TD 95/30 - 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 changed over time. This is a consolidated version of the ruling which was published on *22 June 1995*

This Determination, to the extent that it is capable of being a 'public ruling' in terms of Part IVAAA of the *Taxation Administration Act 1953*, is a public ruling for the purposes of that Part . Taxation Ruling TR 92/1 explains when a Determination is a public ruling and how it is binding on the Commissioner. Unless otherwise stated, this Determination applies to years commencing both before and after its date of issue. However, this Determination does not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

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* in that:

(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. While there is a change in the form of the shares, there is no change in the beneficial ownership of the shares. The issue of roll-over relief under section 160ZZP of the *Income Tax Assessment Act 1936* (the Act) does not arise because there is no disposal of the shares.

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. Cancelling original share certificates and replacing them 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 *Corporations Law*, there is a disposal of these shares in accordance with paragraph 160M(3)(c) of the Act. In this case, roll-over relief is available under section 160ZZP if the other requirements of the section are satisfied.

Note: This Taxation Determination does not consider whether a share subdivision or consolidation results in a disposal of shares by shareholders for the purposes of other provisions of the income tax law (e.g., subsections 25(1) and 51(1) of the Act and the trading stock provisions).

Example 1:

XYZ Ltd's authorised share capital of $100,000 consists of 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
22/6/95

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