

## Processing a Corporate Spin-Off that is partially funded with a Dividend

A Corporate Spin-Off is a term used when one public company chooses to create a new public company from some of its own assets.

The effect of creating a new company from an existing company is to reduce the value of the original company by an amount equal to the value of the new company. The total value of the two entities after the spin-off is equal to the value of the original company before the spin-off.

Quicken/ReckonAccounts Personal has a transaction option "Corporate Securities Spin-Off" that handles the issues involved with this process. In essence, the shareholder receives a capital return from the original company but those funds are applied to the acquisition of the new company.

The shareholder maintains the same number of shares in the original company and acquires shares in the new company at a rate specified by the original company, such as:

for every **x** number of shares in the original company **1** share in the new company.

Usually the market price of the original company share will adjust in line with the reduction in assets of the original company. The starting value (issue price) of the new company share will be determined beforehand and notified to the shareholder. Its subsequent market price will fluctuate on a day by day basis.

Corporations do seek innovative ways to carry out basic transactions and corporate spin-offs may involve more than just a transfer of assets. This note will consider a corporate spin-off that is funded by a capital reduction of the original company plus a special dividend so that the total value of the original company and the new company is greater than the value of the original company before the spin-off. The "Corporate Securities Spin-Off" function cannot handle this situation.

### Quick Guide:

1. Accept the capital return for the capital component of the spin-off;
2. Accept the dividend associated with the spin-off;
3. Buy shares in the new corporation at the issue price advised.



## Detailed Instructions:

All details required will be provided to you from the company. Basic information you will need are:

1. The date of the spin-off.
2. The number of shares in the new corporation you are entitled to;
3. The Capital Return component of the spin-off;
4. Dividend component of the spin-off and the Franked amount;
5. The issue price for the new corporation;

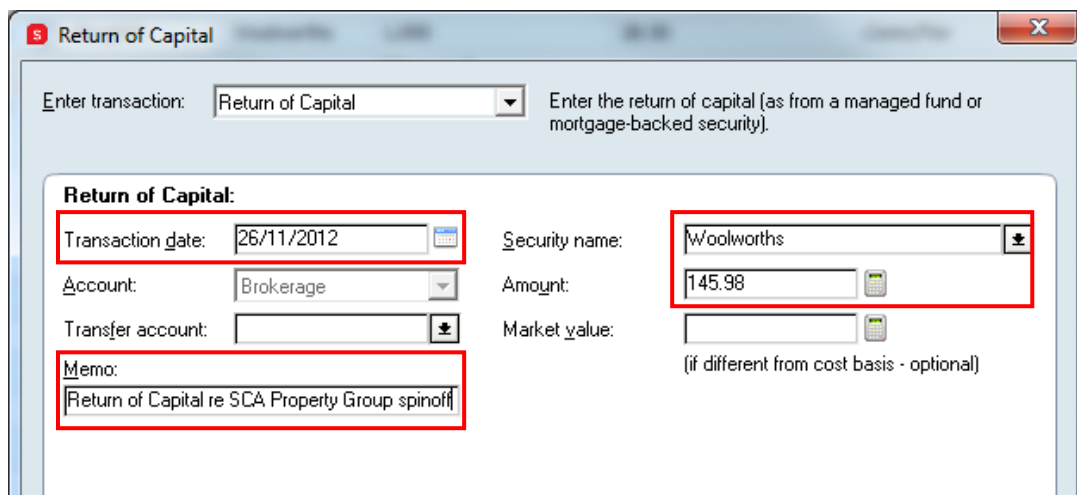
We will use the Woolworths spin-off of SCA Property Group as an example. The basic information is:

1. Spin-off date: **26 November 2012**
2. 1 share of SCA Property Group for every 5 Woolworths shares. Current Woolworths shareholding is 1,000, acquired at \$28.50 per share. Entitlement to new corporation: **200 shares**
3. Capital Return component: 72.99279 cents per 5 Woolworths shares (or 14.598558 cents/share). For 200 shares this amounts to **\$145.98**. Shareholders should check with their Accountants for any Capital Gains Tax implications of this transaction.
4. Dividend component: 70.97721 cents per 5 Woolworths shares (or 14.195442 cents/share) fully franked. This amount must be included in the shareholder's assessable income. There will be an imputation credit to offset the tax liability. For 200 shares this amounts to a dividend of **\$141.96** and an Imputation Credit of **\$60.84**.
5. Issue price: **\$1.4397**

**Note: prices are for illustrative purposes.** Please refer to your statement from Woolworths for applicable prices.

## Step 1: Accept the Capital Return

1. Investing Account > Enter Transactions > Return of Capital
2. Complete the form and click on Enter/Done



Return of Capital

Enter transaction: Return of Capital

Enter the return of capital (as from a managed fund or mortgage-backed security).

**Return of Capital:**

Transaction date: 26/11/2012

Account: Brokerage

Transfer account:

Memo: Return of Capital re SCA Property Group spinoff

Security name: Woolworths

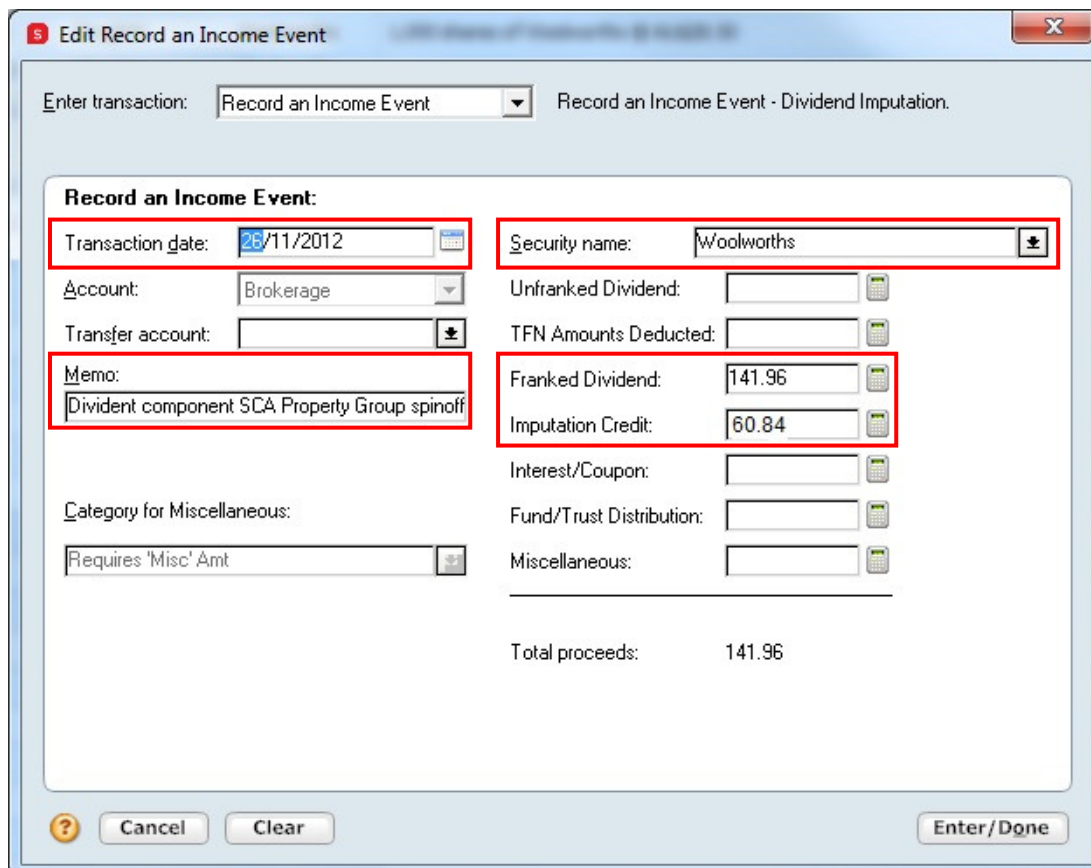
Amount: 145.98

Market value:

(if different from cost basis - optional)

## Step2: Accept the Dividend

1. Investing Account > Enter Transactions > Record an Income Event
2. Complete the form and click on Enter/Done



**Edit Record an Income Event**

Enter transaction: Record an Income Event Record an Income Event - Dividend Imputation.

**Record an Income Event:**

Transaction date: 26/11/2012 Security name: Woolworths

Account: Brokerage Unfranked Dividend:

Transfer account: TFN Amounts Deducted:

Memo: Divident component SCA Property Group spinoff Franked Dividend: 141.96

Category for Miscellaneous: Requires 'Misc' Amt Imputation Credit: 60.84

Interest/Coupon:

Fund/Trust Distribution:

Miscellaneous:

Total proceeds: 141.96

Buttons: ? Cancel Clear Enter/Done

## Step 3: Purchase shares in the new corporation

1. Investing Account > Enter Transactions > Record an Income Event
2. Complete the form and click on Enter/Done

**Buy - Shares Bought**

Enter transaction: Buy - Shares Bought Enter the purchase of shares of a security (subtract the cost from my cash balance).

**Buy - Shares Bought:**

Transaction date: 26/11/2012

Account: Brokerage

Memo:

Use cash for this transaction:

☒ From this account's cash balance

☐ From

Security name: SCA Property Group

Number of shares: 200

Price paid: 1.4397 per share

Commission: 0.00

GST on Commission: 0.00

Non-claimable: 0.00

Claimable: 0.00

Stamp Duty: 0.00

Total cost: 287.94

Currency exchange rate:

☐ Exchange rate on 26/11/2012=1.00000

☒ Set rate for this transaction 1.00000

? Cancel Clear Enter/New Enter/Done

Your Transaction List for Woolworths and SCA Property Group will look like:

File Edit Tools Online Cash Flow Business Investing Property & Debt Planning Tax Reports Help

Find Payment or Deposit Search

Home Personal Cash Flow Business Investing Property and Debt Financial Overview

Accounts Brokerage To Investing Centre Overview Performance & Analysis Transactions

Enter Transactions Set Up Download

How Do I

Date	Action	Security	Description	Inv Amt	Cash Amt	Cash Bal
29/08/2010	Withdraw	Opening Cas...	Opening Cash Balance			0.00
1/09/2010	BoughtX	Woolworths	1,000 shares of Woolworths @ AU\$28.50	+28,500.00	Transfer	0.00
26/11/2012	RtrnCap	Woolworths		+145.98	+145.98	145.98
26/11/2012	Div	Woolworths			+141.96	287.94
26/11/2012	MiscIncX	Woolworths	Imputation Woolworths AU\$60.84		Transfer	287.94
26/11/2012	Bought	SCA Propert...	200 shares of SCA Property Group @ AU\$1.4397	+287.94	-287.94	0.00
9/01/2013	Action					

Enter Edit Delete Attach

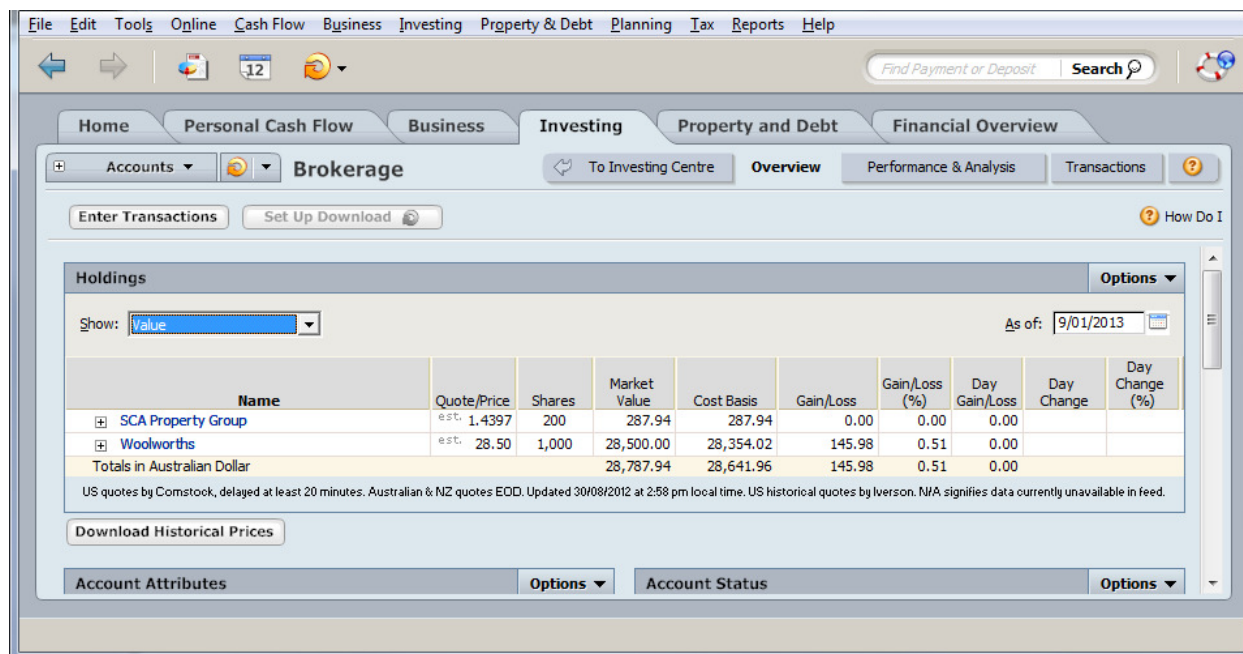
Securities Value: AU\$28,787.94 Cash Balance: AU\$0.00

Total Market Value: AU\$28,787.94

Download Transactions Scheduled Bills & Deposits (0 Due)

Set Up Download

The Overview of your Investment Account will appear like:



Note that the:

1. Cost Base of Woolworths shares is no longer \$28,500.00 but \$145.98 less at \$28,354.02, reflecting the Capital Return.
2. Total Cost Base of both shares is no longer \$28,500.00 but \$141.96 higher at \$28,641.96 reflecting the dividend income used to acquire the new shares.
3. number of shares for Woolworths has not changed from 1,000.
4. number of shares in SCA Property Group is 200 – 1 share for every 5 Woolworths shares.

Your Investment Income Report should appear like this:

Investment Income

DeleteExport Data ▾

PreferencesHow Do I?

BackHistoryForwardPrintSave Report

Find & ReplaceCustomise

Investment Income - YTD

Date range: Year to date ▾Subtotal by: Don't subtotal ▾

1/07/2012 through 9/01/2013 (in Australian Dollars)

Category Description	1/07/2012-9/01/2013
<strong>INCOME</strong>	
_DivInc	
_DivIncFranked	141.96
_ImpInc	60.84
TOTAL _DivInc	202.80
<strong>TOTAL INCOME</strong>	<strong>202.80</strong>
<strong>EXPENSES</strong>	
Uncategorised	*
<strong>TOTAL EXPENSES</strong>	*
<strong>TRANSFERS</strong>	
TO Imputation Credit	-60.84
<strong>TOTAL TRANSFERS</strong>	<strong>-60.84</strong>
<strong>OVERALL TOTAL</strong>	<strong>141.96*</strong>

\*Placeholder Entries for missing data are used in these calculations. [Show me.](#)

## For information concerning the SCA Property Group spinoff see:

1. Woolworths website:  
[http://www.woolworthslimited.com.au/page/Invest\\_In\\_Us/Shareholder\\_Centre/Creation\\_of\\_SCA/FAQs/](http://www.woolworthslimited.com.au/page/Invest_In_Us/Shareholder_Centre/Creation_of_SCA/FAQs/)
2. ATO Ruling:  
<http://law.ato.gov.au/atolaw/view.htm?docid=%22CLR%2FCR2012121%2FNAT%2FATO%2F00001%22>