Telecom Corporation of New Zealand Limited demerger (2011-12)

Impact on resident individual shareholders, including capital gains tax consequences and examples.

Last updated 13 August 2012

This information applies to you if you:

- are a Telecom Corporation of New Zealand Limited (TCNZ) shareholder
- are an Australian resident
- held shares when the demerger was implemented on 30 November 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 (ESS) and have not yet been taxed under the ESS provisions.

Demerger

Under the demerger, Chorus Limited (Chorus) demerged from TCNZ. Shares in Chorus trade on the Australian Securities Exchange (ASX) under the code 'CNU'.

The demerger involved the transfer to TCNZ shareholders of one Chorus share for every five TCNZ shares they owned in TCNZ at 7.00pm on the record date of 25 November 2011 (rounded up or down to the nearest whole Chorus share). For Australian tax purposes, this constituted a share capital reduction and the distribution of a dividend amount by TCNZ.

TCNZ was privatised in 1990, therefore all TCNZ shares are acquired after 19 September 1985 (post capital gains tax [CGT]).

Foreign currency

If a transaction or event involving an amount of money or the market value of other property is relevant for CGT purposes and the money or market value is expressed in a foreign currency, the amount or value is to be converted into the equivalent amount of Australian currency at the time of the transaction or event.

In this case, the time of the transaction or event is the demerger implementation date of 30 November 2011.

The exchange rate for the New Zealand dollar on 30 November 2011 was A$1:NZ$1.3536.

Shareholder in TCNZ

If you were a shareholder in TCNZ when Chorus was demerged, you need to:

- work out the cost base of all your TCNZ shares owned before the demerger
- work out if you have made a capital gain as a result of the demerger
- consider if you want to choose demerger rollover relief
- recalculate the cost base and reduced cost base of your TCNZ and Chorus shares.

CGT consequences

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

Demerger rollover relief

Demerger rollover relief is available for this demerger if you made

Cost base and reduced cost base

Whether you choose rollover or not, you must recalculate the cost base and reduced cost base of each of your TCNZ shares and Chorus shares.

Acquisition date of Chorus shares

You are taken to have acquired your Chorus shares on the same date as you acquired the corresponding TCNZ shares.

Demerger dividend

You do not have to include any amount in your 2011-12 tax return for this demerger dividend component.

More information

Telecom corporation of New Zealand limited demerger 2012 more information

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CGT consequences

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

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

The capital reduction amount for each TCNZ share was NZ$0.1989.

This converts to A$0.1469 (NZ$0.1989 divided by the exchange rate of $1.3536).

Further information

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

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Demerger rollover relief

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

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Choosing the rollover

The rollover allows you to disregard any capital gain resulting from the NZ$0.1989 (A$0.1469) capital reduction amount.

A capital gain would only arise if the cost base of each of your TCNZ shares was less than NZ$0.1989 (A$0.1469).

You cannot make a capital loss on the capital reduction.

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 capital loss in your 2011-12 tax return.

Attention

The way you prepare your tax return is sufficient evidence of the choice you made.

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Cost base and reduced cost base

Whether you choose rollover or not, you must recalculate the cost base and reduced cost base of each of your TCNZ shares and Chorus shares.

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The total cost base or reduced cost base of your TCNZ shares, just before the demerger (not including indexation), is spread across your TCNZ shares and the Chorus shares you received under the demerger.

The spread is done by reference to the market value of each of your TCNZ shares and each of your new Chorus shares owned after the demerger, relative to the total market value of your shareholding.

The relative market value of shares in TCNZ and Chorus, expressed as percentages for the purpose of spreading the cost base, is:

- 75.17% for TCNZ
- 24.83% for Chorus.

Example

> You acquired a parcel of 5,000 TCNZ shares that had a cost base of NZ$15,000 (A$11,121) just before the demerger. Under the demerger you received 1,000 shares in Chorus because you owned these 5,000 TCNZ shares.
>
> The cost base of your shares after the demerger is calculated as follows:
>
> **TCNZ**
>
> NZ$15,000 × 75.17% = NZ$11,275.50
>
> The first element of the cost base (and reduced cost base) of each of your 5,000 TCNZ shares is NZ$2.25 per share (NZ$11,275.50 divided by 5,000 shares).

The cost base per share in Australian dollars is A$1.66 (being NZ$2.25 divided by the exchange rate of $1.3536).

Chorus

NZ$15,000 × 24.83% = NZ$3,724

The first element of the cost base (and reduced cost base) of each of your 1,000 shares in Chorus is NZ$3.72 (NZ$3,724 divided by 1,000 shares).

The cost base per share in Australian dollars is A$2.75 (being NZ$3.72 divided by the exchange rate of $1.3536).

Further information

This example illustrates the cost base calculations using the relative market value method (also referred to as the averaging method).

Taxation Determination **TD 2006/73***Income tax: demergers* explains that you can use other methods if they are reasonable, including the parcel by parcel method. Example 2 in TD 2006/73 provides a calculation of this method.

For more information, refer to **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 TCNZ 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 TCNZ shares by the NZ$0.1989 (A$0.1469) per share capital reduction associated with the demerger of Chorus
- need to keep these details so that you can work out your capital gains or losses when you dispose of these shares.

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Acquisition date of Chorus shares

You are taken to have acquired your Chorus shares on the same date as you acquired the corresponding TCNZ shares.

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For example, if your TCNZ shares were acquired on 10 July 2010, your Chorus shares are taken to have been acquired on 10 July 2010.

This is irrespective of whether demerger rollover relief is chosen.

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Demerger dividend

You do not have to include any amount in your 2011-12 tax return for this demerger dividend component.

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TCNZ shareholders are taken to have received a demerger dividend equal to the dividend component of the demerger distribution, in respect of their TCNZ shares.

The distribution amount was NZ$0.4575 per TCNZ share.

This means you received a demerger dividend amount of A$0.3379 per TCNZ share (NZ$0.4575 divided by the exchange rate of $1.3536).

The demerger dividend amount is not assessable income or exempt income.

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More information

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For more information, refer to:

- Class Ruling **CR 2012/1***Income tax: demerger of Chorus Limited by Telecom Corporation of New Zealand Limited*
- Demergers calculator.

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