


***CR 2015/65 - Income tax: scrip for scrip roll-over:
acquisition of Capital International Global Equities
Fund units by Capital International World Equity***

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Class Ruling

Income tax: scrip for scrip roll-over: acquisition of Capital International Global Equities Fund units by Capital International World Equity

Contents	Para
LEGALLY BINDING SECTION:	
What this Ruling is about	1
Date of effect	7
Scheme	8
Ruling	24
NOT LEGALLY BINDING SECTION:	
Appendix 1:	
<i>Explanation</i>	39
Appendix 2:	
<i>Detailed contents list</i>	44

📌 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 102-5 of the *Income Tax Assessment Act 1997* (ITAA 1997)
 - section 102-10 of the ITAA 1997
 - section 104-10 of the ITAA 1997
 - Division 110 of the ITAA 1997
 - Subdivision 115-A of the ITAA 1997
 - section 116-20 of the ITAA 1997, and
 - Subdivision 124-M 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 is the holders of units in the Capital International Global Equities Fund (CAGEF) who:

- participate in the scheme that is the subject of this Ruling
- are a 'resident of Australia' as that term is defined in subsection 6(1) of the *Income Tax Assessment Act 1936* (ITAA 1936)
- hold units in CAGEF on the Record Date and the Implementation Date for the scheme that is the subject of this Ruling
- did not hold their units in CAGEF as revenue assets (as defined in section 977-50) nor as trading stock (as defined in subsection 995-1(1)) – that is, the holders held their units broadly on capital account, and
- are not subject to the taxation of financial arrangements (TOFA) rules in Division 230 in relation to gains and losses on their units in CAGEF.

(**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 23 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 2015 to 30 June 2016. The Ruling continues to apply after 30 June 2016 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 15 June 2015
- the Constitution of CAGEF (dated 7 December 2007) as amended, and
- 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.

Background

9. Capital Group Investment Management Limited (CGIML) is the responsible entity (RE) of both the Capital International Global Equities Fund (CAGEF) and Capital International World Equity (CAWE).

CAGEF

10. CAGEF is a unit trust that invests primarily in equities listed on stock exchanges around the world. It caters for retail investors in conjunction with an outsourced distribution model. It is a registered managed investment scheme under Chapter 5C of the *Corporations Act 2001*.

CAWE

11. CAWE is a unit trust that invests primarily in equities listed on stock exchanges around the world. It caters for institutional investors. It is a registered managed investment scheme under Chapter 5C of the *Corporations Act 2001*.

Steps to implement the scheme

12. The scheme involves the acquisition by the RE of CAWE of all of the CAGEF units on issue on the Record Date (which is expected to be 4 September 2015).

13. The Constitution of CAGEF will be amended to facilitate the implementation of the scheme.

14. The acquisition of all the units in CAGEF (resolution 1) and the amendments to the Constitution (resolution 2) must be approved by the CAGEF unit holders at the meeting proposed to be held on 4 September 2015.

15. If the resolutions are passed, CAGEF unit holders will dispose of their CAGEF units to the RE of CAWE.

16. In consideration for their units, CAGEF unit holders will receive a number of units issued by the RE of CAWE with a total net asset value equivalent to the net asset value of the CAGEF units.

17. On the Implementation Date (which is expected to be 10 September 2015), the RE of CAGEF (as attorney for the CAGEF unit holders) will execute and deliver instruments of transfer for all of the CAGEF units to the RE of CAWE, which will execute the instruments of transfer as transferee and deliver the instruments to the RE of CAGEF for registration.

18. The RE of CAGEF must, following receipt of the instruments of transfer, enter the name of the RE of CAWE in the register in respect of all the CAGEF units.

Other matters

19. All of the unit holders of CAGEF will be offered the opportunity to participate in the scheme and the offer will be available to all unit holders on the same terms.

20. Both CAGEF and CAWE were settled after 20 September 1985.

21. There is only a single class of units on issue in CAGEF and CAWE.

22. There are less than 300 unit holders in both CAGEF and CAWE.

23. CAGEF and CAWE will have two unit holders that are a 'significant stakeholder', but not a 'common stakeholder', in relation to the scheme within the meaning of those expressions in section 124-783. This is because based on the valuations as at 6 July 2015, there are two unit holders that are expected to have both:

- (a) the right to receive more than 30% of any distribution of income or capital of CAGEF just before the arrangement (constituted by the exchange of units in CAGEF for units in CAWE) started, and
- (b) the right to receive more than 30% of any distribution of income or capital of CAWE just after the arrangement was completed.

Ruling

CGT event A1 will happen on the disposal of CAGEF units

24. CGT event A1 will happen when the unit holders of CAGEF dispose of their CAGEF units to the RE of CAWE (section 104-10).
25. The time of CGT event A1 is on the Implementation Date (paragraph 104-10(3)(b)).
26. A CAGEF unit holder will make a capital gain from CGT event A1 happening if the capital proceeds from the disposal of a CAGEF unit exceed its cost base. The capital gain is the amount of the excess (subsection 104-10(4)).
27. A CAGEF unit holder will make a capital loss if the capital proceeds from the disposal of a CAGEF unit are less than its reduced cost base. The capital loss is the amount of the difference (subsection 104-10(4)).
28. The capital proceeds from CGT event A1 happening will be the market value of the property (a CAWE unit) received, or entitled to be received, in respect of the disposal of a CAGEF unit (subsection 116-20(1)).
29. The market value of the CAWE unit is worked out as at the time of CGT event A1, which will be on the Implementation Date.

Availability of scrip for scrip roll-over if a capital gain is made

30. Subject to the qualification in the following paragraphs, a CAGEF unit holder who makes a capital gain from the disposal of a CAGEF unit to the RE of CAWE may choose to obtain scrip for scrip roll-over (section 124-781 and section 124-785).
31. Scrip for scrip roll-over cannot be chosen if any capital gain a CAGEF unit holder might make from their replacement CAWE units would be disregarded, except because of a roll-over (paragraph 124-795(2)(a)).
32. Each CAGEF unit holder that is a significant stakeholder (as defined in section 124-783) and the RE of CAWE must jointly choose to obtain the roll-over (paragraph 124-781(3)(c)).

Consequences if scrip for scrip roll-over is chosen

33. The only capital proceeds received by a CAGEF unit holder will be CAWE units. Therefore, if a CAGEF unit holder chooses to obtain scrip for scrip roll-over, the capital gain they make upon the disposal of a CAGEF unit to the RE of CAWE will be disregarded (subsection 124-785(1)).

Consequences if scrip for scrip roll-over is not chosen, or cannot be chosen

34. A CAGEF unit holder who does not choose roll-over, or cannot choose roll-over, must take into account any capital gain or capital loss from CGT event A1 happening on the disposal of their CAGEF units in working out their net capital gain or net capital loss for the income year in which CGT event A1 happens (sections 102-5 and 102-10).

35. A CAGEF unit holder who makes a capital gain where roll-over is not chosen, or cannot be chosen, can treat the capital gain as a 'discount capital gain' provided that the conditions of Subdivision 115-A are met. In particular, the CAGEF units that will be disposed of must have been acquired by the unit holder at least 12 months before the date of their disposal to the RE of CAWE.

Cost base and reduced cost base of CAWE units received

36. The method for calculating the cost base and reduced cost base of the CAWE units acquired by a unit holder in exchange for their CAGEF units depends on whether scrip for scrip roll-over is chosen.

Scrip for scrip roll-over is chosen

37. Where scrip for scrip roll-over is chosen, the first element of the cost base and reduced cost base of each replacement CAWE unit received will be worked out by reasonably attributing to it the cost base and reduced cost base (respectively) of the CAGEF unit for which it was exchanged and for which the roll-over was obtained (subsections 124-785(2) and 124-785(4)).

Scrip for scrip roll-over is not chosen, or cannot be chosen

38. Where scrip for scrip roll-over is not chosen, or cannot be chosen, the first element of the cost base and reduced cost base of each replacement CAWE unit received is equal to the market value of the CAGEF unit given in respect of acquiring the CAWE unit (subsections 110-25(2) and 110-55(2)). The market value is worked out as at the time of the acquisition of the CAWE units.

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.***

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

40. The significant tax consequence that is the subject of this Ruling is the availability of scrip for scrip roll-over under Subdivision 124-M. The roll-over enables the holder of a unit or other interest in a trust to disregard a capital gain from a unit or other interest that is disposed of if the holder receives a replacement interest in another trust in exchange. It also provides special rules for calculating the cost base and reduced cost base of the replacement interest.

41. Subdivision 124-M contains a number of conditions for, and exceptions to, the holder of an interest in a trust being eligible to choose scrip for scrip roll-over. The main requirements that are relevant to the scheme that is the subject of this Ruling are:

- (a) units or other interests are exchanged for units or other interests in another trust
- (b) entities have fixed entitlements to all of the income and capital of the original trust and the acquiring trust
- (c) the exchange is in consequence of an arrangement
- (d) conditions for the roll-over are satisfied
- (e) further conditions, if applicable, are satisfied, and
- (f) exceptions to obtaining scrip for scrip roll-over are not applicable.

42. Having regard to:

- (a) all of the documents and any other material referred to in paragraph 8 of this Ruling, and
- (b) all the facts comprising the scheme as described in this Ruling,

it is considered that, for the purposes of paragraph 124-781(1)(b), there are fixed entitlements to all of the income and capital of CAGEF and CAWE immediately before, during and immediately after the exchange of units that is the subject of this Ruling.

43. The scheme satisfies the requirements for the roll-over under Subdivision 124-M.

Appendix 2 – Detailed contents list

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

	Paragraph
What this Ruling is about	1
Relevant provision(s)	2
Class of entities	3
Qualifications	4
Date of effect	7
Scheme	8
Background	9
CAGEF	10
CAWE	11
Steps to implement the scheme	12
Other matters	19
Ruling	24
CGT event A1 will happen on the disposal of CAGEF units	24
Availability of scrip for scrip roll-over if a capital gain is made	30
Consequences if scrip for scrip roll-over is chosen	33
Consequences if scrip for scrip roll-over is not chosen, or cannot be chosen	34
Cost base and reduced cost base of CAWE units received	36
<i>Scrip for scrip roll-over is chosen</i>	37
<i>Scrip for scrip roll-over is not chosen, or cannot be chosen</i>	38
Appendix 1 – Explanation	39
Appendix 2 – Detailed contents list	44

References

- Previous draft:*
- ITAA 1997 102-10
 - ITAA 1997 104-10
- Not previously issued as a draft
- ITAA 1997 104-10(3)(b)
- Related Rulings/Determinations:*
- TR 2006/10
- ITAA 1997 104-10(4)
 - ITAA 1997 Div 110
 - ITAA 1997 110-25(2)
 - ITAA 1997 110-55(2)
- Subject references:*
- arrangement
 - capital gains tax
 - CGT assets
 - CGT capital proceeds
 - CGT choice
 - CGT cost base
 - CGT event A1 – disposal of a CGT asset
 - CGT reduced cost base
 - CGT roll-over relief
 - disposal of assets
 - scrip for scrip roll-over
 - unit trust units
- ITAA 1997 Subdiv 115-A
 - ITAA 1997 116-20
 - ITAA 1997 116-20(1)
 - ITAA 1997 Subdiv 124-M
 - ITAA 1997 124-781
 - ITAA 1997 124-781(1)(b)
 - ITAA 1997 124-781(3)(c)
 - ITAA 1997 124-783
 - ITAA 1997 124-785
 - ITAA 1997 124-785(1)
 - ITAA 1997 124-785(2)
 - ITAA 1997 124-785(4)
 - ITAA 1997 124-795(2)(a)
 - ITAA 1997 Div 230
 - ITAA 1997 977-50
 - ITAA 1997 995-1(1)
 - Corporations Act 2001 Ch 5C
 - TAA 1953
- Legislative references:*
- ITAA 1936 6(1)
 - ITAA 1997
 - ITAA 1997 102-5
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ATO references

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