September 2018

E: advice@barrettwalker.com.au
www.barrettwalker.com.au

A: Suite 8, 150 Chestnut Street, Cremorne
P: (03) 9428 1033

Investing in the stockmarket is a lot more common than it was years ago, with ordinary Australians having experience with shares and the stockmarket either directly or through managed funds or via their superannuation fund.

Recent research conducted by the Australian Securities Exchange (ASX) found that around 60% of Australians hold share investments outside of their institutional superannuation fund, and 31% directly own listed investments. Over the past five years the proportion of 18 to 24 year olds investing in shares has doubled from 10% to 20%, and over the same time the proportion for 25 to 34 year olds has increased from 24% to 39%.

From a simple taxable income point of view, owning shares means that the dividends these provide will form part of the shareholder's assessable income. But there are other tax implications, which may derive from, but are not limited to:

- participating in a dividend reinvestment plan
- participating in a bonus share scheme
- transactions the company you have invested in undertakes, such as takeovers and demergers.

Otherwise, the key tax issues most stockmarket investors need to be aware of are:

- you need to declare all your dividend income on your tax return, even if you use your dividend to purchase more shares, for example through a dividend reinvestment plan
- the costs you may be able to claim as tax deductions include management fees, specialist journals and interest on money you borrowed to buy the shares
- receiving bonus shares can alter the cost base (costs of ownership), from a capital gains point of view, of both your original and bonus shares
- in some demergers, you may be eligible to choose to rollover any capital gain or capital loss you make. This means you do not report your capital gain or capital loss the year the demerger occurs. Instead, you settle your tax obligations in the year that another CGT event happens to those shares
- if you receive a retail premium for rights or entitlements that you didn't take up, you need to declare these premiums as income on your tax return for the year.

DIVIDENDS

A dividend is assessable income in the year it is paid or credited to you. Your dividend statement shows the relevant date – often referred to as the payment date or date paid. Most dividends you are paid or credited will be in the form of money, either by cheque or directly deposited into a bank account.

Continued overleaf

However, the company may give you the option of reinvesting your dividends in the form of new shares in the company – this is called a dividend reinvestment scheme. If you take this option, you must pay tax on your reinvested dividends. The amount of the dividend received will form part of the cost base of the shares you receive.

Keep a record of your reinvested dividends to help you work out any capital gains or capital losses you make when you dispose of the shares.

BONUS SHARES, INHERITED AND GIFTED SHARES

Bonus shares are extra shares you receive for those you already hold in a company. If you dispose of bonus shares, you may:

- make a capital gain,
- have to modify your existing shares' cost base and reduced cost base in the company.

If you acquire shares as part of a deceased estate, you have certain tax obligations and entitlements for these shares. If you inherit shares:

- you treat inherited shares in the same way as any other capital gains tax assets
- where the deceased acquired the shares before 20 September 1985, you must use the market value on the day the person died, not the market value on the day you received the shares
- you must keep records, so you do not pay more tax than you need to.

It can also be the case that shares are gifted. A family member may give shares to relatives – for example, a parent gives shares to their child.

Giving shares: If you give shares as a gift, you:

- treat the shares as if you disposed of them at their market value on the day you gave them as a gift
- may have a capital gain or a capital loss.

If you give shares as a gift, a capital gains tax event occurs and you must include any applicable capital gain or loss in your tax return for the year you gave away the shares.

Receiving shares: If you receive shares as a gift, you:

- treat shares as though you received them at their market value on the date you received them
- have certain tax obligations and entitlements.

If you dispose of shares you received as a gift, you must use the market value on the day that you acquired the shares as the first element of your cost base.

DEMERGERS

A demerger occurs when a company restructures by splitting its operations into two or more entities or groups. If you own shares in a company that demerges, you may:

- receive new shares and/or cash
- be entitled to a demerger rollover.

Make sure you:

- are entitled to a rollover before you choose to use it
- declare any capital gains or losses you made under the demerger.

TRADER OR INVESTOR?

Share traders and share investors deal with income and expenses differently. A share trader conducts business activities for the purpose of earning income from buying and selling shares. A share investor invests in shares with the intention of earning income from dividends and capital growth, but does not carry on business activities.

Shares as business: A share trader is a person who carries out business activities for the purpose of earning income from buying and selling shares. For a share trader:

- receipts from the sale of shares constitute assessable income
- purchased shares are regarded as trading stock
- costs incurred in buying or selling shares – including the cost of the shares – are an allowable deduction in the year in which they are incurred
- dividends and other similar receipts are included in assessable income.

Shares as investment: A shareholder is a person who holds shares for the purpose of earning income from dividends and similar receipts. For a shareholder:

- the cost of purchase of shares is not an allowable deduction against current year income, but is a capital cost
- receipts from the sale of shares are not assessable income – but any capital gain on the shares is subject to capital gains tax
- a net capital loss from the sale of shares can't be offset against income from other sources, but can be offset against another capital gain or carried forward to offset against future capital gains
- the transaction costs of buying or selling shares is not an allowable deduction against income, but are taken into account in determining the amount of any capital gain

Continued overleaf

- dividends and other similar receipts from the shares are included in assessable income
- costs (such as interest on borrowed money) incurred in earning dividend income are an allowable deduction against current year income.

DISPOSING OF SHARES

If you dispose of shares, you may make a capital gain or a capital loss, which must be reported in the income year you dispose of the shares. If you make a capital loss and you do not have other capital gains to offset it against in that financial year, you can carry it forward to later income years. To do this you will need to keep your taxation records.

If you dispose of shares you must:

- only apply the 50% discount where you held the shares for more than 12 months
- not reduce your capital gain by the 50% discount until after you have applied all your current year and/or carry-forward capital losses
- declare any capital gain or loss in the financial year you enter into the contract, not when you received the proceeds; if there is no contract, the CGT event happens when you stop being the owner of the shares
- use the reduced cost base if you make a capital loss; this does not include any costs you have already claimed as a deduction - for example, deductions for interest on a loan you took out to purchase your shares.

RECORDS YOU NEED TO KEEP

You need to keep proper records, regardless of who prepares your tax returns. You must keep:

- your acquisition and disposal statements (your "buy" and "sell" contracts) — keep these records for five years from the date you dispose of your shares
- your dividend statements — keep these records for five years from 31 October or, if you lodge later, for five years from the date you lodge your tax return.

You will receive most of the records you need to keep from:

- the company that issued the shares
- your stockbroker or online share trading provider
- your financial institution, if you took out a loan to buy the shares.

There is of course a lot more to consider when investing in the stockmarket, but you can talk to this office should you need further questions answered.

Important: Clients should not act solely on the basis of the material contained in Client Alert. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. Client Alert is issued as a helpful guide to clients and for their private information. Therefore, it should be regarded as confidential and not be made available to any person without our prior approval.