OFM Investment Group Limited (OFM) demutualisation: impact on individual shareholders

Find out about the CGT implications as a result of the demutualisation of OFM Investment Group Limited.

6 October 2009

Overview

This fact sheet applies to those who received shares in OFM Investment Group Ltd (OFM) as a result of the demutualisation of OFM Ltd.

Demutualisation

A mutual company is a company without shareholders and share capital. Demutualisation is a method by which a mutual company changes to a company with shareholders and share capital.

If shares in the demutualised company are listed for trading on an Australian Stock Exchange (ASX) within two years of it demutualising, then certain tax concessions may apply to the original members and shareholders.

OFM demutualisation

Tax consequences of giving up rights as a member of OFM Ltd

Tax consequences when selling OFM demutualisation shares

Examples

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Over 50s Mutual Friendly Society Limited (OFM Ltd) was a Friendly Society that was a mutual company.

On 12 June 2001, the members of OFM Ltd resolved to demutualise.

On 1 July 2001, OFM Ltd demutualised and shares in OFM Investment Group Limited (OFM) were issued to about 44,500 members.

OFM was listed on the ASX on 26 March 2002.

On 23 March 2004, Royal Assent was granted to amendments to the tax law which extend certain tax concessions to taxpayers who receive shares when a friendly society demutualises. These concessions apply to members of OFM Ltd who received shares when it demutualised.

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Tax consequences of giving up rights as a member of OFM Ltd

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The changes to the law mean that you ignore any capital gain or capital loss you made in the 2001-02 year when your membership interests in OFM Ltd were cancelled.

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Tax consequences when selling OFM demutualisation shares

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The changes to the law mean that:

- you are taken to have acquired your demutualisation shares in OFM on 12 June 2001 (the demutualisation resolution day)
- the first element of the CGT cost base and reduced cost base of each demutualisation share is $1.65
- capital losses made on the sale of the shares before 26 March 2002 - that is, the date the company was listed on the ASX, cannot be claimed. If you claimed such capital losses and had a net capital gain for the relevant year, or would have had a net capital gain had you not claimed them, you will need to request an amendment.

What to do if you used the wrong cost base

If you:

- received demutualisation shares in OFM

- sold them in the 2001-02 or 2002-03 income year
- used an amount other than $1.65 as the first element of the cost base and reduced cost base, and
- declared a net capital gain for that year, or would have had a net capital gain had you used $1.65

you will need to request an amendment to your assessment.

If the amount of 'net capital losses carried forward to later income years' recorded for the income year in which you sold the shares was wrong and this resulted in you **not** declaring a net capital gain in the later income year, you will need to request an amendment to the return for the later income year.

In other cases where you used an amount other than $1.65 as the first element of the cost base and reduced cost base, you will need to adjust the amount of 'net capital losses carried forward to later income years' you have recorded - no amendment is required to your assessment.

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Examples

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Example 1

> **Capital gain on the sale of demutualisation shares: no CGT discount**
>
> When OFM Ltd demutualised, Christine received 500 OFM shares. She sold them on 1 June 2002 for $2.10 each. There were no brokerage costs associated with the sale. The shares had a cost base of $1.65 each.
>
> Because Christine did not own her shares for at least 12 months, she did not qualify for the 50% CGT discount. Christine had a capital gain of $225 [500 x ($2.10 - $1.65)] in the 2001-02 year from the sale of her shares.

Example 2

Capital gain on the sale of demutualisation shares: CGT discount

When OFM Ltd demutualised, Jack received 1,400 OFM shares. He sold them on 30 March 2005 for $2.06 each. Jack incurred $50 brokerage costs on the sale. The shares had a cost base of $1.65 each.

Because Jack owned his shares for at least 12 months, he can reduce his capital gain by the 50% CGT discount (after applying any capital losses). Because Jack had no capital losses and no other capital gain for the year, his net capital gain for the year is calculated as follows:

Capital proceeds (1,400 x $2.06)	$2,884
Cost base [(1,400 x $1.65) + $50 brokerage]	$2,360
	$524
less: 50% CGT discount	$262
Net capital gain	**$262**

Jack includes $262 in his 2004-05 tax return.

Example 3

Capital loss on the sale of demutualisation shares before OFM was listed on the ASX

Barry sold his 500 OFM shares for $0.62 each in January 2002. Based on an expected reduced cost base of $1.65 per share, Barry worked out he had made a capital loss on the sale of $515 (500 x [$1.65 - $0.62]). Barry subtracted this amount from his other capital gains in working out the net capital gain he included in his 2001-02 tax return.

Because Barry sold his shares before OFM was listed on the ASX, he was not entitled to the $515 capital loss. He recalculates his net capital gain for 2001-02 ignoring the $515 capital loss he claimed and requests an amendment.

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What to read/do next

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- *Guide to capital gains tax 2003-04* (NAT 4151-6.2004) - this publication explains how capital gains tax works and will help you to calculate your net capital gain or net capital loss.

- *Personal investors guide to capital gains tax 2003-04* (NAT 4152-6.2004) - this is a shorter publication which covers the sale or gift or other disposal of shares or units, distribution of capital gains from managed funds and non-assessable payments from companies or managed funds. It does not cover CGT consequences for bonus shares, shares acquired under an employee share scheme, bonus units, rights and options, and shares and units where a takeover or demerger has occurred - you will need to refer to the ***Guide to capital gains tax 2003-04***.

For help applying this information to your own situation, phone us on **13 28 61**.

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