| INDIVIDUALS | SHAREHOLDERS | FACT SHEET | NAT 13408–6.2005 |
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| SEGMENT | AUDIENCE | FORMAT | PRODUCT ID |

Australian Government
Australian Taxation Office

# HHG plc: 2005 capital reduction

## How it affects Australian shareholders

HHG plc became Henderson Group plc in April 2005.

### WHAT THIS DOCUMENT CONTAINS AND WHO CAN USE IT

This document contains:

PART A Questions and answers in relation to the 2005 HHG plc capital reduction.

PART B Instructions on how to calculate the capital loss if all your HHG plc CDIs* were:
- acquired under the demerger of HHG plc from AMP in December 2003, and
- cancelled under the HHG plc restructure.

PART C Instructions on how to calculate your capital gain or capital loss if you cannot use **Part B**.

PART D Instructions on how to complete the capital gains tax question in your 2005 tax return if you are an individual and you have no net capital gain for the year.

* A CDI is a CHESS Depositary Interest. Australians held CDIs in HHG plc instead of shares.

This information applies to you if:
- you are an individual not a company or trust
- you held CDIs in HHG plc and participated in the capital reduction in April 2005
- you were an Australian resident for tax purposes at that time
- you did not acquire your shares under an employee share scheme, and
- any gain or loss you made on the shares was a capital gain or capital loss – this means that you held your shares as an investment asset, not:
  - as trading stock
  - as part of carrying on a business, or
  - to make a short-term or one-off commercial gain.

## PART A – QUESTIONS AND ANSWERS

### Why should I be concerned about the cancellation of my CDIs?

The cancellation of your CDIs is a CGT event. As such it could result in a capital gain or capital loss for you, which means it has tax consequences for you.

### What happened under the capital reduction?

HHG plc undertook a capital reduction in April 2005. There were two components to the reduction. There was a:

- return of cash – all shareholders at the time participated in this.
- reduction of the investor base – this applies to you unless you elected not to participate.

Under the return of cash, 52 out of every 100 CDIs you held were cancelled. You received $1.34585 for each cancelled CDI.

Under the reduction of investor base, your shareholding was reduced to a multiple of 500 CDIs unless you elected not to participate. You received $1.56608 for each cancelled CDI.

### Is the payment received taxable income?

Not directly. The payment you received forms part of your capital proceeds. You use your capital proceeds to work out whether you made a capital gain or capital loss on cancellation of your CDIs. A capital gain is part of your taxable income.

### What do I need to work out for capital gains tax purposes?

There are three amounts you need for capital gains tax purposes. You need to know:

**1** the capital gain or capital loss you made when your CDIs were cancelled under the return of cash
**2** the capital gain or capital loss you made when your CDIs were cancelled under the reduction of investor base, and
**3** the new cost base of your remaining CDIs.

There are worksheets at the appropriate sections to help you work out these amounts.

### Why did the advice from the Henderson Group plc which accompanied the payment in May 2005 say 'The ATO consider the taxable proceeds on cancellation of your HHG CDIs may be different to the cash you receive'?

When determining the capital proceeds to be used for calculating a capital gain or capital loss when shares are cancelled, consideration must be given to the market value of the shares at the time of the cancellation.

In this case, the Commissioner accepts that the capital proceeds for each cancellation is the amount received.

## PART B

Use the worksheet in this section to calculate your capital loss if all your HHG plc CDIs were:

- acquired under the demerger of HHG plc from AMP in December 2003, and
- cancelled under the restructure.

If this is not the case, go to **Part C**.

**Step 1**: Find the cost base of your HHG plc CDIs.

If you used our AMP demerger materials you will find it:

- in the report called **HHG shares – cost base report**, if you used the website calculator
- in column 20 of the table **HHG shares – cost base**, if you used the worksheet with the printed fact sheet.

It is also on the information sheets you received from AMP in January and June 2004:

- June 2004 – see **Item A3**
- January 2004 – see **Item 1.1(d)**.

**Step 2**: Use **Worksheet 1** to work out your capital loss.

**WORKSHEET 1**

| | | |
|---|---|---|
| Cost base of your HHG plc CDIs (from step 1) | (a) | $ |
| Amount received for cancellation of HHG plc CDIs (see the May 2005 advice you received from the Henderson Group plc) | (b) | $ |
| Subtract (b) from (a). The amount at (c) is your capital loss. | (c) | $ |

Go to **Part D**.

## PART C

Use the instructions in this section to work out your capital gain or capital loss if you cannot use **Part B**.

The worksheets have been prepared on the basis that you have one parcel of CDIs. If you have more than one parcel of CDIs you will need to use the worksheet for each parcel from which you cancelled CDIs.

You can choose which parcel or parcels you cancel your CDIs from.

### Capital gain or capital loss on CDIs cancelled under the return of cash

**Step 1**: Work out your capital proceeds for the CDIs that were cancelled under the return of cash as follows:

| | | |
|---|---|---|
| number of CDIs cancelled from this parcel under the return of cash | × | $1.34585 |

_______ × $1.34585 = $ _______ **A**

**Step 2**: Work out the cost base of your cancelled CDIs as follows:

$$\frac{\text{number of CDIs cancelled from this parcel under the return of cash}}{\text{number of CDIs in the parcel}} \times \text{cost base of parcel}$$

_______ × $ _______ = $ _______ **B**

**Step 3**: Use the worksheet below to work out your capital gain or capital loss on the CDIs that were cancelled under the return of cash.

**WORKSHEET 2**

| | | |
|---|---|---|
| Insert your capital proceeds for CDIs cancelled under the return of cash (from **A**) | (a) | $ |
| Insert the cost base of your cancelled CDIs (from **B**) | (b) | $ |
| Subtract (b) from (a). The amount at (c) is:<br>■ your capital gain if (a) is greater than (b).<br>■ your capital loss if (a) is less than (b).<br>If (c) is zero (0), you have made neither a capital gain nor a capital loss. | (c) | $ |

### Capital gain or capital loss on the CDIs cancelled under the reduction of investor base

**Step 1**: Work out your capital proceeds for the CDIs that were cancelled under the reduction of investor base as follows:

| | | |
|---|---|---|
| number of CDIs cancelled from this parcel under the reduction of investor base | × | $1.56608 |

_______ × $1.56608 = $ _______ **C**

**Step 2**: Work out the cost base of your cancelled CDIs as follows:

$$\frac{\text{number of CDIs cancelled from this parcel under the reduction of investor base}}{\text{number of CDIs in the parcel}} \times \text{cost base of parcel}$$

_______ × $ _______ = $ _______ **D**

**WORKSHEET 3**

| | | |
|---|---|---|
| Insert your capital proceeds for CDIs cancelled under the reduction of investor base (from **C**) | (a) | $ |
| Insert the cost base of your cancelled CDIs (from **D**) | (b) | $ |
| Subtract (b) from (a). The amount at (c) is:<br>■ your capital gain if (a) is greater than (b)<br>■ your capital loss if (a) is less than (b).<br>If (c) is zero (0), you have made neither a capital gain nor a capital loss. | (c) | $ |

### Working out the cost base of your remaining CDIs

If all of your CDIs in the parcel have been cancelled you do not have to complete **Worksheet 4** for that parcel.

**WORKSHEET 4**

| | | |
|---|---|---|
| Cost base of parcel before capital reduction | (a) | $ |
| Cost base of cancelled CDIs under the return of cash (from **B**) | (b) | $ |
| Cost base of cancelled CDIs under the reduction of investor base (from **D**) | (c) | $ |
| Add (b) and (c). The amount at (d) is the cost base attributable to the cancelled shares. | (d) | $ |
| Subtract (d) from (a). The amount at (e) is the new cost base for the parcel. | (e) | $ |

## PART D – USING THIS INFORMATION ON YOUR 2005 TAX RETURN

Use this section to complete your 2005 tax return if you have a net capital loss for 2005 and no capital gains or capital losses from collectables such as works of art and antiques.

Question **17** of *TaxPack 2005 Supplement* – or question **9** of *Retirees TaxPack 2005* – explains how to work out your overall capital gain or capital loss.

### WORKSHEET 5

| | | |
|---|---|---|
| Capital loss from worksheets 1, 2, and 3 and other assets | (a) | $ |
| Unapplied net capital losses from previous years (for example, from the AMP 2003 demerger) | (b) | $ |
| Add (a) and (b) | (c) | $ |
| Capital gain from worksheets 2 and 3 and other assets | (d) | $ |
| If (c) is greater than or equal to (d), subtract (d) from (c). The amount at (e) is your net capital losses available for offset against capital gains in future years.<br>If (c) is less than (d) leave (e) blank and refer to question **17** of *TaxPack 2005 Supplement* (or question **9** of *Retirees TaxPack 2005*). | (e) | $ |

If there is an amount at (e) you must complete the capital gains question of your tax return as follows:

At **G** – print X in the **Yes** box
At **A** – write **0**
At **H** – write the amount from (d) in **Worksheet 5**
At **V** – write the amount from (e) in **Worksheet 5**.

### EXAMPLE

John received 381 CDIs with a cost base of $657.66 when HHG plc demerged from AMP. His unapplied net capital loss from 2004 is $3,585.27 – all from shares. In May 2005 he received a payment from the Henderson Group plc of $553.07 which comprised:

- $266.48 as return of cash
- $286.59 as reduction of investor base.

John also received $435.68 discount gain (grossed up*) from managed funds.

John would complete worksheets 1 and 5 as follows:

#### WORKSHEET 1

| | | |
|---|---|---|
| Cost base of your HHG plc CDIs (as per cost base reports following the demerger from AMP) | (a) | $ 657.66 |
| Amount received for cancellation of HHG plc CDIs (see the May 2005 advice you received from the Henderson Group plc) | (b) | $ 553.07 |
| Subtract (b) from (a). The amount at (c) is your capital loss. | (c) | $ 104.59 |

* For tax return purposes, the managed fund must 'gross up' the taxable value of the discount gain to ensure it is comparable with other forms of income on your tax return.

#### WORKSHEET 5

| | | |
|---|---|---|
| Capital loss from worksheets 1, 2, and 3 and other assets | (a) | $ 104.59 |
| Unapplied net capital losses from previous years (for example, from the AMP 2003 demerger) | (b) | $ 3,585.27 |
| Add (a) and (b) | (c) | $ 3,689.86 |
| Capital gain from worksheets 2 and 3 and other assets | (d) | $ 435.68 |
| If (c) is greater than or equal to (d), subtract (d) from (c). The amount at (e) is your net capital losses available for offset against capital gains in future years.<br>If (c) is less than (d) leave (e) blank and refer to question **17** of *TaxPack 2005 Supplement* (or question **9** of *Retirees TaxPack 2005*). | (e) | $ 3,254.18 |

John would complete the capital gains question of his tax return as follows:

At **G** – he would print X in the **Yes** box
At **A** – he would write **0**
At **H** – he would write **435**
At **V** – he would write **3254**.