Tax Treatment of Standard Life Shareholders

Part 19-04-06AB

This document should be read in conjunction with Chapter 4 Part 19 of the Taxes Consolidation Act 1997

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Introduction

Please refer to the guide at Appendix 1 below which was originally published on Revenue's website. This sets out the Capital Gains Tax and Income Tax treatment applicable in relation to the Return of Value to Shareholders and a related Share Consolidation by Standard Life plc.

Note: This guidance relates to a specific event which took place in 2015. However, the guidance may still be relevant in the calculation of the acquisition cost of shares on a subsequent disposal.

6AB.1 Appendix 1

Tax Treatment of Standard Life Return of Value to Shareholders

Return of Value to Standard Life plc ("Standard Life") shareholders and related share consolidation by means of a scheme of arrangement under Part 26 of the UK Companies Act 2006

Background

On 2 February 2015, Standard Life announced the completion of the sale of its Canadian companies to a subsidiary of Manulife Financial Corporation and also announced that it intended to carry out a "return of value" to its shareholders of 73 pence sterling (i.e. €1.02) cash per existing Ordinary Share held. In addition to this "return of value", the existing Ordinary Shares have been consolidated in the ratio of 9 new Ordinary Shares for every 11 existing Ordinary Shares held.

The method by which Standard Life returned this value to shareholders involved the issue by it of one new Ordinary B Share (Capital Option) or one new Ordinary C Share (Income Option) to shareholders for each existing Ordinary Share held.

The share buy-back has application to all persons holding shares in Standard Life as at 13 March 2015, however acquired. Therefore, this announcement also affects approximately 60,000 shareholders in Ireland who were Standard Life policyholders in 2006 and who received free shares when the company demutualised and was listed on the London Stock Exchange and who held these shares as at 13 March 2015. In addition, some shareholders will have acquired shares at a preferential rate on the flotation of the company.

Tax implications of the "return of value"

Tax treatment of B Shares (Capital Option)

Shareholders who opted to take B Shares (Capital Option) are liable to Capital Gains Tax (CGT) in respect of payments received by them. This return of value is treated as a part disposal of the original shares for CGT purposes.

The cost of the original holding should be apportioned between the amount received by a shareholder and the market value of the shares immediately after the return of value. The rate of CGT is currently 33%. Gains of €1,270 or less are exempt from CGT.

Base cost of shares for CGT purposes

Example 1

A owns 1,000 Ordinary Shares. 500 of these were acquired free on the demutualisation of the company in 2006. 200 were acquired at a discounted value and 300 were purchased on the open market.

The base cost of the free shares is nil. The base cost of the shares that were acquired at a discounted value is €863 and the base cost of the shares that were acquired is €1,237 so the base cost of all the shares is €2,100. The base cost of the existing Ordinary Shares is the average cost of these shares.

The base cost of €2,100 is the value to be apportioned between new Ordinary Shares and B and/or C Shares. If the existing Ordinary Shares only consist of free shares acquired on demutualisation, then there is no base cost to apportion. If that is the case, the chargeable gain on the redemption of any B Shares acquired will be the same as the proceeds received on that redemption.

Apportionment of CGT base cost:

The CGT base cost in the existing Ordinary Shares must be apportioned between the new Ordinary Shares and the B Shares received by reference to the respective values at the time when the new Ordinary Shares were first traded on the day they were listed (i.e. 16 March 2015).

Example 2

A owned 1,000 Ordinary Shares which had a base cost of €2,100. Immediately following the Capital Reorganisation, he owned 818 new Ordinary Shares and 1,000 B Shares. The base cost is apportioned as follows:

- to the new Ordinary Shares (€1,763)
- to the B Shares (€337)

The value of each new Ordinary Share on 16 March 2015 was €6.52 so the value of 818 shares was €5,333 on that date. The value of each B Share on that date was €1.02 so the value of 1,000 shares was €1,020. The total value of the new Ordinary Shares and the B Shares was, therefore, €6,353.

The base cost is apportioned as follows:

Base cost referable to the new Ordinary Shares is €1,763 (i.e. €2,100 x 5,333/6,353).

Base cost referable to the B Shares is €337 (i.e. €2,100 x 1,020/6,353).

The chargeable gain on redemption of the B Shares is, therefore, €683 (i.e. €1,020 less €337). As this gain is less than the €1,270 annual exemption, the individual will not have a CGT liability (assuming that the individual does not have any other chargeable gains in 2015).

Note: The annual exemption is only available to individuals. It does not apply to companies.

Tax treatment of C Shares (Income Option)

Shareholders who were deemed to have opted for C Shares under the default mechanism set out in the Circular issued to shareholders are liable to Income Tax in respect of the dividend payments received by them as shareholders. The full return of value amount (i.e. €1.02 cash per existing Ordinary Share held) is subject to Income Tax, PRSI and Universal Social Charge.

Example 3

Taking the same facts as in Example 2 except that the shareholder received C Shares and thus instead owned 818 new Ordinary Shares and 1,000 C Shares immediately following the Capital Reorganisation. The value of each new Ordinary Share on 16 March 2015 was €6.52 so the value of 818 shares was €5,333 on that date. The value of each C Share on that date was €1.02 so the value of 1,000 shares was €1,020. The total value of the new Ordinary Shares and the C Shares was, therefore, €6,353.

The base cost is apportioned as follows:

Base cost referable to the new Ordinary Shares is €1,763 (i.e. €2,100 x 5,333/6,353).

Base cost referable to the C Shares is €337 (i.e. €2,100 x 1,020/6,353).

Following conversion of the C Shares into Deferred Shares and the repurchase of the Deferred Shares for a nominal consideration of one cent, there is a disposal of the asset representing the shareholder's holding of C Shares and thus a loss of €337 for CGT purposes.

Note: The examples used above are for illustrative purposes only. The calculation of the CGT liability/loss in the case of each shareholder will depend on the facts.