be protected from having to pay any underpaid tax, penalty or interest in respect of the matters covered by this ruling if it turns out that it does not correctly state how the relevant provision applies to you.

## What this Ruling is about

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1. This Ruling sets out the Commissioner's opinion on the way in which the relevant provision(s) identified below apply to the defined class of entities, who take part in the scheme to which this Ruling relates.

### Relevant provision(s)

2. The relevant provisions dealt with in this Ruling are:

- section 104-10 of the *Income Tax Assessment Act 1997* (ITAA 1997);
- Division 109 of the ITAA 1997;
- Division 110 of the ITAA 1997;
- Subdivision 115-A of the ITAA 1997;
- section 116-20 of the ITAA 1997; and
- Subdivision 124-M of the ITAA 1997.

All references are to the ITAA 1997 unless otherwise stated.

## Class of entities

3. The class of entities to which this Ruling applies are the 'I', 'M' and 'Reward' Class shareholders of the Travelscene Limited (Travelscene) who:

- were residents of Australia within the meaning of that expression in subsection 6(1) of the *Income Tax Assessment Act 1936* (ITAA 1936) on the day on which the Scheme of Arrangement described at paragraphs 13 to 23 of this Ruling become effective (this date will vary depending on when the CGT event happened for each shareholder);
- held their Travelscene shares on capital account;
- were not 'significant stakeholders' or 'common stakeholders' within the meaning of the expression in Subdivision 124-M; and
- disposed of their Travelscene shares to S8 Limited (S8 Ltd) in exchange for cash and S8 Ltd ordinary shares.

## Qualifications

4. The Commissioner makes this Ruling based on the precise scheme identified in this Ruling.

5. The class of entities defined in this Ruling may rely on its contents provided the scheme actually carried out is carried out in accordance with the scheme described in paragraphs 13 to 23 of this Ruling.

6. If the scheme actually carried out is materially different from the scheme that is described in this Ruling, then:

- this Ruling has no binding effect on the Commissioner because the scheme entered into is not the scheme on which the Commissioner has ruled; and
- this Ruling may be withdrawn or modified.

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## Date of effect

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8. This Ruling applies from 12 May 2006. However, the Ruling does not apply to taxpayers to the extent that it conflicts with the terms of settlement of a dispute agreed to before the date of issue of the Ruling. Furthermore, the Ruling only applies to the extent that:

- it is not later withdrawn by notice in the *Gazette*; or
- the relevant provisions are not amended.

9. If this Class Ruling is inconsistent with a later public or private ruling, the relevant class of entities may rely on either ruling which applies to them (item 1 of subsection 357-75(1) of Schedule 1 to the *Taxation Administration Act 1953* (TAA)).

10. If this Class Ruling is inconsistent with an earlier private ruling, the private ruling is taken not to have been made if, when the Class Ruling is made, the following two conditions are met:

- the income year or other period to which the rulings relate has not begun; and
- the scheme to which the rulings relate has not begun to be carried out.

11. If the above two conditions do not apply, the relevant class of entities may rely on either ruling which applies to them (item 3 of subsection 357-75(1) of Schedule 1 to the TAA).

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## Withdrawal

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12. This Ruling is withdrawn immediately after 30 July 2007. However, the Ruling continues to apply after its withdrawal, in respect of the relevant provisions ruled upon, to all entities within the specified class who entered in to the specified scheme during the term of the Ruling, subject to their being no change in the scheme or in the entities involved in the scheme.

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## Scheme

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13. The scheme that is the subject of this Ruling is described below. The description is based on, and includes, the following documents:

- Class Ruling application dated 27 June 2006 from Elliott House requesting the Commissioner to make a Class Ruling in relation to the eligibility of the 'I', 'M', and 'Reward' Class shareholders of Travelscene for scrip for scrip rollover when all the issued shares in Travelscene are acquired by S8 Ltd through an off-market takeover bid in exchange for cash and S8 Ltd ordinary shares;

- Appendix A of the Class Ruling application (clause 5.1 and 5.2 of the company constitution) detailing the rights and privileges attached to the 'I' and 'M' Class shares in Travelscene;
- Appendix B of the Class Ruling application (copy of a 'Reward' Class share certificate) detailing the rights and privileges attached to the 'Reward' Class shares in Travelscene;
- Bidder's Statement from S8 Ltd dated 12 May 2006;
- Target Statement from Travelscene dated 26 May 2006; and
- Correspondence from Elliott House dated 19 July 2006.

14. The scheme that is the subject of this Ruling involves an Offer from S8 Ltd (the Offer) to purchase all the issued shares in Travelscene from its existing shareholders through an off-market takeover bid.

15. Travelscene shares on issue prior to 12 May 2006 are in the following forms:

- 5,591,000 'I' Class shares to 463 shareholders;
- 488 'M' Class shares to 488 shareholders; and
- 1,030,000 'Reward' Class shares to 412 shareholders.

16. All the Travelscene shares were issued after the 2000 calendar year.

17. S8 Ltd offered the following consideration:

- \$5.415 cash plus 1.367 S8 Ltd shares for each 'I' Class shares in Travelscene;
- \$4,250 cash plus 1,050 S8 Ltd shares for each 'M' Class shares in Travelscene; and
- \$2.55 cash plus 0.68 S8 Ltd shares for each 'Reward' Class shares in Travelscene.

18. The rights and privileges of the different classes of shares in Travelscene are as follows:

- 'I' Class shares (Investors): Right to vote at general meetings, participate in dividends and to receive a return of capital;
- 'M' Class shares (Members): Right to vote at general meetings and to receive a return of capital but no right to receive dividends; and
- 'Rewards' Class shares: Right to receive dividends and limited rights to share in the distribution of surplus assets on winding up of the company but no right to vote at general meetings.

19. The different Classes of Travelscene shareholders were offered different amounts of cash and S8 Ltd shares. However, for each Class, the same proportion of cash and shares was offered.

20. All the S8 Ltd shares offered to Travelscene shareholders are ordinary shares, having normal listed public company rights and conditions that include voting rights, participation in dividends and return of capital on winding up of the company.

21. The Offer period started on 26 April 2006 and ended at 5.00pm, 20 July 2006.

22. The Offer, which was subject to a number of conditions, became unconditional on 3 July 2006.

23. As of 19 July 2006, the acceptance of an S8 Ltd Offer had passed 90% in each of the three Classes of shares in Travelscene. S8 Ltd can now proceed, as it indicated in the Offer, to acquire the rest of the shares compulsorily in accordance with Part 6A.1 of the *Corporations Act 2001*.

## **Ruling**

### **Disposal of Travelscene shares to S8 Ltd**

24. CGT event A1 happened when a Travelscene shareholder accepted the S8 Ltd Offer to dispose of their Travelscene shares to S8 Ltd (subsections 104-10(1), 104-10(2), 104-10(3) and 104-10(6)):

- in cases where the Offer was accepted prior to S8 Ltd achieving the requirements to make the Offer unconditional, CGT event A1 happened on 3 July 2006 when the Offer became unconditional;
- for a Travelscene shareholder who accepted the Offer on or after this date, CGT event A1 happened when the Offer was accepted;
- for Travelscene shareholders whose shares were compulsorily acquired, CGT event A1 happened when those shares were compulsorily acquired by S8 Ltd.

25. The capital proceeds for each 'I' Class Travelscene share are \$5.415 plus the market value of 1.367 S8 Ltd shares. The capital proceeds for each 'M' Class Travelscene share are \$4,250 plus the market value of 1,050 S8 Ltd shares. The capital proceeds for each 'Reward' Class Travelscene share are \$2.55 plus the market value of 0.63 S8 Ltd shares (section 116-20). The cash component of the Offer is ineligible proceeds and rollover is not available.

26. A Travelscene shareholder made a capital gain from CGT event A1 happening if the capital proceeds for a Travelscene share exceeded its cost base. Similarly, the shareholder made a capital loss if those capital proceeds were less than the share's reduced cost base (subsection 104-10(4)).

27. A Travelscene shareholder who made a capital gain in relation to the ineligible proceeds can treat the gain as a discount capital gain providing they held the share for at least 12 months before the disposal (section 115-25) and the other requirements of Subdivision 115-A are satisfied.

### **Availability of scrip for scrip rollover**

28. A rollover is available when the different Classes of shareholders in Travelscene exchanged their shares for ordinary shares in S8 Ltd (paragraph 124-780(1)(a)), under the Offer. The Offer qualifies as a single arrangement (paragraph 124-780(1)(b) and subsection 124-780(2)).

29. Travelscene shareholders are eligible to choose the scrip for scrip rollover to the extent that they received S8 Ltd shares in exchange for their Travelscene shares under the Offer if:

- (a) they acquired their Travelscene shares on or after 20 September 1985 (paragraph 124-780(3)(a));
- (b) apart from the scrip for scrip rollover under Subdivision 124-M, they made a capital gain from a CGT event happening to their Travelscene shares (paragraph 124-780(3)(b)); and
- (c) they could not disregard (except because of a rollover) any capital gain they made from a replacement S8 Ltd share (paragraph 124-795(2)(a)).

30. If a Travelscene shareholder chooses the scrip for scrip rollover, a capital gain from a Travelscene share is disregarded to the extent that the shareholder received an S8 Ltd share (section 124-790). The capital gain is not disregarded to the extent that the shareholder received cash for the disposal of their Travelscene shares.

31. If a Travelscene shareholder chooses rollover, the cost base of a replacement S8 Ltd share is worked out by reasonably attributing to it the cost base of any Travelscene share for which it was exchanged and for which a partial rollover was obtained. However, the cost base of the Travelscene share must first be reduced by so much of it that is taken into account in working out the shareholder's capital gain relating to the cash proceeds (subsections 124-785(2) and (3)).

### **Example**

32. The following example provides guidance to Travelscene shareholders to work out their capital gains consequences if they choose rollover in respect of the disposal of their shares to S8 Ltd under the Offer.

33. The example, including the figures used, is only to illustrate the application of the relevant taxation provisions and does not refer to any particular class of Travelscene shareholder nor to any particular share price. The market value to be used will vary depending upon the day the Travelscene shareholder accepts the Offer.

34. The example shows how to work out:

- a capital gain attributable to the cash they received for their Travelscene shares; and
- the first element of the cost base of their replacement S8 Ltd shares.

35. Where a Travelscene shareholder works out the first element of the cost base of their S8 Ltd shares in accordance with the approach adopted in the example, the Tax Office will accept that this represents a reasonable attribution of the cost base of each Travelscene share. However, it is recognised that this approach may not be the only reasonable method.

36. Peter acquired 1 'M' Class Travelscene share for \$5,000 in July 2001. On 4 July 2006 he accepted the Offer, and received \$4,250 cash and 1,050 S8 Ltd shares. The closing price of the S8 Ltd shares on 4 July 2006 (the date Peter accepted the Offer) was \$4. In the circumstances, the Commissioner accepts that the closing price of an S8 Ltd share on 4 July 2006 is the market value of an S8 Ltd share on that day.

### ***Capital gain attributable to ineligible proceeds***

37. Peter chooses for rollover to apply to the extent that he is able. Peter works out his capital gain from the ineligible proceeds using the following formula:

|                              |   |
|------------------------------|---|
| Ineligible proceeds          | = \$4,250 (cash received from S8 Ltd)   |
| Total proceeds               | = (\$4,250 + market value received for the 1,050 S8 Ltd shares)<br>= \$4,250 + (1,050 × \$4.00)<br>= \$8,450            |
| Capital gain                 | = ineligible proceeds less cost base of ineligible part (worked as below)   |
| Cost base of ineligible part | = Cost base of Travelscene shares × (ineligible proceeds/total proceeds)<br>\$5,000 × (\$4,250/\$8,450)<br>= \$2,514.80 |
| Capital gain                 | = \$4,250 - \$2,514.80<br>= \$1,735.20  |

The capital gain for Peter is a discount capital gain and he is able to reduce the gain by the 50% CGT discount.

***Cost base of S8 Ltd shares***

38. The first element of the cost base of each of Peter's 1,050 S8 Ltd shares is determined by reference to the cost base of his Travelscene shares that was not taken into account in working out the capital gain that Peter made in respect of the ineligible proceeds. The cost base of Peter's shares is:

|   |   |
|---|---|
| Cost base of Travelscene shares                 | = \$5,000   |
| Cost attributable to ineligible proceeds        | = 2,514.80 (calculated at paragraph 37 of this Ruling)  |
| First element of cost base of each S8 Ltd share | = (cost base of Travelscene shares less cost attributable to ineligible proceeds for those shares divided by the number of S8 Ltd shares received)<br>(ie $(\$5,000 - \$2,514.80) / 1,050$ )<br>= 2,485.2 / 1,050<br>= \$2.37 |

39. The first element of the reduced cost base of Peter's shares is calculated in a similar manner.

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**Commissioner of Taxation**13 September 2006

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## Appendix 1 – Explanation

**❶** *This Appendix 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.*

### **Disposal of Travelscene shares to S8 Ltd**

40. CGT event A1 happens if there is a change in the ownership of an asset from one entity to another. CGT event A1 happened when a Travelscene shareholder disposed of a Travelscene share to S8 Ltd under the Offer (section 104-10).

41. The time when CGT event A1 happens determines the income year in which any capital gain or loss is made and whether the CGT discount applies to any capital gain. The event happens when a contract to dispose of the asset is entered into, or if there is no contract, when the change of ownership occurs.

42. CGT event A1 happened on the day the Travelscene shareholder entered into the contract to dispose of the share to S8 Ltd under the Offer. The time of entering into the contract was the day the Travelscene shareholder accepted the Offer.

43. The Offer was conditional on fulfilling a number of conditions. The Offer became unconditional on 3 July 2006. The contract is thus considered to be entered into when the Offer became unconditional. So for Travelscene shareholders, who accepted the Offer prior to 3 July 2006, their contract was effective on 3 July 2006. For Travelscene shareholders who accepted the Offer on or after 3 July 2006, the contract became effective when they accepted the Offer.

44. Where the Travelscene shares were compulsorily acquired by S8 Ltd, the timing of the event is when the shares are compulsorily acquired under Part 6A.1 of the *Corporations Act 2001* (paragraph 104-10(6)(d)).

45. A Travelscene shareholder made a capital gain from CGT event A1 happening if the capital proceeds in respect of the disposal of each of their Travelscene shares exceeded its cost base. A Travelscene shareholder will make a capital loss if the capital proceeds were less than the reduced cost base of each of their Travelscene shares (subsection 104-10(4)).

46. The time of the CGT event A1 happening is also relevant for a shareholder in determining the capital proceeds received for each of their Travelscene shares. Subsection 116-20(1) provides that the capital proceeds from a CGT event are the money and the market value of any property received or entitled to be received (worked out at the time of the event happening).

***Market value of the S8 Ltd shares***

47. Travelscene shareholders must determine the market value of the S8 Ltd shares at the date of the disposal of their Travelscene shares. The Commissioner will accept as the market value of those shares the closing price of an S8 Ltd share on the Australian Stock Exchange on the day that the shareholder disposed of their Travelscene shares, provided that the closing price did not vary by more than 5% from either the minimum or maximum traded price over the course of the day. If the closing price varied by more than 5%, the Commissioner will accept the volume-weighted average price (VWAP) for the shares over the day as representing the market value of the share for that day.

**The acquisition of S8 Ltd shares**

48. Under the Offer, S8 Ltd gave 1.367 S8 Ltd shares for each 'I' Class Travelscene share; 1,050 S8 Ltd shares for each 'M' Class Travelscene share; and 0.68 of an S8 Ltd share for each 'Reward' Class Travelscene share as part of the consideration for the acquisition of each Travelscene share from a Travelscene shareholder.

49. The Travelscene shareholder may have acquired their S8 Ltd shares under the Offer or as a result of the compulsory acquisition of Travelscene shares.

50. For Offers made on or after 3 July 2006 (the date the Offer became unconditional), the S8 Ltd shares were acquired by each Travelscene shareholder when they accepted the Offer (item 2 of the table in section 109-10). For Offers made prior to that date, the S8 Ltd shares were acquired when the Offer became unconditional (3 July 2006). Where the Travelscene shares are compulsorily acquired, the S8 Ltd shares were acquired at the time of the compulsory acquisition (section 109-5).

**Availability of scrip for scrip rollover**

51. An entity is eligible for scrip for scrip rollover if the entity exchanges shares in a company for shares in another company, provided other conditions of section 124-780 are met.

52. The Explanatory Memorandum to the New Business Tax System (Capital Gains Tax) Bill 1999 indicates that rollover is available if 'a share in a company is exchanged for a share in another company....even if the rights attaching to the shares.... are different'.

53. A share in a company is defined as a share in the capital of the company (subsection 995-1(1)). Although Travelscene shares, namely 'I', 'M' and 'Reward' Class shares have different rights and privileges, they all are shares in the capital of Travelscene.

54. Where scrip for scrip rollover is chosen in respect of the capital gain arising on the disposal of a Travelscene share, the capital gain from the disposal is disregarded to the extent that the shareholder received an S8 Ltd share. Rollover may be chosen whether the disposal was because a Travelscene shareholder accepted the Offer or because the Travelscene share was compulsorily acquired.

55. If the Travelscene shareholder chooses rollover, the cost base of each S8 Ltd share is worked out by reasonably attributing to it a proportion of the cost base of the Travelscene share for which it was exchanged and for which rollover was obtained. The cost base of the Travelscene share must first be reduced by so much of it that is taken into account in working out the shareholder's capital gain relating to the ineligible proceeds.

56. A Travelscene shareholder who derives a capital gain from the ineligible proceeds may be eligible to treat the gain as a discount capital gain in respect of those Travelscene shares that are held for at least 12 months (section 115-25) and provided the other requirements of Subdivision 115-A are satisfied.

57. Subdivision 124-M contains a number of conditions regarding the eligibility of a shareholder to choose scrip for scrip rollover. The main conditions and exceptions that are relevant to this scheme are outlined below.

***Subparagraph 124-780(1)(a)(i) requires an entity (a Travelscene shareholder) to exchange a share in a company for a share in another company***

58. This requirement is satisfied by a Travelscene shareholder who received the S8 Ltd share and cash as consideration for the disposal of their Travelscene share under the Offer because at least some of the consideration they received for the disposal of their Travelscene shares consisted of an S8 Ltd share. Rollover is available to the extent that the Travelscene shareholder received S8 Ltd shares for their Travelscene shares.

***Paragraphs 124-780(1)(b) and 124-780(2)(a) require that shares in an entity (Travelscene – the original entity) be exchanged in consequence of a single arrangement that results in another entity (S8 Ltd – the acquiring entity) becoming the owner of 80% or more of the voting shares in the original entity (Travelscene)***

59. The 'I' and 'M' Class shares in Travelscene satisfy the definition of 'voting share' in subsection 995-1(1). S8 Ltd acquired 90% of these shares by the closing day of the Offer period. The rest were acquired through compulsory acquisition.

60. In the context of the scrip for scrip rollover provisions, the Offer to Travelscene shareholders is a 'single arrangement'. As S8 Ltd has acquired more than 90% of the issued shares in Travelscene in consequence of this arrangement this condition has been satisfied.

61. The compulsory acquisition of shares is in consequence of an arrangement. The Explanatory Memorandum to the New Business Tax System (Capital Gains Tax) Bill 1999 that introduced section 124-780 states that this test will be satisfied if the share acquisition has a causal connection with the arrangement. It indicates further that this connection will exist if, after a takeover offer expires, shares are acquired under powers of compulsory acquisition under the Corporations Law.

***Paragraphs 124-780(1)(b) and 124-780(2)(b) require that the exchange of shares is in consequence of a single arrangement in which at least all owners of voting shares in the original entity (Travelscene) (apart from the acquiring entity or members of the acquiring entity's wholly-owned group) could participate***

62. This requirement is met as the Offer was made to all Travelscene shareholders.

***Paragraphs 124-780(1)(b) and 124-780(2)(c) require that the exchange is in consequence of a single arrangement in which participation was available on substantially the same terms for all of the owners of interests of a particular type in the original entity (Travelscene)***

63. This requirement is satisfied as the shareholders of each particular Class in Travelscene are entitled to participate in the Offer on exactly the same terms. For the 'I' Class shareholders, they were all offered \$5.415 cash plus 1.367 S8 Ltd shares; for the 'M' Class shareholders, they were all offered \$4,250 cash plus 1,050 S8 Ltd shares; and for the 'Reward' Class shareholders, they were all offered \$2.55 cash plus 0.63 S8 Ltd shares.

***Paragraphs 124-780(1)(c) and 124-780(3)(a) require the original interest holder (a Travelscene shareholder) to have acquired its original interest (Travelscene shares) on or after 20 September 1985***

64. As all of the issued shares in Travelscene were acquired on or after 20 September 1985, rollover is available for those Travelscene shares.

***Paragraphs 124-780(1)(c) and 124-780(3)(b) require that, apart from the rollover, the original interest holder (a Travelscene shareholder) would make a capital gain from a CGT event happening in relation to its original interest (its Travelscene shares)***

65. Whether a Travelscene shareholder would, apart from the rollover, make a capital gain from the disposal of any of their shares to S8 Ltd is dependent on the specific circumstances of each shareholder – in particular, on the cost base of each Travelscene share and the value of the capital proceeds received.

***Paragraphs 124-780(1)(c) and 124-780(3)(c) require that the replacement interest is in the acquiring entity (S8 Ltd), or the ultimate holding company of the wholly owned group which includes the acquiring entity***

66. This requirement is satisfied as the Travelscene shareholders received shares in S8 Ltd, the acquiring entity.

***Paragraphs 124-780(1)(c) and 124-780(3)(d) require that the original interest holder (a Travelscene shareholder) chooses the rollover***

67. Whether a Travelscene shareholder chooses to obtain rollover in relation to the disposal of a Travelscene share is a question of fact.

***Subsection 124-780(4) provides that the additional requirements in subsection 124-780(5) must be satisfied if the original interest holder (a Travelscene shareholder) and the acquiring entity (S8 Ltd) did not deal with each other at arm's length and:***

- ***neither the original entity (Travelscene) nor the replacement entity (S8 Ltd) had at least 300 members just before the arrangement started (paragraph 124-780(4)(a)); or***
- ***the original interest holder (a Travelscene shareholder), the original entity (Travelscene) and the acquiring entity (S8 Ltd) were all members of the same linked group just before the arrangement started (paragraph 124-780(4)(b))***

68. Paragraph 124-780(4)(a) does not apply because both Travelscene shareholders and S8 Ltd have dealt with each other at arm's length and both had at least 300 members just before the arrangement started. Section 124-810 does not apply to either Travelscene or S8 Ltd as their ownership is not concentrated in the manner contemplated by that section.

69. Paragraph 124-780(4)(b) does not apply as Travelscene and S8 Ltd were not members of the same linked group just before the arrangement commences.

## Exceptions to obtaining scrip for scrip rollover

***Paragraph 124-795(2)(a) provides that the rollover is not available if any capital gain the original interest holder (a Travelscene shareholder) might make from their replacement interest (an S8 Ltd share) would be disregarded***

70. Whether the capital gain arising because of the disposal of a Travelscene share is disregarded under another provision of the ITAA 1997 (for example, the shareholder holds their Travelscene shares as trading stock) is a question of fact.

***Paragraph 124-795(2)(b) provides that rollover is not available if the original interest holder (a Travelscene shareholder) and the acquiring entity (S8 Ltd) are members of the same wholly-owned group just before the original interest holder stops owning their original interest (a Travelscene share), and the acquiring entity is a foreign resident***

71. This exception does not apply as S8 Ltd is not a foreign resident.

## Consequences of rollover

72. Scrip for scrip rollover enables a shareholder to disregard all or part of a capital gain from a share that is disposed of as part of a corporate takeover or merger if the shareholder receives a replacement share in exchange.

73. If the only capital proceeds the shareholder receives are replacement shares, the capital gain is disregarded completely (subsection 124-785(1)). All of the cost base of the original shares can be allocated to the replacement shares (subsection 124-785(2)).

74. If the shareholder receives other capital proceeds as well as the replacement shares, the capital gain is disregarded in part (subsection 124-790(1)). Only a portion of the cost base of the original shares can be allocated to the replacement shares (subsections 124-785(2) and 124-785(3)).

## Consequences of rollover where S8 Ltd shares and cash are received as capital proceeds

75. Because the capital proceeds paid to Travelscene shareholders in respect of their Travelscene shares consisted of S8 Ltd shares and cash, a Travelscene shareholder can choose only partial rollover. Rollover is not available to the extent that any capital gain is attributable to the cash received for Travelscene shares (subsection 124-790(1)).

76. In calculating the capital gain attributable to their ineligible proceeds, a Travelscene shareholder should deduct from the total proceeds a reasonable portion of the cost base of their Travelscene shares (just before their disposal to S8 Ltd) (subsection 124-790(2)).

77. In making a reasonable apportionment of the cost base of a Travelscene share, it would be appropriate for a shareholder to consider the amount of the ineligible proceeds and the value of the S8 Ltd shares on the date that CGT event A1 happened to their Travelscene share.

78. The cost base and reduced cost base of each Travelscene share, reduced by that portion that is taken into account in working out any capital gain in respect of the ineligible proceeds, forms the first element of the cost base of each S8 Ltd share (subsections 124-785(2), 124-785(3) and 124-785(4)).

## Appendix 2 – Detailed contents list

79. The following is a detailed contents list for this Ruling:

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|   |           |
|---|-----------|
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| <ul style="list-style-type: none"> <li><i>neither the original entity (Travelscene) nor the replacement entity (S8 Ltd) had at least 300 members just before the arrangement started (paragraph 124-780(4)(a)); or</i></li> <li><i>the original interest holder (a Travelscene shareholder), the original entity (Travelscene) and the acquiring entity (S8 Ltd) were all members of the same linked group just before the arrangement started (paragraph 124-780(4)(b))</i></li> </ul> | 68        |
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## References

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### *Previous draft:*

Not previously issued as a draft

### *Subject references:*

- arrangement
- capital proceeds
- CGT event
- company
- cost base
- interests
- merger
- ordinary shares
- original interest
- replacement interest
- resident
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