

CR 2019/71 - Villa World Limited - Scheme of Arrangement and payment of Special Dividend



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Class Ruling

Villa World Limited – Scheme of Arrangement and payment of Special Dividend

❶ Relying on this Ruling

This publication (excluding appendix) is a public ruling for the purposes of the *Taxation Administration Act 1953*.

If this Ruling applies to you, and you correctly rely on it, we will apply the law to you in the way set out in this Ruling. That is, you will not pay any more tax or pay any penalties or interest in respect of the matters covered by this Ruling.

Further, if we think that this Ruling disadvantages you, we may apply the law in a way that is more favourable to you.

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What this Ruling is about

1. This Ruling sets out the tax consequences of the Special Dividend paid and the Scheme of Arrangement under which AVID Property Group Australia Pty Ltd (AVID) acquired 100% of the shares in Villa World Limited (Villa World) on 30 October 2019.
2. Full details of this Scheme of Arrangement and Special Dividend are set out in paragraphs 29 to 47 of this Ruling.
3. All legislative references in this Ruling are to the *Income Tax Assessment Act 1997* unless otherwise indicated.

Who this Ruling applies to

4. This Ruling applies to you if you:
 - held ordinary shares in Villa World
 - acquired your shares in Villa World after 20 September 1985
 - were registered on Villa World's share register on 18 October 2019 (Special Dividend record date) and 23 October 2019 (scheme record date)

- disposed of your Villa World shares to AVID under the Scheme of Arrangement pursuant to Part 5.1 of the *Corporations Act 2001* (Corporations Act) between Villa World and AVID
 - received the fully franked Special Dividend and Scheme Consideration (as described in paragraph 43 of this Ruling)
 - held your Villa World shares on capital account, that is, the shares were neither held as revenue assets as defined in section 977-50 nor as trading stock as defined in subsection 995-1(1)
 - are not subject to tax under Division 83A-C in respect of the scheme, and
 - are not subject to the taxation of financial arrangement rules in Division 230 in relation to gains and losses on your Villa World shares.
- (**Note:** Division 230 will not apply to you unless you have made an election for the Division to apply to you.)

When this Ruling applies

5. This Ruling applies from 1 July 2019 to 30 June 2020.

Ruling**Special Dividend**

6. The Special Dividend is a 'dividend' as defined in subsection 6(1) of the *Income Tax Assessment Act 1936* (ITAA 1936).
7. The Special Dividend is a frankable distribution pursuant to section 202-40.

Assessability of the Special Dividend*Residents*

8. If you are a resident of Australia as defined in subsection 6(1) of the ITAA 1936 you are required to include the Special Dividend in your assessable income (subparagraph 44(1)(a)(i) of the ITAA 1936).

Non-residents not carrying on business at or through a permanent establishment

9. If you received the Special Dividend and you are a non-resident (and do not carry on business in Australia at or through a permanent establishment in Australia to which the dividend was attributable) you are not required to include the Special Dividend as assessable income under subparagraph 44(1)(b)(i) of the ITAA 1936 (section 128D of the ITAA 1936) and are not liable to Australian withholding tax in respect of the Special Dividend (subparagraph 128B(3)(ga)(i) of the ITAA 1936).

Non-residents carrying on business at or through a permanent establishment

10. If you are a non-resident who received the Special Dividend and you carry on a business in Australia at or through a permanent establishment in Australia, where the Special Dividend is attributable to the permanent establishment, you are required to include the Special Dividend as assessable income (subparagraph 44(1)(c)(i) of the

ITAA 1936) and you are not liable to Australian withholding tax in respect of the Special Dividend (subsection 128B(3E) of the ITAA 1936).

Gross-up and tax offset

11. If you received the Special Dividend directly and satisfy the residency requirements in section 207-75, you:

- include the amount of the franking credit attached to the Special Dividend in your assessable income, and
- are entitled to a tax offset equal to the amount of the franking credit attached to the Special Dividend,

in the income year the Special Dividend was paid (section 207-20), subject to you being a 'qualified person' in relation to the Special Dividend.

12. If you are not a corporate tax entity and received the Special Dividend as either a trustee of a trust (not being a complying superannuation entity) or as a partnership, you are required to include an amount equal to the franking credit attached to the Special Dividend in your assessable income under subsection 207-35(1), subject to you being a 'qualified person' in relation to the Special Dividend.

13. The relevant members of a partnership or trust to whom a distribution flows indirectly through the partnership or trust, are entitled to a tax offset under section 207-45, equal to their share of the franking credit attached to the distribution included in the assessable income of the partnership or trust under subsection 207-35(1).

Qualified persons

14. The payment of the Special Dividend constitutes a 'related payment' for the purposes of former section 160APHN of the ITAA 1936 (paragraph 207-145(1)(a)).

15. You will be a qualified person in relation to the Special Dividend, if from 4 September 2019 to 22 October 2019 (inclusive), you continued to hold your Villa World shares and did not have 'materially diminished risks of loss or opportunities for gain' (as defined under former section 160APHM of the ITAA 1936) in respect of your Villa World shares for a continuous period of at least 45 days.

Refundable tax offset

16. Your entitlement to the franking credit tax offset under Division 207 in relation to the Special Dividend is subject to the refundable tax offset rules in Division 67, provided you are not excluded by the operation of section 67-25.

17. If you are a non-resident who received the Special Dividend and you carry on a business in Australia at or through a permanent establishment in Australia, where the Special Dividend is attributable to the permanent establishment, you are excluded from the refundable tax offset rules (subsection 67-25(1DA)).

Exempting entity

18. Villa World was not an 'exempting entity' when the Special Dividend was paid, nor was it a 'former exempting entity' at the time as less than 95% of accountable membership interests or accountable partial interests (broadly direct and indirect ownership interests) held in Villa World were held by non-residents (Division 208).

19. Therefore, section 208-195 will not apply to deny the gross up of your assessable income by the amount of the franking credit attached to the Special Dividend you received, nor to deny the tax offset to which you are otherwise entitled to under Division 207 at the time when the Special Dividend was paid (subject to the refundable tax offset rules in Division 67).

Imputation benefits anti-avoidance provisions

Section 177EA

20. The Commissioner will not make a determination under paragraph 177EA(5)(b) of the ITAA 1936 to deny the whole, or any part, of the imputation benefit received in relation to the Special Dividend.

Section 204-30

21. The Commissioner will not make a determination under paragraph 204-30(3)(c) to deny the whole, or any part, of the imputation benefit received in relation to the Special Dividend.

CGT consequences

CGT event A1

22. CGT event A1 happened on 30 October 2019 (scheme implementation date) when you disposed of each of your Villa World shares to AVID in accordance with the Scheme of Arrangement (section 104-10).

Capital proceeds

23. The Scheme Consideration of \$2.035 you received for each Villa World share is your capital proceeds from CGT event A1 happening (subsection 116-20(1)).

24. The Special Dividend of \$0.31 per Villa World share is not included in your capital proceeds.

Capital gain or capital loss

25. You made a capital gain if the capital proceeds from the disposal of a Villa World share exceed its cost base (subsection 104-10(4)). The capital gain is the amount of the excess.

26. You made a capital loss if the capital proceeds are less than the reduced cost base of the Villa World share (subsection 104-10(4)). The capital loss is the amount of the difference.

Discount capital gain

27. If you made a capital gain from the disposal of a Villa World share, you are eligible to treat that reduced capital gain as a 'discount capital gain' provided you satisfy the requirements of Division 115.

Non-resident shareholders

28. If you are a non-resident you may disregard any capital gain or capital loss made when CGT event A1 happened if your Villa World share was not 'taxable Australian property' (section 855-10).

Scheme

29. The following description of the scheme is based on information provided by the applicant. If the scheme is not carried out as described, this Ruling cannot be relied upon.

30. Other information referenced is the:

- Scheme Implementation Agreement (SIA) dated 5 July 2019, and
- Scheme Booklet dated 6 September 2019.

Relevant entities***Villa World***

31. Villa World is an Australian tax resident that was listed on the Australian Securities Exchange. Villa World was the head company of a tax consolidated group.

32. Villa World's principal activity is Australian property development. It engages in the development, construction and sale of residential house and land packages across New South Wales, Queensland and Victoria.

33. On 16 October 2019 Villa World had 127,121,097 ordinary fully paid shares on issue.

AVID

34. AVID is a diversified Australian property development business with a portfolio of broadacre and medium density residential and industrial projects.

35. Prior to the scheme implementation date of 30 October 2019, AVID did not hold any Villa World shares directly or indirectly.

Scheme of Arrangement

36. On 8 July 2019, Villa World announced it had entered into the SIA with AVID under which AVID would acquire all of the issued shares in Villa World by way of a court ordered Scheme of Arrangement under Part 5.1 of the Corporations Act.

37. Under the terms of the Scheme of Arrangement, the Scheme Consideration payable by AVID was \$2.345 per Villa World share held at 23 October 2019 (scheme record date) less the amount of any Special Dividend paid by Villa World which would not exceed \$0.35 per share.

38. The requisite majority of Villa World's shareholders approved the Scheme of Arrangement at a meeting held on 11 October 2019.

39. The Scheme of Arrangement was approved by order of the Federal Court of Australia on 15 October 2019.

40. The Scheme of Arrangement became effective on 16 October 2019 when Villa World lodged the court order with the Australian Securities and Investments Commission.

Villa World shares were suspended from trading at the close of trading on 16 October 2019.

41. Villa World's shareholders were eligible to participate in the Scheme of Arrangement if they held Villa World shares as at 7:00pm AEST on 23 October 2019.

42. On 30 October 2019 (scheme implementation date), eligible Villa World shareholders disposed of each share they held in Villa World to AVID.

43. Eligible Villa World shareholders received a total cash payment of \$2.345 per Villa World share comprising of:

- a fully franked Special Dividend of \$0.31 which was paid on 28 October 2019, and
- the Scheme Consideration of \$2.035 which was paid on 30 October.

Special Dividend

44. On 11 October 2019, the Board of Directors of Villa World (Villa World Board) declared a fully franked special dividend of \$0.31 per Villa World share held at 7:00pm AEST on 18 October 2019 (Special Dividend record date). The Special Dividend was paid on 28 October 2019.

45. The payment of the Special Dividend was subject to the Scheme of Arrangement becoming effective and was payable at the discretion of the Villa World Board. AVID did not influence the decision of the Villa World Board to declare the Special Dividend or in the determination of the quantum of the Special Dividend. AVID did not finance or otherwise facilitate financing for the payment of the Special Dividend.

46. The Special Dividend was paid entirely from Villa World's existing cash reserves and banking facilities. The Special Dividend was debited against Villa World's retained earnings account.

47. The Special Dividend complied with the requirements of the Corporations Act, including section 254T of that Act.

Appendix – Explanation

ⓘ *This Explanation 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.*

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Special Dividend

48. The term 'dividend' is defined in subsection 6(1) of the ITAA 1936 to include any distribution made by a company to any of its shareholders, whether in money or other property. However, paragraph (d) of the definition of 'dividend' excludes a distribution debited against an amount standing to the credit of the share capital account of the company.

49. The payment of the Special Dividend is a distribution of money which Villa World made to its shareholders. Villa World did not debit the Special Dividend against its share capital account.

50. Therefore, the exclusion in paragraph (d) of the definition does not apply and the Special Dividend constitutes a 'dividend' for the purposes of subsection 6(1) of the ITAA 1936.

51. A distribution is a frankable distribution to the extent it is not unfrankable (section 202-40). Section 202-45 sets out the circumstances under which an amount or distribution is taken to be unfrankable.

52. None of the circumstances in section 202-45 apply to the Special Dividend. Therefore, the Special Dividend is a frankable distribution under section 202-40 and in turn is capable of being franked in accordance with section 202-5.

Assessability of the Special Dividend***Residents***

53. Subparagraph 44(1)(a)(i) of the ITAA 1936 includes in the assessable income of an Australian resident shareholder in a company:

... dividends (other than non-share dividends) that are paid to the shareholder by the company out of profits derived by it from any source ...

54. As the Special Dividend was paid to Villa World's shareholders out of profits derived by Villa World, shareholders who are a resident of Australia, as defined in subsection 6(1) of the ITAA 1936, are required to include the Special Dividend in their assessable income under subparagraph 44(1)(a)(i) of the ITAA 1936.

Non-residents not carrying on a business at or through a permanent establishment

55. Subparagraph 44(1)(b)(i) of the ITAA 1936 includes in the assessable income of a non-resident shareholder in a company:

... dividends (other than non-share dividends) paid to the shareholder by the company to the extent to which they are paid out of profits derived by it from sources in Australia; ...

56. However, subsection 44(1) of the ITAA 1936 does not apply to a dividend to the extent to which it is included in, or excluded from, assessable income by another provision that expressly deals with dividends in the ITAA 1936 or the *Income Tax Assessment Act 1997*.

57. Subsection 128B(1) of the ITAA 1936 imposes Australian withholding tax on income which:

- (a) is derived, on or after 1 January 1968, by a non-resident; and
- (b) consists of a dividend paid by a company that is a resident.

58. Subparagraph 128B(3)(ga)(i) of the ITAA 1936 excludes from subsection 128B(1) income derived by a non-resident that consists of the franked part of a dividend. As the Special Dividend was fully franked, it will not be subject to Australian withholding tax when derived by a non-resident shareholder.

59. Section 128D of the ITAA 1936 operates to treat the Special Dividend as non-assessable non-exempt income.

60. Accordingly, a non-resident who received the fully franked Special Dividend (other than those shareholders who received the Special Dividend in carrying on business in Australia at or through a permanent establishment in Australia) is not required to include the Special Dividend as assessable income pursuant to subparagraph 44(1)(b)(i) of the ITAA 1936 (section 128D of the ITAA 1936) and is not liable to Australian withholding tax in relation to the Special Dividend (subparagraph 128B(3)(ga)(i) of the ITAA 1936).

Non-residents carrying on a business at or through a permanent establishment

61. A non-resident's liability to withholding tax on dividend income received in subsection 128B(1) of the ITAA 1936 is subject to subsection 128B(3E). Subsection 128B(3E) states that section 128B does not apply to dividend income that:

- (a) Is paid to a person who is a non-resident carrying on business in Australia at or through a permanent establishment of the person in Australia; and
- (b) Is attributable to the permanent establishment; and
- (c) Is not paid to the person in the person's capacity as trustee.

62. Subparagraph 44(1)(b)(i) of the ITAA 1936 includes in the assessable income of a non-resident shareholder of a company:

... dividends (other than non-share dividends) paid to the shareholder by the company to the extent to which they are paid out of profits derived by it from sources in Australia ...

63. Subparagraph 44(1)(c)(i) of the ITAA 1936 includes dividends in the assessable income of a non-resident shareholder of a resident company, where the non-resident shareholder is carrying on business in Australia at or through a permanent establishment of the shareholder in Australia and those dividends:

... are attributable to the permanent establishment, to the extent to which they are paid out of profits derived by the company from sources outside Australia ...

64. Accordingly a non-resident carrying on a business in Australia at or through a permanent establishment who received the Special Dividend (otherwise than in their capacity as trustee) is required to include the dividend in their assessable income, to the extent to which the dividend was attributable to the permanent establishment, pursuant to subparagraphs 44(1)(b)(i) and 44(1)(c)(i) of the ITAA 1936 and they will not be liable for Australian withholding tax in relation to the dividend.

Gross-up and tax offset

65. Section 207-20 provides:

- If an entity makes a franked distribution to another entity, the assessable income of the receiving entity, for the income year in which the distribution is made, includes the amount of the franking credit on the distribution. This is in addition to any other amount included in the receiving entity's assessable income in relation to the distribution under any other provision of this Act.
- The receiving entity is entitled to a tax offset for the income year in which the distribution is made. The tax offset is equal to the franking credit on the distribution.

66. Where a shareholder receives a franked distribution directly, satisfies the residency requirement in section 207-75 and is a 'qualified person' in relation to the franked distribution, the assessable income of the shareholder includes the amount of the franking credit (subsection 207-20(1)). The shareholder will also be entitled to a tax offset equal to the franking credit on the distribution (subsection 207-20(2)).

67. A shareholder that is not a qualified person in relation to the Special Dividend:

- does not include the franking credit attached to the dividend in their assessable income (paragraph 207-145(1)(e)), and
- is not entitled to a tax offset equal to the amount of the franking credit attached to the dividend (paragraph 207-145(1)(f)).

68. Subject to satisfying the 'qualified person' rule, the assessable income of a shareholder (not being an entity taxed as a corporate tax entity) that is a partnership or a trustee of a trust (not being a complying superannuation fund), includes the amount of the franking credit attached to the Special Dividend (subsection 207-35(1)).

Qualified person, related payment rule and holding period requirement***Qualified person***

69. An entity must be a 'qualified person' in relation to a dividend in order to be entitled to a tax offset in respect of the franking credit on a dividend (subsection 207-145(1)).

70. Former section 160APHU of the ITAA 1936 provides that a partner in a partnership or the beneficiary of a trust cannot be a qualified person in relation to a dividend unless the partnership or the trustee of the trust is also a qualified person in relation to the dividend.

71. Paragraph 207-145(1)(a) which refers to former Division 1A of Part IIIAA of the ITAA 1936 provides the statutory tests that must be satisfied for a taxpayer to be a 'qualified person' in relation to a franked distribution they have received and thus be entitled to a tax offset for the franking credit on the distribution.

72. The test of what constitutes a 'qualified person' is set out in former subsection 160APHO(1) of the ITAA 1936 as follows:

A taxpayer who has held shares or an interest in shares on which a dividend has been paid is a **qualified person** in relation to the dividend if:

- (a) where neither the taxpayer nor an associate of the taxpayer has made, or is under an obligation to make, or is likely to make, a related payment in respect of the dividend – the taxpayer has satisfied subsection (2) in relation to the primary qualification period in relation to the dividend; or
- (b) where the taxpayer or an associate of a taxpayer has made, is under an obligation to make, or is likely to make, a related payment in respect of the dividend – the taxpayer has satisfied subsection (2) in relation to the secondary qualification period in relation to the dividend.

73. Broadly, if Villa World's shareholders were not under an obligation to make a related payment in relation to the Special Dividend, they are required to satisfy the holding period requirement within the primary qualification period. If however Villa World's shareholders were under an obligation to make a related payment in relation to the Special Dividend, they are required to satisfy the holding period requirement within the secondary qualification period.

Related payment rule

74. In order to determine the relevant qualification period, it is necessary to determine whether, under the Scheme of Arrangement, a Villa World shareholder made, was under an obligation to make, or is likely to make, a 'related payment' in respect of the Special Dividend they received (former subsection 160APHN(2) of the ITAA 1936).

75. Examples of what constitutes the making of a related payment for the purposes of Division 1A of former Part IIIAA of the ITAA 1936 are set out in former section 160APHN of the ITAA 1936. Broadly, a related payment is where a Villa World shareholder has done, or is obliged to do, anything having the effect of passing the benefit of the Special Dividend to one or more other persons.

76. Former subsection 160APHN(3) of the ITAA 1936 lists examples of what may have the effect of passing the benefit of a dividend to one or more other persons, for example, causing an amount or amounts to be set off against, or to be otherwise applied in reduction of, a debt or debts owed by the other person or other persons (former paragraph 160APHN(3)(f) of the ITAA 1936).

77. Former subsection 160APHN(4) of the ITAA 1936 lists the circumstances of making a related payment referred to in former paragraph 160APHN(3)(f) of the ITAA 1936

being broadly that the amount of the benefit passed on reflects the amount of the Special Dividend.

78. Under the terms of the SIA, the Scheme Consideration was reduced by the amount of the Special Dividend paid by Villa World to its shareholders and was contingent upon the Scheme of Arrangement being implemented. On this basis, it is considered that the payment of the Special Dividend is an integral part of the scheme. Therefore, the requirements of former paragraphs 160APHN(3)(f) and 160APHN(4)(c) of the ITAA 1936 are satisfied.

79. The reduction of the Scheme Consideration has the effect of passing the benefit of the Special Dividend from a Villa World shareholder to AVID. Therefore, a Villa World shareholder, or a partner in a partnership or a beneficiary of a trust that has an interest in Villa World shares, is taken to have made a related payment in respect of the Special Dividend.

Holding period requirement

80. The holding period rule requires shareholders to hold their ordinary shares at-risk for a continuous period of not less than 45 days during the relevant qualification period (former paragraph 160APHO(2)(a) of the ITAA 1936).

81. As Villa World's shareholders are taken, for the purposes of Division 1A of former Part IIIA of the ITAA 1936, to have made a related payment in respect of the Special Dividend, the relevant qualification period is the secondary qualification period pursuant to former paragraph 160APHO(1)(b) of the ITAA 1936.

82. Former section 160APHD of the ITAA 1936 defines the 'secondary qualification period' as follows:

... in relation to a taxpayer in relation to shares or an interest in shares, means:

- (a) if the shares are not preference shares – the period beginning on the 45th day before, and ending on the 45th day after, the day on which the shares or interest became *ex dividend* ...

83. The concept of 'ex dividend' is defined by former subsection 160APHE(1) of the ITAA 1936 as follows:

A share in respect of which a dividend is to be paid, or an interest (other than an interest as a beneficiary of a widely held trust) in such a share, becomes *ex dividend* on the day after the last day on which the acquisition by a person of the share will entitle the person to receive the dividend.

84. The eligibility for the Special Dividend was determined on the Special Dividend record date of 18 October 2019, being the last day on which acquisition by a person of a Villa World share entitled the person to receive the Special Dividend as per former section 160APHE of the ITAA 1936. Accordingly, the ex dividend date of a Villa World share for the purposes of former subsection 160APHE(1) of the ITAA 1936 is 19 October 2019.

85. The secondary qualification period runs from 45 days before and ends on 45 days after the ex dividend date of 19 October 2019. In practical terms, this means that the secondary qualification period runs from 4 September 2019 to 3 December 2019. However, pursuant to former subsection 160APHO(3) of the ITAA 1936, any days on which a taxpayer has materially diminished risks of loss or opportunities for gain in respect of the Villa World share is to be excluded. This means that the secondary qualification period runs from 4 September 2019 until the date that Villa World's shareholders are no longer holding their shares at risk for the purposes of former Division 1A of Part III of the ITAA 1936.

86. Entitlement to participate in the Scheme of Arrangement was determined on the scheme record date (23 October 2019). Villa World's shareholders who disposed of their shares under the SIA are no longer considered to have held their Villa World shares at risk for the purposes of former Division 1A of Part IIIAA of the ITAA 1936 as of 23 October 2019.

87. Accordingly, for a Villa World shareholder who disposed of their shares under the SIA, the secondary qualification period will run for a period of 4 September 2019 to 22 October 2019 (being the day prior to the scheme record date). A Villa World shareholder who received the Special Dividend will need to have held their shares at risk for a continuous period of not less than 45 days during this period in order to be a qualified person for the purposes of former Division 1A of Part IIIAA of the ITAA 1936. Further, pursuant to former paragraph 160APHO(2)(a) of the ITAA 1936, neither the date of acquisition nor the date of disposal is included in the relevant 45-day period.

88. As such, a Villa World shareholder who acquired Villa World shares on or before 4 September 2019 will be capable of being a qualified person provided they held their Villa World shares at risk until the scheme record date of 23 October 2019.

89. The small shareholder exception in former section 160APHT of the ITAA 1936 does not apply as the Special Dividend constitutes a related payment as discussed at paragraphs 74 to 79 of this Ruling. Therefore, a Villa World shareholder who is an individual and who has franking credit offsets not exceeding \$5,000 for the year of income ended 30 June 2019 must also satisfy the holding period requirement in relation to the Special Dividend (former subsection 160APHT(2) of the ITAA 1936).

90. Each shareholder will need to determine whether they satisfy this holding period requirement having regard to their personal circumstances. This will require them to take into account any positions they may have entered into that have diminished their risk of loss or opportunity for gain in respect of their Villa World shares, which is outside the scope of this Ruling.

Refundable tax offset

91. An entity entitled to a tax offset under subsection 207-20(2), in respect of the franking credit received (or entities entitled to a tax offset under section 207-45 equal to their share of the franking credit), will also be subject to the refundable tax offset rules in Division 67, unless specifically excluded under section 67-25.

92. Pursuant to section 67-25, there are a range of taxpayers who are specifically excluded from the operation of the refundable tax offset rules. This range of excluded entities includes:

- non-complying superannuation funds or non-complying approved deposit funds (subsection 67-25(1A))
- a trustee of a trust who is liable to be assessed under section 98 or 99A of the ITAA 1936 (subsection 67-25(1B))
- corporate tax entities, unless the entity is an exempt institution that is eligible for a refund, or a life insurance company that has received distributions on membership interests which were not held by the company on behalf of its shareholders (subsections 67-25(1C) and 67-25(1D)), and
- non-resident entities carrying on business in Australia at or through a permanent establishment in Australia (subsection 67-25(1DA)).

93. Division 63 sets out the rules on how, and in what order, tax offsets are applied against income tax liability. Where a tax offset that is subject to the refundable tax offset

rules in Division 67 exceeds the income tax liability, the shareholder can get a refund of the remaining amount (table item 40 of section 63-10).

Exempting entity

94. Division 207 does not apply to a distribution by an exempting entity unless it is expressly stated to apply under Subdivision 208-G (section 208-195).

95. A corporate tax entity is an exempting entity at a particular time if, at that time, the entity is effectively owned by prescribed persons (section 208-20). In broad terms, an entity is effectively owned by prescribed persons if not less than 95% of accountable membership interests or accountable partial interests (broadly direct and indirect ownership interests) are held by or on behalf of prescribed persons (subsection 208-25(1)).

96. The definition of a 'prescribed person' in relation to another corporate tax entity includes companies, trustees, partnerships or individuals that are a foreign resident or if they were to receive a distribution by the corporate tax entity, the distribution would be exempt income or non-assessable non-exempt income of the company, trust estate, partnership or individual (sections 208-40 and 208-45).

97. Villa World was not an exempting entity at the time the Special Dividend was paid to Villa World's shareholders, nor was it a former exempting entity at that time, as less than 95% of the accountable membership interests or accountable partial interests held in Villa World were held by foreign residents (Division 208).

98. Therefore, section 208-195 does not apply to deny the gross up of the assessable income of a Villa World shareholder by the amount of the franking credit attached to the Special Dividend received by that shareholder, nor to deny the tax offset to which the Villa World shareholder may otherwise be entitled to pursuant to Division 207 at the time when the Special Dividend was paid.

Imputation benefits anti-avoidance provisions

Section 177EA

99. Section 177EA of the ITAA 1936 is a general anti-avoidance provision that applies to a wide range of schemes seeking to obtain a tax advantage in relation to imputation benefits. In essence, it applies to schemes for the disposition of shares, or an interest in shares, where a franked distribution is paid or payable in respect of a share or an interest in a share.

100. If section 177EA of the ITAA 1936 applies, the Commissioner may make a determination, under subsection 177EA(5) of the ITAA 1936, that either:

- a franking debit arises to the company in respect of each distribution paid to the relevant taxpayer (paragraph 177EA(5)(a) of the ITAA 1936), or
- alternatively, that no imputation benefits arises in respect of a distribution paid to the relevant taxpayer (paragraph 177EA(5)(b) of the ITAA 1936).

101. Subsection 177EA(3) of the ITAA 1936 provides that section 177EA of the ITAA 1936 applies if:

- (a) there is a scheme for a disposition of membership interests, or an interest in membership interests, in a corporate tax entity; and

- (b) either:
 - (i) a frankable distribution has been paid, or is payable or expected to be payable, to a person in respect of the membership interests; or
 - (ii) a frankable distribution has flowed indirectly, or flows indirectly or is expected to flow indirectly, to a person in respect of the interest in membership interests, as the case may be; and
- (c) the distribution was, or is expected to be, a franked distribution or a distribution franked with an exempting credit; and
- (d) except for this section, the person (the **relevant taxpayer**) would receive, or could reasonably be expected to receive, imputation benefits as a result of the distribution; and
- (e) having regard to the relevant circumstances of the scheme, it would be concluded that the person, or one of the persons, who entered into or carried out the scheme or any part of the scheme did so for a purpose (whether or not the dominant purpose but not including an incidental purpose) of enabling the relevant taxpayer to obtain an imputation benefit.

102. Villa World is a corporate tax entity. The transfer of the shares in Villa World under the Scheme of Arrangement is a scheme for the disposition of membership interests. The fully franked Special Dividend is a frankable distribution that was paid to Villa World's shareholders (the relevant taxpayers) as part of this scheme and who could, therefore, reasonably be expected to receive imputation benefits.

103. In this case, it is considered that the conditions of paragraphs 177EA(3)(a) to (d) of the ITAA 1936 are satisfied. Accordingly, as per paragraph 177EA(3)(e) of the ITAA 1936 the issue is whether, having regard to the relevant circumstances of the scheme, it would be concluded that, on the part of Villa World, its shareholders or any other relevant party, there is a purpose, more than merely an incidental purpose, of conferring an imputation benefit under the scheme.

104. To arrive at a conclusion, the Commissioner must have regard to the relevant circumstances of the scheme which include, but are not limited to, the circumstances set out in subsection 177EA(17) of the ITAA 1936. The relevant circumstances listed in subsection 177EA(17) of the ITAA 1936 encompass a range of diverse matters which, taken individually or in conjunction with other matters, listed or not, could indicate the requisite purpose, that is, that the delivery of the imputation benefit is more than an incidental purpose of the scheme.

105. The relevant circumstances are that the disposition of the Villa World shares was made pursuant to a takeover by AVID by way of a scheme of arrangement under the Corporations Act which was voted on by Villa World's shareholder who were entitled to vote.

106. Villa World's Scheme of Arrangement is a normal commercial transaction regarding the acquisition of Villa World shares.

107. The fully franked Special Dividend was paid to all Villa World's shareholders, which included a mix of residents and non-residents, in proportion to the number of shares that each of these shareholders held on the Special Dividend record date irrespective of their ability to utilise the relevant franking credits.

108. In considering the manner, form and substance of the scheme, it is considered that the scheme is not being entered into by Villa World or Villa World's shareholders for more than an incidental purpose of enabling the Villa World's shareholders to obtain imputation benefits. The provision of imputation benefits to Villa World's shareholders remains incidental, in the sense of being subservient to, the purpose of transferring their shares to AVID.

109. Having regard to the relevant circumstances of the Scheme, it cannot be concluded that Villa World or the Villa World's shareholders entered into or carried out the Scheme for the purpose of enabling Villa World's shareholders to obtain an imputation benefit.

110. Therefore, the Commissioner considers that the requisite purpose is not present and accordingly the Commissioner will not make a determination under paragraph 177EA(5)(b) of the ITAA 1936 to deny the whole, or any part, of the imputation benefit to be received in relation to the Special Dividend.

Section 204-30

111. Section 204-30 applies where a corporate tax entity streams the payment of dividends to its members in such a way that certain shareholders, referred to as favoured members, obtain imputation benefits, and other shareholders, referred to as disadvantaged members, obtain lesser or no imputation benefits, whether or not they receive other benefits. The favoured members are those that derive a greater benefit from imputation benefits than disadvantaged members.

112. 'Streaming' is not defined for the purposes of section 204-30. However, paragraph 3.28 of the Explanatory Memorandum to the New Business Tax System (Imputation) Bill 2002 provides that '*... streaming is selectively directing the flow of franked distributions to those members who can benefit most from the imputation credits.*'

113. For section 204-30 to apply, members to whom distributions are streamed must derive a greater benefit from franking credits than another member of the entity. The phrase '*derive a greater benefit from franking credits*' is defined in subsection 204-30(8) by reference to the ability of the members to fully utilise imputation benefits.

114. In this case, shareholders that received the Special Dividend received an imputation benefit when the Special Dividend was paid. The imputation benefit for resident shareholders is in the form of a tax offset (paragraph 204-30(6)(a)) and for non-resident shareholders is in the form of not being liable to pay dividend withholding tax (paragraph 204-30(6)(e)). The resident shareholders may derive a greater benefit from franking credits than the non-resident shareholders.

115. However, Villa World paid the Special Dividend equally to all of its shareholders and the Special Dividend was fully franked regardless of the recipient's tax profile. Accordingly, it cannot be said that Villa World selectively directed the flow of franked distributions to those members who could most benefit from the franking credits.

116. As the conditions in subsection 204-30(1) have not been met, the Commissioner will not make a determination under paragraph 204-30(3)(c) to deny the whole, or any part, of the imputation benefit received in relation to the Special Dividend.

CGT consequences

CGT event A1

117. CGT event A1 happens if there is a change in the ownership of a CGT asset (section 104-10). The event happens when a contract to dispose of the asset is entered into or, if there is no contract, when the change of ownership occurs (subsection 104-10(3)).

118. The acquisition of shares in Villa World under a court approved scheme of arrangement does not involve a disposal of shares under a contract.¹

119. Therefore, CGT event A1 happened when there was a change of ownership in a Villa World share from a Villa World shareholder to AVID under the SIA (subsections 104-10(1) and (2)). The change of ownership occurred on the scheme implementation date of 30 October 2019 (paragraph 104-10(3)(b)).

120. The time when CGT event A1 happens determines the income year in which a capital gain or capital loss is made and whether the CGT discount applies to any capital gain.

121. A Villa World shareholder made a capital gain from CGT event A1 happening if the capital proceeds from the disposal of a Villa World share are more than the cost base of the share. A Villa World shareholder made a capital loss if the capital proceeds are less than the reduced cost base of the Villa World share (subsection 104-10(4)).

Capital proceeds

122. The capital proceeds received by a shareholder from a CGT event is the money and the market value of any property received or entitled to be received (worked out at the time of the event happening) in respect of the event happening (subsection 116-20(1)).

123. The term '*in respect of the event happening*' in subsection 116-20(1) requires the relationship between the event and the receipt of the money, or the entitlement to receive the money, to be more than coincidental. An amount is not capital proceeds received or entitled to be received in respect of a CGT event merely because it is received in association with the CGT event.²

124. In this case, the Special Dividend was not paid in respect of the disposal of Villa World shares under the scheme. The determination to pay the Special Dividend was at the discretion of the Villa World Board. AVID had no control over Villa World's decision to pay the Special Dividend. AVID had no control over the quantum of the Special Dividend.

125. The payment of the Special Dividend was funded entirely by Villa World's cash reserves and existing debt facilities with no actual or contingent funding support from AVID.

126. The Commissioner considers that the Special Dividend was not received in respect of the disposal of Villa World shares under the scheme. Accordingly, the Special Dividend does not form part of the capital proceeds in respect of CGT event A1 happening.

127. Therefore, the capital proceeds that a shareholder received for the disposal of a Villa World share is the Scheme Consideration of \$2.035 per share.

Discount capital gain

128. If a shareholder made a capital gain from the disposal of their Villa World share, the shareholder may be eligible to treat the capital gain as a discount capital gain provided that all the relevant requirements of Division 115 are met.

¹ See paragraph 9 of Taxation Determination TD 2002/4 *Income tax: capital gains: what is the first element of the cost base and reduced cost base of a share in a company you acquire in exchange for a share in another company in a takeover or merger?*

² Taxation Ruling TR 2010/4 *Income tax: capital gains: when a dividend will be included in the capital proceeds from a disposal of shares that happens under a contract or a scheme of arrangement.*

129. One of those requirements is that the entity which made the capital gain as a result of a CGT event happening to its CGT asset must have acquired that asset at least 12 months before the CGT event (subsection 115-25(1)).

130. This means that a capital gain made by a shareholder is a discount capital gain if they acquired the Villa World share at least 12 months before the date of disposal under the scheme, being 12 months before the scheme implementation date of 30 October 2019, and the other requirements in Division 115 are satisfied.

Non-resident shareholders

131. Under subsection 855-10(1), an entity disregards a capital gain or capital loss from a CGT event if they are a foreign resident, or the trustee of a foreign trust for CGT purposes, just before the CGT event happens and the CGT event happens in relation to a CGT asset that is not 'taxable Australian property'.

132. The term 'taxable Australian property' is defined in the table in section 855-15. The table sets out these five categories of CGT assets:

Item 1	Taxable Australian real property.
Item 2	An indirect Australian real property interest not covered by table item 5.
Item 3	A CGT asset used at any time in carrying on a business through a permanent establishment in Australia and which is not covered by table items 1, 2 or 5.
Item 4	An option or right to acquire a CGT asset covered by table items 1, 2 or 3.
Item 5	A CGT asset that is covered by subsection 104-165(3) (choosing to disregard a gain or loss on ceasing to be an Australian resident).

133. However, a non-resident or the trustee of a foreign trust for CGT purposes cannot disregard, under subsection 855-10(1), a capital gain from CGT event A1 if just before the CGT event happens:

- their Villa World shares were an 'indirect Australian real property interest' not covered by item 5 (table item 2 of section 855-15)
- their Villa World shares had been used at any time by the non-resident in carrying on a business through a permanent establishment in Australia (table item 3 of section 855-15), or
- their Villa World shares were covered by subsection 104-165(3) (table item 5 of section 855-15).

References*Previous draft:*

Not previously issued as a draft

Related Rulings/Determinations:

TR 2010/4; TD 2002/4

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disposal of a CGT asset
Income tax ~~ Capital gains tax ~~ Capital proceeds
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Franking tax offset

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