Tax Treatment of Return of Value & Related Share Consolidation by Vodafone Group plc

Part 19-04-06AA

This document should be read in conjunction with section 847B of the Taxes Consolidation Act 1997

Document last reviewed August 2021

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Introduction

Section 847B of the Taxes Consolidation Act 1997 ("TCA 1997") was inserted by section 48 of the Finance Act 2014. That section provided a measure of relief for individuals who held small shareholdings in Vodafone plc and who inadvertently found themselves subject to an unintended liability to Income Tax ("IT"), PRSI and Universal Social Charge, rather than a nil Capital Gains Tax ("CGT") liability, arising from a return of value made to them by Vodafone in February 2014.

Note: This guidance relates to a specific event which took place in 2014, however the guidance may still be relevant in the calculation of the acquisition cost of shares on a subsequent disposal.

6aa.1 Revenue guidance

May 2014:

Refer to original Guide in Appendix 1 setting out the CGT and IT treatment applicable in relation to the Return of Value to Shareholders and a related Share Consolidation by Vodafone Group plc.

The Guide sets out the tax treatment for the benefit of Vodafone shareholders who acquired their shares in 2001 in exchange for Eircom shares.

Shareholders who acquired Vodafone shares otherwise than in exchange for Eircom Shares will have to calculate any gain or loss by reference to the price they paid for their shares and adjustments in shareholdings (if any), as well as by reference to the CGT part disposal rules.

December 2014:

Refer to Revenue's Additional Guide to the Tax Treatment of Return of Value to small Vodafone Shareholders in Appendix 2, which sets out the relieving measure contained in section 48 Finance Act 2014, treating returns of value of €1,000 or less received by small Vodafone shareholders as subject to CGT tax treatment unless they opt for IT treatment.

Appendix 1

Guideline outlining relieving measure in Finance Act 2014

Tax Treatment of Return of Value to Vodafone Shareholders

Revenue eBrief No. 39/14

29 May 2014

A final version of this Guide which relates solely to former Eircom shareholders who acquired their Vodafone ordinary shares in exchange for Eircom shares in 2001 has been published on the Revenue website. It sets out the tax position in relation to the Return of Value and Share Consolidation which was effected on 21 February 2014.

Depending on choices made by Vodafone shareholders, the Return of Value may be subject to Capital Gains Tax treatment or Income Tax treatment.

The Guide:

- Confirms that shareholders who received "B" Shares (Capital Option) have no Capital Gains Tax liability on their disposals.
- Confirms that shareholders aged 65 years of age or over who received "C" Shares (Income Option) can claim exemption from Income Tax for 2014 if their total income for the year, including pensions and other income (such as Vodafone/Verizon dividends), is less than:
  - €18,000, if single, widowed or a surviving civil partner, or
  - €36,000, if married or in a civil partnership.
- Explains for shareholders who received "C" Shares (Income Option) how to return details of dividends received to Revenue, depending on whether they are taxed through the PAYE System or through the Self Assessing System.

Appendix 2

Return of Value to Vodafone Shareholders

Additional Guideline outlining relieving measure in Finance Act 2014

The Revenue Commissioners issued Guidelines on the Tax Treatment of the Vodafone Return of Value to Shareholders earlier this year. This additional Guideline contains details of a relieving measure introduced by Section 48 of the Finance Act 2014 which will benefit many small shareholders who inadvertently found themselves subject to an unintended liability to Income Tax, PRSI and Universal Social Charge ("USC"), rather than a NIL Capital Gains Tax liability.

Section 48 of Finance Act 2014 provides that individuals who received a "return of value" payment of €1,000 or less, arising from the receipt of "C Shares" under the terms of the return of value, will be treated as having received a capital sum subject to Capital Gains Tax rules rather than an income sum subject to Income Tax, PRSI and Universal Social Charge (unless they opt to have the payment treated as income).

This means that individuals who acquired shares in Vodafone as a consequence of an original investment by them in Eircom shares in 1999 and who received a return of value of €1,000 or less will not pay either Income Tax, PRSI, USC or Capital Gains Tax on the return of value (unless they opt to have the payment treated as income). The return of value will be subject to Capital Gains Tax rules – but because the base cost of the Vodafone shares (having their origin in Eircom shares acquired in 1999) is higher than the amount of the return of value received, no Capital Gains Tax will be payable on returns of value of €1,000 or less.

Vodafone shareholders who made a capital loss on the "return of value" of €1,000 or less and who had no other chargeable gains on other disposals in 2014 need not submit a tax return in respect of the Vodafone "return of value" for 2014, if they are not otherwise required to submit a tax return.

They should however keep a record of the loss accrued on the "return of value" which can be offset against any gains that might accrue in future years. Taxpayers, who are required to submit a tax return, can include details of the amount of the Vodafone return of value and the amount of the loss available for offset against other chargeable gains in 2014 (if any) or for carry forward to the following year.

Should any taxpayers wish to have the return of value (of €1,000 or less) treated as income, they can simply include the amount as income in their tax returns – see the main Guidelines in this regard.

The main Guidelines on the Tax Treatment of the Vodafone Return of Value to Shareholders should be read in conjunction with this additional Guideline, as they set out:

- the Income Tax position for anyone to whom the relieving measure outlined above does not apply

  and

- the Capital Gains Tax position for former Eircom shareholders, including those to whom the relieving measure outlined above applies, who acquired their Vodafone ordinary shares in exchange for Eircom shares in 2001 – this is relevant for shareholders who want to compute the amount of any loss arising on the disposal (i.e. on the return of value).