



***TD 98/2 - Income tax: capital gains: what are the taxation consequences for an individual resident shareholder who accepted the share buy-back offer made by the Commonwealth Bank of Australia (CBA) on 1 December 1997?***

 This cover sheet is provided for information only. It does not form part of *TD 98/2 - Income tax: capital gains: what are the taxation consequences for an individual resident shareholder who accepted the share buy-back offer made by the Commonwealth Bank of Australia (CBA) on 1 December 1997?*

 This document has changed over time. This is a consolidated version of the ruling which was published on *4 March 1998*

This Determination, to the extent that it is capable of being a 'public ruling' in terms of Part IVAAA of the *Taxation Administration Act 1953*, is a public ruling for the purposes of that Part. Taxation Rulings TR 92/1 and TR 97/16 together explain when a Determination is a public ruling and how it is binding on the Commissioner. Unless otherwise stated, 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 a settlement of a dispute agreed to before the date of issue of the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

## Taxation Determination

### **Income tax: capital gains: what are the taxation consequences for an individual resident shareholder who accepted the share buy-back offer made by the Commonwealth Bank of Australia (CBA) on 1 December 1997?**

1. The buy-back offer accepted by a shareholder has both income tax and capital gains consequences. These consequences vary depending on whether the shareholder is or is not a resident of Australia and whether the shareholder is an individual, trust, company, etc. This Determination outlines the taxation consequences of a buy-back offer for an **individual resident shareholder**.
2. The buy-back price set by the CBA for each share under the offer is \$17.08. This price comprises \$7.00 as consideration for disposing of the share and \$10.08 as a fully franked dividend.

#### **Income tax**

3. The fully franked dividend of \$10.08 includes \$5.67 as an imputation credit. The shareholder should include \$15.75 in his or her assessable income for the 1997-98 year of income. The shareholder is allowed a rebate for the imputation credit.

#### **Capital gains or losses**

4. For each share sold to the CBA, the shareholder makes a capital gain if the cost base or indexed cost base of the share is less than the consideration of \$7.00 on its disposal. The shareholder should include the capital gain in his or her assessable income for the 1997-98 year of income.
5. If the shareholder makes a capital loss, the loss may only be offset against any capital gains the shareholder makes during the 1997-98 or a future year of income. The shareholder makes a capital loss if the reduced cost base exceeds the consideration of \$7.00.

**Note:** For the purpose of calculating a capital gain or loss on the sale of the shares, the disposal date is 29 December 1997.

#### **Example 1**

6. *Julie bought 4,500 CBA shares in January 1997 at \$12.04 and paid brokerage fees of \$540.00. She applied to participate in the buy-back. The Bank approved the buy-back of 225*

shares and on 6 January 1998 Julie was paid \$3,843.00 (225 x \$17.08). This amount comprised a franked dividend of \$2,268.00 and consideration of \$1,575.00 for disposing of the shares. Julie calculated the imputation credit attached to the dividend as \$1,275.75, using the formula  $36/64 \times \$2,268.00$

7. In her tax return for the 1997-98 year of income, Julie includes in her assessable income the franked dividend of \$2,268.00 and the imputation credit of \$1,275.75. The imputation credit is also allowed as a rebate, which reduces her tax payable.

8. Julie has also made a capital loss from the sale of her shares calculated as follows:

Consideration received			\$1,575.00
less reduced cost base			
purchase price	(225 x \$12.04)	\$2,709.00	
brokerage fees	(5% of \$540.00)	\$27.00	
Capital loss			<u>\$1,161.00</u>

9. Julie can only offset this capital loss against capital gains in the 1997-98 or a future year of income.

**Example 2**

10. Robert bought 4,000 CBA shares in January 1993 at \$5.40 and paid brokerage fees of \$400.00. He applied to participate in the buy-back. The Bank approved the buy-back of 100 shares and on 6 January 1998 Robert was paid \$1,708.00 (100 x \$17.08) comprising a franked dividend of \$1,008.00 and consideration of \$700.00 for disposing of the shares. Using the formula  $36/64 \times \$1,008.00$ , Robert calculated the imputation credit attached to the dividend as \$567.00.

11. In his tax return for the 1997-98 year of income, Robert includes in his assessable income the franked dividend of \$1,008.00 and the imputation credit of \$567.00. The imputation credit is also allowed as a rebate, which reduces his tax payable.

12. Robert has also made a capital gain from the sale of his shares calculated as follows:

Consideration received			\$700.00
less indexed cost base			
purchase price	(100 x \$5.40)	\$540.00	
brokerage fees	(2.5% of \$400.00)	<u>\$10.00</u>	
		\$550.00	
multiplied by indexation factor	<u>120.0</u>		
	108.9**	1.102	<u>\$606.10</u>
Capital gain			<u>\$93.90</u>

13. As Robert has no capital loss for the 1997-98 income year that he can offset against the capital gain on the CBA shares, he includes the \$93.90 capital gain in his assessable income for that year of income.

\*\* Refer to the booklet 'Capital gain tax : what you need to know' for the index factor for the quarter in which shares were acquired.

Related Rulings:

Subject Ref: assets; capital gains; capital gains tax; capital losses; disposal of shares; dividend income; dividend rebates; franked dividends; franking rebates; imputation system; individual shareholder dividend rebates; share buy backs; shareholders; shares

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