News Corporation Limited (TNCL): 2004 corporate restructure

Find out about the reincorporation of News Corporation in 2004 and how to calculator CGT gains or losses.

6 October 2009

Overview

This page contains information about the reincorporation of News Corporation in 2004.

This information applies to you if:

- you are an individual **not** a company or trust
- you are an Australian resident for tax purposes
- you held ordinary shares or preference shares in News Corporation and participated in the corporate restructure in November 2004
- you did not acquire your shares under an employee share scheme, and
- any gain or loss you made on the shares is 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.

Background

Are there any tax consequences for me?

What are the capital gains tax consequences of the cancellation of my TNCL shares?

Examples

Further information

18309

Background

6 October 2009

In 2004, The News Corporation Limited (TNCL) decided to move its operations from Australia to the United States of America. As part of this arrangement, TNCL was replaced by News Corporation Inc (NC) as the holding company of the TNCL group of companies.

Under the arrangement, all the shares in TNCL (other than 100 redeemable ordinary shares held by NC) were cancelled and NC shares or Chess Depositary Instruments (CDIs) were issued in their place. Most Australian shareholders received CDIs; they could choose to receive NC shares, but these could only be traded in the US.

Ordinary shareholders received one voting NC CDI (or share) for every two TNCL ordinary shares that they held at the time of the cancellation. Preference shareholders received one non-voting NC CDI (or share) for every two TNCL preference shares that they held at the time of the cancellation.

The reincorporation was completed on 12 November 2004. The weighted volume average price (WVAP) of NC voting CDIs for the period 4 to 11 November 2004 was $23.28; the WVAP of NC non-voting CDIs for the same period was $22.61.

18309

Are there any tax consequences for me?

6 October 2009

There are two consequences:

- The cancellation of your TNCL shares is a capital gains tax (CGT) event that may have resulted in a capital gain for you. Depending on the outcome, you may have to include some information in your 2004-05 tax return (if roll-over does not apply).

- You must work out the cost base of your new NC CDIs (or shares).

18309

What are the capital gains tax consequences of the cancellation of my TNCL shares?

6 October 2009

A CGT event happened when your TNCL shares were cancelled. You may have made a capital gain or loss from this CGT event happening, depending on the cost base (or reduced cost base) of the shares. The tax consequences are different depending on when you acquired your TNCL shares.

Shares acquired before 20 September 1985

If you acquired your shares in TNCL before 20 September 1985, any capital gain or loss you make from the cancellation will be disregarded. You will not be able to apply scrip for scrip rollover.

The cost base and reduced cost base of each of the NC CDIs (or shares) that you acquired in the reincorporation is their market value at the time of the reincorporation. For a voting CDI the market value is $23.28. For a non-voting CDI the market value is $22.61.

Shares acquired after 19 September 1985

For ordinary shares that you acquired after 19 September 1985, work out if you have made a capital gain or capital loss using the capital proceeds of $11.64 ($23.28/2) you received for each TNCL share.

The following table will help you.

For each TNCL ordinary share with a:	**you have made:**	**equal to:**
cost base* of *less* than $11.64	a capital gain	$11.64 *minus* the cost base of the share
reduced cost base* of *more* than $11.64	a capital loss	the reduced cost base of the share *minus* $11.64

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

For preference shares that you acquired after 19 September 1985, work out if you have made a capital gain or capital loss using the capital proceeds of $11.305 ($22.61/2) you received for each TNCL share.

The following table will help you.

For each TNCL preference share with a:	**you have made:**	**equal to:**

cost base* of *less* than $11.305	a capital gain	$11.305 *minus* the cost base of the share
reduced cost base* of *more* than $11.305	a capital loss	the reduced cost base of the share *minus* $11.305

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

If you made a capital gain on the cancellation of your post-CGT TNCL shares, you may choose to apply scrip for scrip rollover to disregard the capital gain.

If rollover does not apply

If you made a capital gain on the cancellation of your TNCL shares, you must include it in your calculations when completing item **17** on your 2004-05 tax return (supplementary section).

The method you use to work out any capital gain depends on when you acquired those shares. The following table sets out what method you can use.

If you acquired your TNCL shares:	**You calculate your capital gain using the:**
Before 21 September 1999	indexation method* *or* discount method **Note:** if you have capital losses to apply against capital gains you made on shares acquired before 21 September 1999, you may want to use the indexation method for some of your shares and the discount method for the others. (For more information, see example of Clare in chapter 2 of the *Guide to capital gains tax*)
After 21 September 1999 *and* before 12 November 2003	discount method **Note:** If you have capital losses to apply against capital gains you made on these shares, you

	deduct the capital losses before applying the discount
On or after 12 November 2003	other method

***** If you choose to index the cost base of shares you acquired before 21 September 1999, you cannot apply the CGT discount when you dispose of them.

For information on the different methods you can use to work out your capital gain, see the *Guide to capital gains tax*.

If you made a capital loss you can offset this loss against other capital gains you made in the 2004-05 income year. If you are unable to offset all the capital loss, you can carry the balance forward to offset against future capital gains.

If you choose rollover

Rollover allows you to disregard a capital gain made from the cancellation of your TNCL shares. Rollover does not apply to a capital loss or to shares that were acquired before 20 September 1985.

Note: If you apply scrip for scrip rollover, the cost base of your NC CDIs will be lower than if you declare the capital gain on this transaction.

What are the capital gains tax consequences for the NC CDIs (or shares) acquired under the reincorporation?

All of the NC CDIs (or shares) acquired in this reincorporation may be subject to capital gains tax when a CGT event (such as being sold or given away) happens to them. The following information will help you to calculate the cost base of the NC CDIs (or shares) that you acquired in this arrangement.

Acquisition cost calculations

The cost base of an asset is made up of several elements, including its acquisition cost. Generally, where you exchange shares in one company for shares in another, the acquisition cost of the shares in the second company is the market value of the shares in the first company at the time of the exchange. However, special rules apply where rollover is chosen - see the table below.

Availability of indexation and CGT discount

Generally you can only use the CGT discount method or the indexation method to calculate your capital gain where you have held the asset for more than 12 months. However, special rules apply where the rollover is chosen - see the table below.

Application to NC CDIs (or shares) acquired under this merger

The following table summarises the acquisition cost of NC CDIs (or shares), and the availability of indexation and the CGT discount, where NC CDIs (or shares) are received in exchange for TNCL shares.

Then NC CDIs (or shares) have:	**If TNCL shares were acquired:**		
	Pre-CGT (no rollover is allowed)	**Post-CGT**	
		• no rollover	• with rollover
Acquisition cost of:	$23.28 per voting CDI (share) $22.61 per non-voting CDI (share)	$23.28 per voting CDI (share) $22.61 per non-voting CDI (share)	Cost base of the TNCL shares exchanged for NC CDIs (shares) #
Discount available after:	12 November 2005	12 November 2005	12 months from the date of acquisition of the TNCL shares
Indexation is:	Not allowed	Not allowed	Allowed *

Calculated as at the date of the reincorporation - 12 November 2004

* Provided that the TNCL shares were acquired before 21 September 1999

Note: If you choose to index the cost base of TNCL shares you acquired before 21 September 1999, you cannot apply the CGT discount to reduce any capital gain that you make on the disposal of the NC CDIs (or shares) that you acquire in exchange for them.

18309

Examples

6 October 2009

Example 1

Capital gain and no rollover

Sally acquired 500 ordinary shares in TNCL before 12 November 2003 - that is more than 12 months before the reincorporation. Each of the TNCL shares had a cost base (including purchase price and any brokerage and stamp duty) of $10.50 on 12 November 2004.

Sally receives 250 NC voting CDIs (or one CDI for every two TNCL shares that she held) in the reincorporation. She does not choose scrip for scrip rollover for this exchange.

Calculating the capital gain

Sally calculates her capital gain by deducting the cost base of her TNCL shares from the capital proceeds (the value of the voting CDIs) she received in exchange for them.

Sally's cost base is $5,250 (500 x $10.50).

Her capital proceeds are $5,820. This is the market value of the 250 NC voting CDIs she received ($23.28 × 250).

Sally's capital gain is as follows:

$5,820	-	$5,250	=	$570
capital proceeds		cost base		capital gain

Recording the capital gain in the tax return

Assuming she has no other capital gains and capital losses and chooses the discount method, Sally will complete the capital gains question as follows:

Did you have a capital gains tax event during the year?: Yes

Net capital gain: $285

Total current year capital gains: $570

Calculating the cost base of the NC voting CDIs

Sally will use $23.28 per voting CDI as the acquisition cost for her NC voting CDIs when working out the capital gains or losses from future CGT events that happen to them.

Sally can claim the CGT discount on disposal of her NC voting CDIs only if this happens after 12 November 2005.

Note: If Sally did not receive NC voting CDIs and instead elected to receive shares, she would calculate the cost base and reduced cost base of her replacement shares in the same way.

Example 2

Capital gain where scrip for scrip rollover is chosen

Linus bought 1,000 TNCL shares in October 2002 - more than 12 months before the reincorporation. Each of the TNCL shares had a cost base (including purchase price and any brokerage and stamp duty) of $10.30 on 12 November 2004.

Linus participated in the arrangement and received 500 NC CDIs (or one CDI for every two TNCL shares that he held). Linus made a capital gain from the cancellation of his shares in TNCL, however, he chose to apply scrip for scrip rollover to disregard the gain.

Calculating the cost base of the NC CDIs

As a result of choosing the rollover, the cost base and reduced cost base of Linus' NC CDIs will be the cost base of the TNCL shares that he gave up in exchange for them. In this case, the cost base and reduced cost base of each NC CDI is equal to the sum of the cost bases/reduced cost bases of the 2 TNCL shares that it replaced (that is, $10.30 × 2, or $20.60). Linus will use this amount to calculate any capital gain or loss he makes when he later sells his NC CDIs.

If Linus chooses to sell his NC CDIs within 12 months of acquiring them, he will still be entitled to use the CGT discount method to calculate any capital gain. This is because the combined period over which Linus held his TNCL shares and NC CDIs would be more than 12 months.

Note: If Linus did not receive NC CDIs and instead elected to receive shares, he would calculate the cost base and reduced cost base of his replacement shares in the same way.

18309

Further information

6 October 2009

For more information on this restructure see the following class rulings:

- Class Ruling CR 2004/106W - scrip for scrip rollover: proposed exchange of shares and options in The News Corporation Limited for shares and options in News Corporation Inc. This is a Tax Office ruling on the availability of scrip for scrip rollover for participants in this arrangement.

- Class Ruling CR 2005/72W - Income tax: cancellation of shares in The News Corporation Limited - consequences for shareholders who do not or cannot choose scrip for scrip rollover. This is a Tax Office ruling on the tax consequences arising for participants in this arrangement who do not apply scrip for scrip rollover.

For more information about the tax implications of owning shares, see the following publications:

- *You and your shares* (NAT 2632-6.2005) - this publication is for individuals investing in shares or convertible notes and offers guidance on the taxation of dividends from investments, allowable deductions from dividend income and record keeping requirements for investors.

- *Guide to capital gains tax* (NAT 4151-6.2005) - 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* (NAT 4152-6.2005) - shorter than the *Guide to capital gains tax*, this publication covers the sale, 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 - for these you will need to refer to the longer *Guide to capital gains tax*.

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

18309

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

Copyright notice