

Conversion of securities (S.585)

Part 19-04-09

This document should be read in conjunction with section 585 of the Taxes Consolidation Act 1997 and Tax and Duty Manual Part 19-04-06

Document last reviewed July 2024

Introduction

Section 585 of the Taxes Consolidation Act 1997 (“TCA 1997”) provides that the rules of **section 584 TCA 1997** relating to a reorganisation or reduction of share capital also apply to the conversion of securities. The guidance on **section 584 TCA 1997** which is set out in [Tax and Duty Manual \(TDM\) Part 19-04-06](#) should therefore be read in conjunction with this guidance.

9.1 Application

Section 585 TCA 1997 applies to the conversion of securities the general rule for the treatment of the reorganisation of a company's share capital (with the necessary adaptations). The effect of this is that -

- (a) If no consideration (except shares or securities) passes, the conversion does not constitute a disposal of the original securities, and the new shares or securities are treated as having been acquired at the same time as the old securities were acquired;
- (b) If any consideration other than the new holding passes to the holder there is deemed to be a part disposal for consideration equal to the cash or value of the assets that pass to the holder and the new holding acquires the original cost (to the extent it is not attributable to the part disposal) and the acquisition date of the original holding. Please refer to the instructions in [TDM Part 19-04-06](#) for further details;
- (c) If the holder gives any consideration other than the original shares for the new shares, the consideration paid is regarded as “enhancement expenditure” and the new holding acquires the original cost and acquisition date of the original holding. Please refer to the instructions in [TDM Part 19-04-06](#) for further details.

9.2 Conversion of securities

A "conversion of securities", for the purpose of **section 585(1) TCA 1997**, includes -

- (a) a conversion of securities of a company (e.g., loan stock or debentures) into shares in the company;
- (b) a conversion at the option of the holder of the securities converted as an alternative to the redemption of those securities for cash where the conversion takes place **before 4 December 2002** or, if after that date, pursuant to a written binding agreement made before that date, and
- (c) an exchange of securities made in pursuance of any law providing for the compulsory acquisition of shares or securities in return for the issue of securities or other securities.

For the purposes of this section, "security" includes any loan stock or similar security, whether of any government or of any public or local authority, or of any company and whether secured or unsecured, but excludes Irish Government and Government-guaranteed securities falling within **section 607 TCA 1997**. In this context, however, security does not include the shares of a company.

Note that, for the purposes of this section, a conversion of securities shall not include a conversion of securities into units in an investment undertaking, being a company. "Investment undertaking" and "unit" have the same meanings, respectively, as in **section 739B TCA 1997**.