

# ***CR 2025/54 - The Reject Shop Limited - scheme of arrangement and special dividend***



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## Class Ruling

# The Reject Shop Limited – scheme of arrangement and special dividend

### **❶ Relying on this Ruling**

This publication 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 the special dividend (Special Dividend) paid by The Reject Shop Limited (The Reject Shop) on 14 July 2025 (Special Dividend Payment Date) and the scheme of arrangement whereby Dollarama International Inc. (Dollarama) acquired all the ordinary shares in The Reject Shop on 22 July 2025 (Implementation Date).
2. Details of this scheme are set out in paragraphs 32 to 50 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 you:
  - held your shares in The Reject Shop at
    - 7:00 pm Australian Eastern Standard Time on 7 July 2025 (Special Dividend Record Date) and received the Special Dividend of \$0.77 per share, and
    - 7:00 pm Australian Eastern Standard Time on 15 July 2025 (Scheme Record Date) and participated in the scheme of arrangement under which Dollarama acquired all the shares in The Reject Shop.
  - held your shares in The Reject Shop on capital account – that is, your shares in The Reject Shop were neither held as revenue assets (as defined in section 977-50) nor as trading stock (as defined in subsection 995-1(1)), and

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- were either a
  - ‘resident’ of Australia as defined in subsection 6(1) of the *Income Tax Assessment Act 1936* (ITAA 1936), or
  - ‘non-resident’ of Australia as defined in subsection 6(1) of the ITAA 1936 who does not carry on a business at or through a permanent establishment in Australia.

5. This Ruling does not apply to you if you:

- are an entity that is under a legal disability, or may be subject to special tax rules, such as insurance companies, partnerships, organisations exempt from Australian income tax, or are subject to the investment manager regime in Subdivision 842-I in relation to your shares in The Reject Shop
- acquired your shares in The Reject Shop pursuant to an employee share or incentive scheme (as defined in section 83A-10)
- are a foreign resident who has chosen under subsection 104-165(3) to treat your shares in The Reject Shop as ‘taxable Australian property’ on ceasing to be an Australian resident
- are a ‘temporary resident’ of Australia as that term is defined in subsection 995-1(1)
- are taken to have acquired your shares in The Reject Shop before 20 September 1985, or
- are subject to the taxation of financial arrangement rules in Division 230 in relation to the scheme outlined in paragraphs 32 to 50 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 2025 to 30 June 2026.

## **Ruling**

### **Special Dividend**

7. The Special Dividend is a ‘dividend’ as defined in subsection 6(1) of the ITAA 1936.
8. The Special Dividend is a frankable distribution under section 202-40.
9. The Special Dividend is not a distribution to which subsection 207-159(1) applies.

### **Assessability of the Special Dividend, franking credits and tax offsets**

#### ***Resident shareholders***

10. If you are a resident of Australia, you include the Special Dividend in your assessable income (subparagraph 44(1)(a)(i) of the ITAA 1936).
11. If you satisfy the residency requirements in section 207-75, you include the franking credits attached to the Special Dividend in your assessable income and you are entitled to

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a tax offset equal to the amount of those credits (section 207-20), provided you are a 'qualified person' (as defined in Division 1A of former Part IIIAA of the ITAA 1936. Refer to paragraphs 17 to 20 of this Ruling).

12. If you received the Special Dividend as a trustee of a trust (not being a complying superannuation entity) or as a partnership and you are not a corporate tax entity, the franking credits on the Special Dividend are included in your assessable income, provided you are a qualified person (subsection 207-35(1)).

13. If you are a beneficiary of a trust or a partner in a partnership, and the Special Dividend flows indirectly through the trust or partnership to you, you include your share of the Special Dividend in your assessable income and you are entitled to a tax offset equal to your share of the franking credits on the Special Dividend, provided both you and the trust or partnership (as relevant) are each a qualified person (section 207-45 and former subsection 160APHU(1) of the ITAA 1936).

14. Your entitlement to the franking credit tax offset under Division 207 in relation to the Special Dividend is subject to the refundable tax offset rules in Division 67, provided you are not excluded by the operation of section 67-25.

### **Non-resident shareholders**

#### *Special Dividend not attributable to a permanent establishment in Australia*

15. If you are a non-resident and the Special Dividend is not attributable to a permanent establishment in Australia, the Special Dividend is not included in your assessable income (section 128D of the ITAA 1936), and you are not liable to withholding tax in respect of the Special Dividend (subparagraph 128B(3)(ga)(i) of the ITAA 1936).

16. You do not include the amount of the franking credits attached to the Special Dividend in your assessable income and you are not entitled to a tax offset for those franking credits (sections 207-20 and 207-70).

### **Qualified persons**

17. You will be a qualified person in relation to the Special Dividend if, during the secondary qualification period (24 May 2025 to 14 July 2025), you held your shares in The Reject Shop 'at risk' for a continuous period of at least 45 days<sup>1</sup> during which you did not have 'materially diminished risks of loss or opportunities for gain' (as defined in former section 160APHM of the ITAA 1936) in respect of the shares (holding period rule). This is because:

- The Special Dividend you received constitutes a 'related payment' for the purposes of former section 160APHN of the ITAA 1936. This is because the consideration paid by Dollarama for acquiring the ordinary shares in The Reject Shop was reduced by the amount of the Special Dividend. This reduction has the effect of passing the benefit of the Special Dividend from the shareholders of The Reject Shop to Dollarama (former subsection 160APHN(2), former paragraphs 160APHN(3)(f), 160APHN(4)(c) and (d) of the ITAA 1936).

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<sup>1</sup> This does not include the day on which your shares in The Reject Shop were acquired or the day of disposal.

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- The secondary qualification period is the period beginning 45 days before, and ending 45 days after, the day on which a share became ex dividend (former section 160APHD of the ITAA 1936).
- The shares became ex dividend on 8 July 2025, being one day after the Special Dividend Record Date which was the last day on which acquisition by a person of a share in The Reject Shop would entitle them to receive the Special Dividend (former subsection 160APHE(1) of the ITAA 1936).
- Any days you had a materially diminished risk of loss or opportunity for gain in respect of the shares are excluded (former subsection 160APHO(3) of the ITAA 1936). Under the scheme of arrangement, you no longer held your shares in The Reject Shop at risk on the Scheme Record Date, (when you became committed to dispose of your shares in The Reject Shop under the scheme of arrangement).

18. You will need to determine whether you satisfy the holding period rule having regard to your circumstances. This will require taking into account any positions entered into that result in you having 'materially diminished risks of loss or opportunities for gain' (as defined under former section 160APHM of the ITAA 1936) in respect of your shares in The Reject Shop.

19. The small shareholder exception in former section 160APHT of the ITAA 1936 does not apply as the dividend is a related payment for the purposes of paragraph 207-145(1)(a) and former section 160APHN of the ITAA 1936 (former subsection 160APHT(2) of the ITAA 1936).

20. This means if you are an individual with total franking tax offsets less than \$5,000 for the 2025–26 income year you must still satisfy the holding period rule in relation to the Special Dividend.

#### ***Exempting entity and former exempting entity***

21. The Reject Shop was not an exempting entity (section 208-20), or a former exempting entity (section 208-50), at the time when the Special Dividend was paid to you.

22. Section 208-195 will not apply to deny the inclusion in your assessable income of the amount of the franking credit on the Special Dividend you received or deny the franking credit tax offset to which you are otherwise entitled under Division 207 at the time when the Special Dividend was paid to you.

#### ***Section 204-30***

23. The Commissioner will not make a determination under paragraph 204-30(3)(c) to deny the whole, or any part, of the imputation benefit received in relation to the Special Dividend as there was no streaming of distributions.

#### ***Section 177EA of the ITAA 1936***

24. The Commissioner will not make a determination under paragraph 177EA(5)(b) of the ITAA 1936 to deny the whole, or any part of, the imputation benefits you received in relation to the Special Dividend. This is because it cannot be concluded that The Reject Shop or the shareholders of The Reject Shop entered into or carried out the scheme for a more than incidental purpose of enabling the shareholders of The Reject Shop to obtain an

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imputation benefit, and accordingly the purpose requirement in paragraph 177EA(3)(e) of the ITAA 1936 is not satisfied.

### **Capital gains tax consequences**

#### **CGT event A1**

25. CGT event A1 happened on 22 July 2025 (Implementation Date) when you disposed of each of your shares in The Reject Shop to Dollarama (section 104-10).

#### **Capital proceeds**

26. The capital proceeds you received for each share in The Reject Shop is \$5.91 per share (paragraph 116-20(1)(a)).

27. The Special Dividend of \$0.77 for each share in The Reject Shop is not included in the capital proceeds.

#### **Capital gain or capital loss**

28. You made a capital gain from CGT event A1 happening if the capital proceeds from the disposal of your share in The Reject Shop exceed its cost base (subsection 104-10(4)). The capital gain is the difference.

29. You made a capital loss from CGT event A1 happening if the capital proceeds from the disposal of your share in The Reject Shop is less than its reduced cost base (subsection 104-10(4)). The capital loss is the difference.

30. If you were a foreign resident, or the trustee of a foreign trust for CGT purposes (as defined in subsection 995-1(1)) just before the Implementation Date, you disregard any capital gain or capital loss you made as a result of CGT event A1 happening if your shares in The Reject Shop were not taxable Australian property (section 855-10).

#### **Discount capital gain**

31. If you made a capital gain from the disposal of your share in The Reject Shop, you are entitled to treat the capital gain as a 'discount capital gain' provided you acquired, or are taken to have acquired, your share in The Reject Shop on or before 21 July 2024 and the conditions in Division 115 are satisfied (subsection 115-25(1)).

### **Scheme**

32. 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.

33. Other information referenced is taken from the Scheme Implementation Agreement (SIA) released on the Australian Securities Exchange (ASX) on 27 March 2025 and the Scheme Booklet released on the ASX on 16 May 2025.

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**Background*****The Reject Shop Limited***

34. The Reject Shop was founded in 1981 and operates an Australian retail business in more than 390 stores across Australia.
35. The Reject Shop was listed on the ASX (ASX code TRS) in May 2004 until the business day immediately following the Implementation Date.
36. As at the Implementation Date, The Reject Shop had 38,805,317 ordinary shares on issue and no other classes of shares or rights on issue.

***Dollarama International Inc.***

37. Dollarama is a Canadian-resident company which acquired all of the shares in The Reject Shop on issue.
38. Dollarama is a direct wholly owned subsidiary of Dollarama Inc., a Canadian company and retail operation that has been listed on the Toronto Stock Exchange since 2009.

**Scheme of arrangement**

39. On 27 March 2025, The Reject Shop and Dollarama Inc. entered into a SIA under which Dollarama Inc. (or its nominated subsidiary, Dollarama) agreed to acquire all the ordinary shares in The Reject Shop by way of a scheme of arrangement under Part 5.1 of the *Corporations Act 2001* (Corporations Act), subject to, among other conditions, shareholder and court approval.
40. Under the terms of the SIA, shareholders in The Reject Shop would receive \$6.68 cash for each share held in The Reject Shop less the expected fully franked Special Dividend of up to \$0.77 per share.
41. On 23 June 2025, the requisite majority of shareholders in The Reject Shop approved the scheme of arrangement.
42. On 30 June 2025, the Federal Court of Australia approved the scheme of arrangement and provided orders under Part 5.1 of the Corporations Act.
43. On 22 July 2025, shareholders in The Reject Shop received consideration of \$5.91 (being \$6.68 less the amount of the Special Dividend of \$0.77) for the disposal of each share held in The Reject Shop on the Scheme Record Date.
44. The transfer of shares in The Reject Shop to Dollarama under the scheme of arrangement occurred on 22 July 2025 with The Reject Shop then becoming a wholly owned subsidiary of Dollarama.
45. The shares in The Reject Shop were then delisted from the ASX at the close of trading on 23 July 2025.

**Special Dividend**

46. On 14 July 2025, The Reject Shop paid a fully franked Special Dividend of \$0.77 per share to shareholders who held their shares in The Reject Shop on the Special Dividend Record Date.

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47. The Special Dividend was:

- paid from profits and retained earnings of The Reject Shop on a stand-alone basis
- not funded, directly or indirectly from equity issued by any company, and
- compliant with the requirements of the Corporations Act, including section 254T of that Act.

48. Dollarama did not have any influence or control over the determination and payment of the Special Dividend. The decision to pay the Special Dividend was entirely at the discretion of the Board of The Reject Shop.

#### **Other matters**

49. There was no issue of equity interests by The Reject Shop or Dollarama to existing or new shareholders to fund the Special Dividend payment.

50. On the Implementation Date, the sum of the market values of the assets of The Reject Shop that were taxable Australian real property (as defined in section 855-20) did not exceed the sum of the market values of its assets that were not taxable Australian real property for the purposes of section 855-30.

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**Commissioner of Taxation**

20 August 2025

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## References

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### *Legislative references:*

- ITAA 1936 6(1)
  - ITAA 1936 44(1)(a)(i)
  - ITAA 1936 128B(3)(ga)(i)
  - ITAA 1936 128D
  - ITAA 1936 former Pt IIIAA Div 1A
  - ITAA 1936 former 160APHD
  - ITAA 1936 former 160APHE(1)
  - ITAA 1936 former 160APHM
  - ITAA 1936 former 160APHN
  - ITAA 1936 former 160APHN(2)
  - ITAA 1936 former 160APHN(3)(f)
  - ITAA 1936 former 160APHN(4)(c)
  - ITAA 1936 former 160APHN(4)(d)
  - ITAA 1936 former 160APHO(3)
  - ITAA 1936 former 160APHT
  - ITAA 1936 former 160APHT(2)
  - ITAA 1936 former 160APHU(1)
  - ITAA 1936 177EA
  - ITAA 1936 177EA(3)(e)
  - ITAA 1936 177EA(5)(b)
  - ITAA 1997 Div 67
  - ITAA 1997 67-25
  - ITAA 1997 83A-10
  - ITAA 1997 104-10
  - ITAA 1997 104-10(4)
  - ITAA 1997 104-165(3)
  - ITAA 1997 Div 115
  - ITAA 1997 115-25(1)
  - ITAA 1997 116-20(1)(a)
  - ITAA 1997 202-40
  - ITAA 1997 204-30
  - ITAA 1997 204-30(3)(c)
  - ITAA 1997 Div 207
  - ITAA 1997 207-20
  - ITAA 1997 207-35(1)
  - ITAA 1997 207-45
  - ITAA 1997 207-70
  - ITAA 1997 207-75
  - ITAA 1997 207-145(1)(a)
  - ITAA 1997 207-159(1)
  - ITAA 1997 208-20
  - ITAA 1997 208-50
  - ITAA 1997 208-195
  - ITAA 1997 Div 230
  - ITAA 1997 Subdiv 842-I
  - ITAA 1997 855-10
  - ITAA 1997 855-20
  - ITAA 1997 855-30
  - ITAA 1997 977-50
  - ITAA 1997 995-1(1)
  - Corporations Act 2001 254T
  - Corporations Act 2001 Pt 5.1
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### ATO references

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