

## ATO Class Ruling on Return of Capital

Intrepid Mines Limited (ASX: IAU) (“**Intrepid**” or “**Company**”) wishes to advise that the Australian Taxation Office (**ATO**) has published a final Class Ruling (CR 2016/63) in relation to the Company’s Return of Capital which was completed on 25 August 2016.

The Class Ruling confirms that no portion of the Return of Capital payment will be deemed to be a dividend.

The Class Ruling is attached to this announcement and can be viewed on the ATO website (<http://law.ato.gov.au/atolaw/index.htm>).

Taxation implications for a shareholder with respect to the Return of Capital payment may vary depending on a shareholder’s individual circumstances. Shareholders should seek advice from an appropriate professional adviser on the tax implications of the Return of Capital payment and Class Ruling based on their individual circumstances.

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## Class Ruling

### Income tax: return of capital: Intrepid Mines Limited

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#### **ⓘ This publication provides you with the following level of protection:**

This publication (excluding appendixes) is a public ruling for the purposes of the *Taxation Administration Act 1953*.

A public ruling is an expression of the Commissioner's opinion about the way in which a relevant provision applies, or would apply, to entities generally or to a class of entities in relation to a particular scheme or a class of schemes.

If you rely on this ruling, the Commissioner must apply the law to you in the way set out in the ruling (unless the Commissioner is satisfied that the ruling is incorrect and disadvantages you, in which case the law may be applied to you in a way that is more favourable for you – provided the Commissioner is not prevented from doing so by a time limit imposed by the law). You will be protected from having to pay any underpaid tax, penalty or interest in respect of the matters covered by this ruling if it turns out that it does not correctly state how the relevant provision applies to you.

### What this Ruling is about

1. This Ruling sets out the Commissioner's opinion on the way in which the relevant provisions identified below apply to the defined class of entities, who take part in the scheme to which this Ruling relates.

#### Relevant provisions

2. The relevant provisions dealt with in this Ruling are:
- section 45B of the *Income Tax Assessment Act 1936* (ITAA 1936), and
  - section 45C of the ITAA 1936.

All subsequent references are to the ITAA 1936 unless otherwise indicated.

#### Class of entities

3. The class of entities to which this Ruling applies are holders of ordinary shares in Intrepid Mines Limited (Intrepid) who:
- were registered on the Intrepid share register on 18 August 2016, the date for determining entitlement to the return of capital (Record Date)

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- hold their Intrepid shares on capital account, and
  - are not subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (ITAA 1997) in relation to their gains and losses on their Intrepid shares.
- (Note:** Division 230 of the ITAA 1997 will generally not apply to individuals unless they have made an election for it to apply to them).

In this Ruling, a person belonging to this class of entities is referred to as an Intrepid shareholder.

## Qualifications

4. The class of entities defined in this Ruling may rely on its contents provided the scheme actually carried out is carried out in accordance with the scheme described in paragraphs 7 to 24 of this Ruling.
5. If the scheme actually carried out is materially different from the scheme that is described in this Ruling, then:
  - this Ruling has no binding effect on the Commissioner because the scheme entered into is not the scheme on which the Commissioner has ruled, and
  - this Ruling may be withdrawn or modified.

## Date of effect

6. This Ruling applies from 1 July 2016 to 30 June 2017. The Ruling continues to apply after 30 June 2017 to all entities within the specified class who entered into the specified scheme during the term of the Ruling. However, this Ruling will not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of this Ruling (see paragraphs 75 and 76 of Taxation Ruling TR 2006/10).

## Scheme

7. The following description of the scheme is based on information provided by the applicant.

**Note:** certain information has been provided on a commercial-in-confidence basis and will not be disclosed or released under Freedom of Information legislation.

**Background**

8. Intrepid is a public company, incorporated in Australia and listed on the Australian Securities Exchange since 9 November 1993.

9. Intrepid is involved in the business of base and precious metals exploration and development.

10. Intrepid's current core focus is its Kitumba Copper Project, located in Zambia which it acquired through a merger with Blackthorn Resources Limited (Blackthorn) in December 2014.

**Return of Capital**

11. Following the merger with Blackthorn, Intrepid considered various options for expanding its business, but did not proceed with those options for various reasons.

12. Intrepid has since transitioned through a period of refreshing its Board and management positions and has revised its business strategy to a more streamlined approach to their Kitumba Copper Project.

13. As a result of the change in strategic direction, Intrepid had capital, surplus to what was required to fund its pre-existing commitments, operating and investing activities.

14. At Intrepid's annual general meeting held on 31 May 2016, Intrepid shareholders approved a return of capital of up to AUD \$24,309,379.

15. The return of capital was effected by way of an equal reduction of capital under section 256B of the *Corporations Act 2001*.

16. The return of capital of AUD \$0.07 per share was made to all shareholders on 25 August 2016 (Payment Date).

17. The return of capital was debited in full against Intrepid's share capital account and funded entirely by cash at bank held by Intrepid. The journal entries to record the return of capital were:

DR Share Capital	AUD \$24,309,379	
	CR Cash	AUD \$24,309,379

**Other Matters**

18. As at 31 December 2015, the equity of Intrepid comprised of 378,038,296 fully paid ordinary shares (Intrepid Shares), share capital of AUD \$268,499,000, accumulated losses of AUD \$222,912,000 and reserves of AUD \$38,798,000.

19. The Intrepid share capital account is not tainted within the meaning of Division 197 of the ITAA 1997.

20. As at 30 June 2016, approximately 69.16% of Intrepid's shares were held by foreign resident shareholders.

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21. Intrepid has returned share capital to shareholders in the past through share buy-backs, including the AUD \$110,000,000 share buy-back conducted in 2014 as part of its merger with Blackthorn.

22. Intrepid has not paid a dividend to its shareholders as at the date of this ruling. The balance of Intrepid's franking account as at 31 December 2015 was AUD \$763,490.

23. Prior to the return of capital, as at 30 June 2016, Intrepid had a cash balance of approximately AUD \$50,641,000.

24. After the return of capital, Intrepid had issued share capital of approximately AUD \$237,836,965 and a cash balance of AUD \$24,522,091.

## Ruling

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### The application of section 45B and 45C

25. The Commissioner will not make a determination under subsection 45B(3) that section 45C applies in relation to the return of capital.

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**Commissioner of Taxation**

14 September 2016

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## Appendix 1 – Explanation

**❶** *This Appendix is provided as information to help you understand how the Commissioner's view has been reached. It does not form part of the binding public ruling.*

### Application of sections 45B and 45C

26. Section 45B applies where certain capital payments are made to shareholders in substitution for dividends. Specifically the provision applies where:

- there is a scheme under which a person is 'provided with a capital benefit' by a company (paragraph 45B(2)(a)), and
- under the scheme a taxpayer (the relevant taxpayer) who may or may not be the person provided with the capital benefit, obtains a tax benefit (paragraph 45B(2)(b)), and
- having regard to the relevant circumstances of the scheme, it would be concluded that the person, or one of the persons, who entered the scheme or carried out the scheme or any part of the scheme did so for a purpose, other than incidental purpose, of enabling the relevant taxpayer to obtain a tax benefit (paragraph 45B(2)(c)).

27. The arrangement involving the return of capital to Intrepid shareholders will constitute a scheme for the purposes of section 45B.

28. The return of capital will be recorded as a debit to Intrepid's share capital account and Intrepid shareholders will receive a distribution of AUD \$0.07 per share. Therefore, Intrepid shareholders will be provided with a capital benefit (paragraph 45B(5)(b)).

29. The meaning of 'obtaining a tax benefit' is defined in subsection 45B(9) as occurring where the amount of tax payable from the treatment of a return of capital distribution as a capital benefit under the CGT provisions would, apart from the operation of section 45B, be less than the amount that would be payable if the distribution had instead been a dividend.

30. As a return of capital will generally result in a lesser amount of tax payable than a dividend, Intrepid shareholders will obtain a tax benefit.

31. Paragraph 45B(2)(c) sets out an objective purpose test for the Commissioner to consider having regard to the 'relevant circumstances' of the scheme set out in subsection 45B(8).

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32. Having regard to the relevant circumstances of the scheme set out in subsection 45B(8), it cannot be concluded that the scheme was entered into or carried out for a more than incidental purpose of enabling Intrepid shareholders to obtain a tax benefit.

33. Accordingly, the Commissioner will not make a determination under subsection 45B(3) that section 45C applies to the whole, or part, of the payment for the return of capital.

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## **Appendix 2 – Detailed contents list**

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34. The following is a detailed contents list for this Ruling:

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## References

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*Previous draft:*

Not previously issued as a draft

*Related Rulings/Determinations:*

TR 2006/10

*Legislative references:*

- ITAA 1936
  - ITAA 1936 45B
  - ITAA 1936 45B(2)(a)
  - ITAA 1936 45B(2)(b)
  - ITAA 1936 45B(2)(c)
- 
- ITAA 1936 45B(3)
  - ITAA 1936 45B(5)(b)
  - ITAA 1936 45B(8)
  - ITAA 1936 45B(9)
  - ITAA 1936 45C
  - TAA 1953
  - ITAA 1997
  - ITAA 1997 Div 197
  - ITAA 1997 Div 230
  - Corporations Act 2001
- 

ATO references

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