


TD 94/D81 - Income tax: capital gains: what are the CGT consequences for a shareholder if a company subdivides ('splits') or consolidates its share capital?

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This document has been finalised by TD 95/30.

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Draft Taxation Determination

Income tax: capital gains: what are the CGT consequences for a shareholder if a company subdivides ('splits') or consolidates its share capital?

1. If a company subdivides ('splits') or consolidates its share capital in accordance with section 193 of the *Corporations Law* and all of the following circumstances apply:

- (a) the original shares are not cancelled or redeemed in terms of the *Corporations Law*;
- (b) there is no change in the total amount of authorised capital, issued capital and paid-up capital of the company; and
- (c) the proportion of equity owned by each shareholder is maintained;

the shareholder does not dispose of his or her shares for capital gains purposes. As there is no disposal of the shares, the issue of rollover relief under section 160ZZP of the *Income Tax Assessment Act 1936* does not arise.

2. The subdivided or consolidated shares have the same date of acquisition as the original shares to which they relate. For example, if the original shares were acquired pre-CGT, the subdivided or consolidated shares also have a pre-CGT status.

3. In the case of original shares acquired post-CGT, subsections 160ZH(12) and (13) apply to attribute a proportionate cost base to the subdivided or consolidated shares.

4. The cancellation of original share certificates and their replacement with new certificates as part of the subdivision or consolidation process will not change the result above, unless there is also a cancellation or redemption of the shares themselves in terms of the *Corporations Law*. If the original shares are in fact cancelled or redeemed under the *Corporations Law*, there is a disposal of these shares in accordance with paragraph 160M(3)(c). In this case, roll-over relief is available under section 160ZZP if the other requirements of the section are satisfied (see TR 94/D5).

Example 1

XYZ Ltd's authorised share capital of \$100,000 is divided into 100,000 ordinary shares of \$1 each.

In accordance with section 193 of the Corporations Law, the company subdivides its share capital into 200,000 ordinary shares of \$0.50 each on 1 July 1992. The original shares are not cancelled or redeemed under the Corporations Law. Further, the total amounts of authorised, issued and paid-up capital are unaltered and there is no change in the proportion of equity owned by each shareholder.

John acquired 2,000 ordinary shares in XYZ Ltd in September 1984 and 3,000 ordinary shares in XYZ Ltd in April 1988. Prior to the subdivision, John's post-CGT shares had a cost base of \$1.00 each.

On subdivision of XYZ Ltd's share capital, there is no disposal by John of any of the original shares. John, however, now has 6,000 post-CGT ordinary shares with a cost base of \$0.50 each and 4,000 pre-CGT ordinary shares.

Example 2

If XYZ Ltd in Example (1) decides instead to consolidate its original authorised share capital into 50,000 ordinary shares of \$2.00 each, and all the other facts remain unchanged, there is also no disposal of the original shares by John under the capital gains provisions. In this case, John would now have 1,500 post-CGT ordinary shares with a cost base of \$2.00 each and 1,000 pre-CGT ordinary shares.

Commissioner of Taxation
21/7/94

FOI INDEX DETAIL: Reference No.

Related Determinations:

Related Rulings: TR 94/D5

Subject Ref: cancellation; consolidation; redemption; roll-over; shares; splits; subdivision

Legislative Ref: ITAA 160ZH(12); ITAA 160ZH(13); ITAA 160ZZP; ITAA 160M(3)(c)

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