Personal investors guide to capital gains tax

www.ato.gov.au

2001–02

TAXPACK REFERRED PUBLICATION

Covers:
- sale of shares
- sale of units in managed funds
- distributions from managed funds.

NAT 4152—6.2002

Australian Taxation Office

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How self-assessment affects most individuals

Self-assessment means the Australian Taxation Office (ATO) uses the information you give on your tax return to work out your refund or tax bill. You are required by law to make sure you have shown all your assessable income and claimed only the deductions and tax offsets to which you are entitled.

What are your responsibilities?

Even if someone else—including a tax agent—helps you to prepare your tax return, you are still legally responsible for the accuracy of the information.

What if you lodge an incorrect tax return?

Our systems continually check for missing or wrong information. We have audit programs designed to detect where taxpayers have not declared all of their assessable income or where they have incorrectly claimed deductions or tax offsets. If you become aware that your tax return is incorrect, you must contact us straightaway.

Initiatives to complement self-assessment

There are a number of initiatives administered by the ATO which complement self-assessment. Examples include:

- a change in penalty provisions so that if you take reasonable care with your tax affairs, you will not receive a penalty for honest mistakes—but please note that interest on omitted income or overclaimed deductions and tax offsets could still be payable
- the process for applying for a private ruling
- your entitlement to interest on early payment or overpayment of a tax debt
- the process for applying for an amendment if you find you left something out of your tax return.

Do you need to ask for a private ruling?

If you have a concern about the way a tax law applies to your personal tax affairs, you may want to ask for a private ruling.

A private ruling will relate just to your situation. Write to the ATO describing your situation in detail and ask for advice. Include your tax file number. If you lodge your tax return before you receive your private ruling, be aware that the ruling may alter the accuracy of your tax return.

You can ask for a review of a private ruling decision if you disagree with it, even if you have not received your assessment. The ATO can give you more information about review procedures.

Feedback

Reader feedback helps us to improve the information we provide. If you have any comments to make about this publication, please write to:

The Editor
Personal Tax Publishing Group
Australian Taxation Office
PO Box 900
CIVIC SQUARE ACT 2608

As this is a publications area only, any tax matters will be passed on to a technical area; otherwise you can ring our Personal Tax Infoline on **13 2861** for help.

PERSONAL INVESTORS GUIDE TO CAPITAL GAINS TAX 2001–02

Covers:

- sale of shares
- sale of units in managed funds
- distributions from managed funds.

Australian Taxation Office
Canberra

ABOUT THIS GUIDE

NOTE

What this guide is designed to do

This guide is designed for you if you are a personal investor who has made a capital gain or capital loss from shares, units or managed funds in 2001–02. It will help you complete item **17** (Capital gains) on your *2002 tax return for individuals* (supplementary section), shown below.

This guide does not apply to gains or losses included as part of your income under other provisions of the tax law—for example, if you are a share trader.

17 Capital gains

Did you have a CGT event during the year? **G** [X] **NO** [ ] **YES**

You must also print **X** in the **YES** box at **G** if you received a distribution of a capital gain from a trust.

Net capital gain **A** ___,___,___ .00

Total current year capital gains **H** ___,___ .00

Net capital losses carried forward to later income years **V** ______ .00

If you sold shares or units in a unit trust (including a managed fund) in 2001–02, you should read part A of this guide, then work through part B.

If you received a distribution of a capital gain from a managed fund in 2001–02, you should read part A of this guide, then work through part C.

Managed funds include property trusts, share trusts, equity trusts, growth trusts, imputation trusts and balanced trusts.

Handy hint

We may have used some terms that are not familiar to you. These words have been printed in bold the first time they are used and are explained in *Explanation of terms* at the back of this guide.

NOTE

What this guide is not designed to do

This guide does not cover your capital gains tax obligations when you sell other assets such as:

- a rental property
- collectables (for example, jewellery, art, antiques and collections) or
- assets for personal use (for example, a boat you use for recreation).

It also does not cover more complex issues relating to shares and units or to shares and units owned by companies, trusts and superannuation funds. For these, refer to the *Guide to capital gains tax*. To find out how to get this publication, see the sources listed at the back of this guide.

NOTE

Small business concessions

If you are involved in the sale of shares or units in relation to a small business, you may wish to get the publication *Capital gains tax concessions for small business*. To find out how to get this publication, see the sources listed at the back of this guide.

If you feel this guide does not fully cover your circumstances, please:

- visit our website at <**www.ato.gov.au**>
- obtain the publication *Guide to capital gains tax* or *You and your shares*, to find out how to get these publications, see the sources listed at the back of this guide
- contact the Australian Taxation Office (ATO) or
- seek advice from a professional tax adviser.

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PART A HOW CAPITAL GAINS TAX APPLIES TO YOU

WHAT IS CAPITAL GAINS TAX?

Capital gains tax (CGT) refers to the tax you pay on any capital gain you make (for example, from the sale of an asset) that you include on your annual income tax return. There is no separate tax on capital gains, it is merely a component of your income tax. You are taxed on your **net capital gain** at your marginal tax rate. Your net capital gain is the difference between your total capital gains for the year and your total capital losses (including capital losses from previous years), less any CGT discount to which you are entitled.

When you sell an asset, this transaction is known as a **CGT event**. You can make a **capital gain** or **capital loss** if a CGT event happens or you receive a distribution of a capital gain from a managed fund. You show the total of your current year capital gains at **H** item **17** on your *2002 tax return for individuals* (supplementary section). You show your net capital gain at **A** item **17** on your tax return.

> **NOTE** ***New terms***
>
> We may have used some terms that are not familiar to you. These words have been printed in bold the first time they are used and are explained in *Explanation of terms* at the back of this guide.

> ***Handy hint***
>
> You need to keep good records of any assets you have bought or sold so you can correctly work out the amount of capital gain or capital loss you have made when a CGT event happens. You must keep these records for 5 years after the CGT event has happened or after you claim any capital loss from that event against future capital gains.

While we have used the word 'bought' rather than 'acquired' in our examples, you may have acquired your shares or units without paying for them (for example, as a gift or through an inheritance or through the **demutualisation** of an insurance company such as the NRMA). If you acquired shares or units in any of these ways you may be subject to CGT when you sell them.

Similarly, we refer to 'selling' shares or units when you may have disposed of them in some other way (for example, giving them away or transferring them to someone else). All of these disposals are CGT events.

> **NOTE** ***World-wide obligations***
>
> Australian residents can make a capital gain or capital loss if a CGT event happens to any of their assets anywhere in the world. There are special rules that apply to non-residents that are not dealt with in this guide.

HOW TO MEET YOUR CGT OBLIGATION

To meet your CGT obligations, you need to follow these 3 main steps:

Step 1 Decide whether a CGT event has happened

Step 2 Work out the time of the CGT event

Step 3 Calculate your capital gain or capital loss.

STEP 1 *Decide whether a CGT event has happened*

CGT events are the different types of transactions or events which attract CGT. Generally, a CGT event has happened if you have sold (or otherwise disposed of) a **CGT asset** during 2001–02. Other examples of CGT events include when a company makes a payment other than a dividend to you as a shareholder, or when a trust or fund makes a **non-assessable payment** to you as a unit holder.

For the purposes of this guide, CGT assets include shares and units in a unit trust (including a managed fund).

If a managed fund makes a capital gain and distributes income to you, you are treated as if you made a capital gain from a CGT event.

If a listed investment company (LIC) pays a dividend to you that includes a **LIC capital gain amount**, you are **not** treated as if you made a capital gain from a CGT event. You should refer to the publication *You and your shares* if you have received such an amount as you may be entitled to a deduction.

If you did not have a CGT event, print **X** in the **NO** box at **G** item **17** on your tax return. If you had a CGT event, print **X** in the **YES** box and read on.

STEP 2 *Work out the time of the CGT event*

The timing of a CGT event is important because it tells you which **income year** is affected by your capital gain or capital loss. If you sell an asset to someone else, the CGT event happens when you enter into the contract of sale.

If there is no contract, the CGT event happens when you stop being the asset's owner.

If you received a distribution of a capital gain from a managed fund, you are taken to have made the capital gain in the income year shown on your statement from the managed fund.

STEP 3 *Calculate your capital gain or capital loss*

There are 3 ways of calculating your capital gain from the sale of your shares or units: the **indexation method**, the **discount method** and the **'other' method**. The 'other' method applies when the indexation and discount methods do not apply.

The indexation method allows you to increase the value of what your asset has cost (the **cost base**) by applying an **indexation factor** that is based on increases in the Consumer Price Index (CPI) up to September 1999.

If you use the discount method, you do not apply the indexation factor to the cost base but you can reduce your capital gain by the CGT discount of 50 per cent.

Generally, if you have held your shares or units for 12 months or more, you can choose either the discount method or the indexation method to calculate your capital gain, whichever gives you the better result.

However, you cannot use the indexation method for any assets you acquired after 21 September 1999. You do not have to choose the same method for all your shares or units even if they are in the same company or fund.

You must use the 'other' method for any shares or units you have bought and sold within 12 months (that is, when the indexation and discount methods do not apply).

To calculate your capital gain using the 'other' method, you simply subtract your cost base from what you have received—your **capital proceeds**.

If you sold your asset for less than you paid for it, you have made a capital loss. This happens when your **reduced cost base** is greater than your capital proceeds. The excess is the amount of your capital loss.

If you received a distribution of a capital gain from a managed fund, part C of this guide explains how you calculate the amount of that capital gain. You must use the same method as that chosen by the fund.

The following table explains and compares the 3 methods of calculating your capital gain.

	Indexation method	Discount method	'Other' method
Description of method	Allows you to increase the cost base by applying an indexation factor based on CPI up to September 1999	Allows you to halve your capital gain	Basic method of subtracting the cost base from the capital proceeds
When to use each method	Use for shares or units held for 12 months or more, if it produces a better result than the discount method. Use only with assets acquired before 21 September 1999.	Use for shares or units held for 12 months or more, if it produces a better result than the indexation method.	Use for shares or units if you have bought and sold them within 12 months (that is, when the indexation and discount methods do not apply).
How to calculate your capital gain using each method	Apply the relevant indexation factor (see CPI table in appendix 1), then subtract the indexed cost base from the capital proceeds (see worked examples in chapter B2).	Subtract the cost base from the capital proceeds, deduct any capital losses, then divide by 2 (see worked examples in chapter B2).	Subtract the cost base from the capital proceeds (see chapter B1).

Exceptions, exemptions, discounts or other concessions

There may be exceptions, exemptions, discounts, **roll-over** or other concessions that allow you to reduce, defer or disregard your capital gain or capital loss. For example, generally you can disregard any capital gain or capital loss associated with any pre-CGT assets (that is, those you acquired before 20 September 1985).

For example, if a company in which you hold shares is taken over or merges with another company, you may have a CGT obligation if you are required to dispose of your existing shares. If this happened this income year, you may be able to defer or roll over your CGT obligation (in whole or in part) until a later CGT event happens. This is known as **scrip-for-scrip roll-over** and it does not apply if you make a capital loss.

Another example of a roll-over is in relation to transferring a CGT asset to your former spouse after a marriage breakdown. In this case, you may not have to pay CGT on the transfer, but CGT may need to be paid when a later CGT event happens to the asset (for example, if your former spouse disposes of the asset).

Information

If you have sold a rental property, have assets from a deceased estate or have several CGT events this income year, this guide does not provide you with enough detail. You need to read the publication *Guide to capital gains tax* to find out how to calculate and report your CGT obligation. To find out how to get this publication, see the sources listed at the back of this guide.

Where to now?

If you have sold some shares or units in a unit trust (including a managed fund) this income year, go to part B of this guide to find out how to calculate and report your CGT obligation.

If you have received a distribution of a capital gain from a managed fund this income year, go to part C of this guide to find out how to report your CGT obligation.

PART B SALE OF SHARES OR UNITS

Chapter B1

HOW TO WORK OUT YOUR CAPITAL GAIN OR CAPITAL LOSS

To calculate your capital gain from the sale of shares or units in a unit trust (for example, a managed fund), the main steps are to:

1 work out how much you have received from each CGT event (your capital proceeds)

2 work out how much each CGT asset cost you (the cost base)

3 subtract **2** (the cost base) from **1** (the capital proceeds).

If you received more from the CGT event than the asset cost you (that is, the capital proceeds are greater than the cost base), the difference is your capital gain. There are 3 ways of calculating capital gain. These are:

- the indexation method
- the discount method and
- the 'other' method if you bought and sold your asset within 12 months (this is the basic method explained in the 3 steps above).

For a more detailed description of these methods, see part A or *Explanation of terms* at the back of this guide.

NOTE ***New terms***

Some terms in this section may be new to you. They have been printed in bold the first time they are used and are explained in *Explanation of terms* at the back of this guide.

While we have used the word 'bought' rather than 'acquired' in our examples, you may have acquired your asset without paying for it (for example, as a gift or through an inheritance or through the demutualisation of an insurance company such as the NRMA). Similarly, we refer to 'selling' an asset, when you may have disposed of it in some other way (for example, by giving it away or transferring it to someone else). All of these transactions are CGT events.

If you made a capital loss (that is, you received less from the CGT event than the asset cost you), you need to work out the reduced cost base for the asset. Generally, for shares, the cost base and reduced cost base are the same. If the reduced cost base is greater than the capital proceeds, the difference is your capital loss.

If the capital proceeds are less than the cost base but more than the reduced cost base, you have not made a capital gain or a capital loss.

The steps on the following pages show you the calculations to work out your CGT obligation using the 'other' and discount methods. If you want to use the indexation method (by indexing your cost base for inflation) you will need to do this at step 2. You may find the worked examples in chapter B2 easier to follow.

You may find it useful to use the margins provided beside the following steps to do your own calculations so you can transfer the relevant amounts to item **17** on your tax return.

STEP 1 *Work out your capital proceeds from the CGT event*

The capital proceeds are what you receive, or are deemed to receive, when you sell or otherwise dispose of your CGT asset.

For example, with shares the capital proceeds may be:

- the amount you receive from the purchaser
- the amount you receive from a liquidator
- the amount or value of shares or other consideration you receive on a merger/takeover, or
- the market value if you give shares away.

Example

Fred sold his parcel of 1000 shares for $6000. Fred's capital proceeds are $6000.

STEP 2 *Work out the cost base of your asset*

Information

There are certain circumstances where a cost base may be indexed. This is called the indexation method and the cost base would then become an 'indexed' cost base. For more information, see part A of this guide or the worked examples in chapter B2.

The cost base of your asset is what your asset cost you, including the incidental costs of buying, selling, maintaining and preserving it.

The cost base for an asset such as a share or unit may also need to be reduced by the amount of any non-assessable payment you received from the company or fund during the time you owned the share or unit. This is explained on page 9.

Interest you have paid on money borrowed to buy shares or units will not form part of your cost base if you have claimed a deduction for it in any income year.

For shares, the cost base is usually the cost of buying the shares including brokerage and stamp duty and costs on selling the shares.

Example

Fred had bought 1000 shares at $5 each ($5000). He was charged $50 for brokerage and paid duties of $25. When he sold the shares he paid $50 brokerage.

The cost base of his shares is $5000 + $50 + $25 + $50 = $5125.

STEP 3 *Did you make a capital gain?*

Subtract the amount in step 2 from the amount in step 1.

If the capital proceeds are greater than the cost base, the difference is your capital gain.

Example

As Fred sold his shares for $6000, he subtracts the $5125 from the $6000 to arrive at $875.

Fred made a capital gain of $875.

STEP 4 *If you did not make a capital gain, work out the reduced cost base of the asset*

If you did not make a capital gain, you need to calculate a reduced cost base of your asset before you can work out any capital loss.

The reduced cost base is the cost base less any amounts you need to deduct from the cost base. Interest on borrowings and indexation are not included.

Example

In our example, Fred's cost base and reduced cost base for his shares are the same.

NOTE ***Reduced cost base***

For shares, generally the cost base and reduced cost base are the same.

For units, the cost base and reduced cost base need to be adjusted for **tax-deferred amounts** and CGT-concession amounts received before 1 July 2001. **CGT concession amounts** paid after 1 July 2001 are no longer taken off the cost base nor the reduced cost base. Only the reduced cost base needs to be further adjusted for a **tax-free amount**. A **tax-exempted amount** does not affect the cost base or reduced cost base. The fund should advise you of these amounts in its statements.

STEP 5 *Did you make a capital loss?*

If the capital proceeds are less than your reduced cost base, the difference is your capital loss.

Example

If Fred had sold his shares for $4000 instead of $6000, he would have a capital loss of $1125 (that is, his reduced cost base of $5125 less his capital proceeds of $4000).

STEP 6 *Did you make neither a capital gain nor a capital loss?*

If the capital proceeds are less than or equal to the cost base but more than the reduced cost base, you have not made a capital gain or a capital loss.

Example

If Fred had sold his shares for $5125, he would not have made a capital gain or a capital loss.

STEP 7

Work out your total current year capital gains—H item 17

Handy hint

If you also received a distribution from a managed fund, you should include here your total capital gains (from step 3 in chapter C1).

Now you need to show the total of all of your capital gains at H. If you have more than one asset which resulted in a capital gain, you should add those amounts. If you only had one asset, show the amount of the capital gain relating to that asset. If you have any capital losses, do not deduct them from the capital gains before showing the total amount at H.

Example

From step 3, Fred would show $875 at H item **17** on his tax return.

STEP 8

Applying capital losses against capital gains

Handy hint

The greatest benefit is probably to deduct capital losses against:

1 capital gains for which neither the indexation method nor the discount method applies (that is, if you bought and sold your shares within 12 months)

2 capital gains calculated using the indexation method and then

3 capital gains to which the CGT discount can apply.

If you have no capital losses from assets you disposed of this year nor a net capital loss from an earlier year that you were told to carry forward to this year, go to step 9.

Otherwise, you can now deduct your capital losses from the amount you wrote at H. You may do this in the order that gives you the greatest benefit.

If your capital losses are greater than your capital gains, go to step 11.

Example

If Fred had a net capital loss of $75 from some shares that he sold last year, he reduces his capital gain of $875 by $75. Fred's remaining capital gain is $800.

NOTE ***When you cannot apply the CGT discount***

Remember, you cannot apply the CGT discount to capital gains calculated using the indexation method. You also cannot apply the CGT discount to other capital gains for which the discount is not available—for example, CGT assets you bought and sold within 12 months.

STEP 9

Applying the CGT discount

Where available, you can now apply the CGT discount to any remaining capital gains calculated using the discount method by reducing these capital gains by 50 per cent.

Example

As Fred had owned his shares for at least 12 months, he can reduce his $800 gain by the CGT discount of 50 per cent to arrive at a net capital gain of $400 (cents are not shown):

$800 x 50% = $400.

STEP 10 *Work out your net capital gain—A item 17*

At A you show the total of your remaining:

- capital gains calculated using the indexation method
- capital gains to which the CGT discount of 50 per cent has been applied and/or
- capital gains calculated using the 'other' method.

Example

Fred shows his net capital gain of $400 at A item **17** on his tax return.

STEP 11 *Work out your carry-forward losses—V item 17*

If your capital losses were greater than your capital gains, you were directed to this step from step 8.

If you have capital losses remaining, you should show '0' (zero) at A on your tax return.

At V, show the amount by which all your capital losses are greater than your capital gains. You can now carry these capital losses forward to later income years until you have capital gains from which to deduct these capital losses.

Example

Continuing the example from step 5, with Fred's sale price of $4000 for his shares, he would show '0' (zero) at A and $1125 at V item **17** on his tax return.

Non-assessable payments

There can be non-assessable payments in relation to both shares and units.

1 Non-assessable payments from a company to a shareholder

Non-assessable payments to shareholders are sometimes called a return of capital and are not very common (although companies such as Coca-Cola, BHP and Amcor have made non-assessable payments—see appendix 2). If you received a payment from a company in respect of your shares and it was not a dividend, you deduct the amount of the payment from both the cost base and the reduced cost base of your shares.

If the non-assessable payment is greater than the cost base of your shares, you include the excess as a capital gain. If you use the indexation method to work out the amount of this capital gain you cannot use the discount method to work out a capital gain when you later sell the shares or units.

2 Non-assessable payments from a managed fund to a unit holder

The treatment of these payments is similar to non-assessable payments from a company to a shareholder. For more information, see chapter C2 on page 21.

Chapter B2

WORKED EXAMPLES FOR SHARES AND UNITS

The following examples show how CGT works in various situations where people have bought and sold shares and units. They may help you meet your CGT obligation and complete item **17** on your tax return.

Example 1

Sonya has a capital gain from one parcel of shares that she bought after 21 September 1999 and sold less than 12 months later.

In August 2000 Sonya bought 1000 shares in Tulip Ltd for $1500 including brokers fees and sold them in July 2001 for $2300. The sale is a CGT event.

As Sonya bought and sold the shares within 12 months, she uses the 'other' method to calculate her capital gain as she cannot use the indexation or discount method. So her capital gain is:

$2300 – $1500 = $800.

As she has no other CGT event and does not have any capital losses, Sonya completes item **17** on her tax return as follows:

17 Capital gains

Did you have a CGT event during the year? **G** ☐ **NO** ☒ **YES**

You must also print X in the **YES** box at **G** if you received a distribution of a capital gain from a trust.

Net capital gain **A** 800.00

Total current year capital gains **H** 800.00

Net capital losses carried forward to later income years **V** .00

Example 2

Andrew has a capital gain from the sale of units which he bought before 21 September 1999 and sold more than 12 months later.

In May 1999 Andrew bought 1200 units in Share Trust for $1275 including brokerage fees. He sold the units in August 2001 for $1595.

The sale is a CGT event. As Andrew bought the units before 21 September 1999 and he owned them for more than 12 months, he can use the indexation or discount method to calculate his capital gain, whichever gives him the better result.

Indexation method

If Andrew calculates his capital gain or capital loss using the indexation method, the indexation factor is:

$$\frac{\text{CPI for September 1999 quarter}}{\text{CPI for June 1999 quarter}} = \frac{123.4}{122.3} = 1.009$$

His indexed cost base is:

His cost ($1275) × 1.009 = $1 286.48

So his capital gain is:

Capital proceeds	$1 595.00
less	
Indexed cost base	$1 286.48
Capital gain	$308.52

Discount method

If Andrew uses the discount method, his capital gain is calculated as:

Capital proceeds	$1 595
less	
Cost base	$1 275
Total capital gain	$320
less discount*	$160
Capital gain	$160

* if Andrew does not have any capital losses

Andrew chooses the discount method because it gives him a smaller capital gain.

As he has no other CGT event and does not have any capital losses, Andrew completes item **17** on his tax return as follows:

17 Capital gains

Did you have a CGT event during the year? **G** ☐ **NO** ☒ **YES**

You must also print X in the **YES** box at **G** if you received a distribution of a capital gain from a trust.

Net capital gain **A** 160.00

Total current year capital gains **H** 320.00

Net capital losses carried forward to later income years **V** .00

Example 3

Fatima has a capital gain from one parcel of shares which she was given before 21 September 1999 and sold more than 12 months later.

In October 1986 Fatima was given 500 shares in FJM Ltd with a market value of $2500. She sold the shares in October 2001 for $4500.

The sale is a CGT event. As Fatima acquired the shares before 21 September 1999 and owned them for more than 12 months, she can use the indexation or discount method to calculate her capital gain, whichever gives her the better result.

Indexation method

If Fatima calculates her capital gain using the indexation method, the indexation factor is:

$$\frac{\text{CPI for September 1999 quarter}}{\text{CPI for December 1986 quarter}} = \frac{123.4}{79.8} = 1.546$$

Her indexed cost base is:

His cost ($2500) × 1.546 = $3 865.00

So his capital gain is:

Capital proceeds	$4 500.00
less	
Indexed cost base	$3 865.00
Capital gain	$635.00

Discount method

If Fatima uses the discount method, her capital gain is calculated as:

Capital proceeds	$4 500
less	
Cost base	$2 500
Total capital gain	$2 000
less discount*	$1 000
Capital gain	$1 000

*if Fatima does not have any capital losses

Fatima chooses the indexation method because it gives her a smaller capital gain.

As she has no other CGT event and does not have any capital losses, Fatima completes item **17** on her tax return as follows:

17 Capital gains

Did you have a CGT event during the year? **G** ☐ **NO** ☒ **YES**

You must also print **X** in the **YES** box at **G** if you received a distribution of a capital gain from a trust.

Net capital gain **A** 635.00

Total current year capital gains **H** 635.00

Net capital losses carried forward to later income years **V** .00

Information

If Colin had received a non-assessable payment from the fund, his cost base may have been adjusted and the capital gain may have been greater. For more information, see chapter C2.

Example 4

Colin has a capital gain from some units he bought after 21 September 1999 and redeemed less than 12 months later.

Colin bought 500 units in Equity Trust for $3500 in October 2001 and redeemed them in June 2002 for $5000 by switching or transferring his units from a share fund to a property fund. The redeeming of units is a CGT event.

As Colin acquired the units after 21 September 1999 and owned them for less than 12 months, he calculates his capital gain using the 'other' method. Colin's capital gain is:

Capital proceeds	$5 000
less	
Cost base	$3 500
Capital gain	$1 500

As he has no other CGT event and does not have any capital losses, Colin completes item **17** on his tax return as follows:

17 Capital gains

Did you have a CGT event during the year? **G** ☐ NO ☒ YES

You must also print X in the **YES** box at **G** if you received a distribution of a capital gain from a trust.

Net capital gain **A** 1,500.00

Total current year capital gains **H** 1,500.00

Net capital losses carried forward to later income years **V** .00

Example 5

Mei-Ling made a capital gain from some shares she bought after 21 September 1999 and sold more than 12 months later. She also has a net capital loss from an earlier income year.

Mei-Ling bought 400 shares in TKY Ltd for $15 000 in October 1999 and sold them for $23 000 in February 2002. The sale is a CGT event. She also has a net capital loss of $1000 from an earlier income year.

As she bought the shares after 21 September 1999, Mei-Ling cannot use the indexation method. However, as she owned the shares for more than 12 months and sold them after 21 September 1999, she can use the discount method. Her capital gain is:

Capital proceeds	$23 000
less	
Cost base	$15 000
Total capital gain	$8 000
less net capital loss	$1 000
Discount capital gain	$7 000
less discount	$3 500
Capital gain	$3 500

As she has no other CGT event, Mei-Ling completes item **17** on her tax return as follows:

17 Capital gains

Did you have a CGT event during the year? **G** ☐ NO ☒ YES

You must also print X in the **YES** box at **G** if you received a distribution of a capital gain from a trust.

Net capital gain **A** 3,500.00

Total current year capital gains **H** 8,000.00

Net capital losses carried forward to later income years **V** .00

Example 6

Mario made a capital loss from one parcel of shares he bought before 21 September 1999 and sold more than 12 months later.

In October 1986 Mario purchased 2500 shares in Machinery Manufacturers Ltd for $2700 including brokerage costs. He sold the shares in March 2002 for $2300. Mario also made a capital loss of $350 on some shares he sold in the 1999–2000 income year but had not made any capital gain since then that he could use to offset his capital losses.

The sale is a CGT event. Mario purchased the shares before 21 September 1999 but he made a capital loss, so neither the indexation nor the discount method applies.

Mario calculates his capital loss for the current year as follows:

Reduced cost base	$2 700
less capital proceeds	$2 300
Capital loss	$400

(This occurs because Mario's reduced cost base is the same as his cost base.)

The capital losses that he can carry forward to reduce capital gains he may make in later income years are:

Capital loss for 2001–02 +	$400
Capital loss for 1999–2000	$350
Net capital losses carried forward to later income years	$750

As he has no other CGT event, Mario completes item **17** on his tax return as follows:

17 Capital gains

Did you have a CGT event during the year? **G** ☐ **NO** ☒ **YES**

You must also print **X** in the **YES** box at **G** if you received a distribution of a capital gain from a trust.

Net capital gain **A** .00

Total current year capital gains **H** .00

Net capital losses carried forward to later income years **V** 750.00

Chapter B3

ADDITIONAL INFORMATION FOR SHARES AND UNITS

This chapter covers less common situations for personal investors, including:

- **share buy-backs**
- **takeovers and mergers**
- **dividend reinvestment plans**
- **employee share schemes**
- bonus shares and bonus units.

NOTE

Rights or options to acquire shares or units

If you hold shares or units, you may be issued rights or options to acquire additional shares or units at a specified price.

If the rights and options are offered at no cost, you are taken to have acquired them at the same time as you acquired the original shares or units. Therefore, if you acquired the original shares or units before 20 September 1985, any capital gain or capital loss you make from the sale of the rights or options is disregarded.

If you acquired your original shares or units (or rights or options from another entity) on or after 20 September 1985, they are treated much like any other CGT asset and are subject to CGT. This is also the case if you paid the company or fund an amount for them.

There are special rules that apply if you exercise the rights. For more information, refer to the publication *Guide to capital gains tax*.

Share buy-backs

If you disposed of shares back to a company under a buy-back arrangement, you may have made a capital gain or capital loss.

Some of the buy-back price may have been treated as a dividend for tax purposes. The balance is treated as your capital proceeds for the share and you compare this amount with your cost base/reduced cost base to work out whether you have made a capital gain or capital loss.

The time you make the capital gain or capital loss will depend on the conditions of the particular buy-back offer.

If the information provided by the company is not sufficient for you to calculate your capital gain or capital loss, you may need to seek advice from the ATO.

Takeovers and mergers

If a company in which you held shares was taken over and you received new shares in the takeover company, you may be entitled to scrip-for-scrip roll-over for any capital gain you made. Usually, the takeover company would advise you if the scrip-for-scrip roll-over conditions were satisfied.

If you also received some cash from the takeover company you would only be entitled to a partial roll-over.

If the scrip-for-scrip conditions were not satisfied, your capital proceeds for your original shares will be the total of any cash and the market value of the new shares you received.

Scrip-for-scrip roll-over may also be available to the extent that units in a managed fund are exchanged for units in another managed fund.

Dividend reinvestment plans

Under these plans, shareholders can choose to use their dividend to acquire additional shares in the company instead of receiving a cash payment. For CGT purposes, you are treated as if you received a cash dividend and then used it to buy additional shares. Each share (or parcel of shares) received in this way is treated as a separate asset and you must make a separate calculation when you sell them.

Employee share schemes

If you acquired shares at a discount under an employee share scheme, you would have included the amount of the discount in your **assessable income** on your tax return.

For CGT purposes, the cost base of the shares is the amount paid to the company when you acquired them plus the amount of the discount included in your assessable income under the ordinary tax provisions.

As employee share schemes vary, you may need to seek advice from the ATO if you have sold shares of this type.

NOTE

Convertible notes

A convertible note is another type of investment you can make in a company or unit trust. Generally, only convertible notes acquired from 20 September 1985 to 10 May 1989 inclusive are subject to CGT. There are special income provisions that apply to convertible notes acquired after this time.

Your capital gain or capital loss will depend on the amount of capital proceeds you receive on the sale or redemption of the convertible note.

Convertible notes earn interest on the amount you pay to acquire the note until its expiry date. On that date, you can either:
- ask for the return of the money you paid to acquire the note (in which case CGT may be payable) or
- convert that amount to acquire new shares or units.

If you acquired shares or units by converting a note, you may need to seek advice from the ATO about calculating the cost base of the shares or units.

Information

For more information about the issues covered in this chapter, read the publications *Guide to capital gains tax* and *You and your shares*. To find out how to get these publications, see the sources listed at the back of this guide.

Bonus shares and bonus units

Bonus shares are additional shares received by a shareholder in respect of shares already owned. These shares may be received by a shareholder as a dividend in whole or in part. The shareholder may also pay an amount to obtain them.

Bonus units may also be received in a similar way.

The CGT rules for bonus shares and bonus units are also very similar. If you have sold bonus shares or bonus units, you may need to seek advice from the ATO to determine your CGT liability.

PART C DISTRIBUTIONS FROM MANAGED FUNDS

Chapter C1

HOW TO WORK OUT YOUR CAPITAL GAINS TAX FOR A MANAGED FUND DISTRIBUTION

Examples of managed funds include property trusts, share trusts, equity trusts, growth trusts, imputation trusts and balanced trusts.

Distributions from managed funds can include 2 types of amounts that affect your CGT obligation:

- capital gains
- non-assessable payments.

The following steps in chapter C1 show you how to record a capital gain distributed from a managed fund. Chapter C2 covers non-assessable amounts which mostly affect the cost base of units but can create a capital gain.

Handy hint

If your managed fund distribution (as advised by the fund) includes a capital gain amount, you show this amount at item **17**—Capital gains. You do not show capital gains at item **12**—Partnerships and trusts.

NOTE ***New terms***

Some terms in this section may be new to you. They have been printed in bold the first time they are used and are explained in *Explanation of terms* at the back of this guide.

Handy hint

Fund managers may use different terms to describe the calculation methods and other terms used in this guide. For example, they may refer to capital gains calculated using the indexation method and 'other method' as non-discount gains.

STEP 1 *Work out the capital gain you have received from the managed fund*

You need to know whether you have received any capital gain in your distribution—to find out, check the statement from your managed fund.

This statement should also show which method the fund has used to calculate the gain—the indexation, discount or 'other' method.

These methods are explained in part A, part B and *Explanation of terms* at the back of this guide.

Handy hint

You must use the same method(s) as the fund to calculate your capital gain.

STEP 2

Gross up any discounted capital gain you have received

If the fund has applied the CGT discount to your distribution, this is known as a **discounted capital gain**.

You need to **gross up** any discounted capital gain distributed to you by multiplying the gain by 2. This enables you to reduce your grossed up capital gain by your capital losses and then later discount the reduced gain.

NOTE Generally a managed fund will not have qualified for the 50 per cent small business CGT reduction. However if it did qualify for that concession in addition to the CGT discount you should multiply the gain by 4.

Handy hint
If the managed fund has shown the grossed-up amount of the discounted capital gain on your distribution statement, you can use that amount.

Example

Tim received a distribution from a fund that included a discounted capital gain of $400. Tim's statement shows that the fund had used the discount method to calculate the gain.

Tim grosses up the capital gain to $800 (that is, $400 x 2).

STEP 3

Complete H item 17

You need to show the total of your capital gains at H. If you have more than one capital gain, including a distribution from a fund, you should add all those amounts. If you have any capital losses from other assets, do not deduct them from the capital gains when showing the total amount at H.

Example

Tim shows $800 at H item **17** on his tax return.

STEP 4

Applying capital losses against capital gains

If you have no capital losses from assets you disposed of this year and no net capital loss from an earlier year that you were told to carry forward to this year, go to step 5.

Otherwise, from the total of your capital gains, you can now deduct your capital losses. You may do this in the order that gives you the greatest benefit.

If your capital losses are greater than your capital gains, go to step 7.

Handy hint
The greatest benefit is probably to deduct capital losses from capital gains distributed from the fund in the following order:

1 capital gains calculated using the 'other' method
2 capital gains calculated using the indexation method and then
3 capital gains calculated using the discount method.

Example

If Tim had a loss of $200 when he sold his shares, he deducts the $200 from the $800 grossed-up amount to arrive at $600. He applies the CGT discount to this $600.

STEP 5 *Applying the CGT discount*

Where available, you can now apply the CGT discount to any remaining grossed-up capital gains by reducing the capital gains by 50 per cent.

Example

Tim calculates 50 per cent of his capital gain (after applying capital losses) to which the CGT discount can apply:

$600 × 50% = $300.

Tim has a capital gain of $300.

NOTE ***Applying the CGT discount***

Remember, you cannot apply the CGT discount to capital gains distributed from the fund calculated using the indexation or ‘other’ method.

STEP 6 *Work out your net capital gain—A item 17*

At A you show the total of your capital gains after applying any capital losses (step 4) and then applying the CGT discount to any part of your capital gain that is eligible (step 5).

Show the result at A.

Example

Tim shows $300 at A item **17** on his tax return.

STEP 7 *Work out your carry-forward losses—V item 17*

If your capital losses were greater than your capital gains, you were directed to this step from step 4.

If you have capital losses remaining, you should show ‘0’ (zero) at A.

At V, show the amount by which your capital losses are greater than your capital gains. You can now carry these capital losses forward to later years, until you have capital gains against which you can deduct these capital losses.

Information

For more information about CGT and managed fund distributions, get the publication *Guide to capital gains tax* from the sources listed at the back of this guide.

Chapter C2

NON-ASSESSABLE PAYMENTS FROM A MANAGED FUND

Non-assessable payments from a managed fund to a unit holder are common. If relevant to you, these non-assessable payments may be shown on your statement from the fund as:

- tax-free amounts (where certain tax concessions received by the fund mean it can pay greater distributions to its unit holders)
- CGT-concession amounts (the CGT discount component of any actual distribution)
- tax-exempted amounts (generally made up of exempt income of the fund, amounts on which the fund has already paid tax or income you had to repay to the fund) or
- tax-deferred amounts (other non-assessable amounts, including indexation received by the fund on its capital gains and accounting differences in income).

Handy hint
You cannot make a capital loss from a non-assessable payment.

Tax-exempted and CGT-concession amounts do not affect your cost base or reduced cost base. However, if your statement shows any tax-deferred or tax-free amounts, you adjust the cost base and reduced cost base of your units for future purposes as follows:

- cost base—deduct the tax-deferred amount from the cost base or
- reduced cost base—add the tax-deferred and tax-free amounts and deduct the total from the reduced cost base.

If the tax-deferred amount is greater than the cost base of your units, you include the excess as a capital gain. You can use the indexation method if you bought your units before 21 September 1999.

Handy hint
A CGT-concession amount received before 1 July 2001 is treated in the same way as a tax-deferred amount.

A CGT-concession amount received after 1 July 2001 is no longer taken off the cost base or the reduced cost base.

Before 1 July 2001 payment of an amount associated with building allowances was treated as a tax-free amount. Payments after 1 July 2001 are treated as tax-deferred amounts.

Chapter C3

WORKED EXAMPLES FOR MANAGED FUND DISTRIBUTIONS

The following worked examples take the steps explained in chapter C1 and put them into different scenarios to demonstrate how they work.

If you have received a distribution from a managed fund, you may be able to apply one or more of these examples to your circumstances to help you work out your CGT for 2001–02 and complete item **17** on your tax return.

Example 1

Bob has received a non-assessable amount.

Bob owns units in OZ Investments Fund which distributed income to him for the year ending 30 June 2002. The fund gave him a statement showing his distribution included the following capital gains:

- $100 calculated using the discount method (grossed-up amount $200)
- $75 calculated using the indexation method
- $28 calculated using the 'other' method.

These capital gains add up to $203.

The statement shows Bob's distribution did not include a tax-free amount but it did include:

- $105 tax-deferred amount.

From his records, Bob knows that the cost base and reduced cost base of his units are $1200 and $1050 respectively.

Bob has no other capital gains or capital losses for the 2001–02 income year.

Bob follows these steps to work out the amounts to show on his tax return.

As Bob has a capital gain which the fund reduced under the CGT discount of 50 per cent ($100), he includes the grossed-up amount ($200) in his total current year capital gain.

So Bob adds the grossed-up amount to his capital gains calculated using the indexation method and 'other' method to work out his total current year capital gains:

$200 + $75 + $28 = $303

As Bob has no other capital gains or capital losses and he must use the discount method in relation to the gain from the trust calculated using the discount method, his net capital gain is equal to the amount of capital gain included in his distribution from the fund ($203).

Bob completes item **17** on his tax return as follows:

17 Capital gains

Did you have a CGT event during the year? **G** [ ] **NO** [X] **YES**

You must also print X in the **YES** box at **G** if you received a distribution of a capital gain from a trust.

Net capital gain **A** 203.00

Total current year capital gains **H** 303.00

Net capital losses carried forward to later income years **V** .00

Records Bob needs to keep

The tax-deferred amount Bob received is not included in his income or capital gains but it affects the cost base and reduced cost base of his units in OZ Investments Fund for future income years.

Bob deducts the tax-deferred amount from both the cost base and reduced cost base of his units as follows:

Cost base	$1 200
less tax-deferred amount	$105
New cost base	$1 095
Reduced cost base	$1 050
less tax-deferred amount	$105
New reduced cost base	$945

Example 2

Ilena's capital loss is greater than her non-discounted capital gain.

Ilena invested in XYZ Managed Fund. The fund makes a distribution to Ilena for the year ending 30 June 2002 and provides her with a statement that shows her distribution included:

- $65 discounted capital gain
- $90 non-discounted capital gain.

The statement shows Ilena's distribution also included:

- $30 tax-deferred amount
- $35 tax-free amount.

A CGT-concession amount received after 1 July 2001 is no longer taken off the cost base or the reduced cost base.

Ilena has no other capital gain but made a capital loss of $100 when she sold some shares during the year.

From her records, Ilena knows the cost base and reduced cost base of her units are $5000 and $4700 respectively.

Ilena has to treat the capital gain component of her fund distribution as if she made the capital gain. To complete her tax return, Ilena must identify the capital gain component of her fund distribution and work out her net capital gain.

Ilena follows these steps to work out the amounts to show at item **17** on her tax return.

As Ilena has a $65 capital gain which the fund reduced by the CGT discount of 50 per cent, she must gross up the capital gain. She does this by multiplying the amount of the discounted capital gain by 2:

$65 x 2 = $130

Ilena adds her grossed-up and non-discounted capital gains to work out her total current year capital gains:

$130 + $90 = $220

Handy hint

A CGT-concession amount received before 1 July 2001 is treated in the same way as a tax-deferred amount.

She shows her total current year capital gains ($220) at **H** item **17** on her tax return.

After Ilena has grossed up the discounted capital gain received from the fund, she subtracts her capital losses from her capital gains.

Ilena can choose which capital gains she subtracts the capital losses from first. In her case, she will receive better result if she:

- first subtracts her capital losses from her non-discounted capital gains:
  $90 – $90 = $0
- then subtracts any remaining capital losses from her grossed-up gains:
  $130 – $10 = $120

Ilena applies the CGT discount of 50 per cent to the remaining grossed-up capital gains: $120 – ($120 × 50%) = $60

Ilena adds up the capital gains remaining after applying the CGT discount. The total is her net capital gain:

$60 + $0 = $60

Ilena completes item **17** on her tax return as follows:

17 Capital gains

Did you have a CGT event during the year? **G** ☐ NO ☒ YES

You must also print **X** in the **YES** box at **G** if you received a distribution of a capital gain from a trust.

Net capital gain **A** 60.00

Total current year capital gains **H** 220.00

Net capital losses carried forward to later income years **V** .00

Records Ilena needs to keep

The tax-deferred and tax-free amounts Ilena received are not included in her income or her capital gain but the tax-deferred amount affects the cost base and reduced cost base of her units in XYZ Managed Fund for future income years. The tax-free amount affects her reduced cost base.

Ilena reduces the cost base and reduced cost base of her units as follows:

Cost base	$5 000
less tax-deferred amount	$30
New cost base	$4 970
Reduced cost base	$4 700
less tax-deferred amount ($30) + tax-free amount ($35)	$65
New reduced cost base	$4 635

APPENDIXES

Appendix 1

CONSUMER PRICE INDEX (CPI)

ALL GROUPS—WEIGHTED AVERAGE OF 8 CAPITAL CITIES				
Year	Quarter ending			
	31 Mar.	30 Jun.	30 Sep.	31 Dec.
1985	–	–	71.3	72.7
1986	74.4	75.6	77.6	79.8
1987	81.4	82.6	84.0	85.5
1988	87.0	88.5	90.2	92.0
1989	92.9	95.2	97.4	99.2
1990	100.9	102.5	103.3	106.0
1991	105.8	106.0	106.6	107.6
1992	107.6	107.3	107.4	107.9
1993	108.9	109.3	109.8	110.0
1994	110.4	111.2	111.9	112.8
1995	114.7	116.2	117.6	118.5
1996	119.0	119.8	120.1	120.3
1997	120.5	120.2	119.7	120.0
1998	120.3	121.0	121.3	121.9
1999	121.8	122.3	123.4	N/A*

* If you use the indexation method to calculate your capital gain, the indexation factor is based on increases in the CPI up to September 1999 only.

Appendix 2

RECENT SHARE TRANSACTIONS

COMPANY	DETAILS OF TRANSACTION
Advance Property Fund	**Takeover** Advance unitholders are taken to have disposed of their units on the date they accepted the Stockland offer (in the period 13 September 2000 to 16 October 2000). For every 2.8 Advance units unitholders received one Stockland stapled security (comprising a unit in Stockland Trust and a share in Stockland Corporation Ltd), $1.10 cash and 0.25 Stockland option to acquire a Stockland stapled security. Scrip-for-scrip roll-over is available to the extent that Advance Property Fund units were exchanged for Stockland Trust units. In working out the value of the ineligible proceeds received by an Advance unitholder, a Stockland share is taken to represent 17 per cent of the market value of a Stockland stapled security.
Amcor Ltd	**Non-assessable payment** On 14 April 2000 Amcor shareholders received a return of capital of $1.22 for each Amcor share they held. It was applied to acquire PaperlinX shares. The return of capital is a non-assessable payment, so shareholders who received PaperlinX shares should have reduced the cost base and reduced cost base of their Amcor shares by $1.22 per share.
AMP Ltd	**Demutualisation** Acquisition cost for AMP Ltd shares was $10.43 per share and acquisition date was 20 November 1997.
BHP Ltd	**Non-assessable payment** On 31 October 2000 BHP shareholders received a return of capital of 66 cents for each BHP share held. It was applied to acquire OneSteel shares. The return of capital is a non-assessable payment, so shareholders who received OneSteel shares should have reduced the cost base and reduced cost base of their BHP shares by 66 cents per share.
Boral Ltd	**Demerger** Origin Energy Ltd (formerly called Boral Ltd) shareholders received one new Boral Ltd share for every 2 old Boral Ltd shares held. Acquisition cost of the new Boral Ltd shares was $3.16 per share and the acquisition date was 1 March 2000.
Coca-Cola Amatil Ltd	**Non-assessable payment** On 23 June 1998 Coca-Cola Amatil shareholders received a return of capital of $3.86 for each Coca-Cola Amatil share they held. It was applied to acquire Coca-Cola Beverages shares. **The return of capital is a non-assessable payment, so shareholders who received Coca-Cola Beverages shares should have reduced the cost base and reduced cost base of their Coca-Cola Amatil shares by $3.86 per share.**
Coca-Cola Beverages Ltd	**Demerger** Coca-Cola Amatil Ltd shareholders were entitled to one Coca-Cola Beverages share for each Coca-Cola Amatil share held. Acquisition cost of Coca-Cola Beverages shares was $3.86 per share and the acquisition date was 23 June 1998.

COMPANY	DETAILS OF TRANSACTION
Coca-Cola Amatil Ltd	**Non-assessable payment** On 10 August 2001 Coca-Cola Amatil Ltd made a return of capital of 40 cents per share. The return of capital is a non-assessable payment, so shareholders in Coca-Cola Amatil Ltd should reduce their cost base and reduced cost base by 40 cents, the amount of the return of capital.
Commonwealth Bank of Australia Ltd	**Public share offer** For the first instalment: Acquisition date and indexation available from 13 July 1996. For the final instalment: Indexation applied from the date of receipt by the trust of the payment due on 14 November 1997 or of the discounted sum paid earlier.
FH Faulding & Co Ltd	**Takeover** Mayne offered FHF shareholders 3 alternative forms of capital proceeds for each FHF share: shares in Mayne; cash and shares in Mayne; or cash and an unsecured note. Full scrip-for-scrip roll-over was available for those who chose the first option and partial roll-over was available for those who chose the 2nd option. There was no roll-over for those who chose the 3rd option. See *Class Ruling CR 2001/39—Income tax: capital gains: scrip-for-scrip roll-over: proposed takeover of FH Faulding & Co Limited by the Mayne Nickless Limited Group* for further information.
Howard Smith Ltd	**Takeover** Wesfarmers Retail Pty Ltd offered Howard Smith Ltd shareholders $13.25 cash and 2 Wesfarmers Ltd shares for every 5 Howard Smith Ltd shares owned. Partial scrip-for-scrip roll-over was available for shareholders who chose that option. No roll-over was available to the extent that cash was received. See *Class Ruling CR 2001/51—Income tax: capital gains: scrip-for-scrip roll-over: acquisition of Howard Smith Limited by Wesfarmers Retail Pty Ltd, a 100% owned subsidiary of Wesfarmers Limited* for further information.
HIH Insurance Ltd	**Declaration shares worthless** Liquidators' written declaration made on 10 October 2001 enabled shareholders of HIH Insurance Limited to choose to make a capital loss equal to the reduced cost base of the share under CGT event G3.
Just Jeans Group Limited	**Share buy-back** The buy-back price of $1.35 includes 88 cents per share return of capital and 47 cents per share as a fully franked dividend. See *Class Ruling CR 2001/48—Income tax: share buy-back: Just Jeans Group Limited* for more information.
Normandy Mining Ltd	**Takeover** With regards to the availability of scrip-for-scrip roll-over, Newmont has announced that at the time the bid closed it had acquired 96 per cent of Normandy's outstanding shares and would move to compulsorily acquire the balance. Accordingly, a partial scrip-for-scrip roll-over should be available. Roll-over will not be available to the extent that the Normandy shareholders received cash for their shares.
NRMA Insurance Group Ltd (NIGL)	**Demutualisation** Acquisition cost of NIGL shares allocated to shareholders was $1.78 per share. Acquisition date was 19 June 2000. For additional shares purchased through the facility, acquisition cost was $2.75 and acquisition date was 6 August 2000.

COMPANY	DETAILS OF TRANSACTION
OneSteel Ltd	**Demerger** BHP shareholders received one OneSteel Ltd share for every 4 BHP shares held. Acquisition cost of OneSteel shares received through the demerger was $2.64 per share and acquisition date was 31 October 2000.
Origin Energy Ltd	**Non-assessable payment** On 1 March 2000 shareholders in Origin Energy Ltd (formerly called Boral Ltd) received a return of capital of $3.16 for each Origin Energy share (or $1.58 for each old Boral Ltd share) held. It was applied to acquire the new Boral Ltd shares. The return of capital is a non-assessable payment, so shareholders who received new Boral Ltd shares should have reduced the cost base and reduced cost base of their Origin Energy shares by $3.16 per share.
PaperlinX Ltd	**Demerger** Amcor shareholders were entitled to one PaperlinX share for every 3 Amcor shares they held. For each Amcor share they held, they received a return of capital of $1.22 which was applied to acquire PaperlinX shares. Acquisition cost of PaperlinX shares received during the demerger was $3.66 per share and acquisition date was 14 April 2000.
Ranger Minerals Ltd	**Non-assessable amount** On 14 February 2002 all registered ordinary shareholders at the ‘record date’ received a 79 cents per share return of capital in addition to a fully franked dividend of 11 cents per share. If the return of capital does not give rise to a capital gain, it will at least reduce the cost base of a share. See *Class Ruling CR 2002/6—Income tax: return of capital by Ranger Minerals Ltd* for more information.
Santos Ltd	**Share buy-back** Shareholders are taken to have been paid a dividend of the difference between the buy-back price received and $2.63. Shareholders received $2.63 as consideration for the disposal of a share as well as a $3.64 fully franked dividend. The disposal date was 4 December 2001. See *Class Ruling CR2001/69—Income tax: off-market share buy-back by Santos Ltd* and *Class Ruling CR2001/70—Income tax: preference share issue (Santos Ltd reset, convertible preference shares)* for more information.
St George Bank Ltd	**Sell-back rights** On 19 February 2001 St George Bank Limited (SGL) granted to a trustee one right for every 20 shares held by shareholders at 23 January 2001. The rights were issued at no cost to shareholders. Each right conferred on the holder a put option to require SGL to purchase from the holder of the right one SGL share at $16.50. The market value on 19 February 2001 of each right ($1.89) formed part of the ordinary income of the shareholders. The income was derived on 19 February 2001. Shareholders who did not apply to take up the right received an amount of $2.12 for each right granted. In addition to the ordinary income, they also made a capital gain of 23 cents per right ($2.12 – $1.89). Shareholders who had rights transferred to them but failed to exercise them received an amount of $3.12 for each right. In addition to the ordinary income, they also made a capital gain of $1.23 per right ($3.12 – $1.89).

COMPANY	DETAILS OF TRANSACTION
St George Bank Ltd *(continued)*	Shareholders who sold the rights on the Australian Stock Exchange made a capital gain = proceeds – ($1.89 + incidental disposal costs) on the disposal of the rights, in addition to the ordinary income (of $1.89). Shareholders who exercised the right to sell the shares back to SGL can include the $1.89 in the cost base of their shares. The capital proceeds for each share was $16.50. See *Class Ruling CR 2001/75—Income tax: capital gains: St George Bank Limited share buy-back and issue of sell-back rights* for more information.
Suncorp-Metway Ltd	**Exchange of Series 1 Exchanging Instalment Notes (EINs)** Suncorp-Metway Ltd shares received in exchange for Series 1 EINs were acquired on 1 November 1999. Their acquisition cost was $8.20 per share.
Suncorp-Metway Ltd	**Exchange of Series 2 Exchanging Instalment Notes (EINs)** Suncorp-Metway Ltd shares received in exchange for Series 2 EINs were acquired on 31 October 2001. Their acquisition cost was $13.34 per share.
TAB Limited	**Share buy-back** On 21 March 2002 TAB Limited announced a share buy-back. The capital proceeds received were $2.35. The amount by which the capital proceeds of $2.35 exceeds the cost base of each share will be a capital gain to the shareholder. If the share's reduced cost base exceeds $2.35, the difference will be a capital loss. The announcement date was 21 March 2002. See *Class Ruling CR 2002/16—Income tax: share buy-back: TAB Limited* for more information.
Telstra	**Public share offer 1** For the first instalment: Acquisition of shares was on (and indexation available from) 15 November 1997. For the final instalment: Indexation applied from the date of receipt by the trust of the payment due on 17 November 1998. **Public share offer 2** For the first instalment: Date of acquisition was 22 October 1999 if the instalment receipts were purchased through the offer. No indexation applied because acquisition was after 21 September 1999. For the final instalment: No indexation applied as above.

EXPLANATION OF TERMS

The page number indicates the first time each term is used.

Assessable income **p. 16**
This is all the income you have received that should be included on your income tax return. Generally, assessable income does not include non-assessable payments from a unit trust, including a managed fund.

Capital gain **p. 1**
You may make a capital gain (or profit) as a result of a CGT event—for example, when you sell an asset for more than you paid for it. You can also make a capital gain if a managed fund or other unit trust distributes a capital gain to you.

Capital gains tax **p. 1**
Capital gains tax (CGT) refers to the tax you pay on any capital gain you make and include on your annual income tax return. For example, when you buy (or otherwise acquire) or sell (or otherwise dispose of) an asset as part of a CGT event, you are subject to capital gains tax.

Capital loss **p. 1**
Generally, you may make a capital loss as a result of a CGT event if you sold an asset for less than you paid for it. Your capital loss is the difference between your reduced cost base and your capital proceeds.

Capital proceeds **p. 3**
Capital proceeds is the term used to describe the amount of money or the value of any property you receive or are entitled to receive as a result of a CGT event. For shares or units, capital proceeds may be:

- the amount you receive from the purchaser
- the amount you receive from a liquidator
- the amount you receive on a merger/takeover or
- the market value if you give them away.

CGT asset **p. 2**
The CGT assets covered by this guide are shares and units.

However, CGT assets also include collectables (such as jewellery), assets for personal use (such as furniture or a boat) and other assets (such as an investment property). If you have made a capital gain from the sale of one or more of these assets, you may need to read the publication *Guide to capital gains tax*. To find out how to get this publication, see the sources listed at the back of this guide.

CGT-concession amounts **p. 7**
These amounts are the CGT discount component of any actual distribution from a managed fund.

CGT event **p. 1**
A CGT event happens when a transaction takes place such as the sale or purchase of a CGT asset. The result is usually a capital gain or capital loss.

Cost base **p. 2**

The cost base of an asset is generally what it costs you. It is made up of 5 elements:

- money you paid for the asset
- incidental costs of acquiring or selling it (for example, brokers fees and stamp duty)
- non-capital costs associated with owning it (generally this will not apply to shares or units because you will usually have claimed these costs as tax deductions)
- costs associated with increasing its value (for example, if you paid a call on shares)
- what it has cost you to preserve or defend your title or rights to it.

The cost base for a share or unit may need to be reduced by the amount of any non-assessable payment you receive from the company or fund. Generally, interest you have paid on money borrowed to buy shares or units will not form part of your cost base.

Demutualisation **p. 1**

A company demutualises when it changes its membership interests to shares. If you received shares as part of a demutualisation of an insurance company (for example, the NRMA), you may be subject to capital gains tax when you sell the shares.

Usually the company will advise you of your cost base for the shares you received. The company may give you the choice of keeping the shares they have given you or of selling them and giving you the capital proceeds.

Discount method **p. 2**

The discount method is one of the ways to calculate your capital gain if:

- the CGT event happened after 11.45 a.m. on 21 September 1999 and
- you acquired the asset at least 12 months before the CGT event.

If you use the discount method, you do not index the cost base but you can reduce your capital gain by the CGT discount of 50 per cent. However, you must first reduce your capital gains by the amount of all your available capital losses (both current year and prior years) before you discount any remaining capital gain.

If you acquired the asset before 11.45 a.m. on 21 September 1999, you can choose either the discount method or the indexation method, whichever gives you better result.

The examples in part B of this guide show you how the discount method works.

Discounted capital gain **p. 19**

A discounted capital gain is a capital gain that has been reduced by the CGT discount. If the discounted capital gain has been received from a managed fund, the amount will need to be grossed up on your income tax return before you apply any capital losses and the CGT discount.

Dividend reinvestment plans **p. 15**

Under these plans, shareholders can choose to use their dividend to acquire additional shares in the company instead of receiving a cash payment. For capital gains tax purposes, you are treated as if you received a cash dividend and then used it to buy additional shares. Each share (or parcel of shares) received in this way is treated as a separate asset when the shares are issued to you.

Employee share schemes p. 15

If you acquired shares at a discount under an employee share scheme, you would have included the amount of the discount in your assessable income on your tax return.

For capital gains tax purposes, the cost base of the shares is the amount paid to the company when you acquired them plus the amount of the discount included in your assessable income under the ordinary tax provisions.

Gross up p. 19

Grossing up applies to unit holders who are entitled to a share of the fund's income that includes a capital gain reduced by the CGT discount. In this case, you 'gross up' your capital gain by multiplying by 2 your share of any discounted capital gain you have received from the fund.

Income year p. 2

The income year is the financial year relating to your current income tax return.

Indexation factor p. 2

The factor is worked out based on the Consumer Price Index (CPI) in appendix 1 of this guide.

The indexation factor is the CPI for the September 1999 quarter (123.4) divided by the CPI for the quarter in which you incurred costs relating to the asset. The result is rounded to 3 decimal places. The indexation of the cost base of an asset was frozen as at 30 September 1999.

Indexation method p. 2

The indexation method is one of the ways to calculate your capital gain if you bought a CGT asset before 11.45 a.m. on 21 September 1999. This method allows you to increase the cost base by applying an indexation factor (based on increases in the Consumer Price Index up to September 1999).

You cannot use the indexation method for:
- CGT assets bought after 11.45 a.m. on 21 September 1999 or
- expenditure relating to a CGT asset acquired after that date.

Some examples in part B of this guide show you how the indexation method works.

You may prefer to use the discount method for CGT events after 21 September 1999 if that method gives you better result.

LIC capital gain amount p. 2

This is an amount notionally included in a dividend from a listed investment company (LIC) which represents a capital gain made by that company. The amount is not included as a capital gain under item **17** on the tax return. (Refer to instructions for **Dividend income** at item **11** on the tax return.)

Net capital gain p. 1

The net capital gain is the difference between your total capital gains for the year and your total capital losses (including capital losses from prior years), less any CGT discount to which you are entitled.

You show the result at A item **17** on your tax return.

Non-assessable payment p. 2

A non-assessable payment is a payment received from a company or fund that is not assessed as part of your income on your income tax return. This includes some distributions from unit trusts and managed funds and, less commonly, from companies.

'Other' method p. 2

To calculate your capital gain using the 'other' method, you subtract your cost base from your capital proceeds. You must use this method for any shares or units you have bought and sold within 12 months (that is, when the indexation and discount methods do not apply).

Reduced cost base p. 3

The reduced cost base is the amount you take into account when you are working out whether you have made a capital loss when a CGT event happens. The reduced cost base may need to have amounts deducted from it such as non-assessable payments. The reduced cost base does not include indexation or interest on monies borrowed.

Roll-over p. 3

Roll-over allows a capital gain to be deferred or disregarded until a later CGT event happens.

Scrip-for-scrip roll-over p. 3

This generally applies to CGT events that happen on or after 10 December 1999 in the case of a takeover or merger of a company or fund in which you have holdings. The company or fund would usually advise you if the roll-over conditions have been satisfied. This roll-over allows you to defer your CGT obligation until a later CGT event happens to your shares or units.

You may only be eligible for partial roll-over if you received shares (or units) plus cash for your original shares. In that case, if the information provided by the company or fund is not sufficient for you to calculate your capital gain, you may need to seek advice from the ATO.

Share buy-backs p. 15

If you disposed of shares back to a company under a buy-back arrangement, you may have made a capital gain or capital loss.

Some of the buy-back price may have been treated as a dividend for tax purposes. The time you make the capital gain or capital loss will depend on the conditions of the particular buy-back offer.

Takeovers and mergers p. 15

If a company in which you held shares was taken over and you received new shares in the takeover company, you may be entitled to scrip-for-scrip roll-over.

If the scrip-for-scrip conditions were not satisfied, your capital proceeds for your original shares will be the total of any cash and the market value of the new shares you received.

Tax-deferred amounts p. 7

These amounts include indexation received by a managed fund on its capital gains and accounting differences in income.

Tax-exempted amounts p. 7

These amounts are generally made up of exempt income of the managed fund, amounts on which the fund has already paid tax or income you had to repay to the fund. Tax-exempted amounts do not affect your cost base or your reduced cost base.

Tax-free amounts p. 7

These amounts allow the managed fund to pay greater distributions to its unit holders. This is due to certain tax concessions funds can receive.

YOUR NOTES

Further information

This guide only covers basic capital gains tax issues relating to shares and managed funds for personal investors and is not designed to cover all circumstances.

For the ATO's most up-to-date and comprehensive information about capital gains tax, visit our website at <**www.ato.gov.au**>.

You may also find the following publications useful:

- *Guide to capital gains tax 2002* (NAT 4151—6.2002)
- *Capital gains tax concessions for small business* (NAT 3359—6.2000)
- *You and your shares* (NAT 2632—6.2002).

These publications are available by ringing **1300 720 092**.

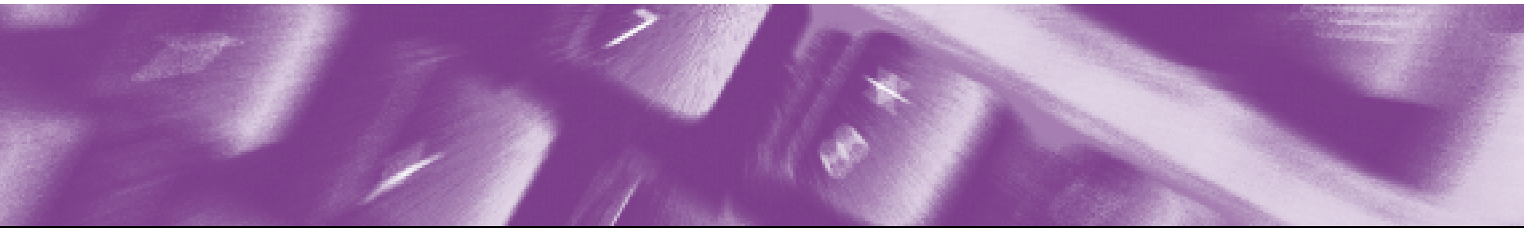
If you need further information:

- request *A Fax from Tax* on **13 2860**
- ring the ATO on **13 2861** or
- seek advice from a professional tax adviser.

If you do not speak English and need help from the ATO, ring the Translating and Interpreting Service (TIS) on **13 1450**.

People with a hearing or speech impairment can ring the Telephone Typewriter Service on **1300 130 478**.

Personal investors guide to capital gains tax 2001–02



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