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?

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 x $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*	*$2,736.00*
Capital loss			*$1,161.00*

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 x $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)*	*$10.00*	
		$550.00	
multiplied by indexation factor	*120.0 / 108.9***	*1.102*	*$606.10*
Capital gain			*$93.90*

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.*

Commissioner of Taxation
4 March 1998

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