CGT implications for individuals of takeover of Fyffes plc by Sumitomo Corporation

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Background

The recent acquisition of shares in Irish fruit importer and distributor, Fyffes, by the Japanese group, Sumitomo, will have CGT implications for shareholders in the company. Shareholders received €2.23 per share from Sumitomo.

Prior to the takeover, the company was divided into three separate businesses. Firstly, in 2006, Blackrock International Land plc (“Blackrock”) was spun off from Fyffes. This company is now known as Balmoral International Land plc. Later that year, Total Produce plc (“Total Produce”) was spun off from Fyffes. In each case, shareholders received one share for each share that they held in Fyffes.

Revenue have indicated that the market value of the Fyffes shares and the Blackrock shares after the first spin off was **€1.47** and **€0.43** respectively and that the market value of the Fyffes shares and the Total Produce shares were **€0.96** and **€0.79** respectively after that spin off.

Revenue calculated the base cost to be used on the disposal of Fyffes shares after both spin-offs and have indicated that the percentage split of the base cost is as follows:

<u>Between Fyffes and Blackrock</u>

Fyffes:

€1.47/ (€1.47+€0.43) = 77%

Blackrock:

€0.43/ (€1.47+€0.43) = 23%

<u>Between Fyffes and Total Produce</u>

Fyffes:

€0.96/ (€0.96+€0.79) = 55%

Total Produce:

€0.79/ (€0.96+€0.79) = 45%

Therefore, for shareholders who acquired their shares prior to the spin-offs in 2006 and have now disposed of their shareholding as a result of the recent acquisition by Sumitomo, the following example illustrates how their CGT liability can be calculated:

Example

Mr A purchased 5,000 shares in Fyffes in November 2000. He paid 91 pence (€1.15) per share or £4,550 (€5,777) plus the stockbroker’s commission of £75 (€95) and stamp duty of £45.50 (€58). The total cost of the shares was, therefore, £4,670.50 (€5,930).

Calculating the base cost of the Fyffes shares after the Blackrock spin off
This is done by multiplying the purchase price (€1.15) by the percentage split of the base cost after the Blackrock spin-off of 77%, i.e. 1.15 x 77% = 0.89. The base cost of the Fyffes shares for Mr A after the Blackrock spin off is, therefore, €0.89.

Calculating the base cost of the Fyffes shares after the Total Produce spin off
It has been established that the base cost of the Fyffes shares for Mr A after the Blackrock spin-off is €0.89. This figure is multiplied by the percentage split of the base cost after the Total Produce spin-off of 55%, i.e. 0.89 x 55% = 0.49. The base cost of Fyffes shares for Mr A after the Total Produce spin-off is, therefore, €0.49. As the shares were originally acquired in November 2000, this amount is then multiplied by the relevant indexation factor (1.144) = €0.56.

Mr. A's CGT liability is calculated as follows:

Disposal consideration (5,000 x €2.23)	€11,150
Less Incidental Cost of disposal (Working 1)	(€74)
Net Disposal consideration	€11,076
Deduct:	
Base cost of Fyffes shares (5,000 x €0.56)	(€2,800)
Capital Gain	€8,276
Less personal exemption	(€1,270)
Chargeable Gain	€7,006
Mr. A's CGT Liability due on or before 15 December 2017 @ 33%	**€2,312**

Working 1: Stockbroker's commission and stamp duty = €95 + €58 = €153. Re-based after Blackrock spin-off: €153 x 77% = €118. Re-based after Total Produce spin-off: €118 x 55% = €65. Multiplied by the relevant indexation factor: €65 x 1.144 = €74

Note 1: The example used above is for illustrative purposes only. The calculation of the CGT liability/loss in the case of each shareholder will depend on the circumstances of that shareholder. The calculation has been done on the basis that the shareholder did not have any other gains or losses to offset against the gain.

Note 2: The CGT calculation will be straightforward in the case of Fyffes shares acquired after the spin offs. All that is required is that a shareholder deducts the purchase price and related costs (i.e. stockbroker's commission and stamp duty) from the payment and then deducts the €1,270 annual exemption (assuming that there are no other gains or losses to offset against the gain).

Note 3: Indexation was abolished for the year 2003 and subsequent years.

Note 4: The €1,270 exemption applies to individuals only.