2011 Foster's Group Limited demerger

Treasury Wine Estates demerged from Foster's on 16 May, if you were a Foster's Group shareholder you may be affected.

28 June 2011

Impact on resident individual shareholders

These questions and answers apply to you if you:

- are a Foster's Group Limited (Foster's) shareholder
- are an Australian resident
- held shares when the demerger was implemented on 20 May 2011.

This information does not apply if your shares were:

- held as trading stock
- held for resale at a profit
- acquired under an employee share scheme.

Background

Example

More information

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Background

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Under the demerger, Treasury Wine Estates Limited (Treasury Wine) demerged from Foster's.

The demerger involved a share capital reduction by Foster's and the transfer to Foster's shareholders of one Treasury Wine share for every three shares they owned in Foster's at 7.00pm (Melbourne time) on the record date of 16 May 2011 (rounded up or down to the nearest whole Treasury Wine share).

1. What do I have to do if I was a shareholder in Foster's when Treasury Wines was demerged?

There are two things you must do:

1. consider if you want to choose demerger rollover
2. recalculate the cost base and reduced cost base of your Foster's and Treasury Wine shares.

2. What are the capital gains tax (CGT) consequences of the demerger?

A CGT event happened to each Foster's share you held at the time Foster's reduced its share capital.

You may have made a capital gain on your Foster's shares, if the capital reduction amount attributable to each Foster's share is more than the cost base of each Foster's share you held before the demerger.

The capital reduction amount for each Foster's share was $0.64.
Further Information

For information on how to work out the cost base and reduced cost base for shares, see Guide to capital gains tax (NAT 4151).

Rollover relief is available for this demerger if you made a capital gain.

3. What are the consequences of choosing the rollover?

The rollover allows you to disregard any capital gain resulting from the $0.64 capital reduction amount.

A capital gain would arise only if the cost base of each of your Foster's shares was less than $0.64. You cannot make a capital loss on the share capital reduction.

4. What are the consequences of not choosing the rollover?

If you do not choose the rollover and you made a capital gain on the share capital reduction you must take the capital gain into account in calculating your net capital gain or net capital loss in your 2010-11 tax return.

5. How do I recalculate the cost base and reduced cost base of my Foster's shares and Treasury Wine shares I received from this demerger?

Even if you do not choose the rollover, you must recalculate the cost base and reduced cost base of each of your Foster's shares and the Treasury Wine shares you received for those shares.

The cost base for your Foster's shares just before the demerger (not including indexation) is spread across those shares and the Treasury Wine shares you received for your Foster's shares.

The spreading is based on the value that Treasury Wine represented of Foster's at that time using the five day volume-weighted average price (VWAP) of Foster's shares and Treasury Wines shares from the effective date of the demerger, which is 20.04%. The remaining 79.96% is spread across your Foster's shares.

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Example

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You acquired a parcel of 3,000 Foster's shares that had a cost base of $15,000 just before the demerger. Under the demerger you received 1,000 shares in Treasury Wine for these 3,000 Foster's shares.

The cost base of your shares after the demerger is calculated as follows:

Foster's

$15,000 × 79.96% = $11,994

The first element of the cost base (and reduced cost base) of each of your 3,000 shares in Foster's is $4.00 ($11,994/3,000).

Treasury Wine

$15,000 × 20.04% = $3,006

The first element of the cost base (and reduced cost base) of each of your 1,000 shares in Treasury Wine is $3.01 ($3,006 /1,000).
Further Information

This example illustrates the cost base calculations using the averaging method. Taxation Determination TD 2006/73 explains that you can use other methods if they are reasonable. For more information, read Demergers: Cost base rules tax determination.

Remember that, in working out the cost base (and reduced cost base) just after the demerger, you:

- need to know the cost base of each of your Foster's shares just before the demerger (taking into account any other CGT events that happened after you acquired the shares but before the demerger if they affect the cost base)

- do not reduce the cost base of your Foster's shares by the $0.64 per share capital reduction associated with the demerger of Treasury Wine
- keep these details so that you can work out your capital gains or losses when you dispose of these shares.

6. What happens if I elected to have the Treasury Wine shares I would have received under the demerger sold in the sale facility?

You have made a capital gain if the amount of money you receive by participating in the sale facility is more than the cost base of the Treasury Wine shares you would have received under the demerger. You would have received one Treasury Wine share for every three Foster's shares (rounded up or down to the nearest whole Treasury Wine share).

You have made a capital loss if the reduced cost base of the Treasury Wine shares you would have received under the demerger is more than the amount of money you receive by participating in the sale facility.

The cost base (and reduced cost base) of each Treasury Wine share you would have received under the demerger is 20.04% of the cost base of your Foster's shares just before the demerger, divided by the number of Treasury Wine shares you would have received. You would have received one Treasury Wine share for every three Foster's shares you held on 16 May 2011 (rounded up or down to the nearest whole Treasury Wine share).

7. What happens if I have disposed of some or all of my Foster's or Treasury Wine shares after the demerger?

If you have sold any Foster's or Treasury Wine shares since the demerger, you calculate any capital gain or capital loss using the normal rules. You include the capital gain or capital loss in the calculation of your net capital gain or net capital loss for the year in which they were disposed of.

8. How do I determine my eligibility for the CGT discount in working out my capital gain on Treasury Wine shares?

Even if you do not choose the rollover, for the purposes of determining your eligibility for the CGT discount on the disposal of Treasury Wine shares, you are taken to have acquired them on the date that you acquired, for CGT purposes, your corresponding Foster's shares.

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More information

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Further Information

Refer to:

- Class Ruling CR 2011/57 - Income tax: demerger of Treasury Wine Estates Limited by Foster's Group Limited
- Demergers calculator.

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