


***CR 2013/63 - Income tax: exchange of units in
Diversified Utility and Energy Trust No. 1 for shares
in DUET Company Limited***

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Class Ruling

Income tax: exchange of units in Diversified Utility and Energy Trust No. 1 for shares in DUET Company Limited

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📌 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, the Commissioner must apply the law to you in the way set out in the ruling (unless the Commissioner is satisfied that the ruling is incorrect and disadvantages you, in which case the law may be applied to you in a way that is more favourable for you – provided the Commissioner is 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

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*;
- section 108-5 of the ITAA 1997;
- Division 110 of the ITAA 1997;
- section 112-30 of the ITAA 1997;
- section 124-15 of the ITAA 1997;
- Subdivision 115-A of the ITAA 1997; and
- Subdivision 124-H of the ITAA 1997.

All legislative references in this Ruling are to the ITAA 1997 unless otherwise indicated.

Class of entities

3. The class of entities to which this Ruling applies are the holders of units in Diversified Utility and Energy Trust No. 1 (DUET 1 unit holders) who:

- participate in the scheme that is the subject of this Ruling;
- are residents of Australia within the meaning of subsection 6(1) of the *Income Tax Assessment Act 1936* (ITAA 1936);
- acquired their units after 19 September 1985;
- hold their units neither as revenue assets (as defined in section 977-50) nor as trading stock (as defined in subsection 995-1(1)) – that is, broadly on capital account;
- are not subject to the taxation of financial arrangements rules in Division 230 in relation to gains and losses on their units.

Note: Division 230 will generally not apply to individuals, unless they have made an election for it to apply to them.

Qualifications

4. The Commissioner makes this Ruling based on the precise arrangement 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 8 to 31 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.

Date of effect

7. This Ruling applies from 1 July 2013 to 30 June 2014. The Ruling continues to apply after 30 June 2014 to all entities within the specified class who entered into the specified scheme during the term of the Ruling. However, this Ruling will 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 this Ruling (see paragraphs 75 and 76 of Taxation Ruling TR 2006/10).

Scheme

8. The following description of the scheme is based on information provided by the applicant. The following documents, or relevant parts of them, form part of and are to be read with the description:

- Class Ruling application dated 12 March 2013;
- Draft Meeting Booklet;
- Constitution of the Diversified Utility and Energy Trust No. 1 (DUET 1);
- Supplemental Deed – Amending the Constitution for DUET 1 (Supplemental Deed Poll);
- Constitution of DUET Company Limited (DUETCo);
- Implementation Agreement;
- Stapling Deed;
- Correspondence received in relation to the Class Ruling application.

Note: certain information has been provided on a commercial-in-confidence basis and will not be disclosed or released under Freedom of Information legislation.

The DUET Group

9. The DUET Group consists of a six-instrument stapled security listed on the Australian Securities Exchange (ASX).

10. The stapled security consists of:

- three Australian resident unit trusts which are managed investment schemes registered under Chapter 5C of the *Corporations Act 2001* – DUET 1, Diversified Utility and Energy Trust No. 2 (DUET 2) and Diversified Utility and Energy Trust No. 3 (DUET 3);

- three Australian resident companies – DUET Management Company 1 Limited (DMC 1), DUET Management Company 2 (DMC 2), and DUET Investment Holdings Limited (DIHL).

11. Each DUET stapled security is made up of one share in each of DMC 1, DMC 2 and DIHL and one unit in each of DUET 1, DUET 2 and DUET 3.

12. All stapled securities were issued on or after 20 September 1985.

13. Neither DUET 1, DUET 2 nor DUET 3 is a corporate unit trust pursuant to Division 6B of Part III of the ITAA 1936 or a public trading trust pursuant to Division 6C of Part III of the ITAA 1936.

14. DUET 1, DUET 2 and DUET 3 only have one class of units on issue. Each unit carries the same rights to the income and capital of DUET 1, DUET 2 and DUET 3 (respectively) as every other unit in the respective trust.

15. DMC 1 is the responsible entity for DUET 1. DMC 2 is the responsible entity for DUET 2 and DUET 3.

16. Prior to 4 December 2012, the DUET Group was managed jointly by Macquarie Capital Group Limited and AMP Capital Holdings Limited. The DUET Group's management was internalised on 4 December 2012, resulting in management personnel becoming employed by DIHL.

Scheme for simplifying the stapled structure

17. The DUET Group is proposing to simplify its stapled structure by converting from a six-instrument stapled security to a four-instrument stapled security.

18. The Boards of DMC 1, DMC 2 and DIHL consider that the advantages of the restructure include:

- Reduction of head office costs due to reduced administrative burden;
- Simplified financial reporting requirements;
- Improved flexibility to implement capital and other initiatives; and
- The four-instrument stapled security is expected to be more easily understood by investors (particularly non-resident investors) than the current six-instrument stapled security.

19. The date for the implementation of the simplification scheme is expected to be 1 August 2013 (Implementation Date).

Detailed steps of the simplification scheme***Incorporation of DUECo***

20. A new Australian resident company, DUET Company Limited (DUECo), is incorporated with no more than 5 ordinary shares on issue (the Founder shares) held by an existing DUET Group stapled security holder.

De-stapling the stapled security

21. The units and shares comprising the DUET Group stapled security will be de-stapled to allow each stapled security holder to deal with the shares and units separately for the purposes of implementing the scheme.

22. The de-stapling will require approval by the stapled security holders.

Acquisition of 100% of DUET 1 units by DUECo

23. The DUET 1 Constitution will be amended in accordance with the provisions of a Supplemental Deed Poll to authorise all actions necessary for the transfer of DUET 1 units to DUECo. The amendments must be approved by a special resolution of DUET 1 unit holders. The Supplemental Deed Poll will be lodged with the Australian Securities and Investments Commission (ASIC).

24. DUET 1 unit holders must then approve an ordinary resolution authorising the acquisition of 100% of the units in DUET 1 by DUECo.

25. On the Implementation Date, all DUET 1 unit holders will dispose of their DUET 1 units to DUECo. DUECo will issue new DUECo ordinary shares to DUET 1 unit holders as consideration for the disposal of their DUET 1 units. The Founder shares will then immediately be cancelled.

26. Each DUET 1 unit holder will obtain one new DUECo share for each unit in DUET 1 they hold. No cash or other property will be paid or otherwise distributed to DUET 1 unit holders.

Other entities in the DUET Group stapled security

27. The responsible entity of DUET 2 will acquire all of the units in DUET 3 (with DUET 3 unit holders receiving units in DUET 2 as consideration) on the Implementation Date.

28. DUECo will also acquire the shares in DMC 1 (with DMC 1 shareholders receiving DUECo shares as consideration) on the Implementation Date.

29. These are separate schemes subject to separate Class Rulings.

30. In order for the simplification scheme to be implemented, these separate schemes must be approved (as set out in the Meeting Booklet).

31. The DUECo shares, DIHL shares, and DMC 2 shares will be stapled to the DUET 2 units to form the new DUET Group stapled security, which will be listed on the ASX.

Ruling

Separate CGT assets under section 108-5

32. Each unit in DUET 1, DUET 2 and DUET 3, and each share in DIHL, DMC 1 and DMC 2, is a separate CGT asset for the purposes of section 108-5.

33. Subsection 112-30(1) will apply to apportion the expenditure incurred on acquiring a CGT asset where only part of the expenditure relates to the acquisition of that CGT asset.

34. In such a case, the first element of the cost base and reduced cost base on acquiring each CGT asset that forms part of a stapled security will be that part of the expenditure that is reasonably attributable to the acquisition of that particular CGT asset.

De-stapling of the DUET Group stapled security

35. A DUET 1 unit holder will not make a capital gain or capital loss when the de-stapling of the DUET Group stapled security occurs.

CGT event A1 will happen on the disposal of DUET 1 units

36. CGT event A1 will happen as a result of the disposal by a DUET 1 unit holder of their DUET 1 units to DUECo (section 104-10). The time of CGT event A1 is on the Implementation Date (paragraph 104-10(3)(b)).

37. A DUET 1 unit holder will make a capital gain from CGT event A1 happening if the capital proceeds from the disposal of a DUET 1 unit exceed its cost base. A DUET 1 unit holder will make a capital loss if the capital proceeds from the disposal of a DUET 1 unit are less than its reduced cost base (subsection 104-10(4)).

38. Under subsection 116-20(1), the capital proceeds from CGT event A1 happening will be the market value of the property (a DUECo share) received or entitled to be received in respect of the disposal of a DUET 1 unit. The market value of the DUECo share is worked out as at the time of CGT event A1, which is on the Implementation Date.

Availability of Subdivision 124-H roll-over

39. A disposal of units in a unit trust to a company in exchange for shares in the company (and nothing else), as described in section 124-445, will happen when a DUET 1 unit holder disposes of a DUET 1 unit to DUECo in exchange for a DUECo share. As the conditions for roll-over under Subdivision 124-H will be satisfied in relation to this disposal of DUET 1 units to DUECo, a DUET 1 unit holder is eligible to choose the roll-over under Subdivision 124-H.

Subdivision 124-H roll-over is chosen

40. A DUET1 unit holder who chooses roll-over will disregard any capital gain or capital loss made when CGT event A1 happens (subsection 124-15(2)).

Subdivision 124-H roll-over is not chosen

41. A DUET1 unit holder who does not choose roll-over must take into account any capital gain or capital loss from the disposal of their DUET 1 units in working out their net capital gain or net capital loss for the income year (sections 102-5 and 102-10).

42. A DUET 1 unit holder, who makes a capital gain where roll-over is not chosen, can treat the capital gain as a 'discount capital gain' provided that the conditions of Subdivision 115-A are met. In particular, the DUET 1 units must have been acquired by the unit holder at least 12 months before their disposal to DUECo.

Commissioner of Taxation7 August 2013

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.*

43. The tax consequences that arise concerning the scheme that is the subject of this Ruling are outlined in the Ruling part of this document.

44. The significant tax consequence that is the subject of this Ruling is the availability of roll-over under Subdivision 124-H. The roll-over enables a unit holder of a unit trust to disregard a capital gain or capital loss from a unit that is either disposed of, or redeemed or cancelled, as part of a reorganisation of the affairs of the unit trust, where the unit holder becomes the owner of new shares in a company in exchange.

45. Subdivision 124-H contains a number of conditions for eligibility to choose roll-over. The main conditions that are relevant to the scheme that is the subject of this Ruling, which involves the disposal of units, are:

- at least two entities must own all the units in the unit trust;
- there must be a scheme for reorganising the unit trust's affairs, and consideration for the disposal of the units must consist of receiving shares in the company and nothing else;
- the company must own all the units in the unit trust just after all the exchanging unit holders have disposed of their units in the unit trust (the completion time);
- just after the completion time, each unit holder must own a whole number of shares in the company;
- just after the completion time, each unit holder must own a percentage of the shares in the company that were issued to all the unit holders that is equal to the percentage of the units in the unit trust that the unit holder owned;
- just after the completion time, the unit holders must own all the shares in the company, or entities other than those unit holders must own no more than 5 shares in the company and the market value of those shares is such that it is reasonable to treat the unit holders as owning all the shares;
- the shares issued in the company must not be redeemable shares; and
- the ratio test in subsection 124-450(3) is met.

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46. The conditions for roll-over under Subdivision 124-H will be satisfied by the scheme that is the subject of this Ruling.

Appendix 2 – Detailed contents list

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

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References

Previous draft:

Not previously issued as a draft

Related Rulings/Determinations:

TR 2006/10; TD 2000/10;

Subject references:

- Arrangement
- CGT assets
- CGT capital proceeds
- CGT cost base
- CGT event A1 – disposal of a CGT asset
- CGT reduced cost base
- CGT roll-over relief
- consolidation of shares
- de-stapling of securities
- ordinary shares
- re-organisations
- stapled securities
- unit trust units

Legislative references:

- ITAA 1936 6(1)
- ITAA 1997 Div 102
- ITAA 1997 102-5
- ITAA 1997 102-10
- ITAA 1997 Div 104
- ITAA 1997 104-10
- ITAA 1997 108-5
- ITAA 1997 Div 110
- ITAA 1197 Div 112
- ITAA1997 112-30(1)
- ITAA 1997 116-20(1)
- ITAA 1997 124-H
- ITAA 1997 124-10(2)
- ITAA1997 124-445
- ITAA 1997 124-450(3)
- ITAA 1997 Div 230
- TAA 1953
- Corporations Act 2001 Ch 5
- Copyright Act 1968

ATO references

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