


CR 2014/107 - Income tax: transfer of assets from Caledonia Small Caps Trust to Caledonia Small Caps No. 2 Trust

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Class Ruling

Income tax: transfer of assets from Caledonia Small Caps Trust to Caledonia Small Caps No. 2 Trust

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1 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:

- subsection 115-30(1) of the *Income Tax Assessment Act 1997* (ITAA 1997)
- section 126-245 of the ITAA 1997
- subsection 126-245(2) of the ITAA 1997
- subsection 126-245(3) of the ITAA 1997, and
- subsection 126-245(4) of the ITAA 1997.

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

Class of entities

3. The class of entities to which this Ruling will apply consists of the holders of the units ('the Unitholders') in Caledonia Small Caps Trust ('CSCT') and the Caledonia Small Caps No. 2 Trust ('CSCT No. 2') who:

- are listed on the unit register of the CSCT and the CSCT No. 2 at the Transfer Time (consistent with the 'transfer time' per paragraph 126-225(1)(a))
- hold their units on capital account for Australian income tax purposes
- are residents of Australia for the purposes of section 6 of the *Income Tax Assessment Act 1936* at all relevant times and were not considered temporary residents for tax purposes, and
- are not subject to the taxation of financial arrangements rules in Division 230 in relation to gains and losses on their units in CSCT or CSCT No. 2.

(Note: Division 230 will generally not apply to individuals, unless they make an election for it to apply to them.)

Qualifications

4. The Commissioner makes this Ruling on the precise scheme 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 26 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 2014 to 30 June 2015. The Ruling continues to apply after 30 June 2015 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 18 November 2014
- Caledonia Small Caps Trust Supplemental Deed dated 24 October 2014
- Constitution of Caledonia Small Caps No. 2 Trust dated 24 October 2014
- Application by trustee of Caledonia Small Caps Trust for units in Caledonia Small Caps No. 2 Trust dated 24 October 2014
- Deed of appointment and retirement of trustee of Caledonia Small Caps No. 2 Trust dated 24 October 2014
- Agreement - Alfred Street Nominees Pty Ltd, Caledonia (Private) Investments Pty Ltd, Caledonia Small Caps Trust and Caledonia Small Caps No. 2 Trust, and
- Correspondence between PricewaterhouseCoopers and the Australian Taxation Office (ATO) dated 4 December 2014 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.

Background

9. The scheme that is the subject of this Ruling involves the transfer of assets from the Caledonia Small Caps Trust (CSCT) to the Caledonia Small Caps Trust No. 2 (CSCT No. 2) as part of a reorganisation of portfolio assets.

Caledonia Small Caps Trust

10. Alfred Street Nominees Pty Ltd is an Australian resident company that acts in the capacity of trustee of the CSCT. As trustee of the CSCT, it holds a significant portfolio of investments. The trust's assets are managed by Caledonia (Private) Investments Pty Ltd (Caledonia) which does not have custody of the trust's assets.

11. The CSCT's largest investments are shares held in two publicly listed US companies – Zillow, Inc. and Trulia, Inc. The interests in these companies comprise 32% and 21%, respectively, of the CSCT's total investment portfolio.

12. In July 2014, Zillow, Inc. and Trulia, Inc. announced a proposed all-scrip merger of their businesses. Following the proposed merger, the investment in the merged company would comprise approximately 53% of CSCT's total investment portfolio.

13. This level of concentration in a single stock poses various challenges for Caledonia as manager of the CSCT's assets, including catering to the various levels of risk appetite across the investor base, managing a portfolio that is dominated by one single investment (reducing the relevance and impact of all other positions), and managing the volatility, liquidity and concentration risk that comes with such a large single-stock position.

14. While acknowledging these challenges, it is Caledonia's strong recommendation that Unitholders maintain their current exposure in Zillow, Inc. and Trulia, Inc.

15. Accordingly, a reorganisation of the investments held by the CSCT is proposed whereby approximately 66% of the current interests held by the trust in each of the companies (the Relevant Shareholding Interests) will be transferred to the CSCT No. 2. Each of the Unitholders in CSCT will receive units in the CSCT No. 2 corresponding to the number of units held in CSCT.

Proposed Reorganisation

16. The Reorganisation involves three steps:

Step 1

17. On 24 October 2014:

- A new trust called the CSCT No. 2 was established. Caledonia was the original trustee of the CSCT No. 2.
- The trustee of the CSCT subscribed for, and was issued with, ten units in the CSCT No. 2 in consideration for \$10.

Step 2

18. The 10 units held by the CSCT in the CSCT No. 2 will be split so that the total number of issued units will equal the same number of units on issue in the CSCT.

19. The trustee of CSCT will make an in-specie distribution of the units in CSCT No. 2 to the Unitholders of CSCT equal to the number of their existing unitholdings in CSCT.

Step 3

20. After the in-specie distribution of CSCT No. 2 units, the CSCT will transfer 66% of its interests in each of Zillow, Inc. and Trulia, Inc. to the CSCT No. 2 for nil consideration. The transfers will happen on or around the same time (the Transfer Time).

21. Just after the Transfer Time, the net asset value of each of the CSCT and the CSCT No. 2 will represent 65% and 35%, respectively, of the total net asset value of the CSCT immediately prior to the Transfer Time.

Other

22. The CSCT and the CSCT No. 2 will each have only one class of units on issue just before, and just after, the Transfer Time.

23. The rights attaching to the units in the CSCT and CSCT No. 2 are identical just before, and just after, the Transfer Time.

24. All of the units in CSCT were acquired by the Unitholders after 19 September 1985.

25. The requirements for CGT roll-over in Subdivision 126-G are met in respect of the transfer of each of the Relevant Shareholding Interests.

26. The trustee of each of the CSCT and CSCT No. 2 will make a choice under section 126-225 to obtain a rollover in respect of the transfer of each of the Relevant Shareholding Interests.

Ruling

Cost base and reduced cost base of units in CSCT and CSCT No. 2

27. On the basis that the trustee of each of the CSCT and the CSCT No. 2 will choose Subdivision 126-G roll-over for the transfer of each of the Relevant Shareholding Interests, a Unitholder's cost base of each CSCT unit and CSCT No. 2 unit will be calculated in accordance with section 126-245.

28. The Commissioner accepts that a reasonable apportionment of the cost bases and reduced cost bases of the CSCT units is that:

- the first element of the cost base and reduced cost base of each CSCT unit, just after the Transfer Time, is an amount equal to 65% of the cost base of each CSCT unit just before the Transfer Time (subsections 126-245(2) and 126-245(4)), and

- the first element of the cost base and reduced cost base of each CSCT No. 2 unit, just after the Transfer Time, is the sum of:
 - an amount equal to 35% of the cost base of each CSCT unit just before the Transfer Time, and
 - the cost base (if any) of each CSCT No. 2 unit just before the Transfer Time (subsections 126-245(3) and 126-245(4)).

Acquisition date of units in CSCT No. 2 for CGT discount purposes

29. For the purposes of the CGT discount rules, a Unitholder's CSCT No. 2 unit will be taken to have been acquired on the date that the Unitholder acquired their corresponding unit in CSCT (item 9 of the table in subsection 115-30(1)).

Commissioner of Taxation

17 December 2014

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.*

30. Subdivision 126-G provides a CGT roll-over for the transfer of assets between certain trusts.

31. The scheme that is the subject of this Ruling will be eligible for a CGT roll-over under Subdivision 126-G. As the trustees of both the CSCT and CSCT No. 2 will choose to obtain the roll-over in respect of the transfer of the Relevant Shareholding Interests, each Unitholder is required to adjust, just after the Transfer Time, the cost base and reduced cost base of their interests in both trusts.

32. The general rule is that these adjustments must be made in respect of each asset transfer. A Unitholder may choose to calculate a single adjustment under section 126-250 where there are multiple asset transfers. However, in the circumstances of this particular reorganisation, there would be no difference in the cost base calculations under section 126-250 from the general provisions in section 126-245 as the Relevant Shareholding Interests will all be transferred on or around the same time.

The first element of the cost base and reduced cost base of each unit in CSCT (the Transferring Trust)

33. Section 126-245 requires Unitholders to apportion the cost base of each CSCT unit that they own between that unit and their corresponding new unit in CSCT No. 2. The apportionment must be reasonable having regard to the relative market value of the units in CSCT and CSCT No. 2 (or a reasonable approximation of those market values) just before, and just after, the Transfer Time.

34. The following formula is a reasonable basis for calculating the first element of the cost base and reduced cost base of each unit in CSCT just after the Transfer Time (subsections 126-245(2) and (4)):

Total cost base / reduced cost base of unit in the CSCT just before the Transfer Time	X	Net asset value of the CSCT just after the Transfer Time
		Net asset value of the CSCT just before the Transfer Time

35. Under the scheme, the Relevant Shareholding Interests transferred by the CSCT to the CSCT No. 2 will represent 35% of the total net asset value of the CSCT just before the Transfer Time.

36. Applying the statutory formula in subsections 126-245(2) and (4), the first element of the cost base and reduced cost base of each unit in the CSCT just after the Transfer Time is therefore an amount equal to 65% of the cost base of the units in the CSCT just before the Transfer Time.

The first element of the cost base and reduced cost base of each unit in CSCT No. 2 (the Receiving Trust)

37. The first element of the cost base and reduced cost base of a unit that a Unitholder holds in CSCT No. 2, worked out just after the Transfer Time, is an amount such that the total cost base of that unit and the corresponding unit in the CSCT just before the Transfer Time, reasonably approximates the total cost base of those interests just after the Transfer Time (subsections 126-245(3) and (4)).

38. The following formula is a reasonable basis for calculating the first element of the cost base of each unit in the CSCT No. 2 just after the Transfer Time (subsections 126-245(3) and (4)):

1 st element of cost base of unit in CSCT No. 2 just after the Transfer Time	=	cost base of the unit in CSCT No. 2 + cost base of corresponding unit in CSCT just before the Transfer Time	less	1 st element of cost base of unit in CSCT just after the Transfer Time (that is, the amount worked out in paragraph 36)
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39. The first element of the reduced cost base of the unit in CSCT No. 2 just after the Transfer Time would be worked out similarly.

40. The first element of cost base and reduced cost base of each unit in the CSCT No. 2 just after the Transfer Time will therefore be an amount equal to 35% of the cost base of the corresponding unit in the CSCT just before the Transfer Time. To this amount should be added the cost base of CSCT No. 2 (if any) just before the Transfer Time.

41. The trustee of the transferring trust (that is, the CSCT) must provide the Unitholders with sufficient information to make these calculations.

Acquisition date of units in CSCT No. 2 for CGT discount purposes

42. The Unitholders are deemed to have acquired their units in the CSCT No. 2 just after the Transfer Time (subsection 126-245(5)).

43. However, for the purposes of the CGT discount, item 9 of the table in subsection 115-30(1) provides that the ownership period of units in the receiving trust (that is, the CSCT No. 2) includes the period of ownership of the corresponding membership interests in the transferring trust (that is, the CSCT).

Appendix 2 – Detailed contents list

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References

Previous draft:

Not previously issued as a draft

Related Rulings/Determinations:

TR 2006/10

Subject references:

- CGT cost base
- CGT reduced cost base
- CGT roll-over relief
- CGT small asset roll-over
- Unit trusts

Legislative references:

- ITAA 1936 6
 - ITAA 1997 115-30(1)
 - ITAA 1997 Subdiv 126-G
 - ITAA 1997 126-225
 - ITAA 1997 126-225(1)(a)
 - ITAA 1997 126-245
 - ITAA 1997 126-245(2)
 - ITAA 1997 126-245(3)
 - ITAA 1997 126-245(4)
 - ITAA 1997 126-245(5)
 - ITAA 1997 126-250
 - ITAA 1997 Div 230
 - TAA 1953
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ATO references

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