TD 2000/3 - Income tax: capital gains: are shares acquired under a dividend reinvestment plan 'bonus shares' for the purposes of Subdivision 130-A of the Income Tax Assessment Act 1997 ?

Taxation Determination

Income tax: capital gains: are shares acquired under a dividend reinvestment plan 'bonus shares' for the purposes of Subdivision 130-A of the *Income Tax Assessment Act 1997*?

Preamble

This Taxation Determination is a 'public ruling' for the purposes of Part IVAAA of the ***Taxation Administration Act 1953*** *and is legally binding on the Commissioner. Taxation Rulings TR 92/1 and TR 97/16 together explain when a Determination is a public ruling and how it is legally binding on the Commissioner.*

Date of Effect

This Determination applies to years commencing both before and after its date of issue. However, this Determination 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 the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

1. No. Dividend reinvestment plans enable shareholders to elect to have amounts payable to them as dividends applied to acquire new shares in the company. The relevant transactions involve a constructive payment by the company of a dividend to the shareholder, followed by an application by the shareholder of the dividend to acquire the new shares.

2. Subdivision 130-A of the *Income Tax Assessment Act 1997* ('the 1997 Act') applies if a company issues other shares (bonus shares) to a shareholder in relation to their original shares. Shares acquired under a dividend reinvestment plan are not issued in relation to the shareholder's original shares.

3. If a shareholder acquires a share under a dividend reinvestment plan, the first element of the cost base of that share includes the amount of the dividend applied by the shareholder to acquire the share - refer to subsection 110-25(2) of the 1997 Act.

Example:

4. *X, an Australian resident individual, owns 100 shares in A Ltd, an Australian resident public company. A Ltd declares a dividend of 5 cents per share, entitling X to a dividend of $5. The market value of shares in A Ltd at that time is $2.50 each. X elects under the company's dividend reinvestment plan to apply the whole of the dividend to acquire 2 shares in A Ltd. The first element of the cost base to X of each of those two shares includes an acquisition cost of $2.50.*

X is also taken to have received a dividend of $5, which is assessable under section 44 of the Income Tax Assessment Act 1936.

Note 1:
5. This Determination does not apply to scrip dividend arrangements of the type discussed in Taxation Ruling IT 2603.

Note 2:
6. This Taxation Determination rewrites and replaces Taxation Determination TD 55. There is no material change in this Taxation Determination to the views expressed in TD 55 apart from updating it with the rewritten income tax law in the 1997 Act.

7. Subdivision 130-A and subsection 110-25(2) of the 1997 Act, to which this Determination refers, express the same ideas, respectively, as Divisions 8 and 8A and subsection 160ZH(4) of the *Income Tax Assessment Act 1936*.

Commissioner of Taxation
19 January 2000

Previous drafts:
Previously issued as Draft TD 1999/D46

Related Rulings/Determinations:
IT 2603; TD 55

Subject references:
bonus shares; cost base; dividend; dividend reinvestment plans; shares

Legislative references:

The 1997 Act	The 1936 Act
1. Subdivision 130-A	1. Division 8 Division 8A
2. Subsection 110-25(2)	2. Subsection 160ZH(4)

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