



TESOP 1999/2000

Tax Time and Telstra Shares

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1.0 INTRODUCTION - It's tax time again

For those who took advantage of the opportunity to participate in TESOP '99 it will be necessary to decide whether to make a written election to claim the \$1000 tax exemption.

You should have received dividends (directly from Telstra or indirectly via the Employee Share Trusts) and may have disposed of some of your shares or instalment receipts during 1999/2000.

The purpose of this Guide is to provide you with a very brief overview of some of the taxation implications, applicable to most employees, of making the written election in your 1999/2000 tax return, receiving Telstra dividends and the taxation consequences of disposing of shares (or instalment receipts) during 1999/2000.

A more detailed description of the taxation treatment of acquiring Telstra shares under the TESOP'99 offers is contained in the Employee Offer Document provided to you at the time of the offer. Since the Employee Offer Document was prepared, the tax law has been changed. This includes changes to give effect to the announcement by the Treasurer on 2 September 1999, which was foreshadowed in the Employee Offer Document, and to give effect to certain changes to the basis of determining assessable capital gains.

This Guide assumes that you are still an employee of Telstra. If you are not, the tax consequences to you in respect of your shares may be different to those discussed below.

It is stressed that this article is a general guide only and circumstances may vary greatly between employees, for example depending on whether you held your shares (or instalment receipts) for speculative purposes or, under new tax rules, the period for which your instalment receipts or shares are held and the extent to which you are "at risk" in relation to your investment. **Consequently, you should seek expert taxation advice when preparing your tax return.**

2.0 TESOP '99 shares – election option

If you took advantage of the opportunity to participate in TESOP '99 it will be necessary to decide whether to make a written election to claim the \$1,000 tax exemption.

If you wish to seek the \$1000 tax exemption in respect of shares you acquired under TESOP '99, you must make a written election under the tax rules before you lodge your 1999/2000 tax return.

Consequences of making a Written Election

If you make a written election (see Sample Election Notice below) before you lodge your 1999/2000 tax return you will be entitled to the \$1,000 tax exemption for your TESOP '99 Extra Shares, TESOP '99 Loyalty Shares and/or TESOP '99 Loan Shares. Only the discount in excess of \$1,000 on those shares will be assessable in your 1999/2000 tax return. You should include the assessable discount at Item 19, Box V of your 1999/2000 tax return (Supplement section).

If you make the election, the discount you received is:

- * \$7.40 for each TESOP'99 Extra Share;
- * \$7.40 for each TESOP 99 Loyalty Share which you may become entitled to; and
- * \$1 in total for all TESOP 99 Loan Shares (ie no matter how many you were allocated).

If you never become entitled to TESOP '99 Loyalty Shares, (for example you do not hold sufficient Guaranteed Allocation Shares in your name until 2 November 2000) you should not be assessed in relation to any Loyalty Shares. If you dispose of your Guaranteed Allocation Shares before you lodge your 1999/2000 tax return you should not include any Loyalty Shares in the calculation of your assessable discount for the year.

If you are assessed on the Loyalty Shares in the 1999/2000 tax year but you never acquire the Loyalty Shares (for example you disposed of your Guaranteed Allocation Shares after you lodged your 1999/2000 tax return but before 2 November 2000), then you will be able to amend your 1999/2000 tax return and claim a refund of any tax paid in relation to those shares.

If you make the election it applies to all qualifying shares or rights that you acquired under any employee share scheme in the 1999/2000 year.

(At the end of this Guide are examples illustrating the consequences of making the written election.)

Consequences of not making a Written Election

If you do not make a written election before you lodge your 1999/2000 tax return you will not be entitled to the \$1,000 tax exemption. You will be assessed on your TESOP'99 Extra Shares, TESOP '99 Loyalty Shares and TESOP '99 Loan Shares on the earlier of you ceasing employment with the Telstra Group or when the 3 year sale restriction period expires in 2002/3.

If you delay assessment by choosing not to make a written election, when the discount is ultimately assessed it will be based on the current tax market value of the shares at the time you cease employment with the Telstra Group or when the three year sale restriction period expires. You will also not be entitled to the \$1,000 exemption at this stage.

The choice of whether to receive the \$1000 exemption or defer tax on the discount will depend on your individual circumstances.

There is no one right answer for everyone. This is why it is important to seek expert tax advice.

3.0 Tax treatment of dividends received in 1999/2000

During 1999/2000 Telstra paid a partially franked final dividend for 1998/99 of 26 cents per share which was paid on 29 October 1999 and a fully franked interim dividend for 1999/2000 of 8 cents per share/instalment receipt which was paid on 28 April 2000.

You should include the dividends you received, together with the attached franking credits, as assessable income at Item 10, Boxes S, T and U of your 1999/2000 tax return. This is the case even if the dividends were paid to you via the Employee Share Trusts and even if part of the dividend has been applied to reduce your Telstra loans.

4.0 Tax treatment of sale of Telstra shares in 1999/2000

This Guide assumes that you are still an employee of Telstra and consequently, at this time, you are not able to dispose of TESOP'97 Loan Shares, TESOP'97 Extra Loan Shares, TESOP'97 Extra Non-Loan Shares, TESOP'99 Loan Shares, TESOP'99 Loyalty Shares or TESOP'99 Extra Shares.

During 1999/2000, you may have disposed of:

- * Non-Loan Shares acquired under TESOP'97;
- * Loyalty Shares acquired under TESOP'97;
- * 1997 Public Offer Shares;
- * Guaranteed Allocation Shares (instalment receipts acquired under TESOP'99);
- * 1999 Public Offer Instalment Receipts; or
- * Other Telstra Shares you may have acquired through the Stock Exchange.

If you dispose of shares or instalment receipts for more than their tax cost you may be assessed on gains on disposal of those shares or instalment receipts. If you disposed of shares or instalment receipts for less than their tax cost you may be entitled to offset the loss against other capital gains you made in 1999/2000 or to carry the loss forward to be offset against any capital gains you may make in the future.

The basis for determining your capital gain varies depending on whether you disposed of the shares or instalment receipts before or after 30 September 1999.

The table below sets out in general terms how your capital gain or losses will be assessed under the capital gains tax provisions.

You should be aware that the gains on the disposal of shares and instalment receipts by certain taxpayers may be assessed as ordinary income rather than under the capital gain tax provisions.

5.0 Work sheet to calculate assessable discount

If you elect to seek the \$1,000 tax exemption and to be assessed in the 1999/2000 financial year on the discount benefit received by you in relation to the TESOP '99 Extra Shares, the TESOP '99 Loyalty Shares and the TESOP '99 Loan Shares, you should complete the Section 139E Election Notice and then use this work sheet to calculate the amount you should include in your assessable income in your 1999/2000 tax return.

This work sheet should not be used if you do not wish to make the section 139E election.

If you have terminated your employment with the Telstra Group on or before 30 June 2000, you should consult your taxation adviser to determine whether this work sheet is appropriate for you.

(a) Insert the number of TESOP '99 Extra Shares you received	_____
(b) Insert the maximum number of TESOP '99 Loyalty Shares which you <i>may</i> become entitled to receive on 2 November, 2000. This should equal the number of Guaranteed Allocation Shares that you purchased with your own money divided by 10 (rounded up to the nearest whole number). If this calculation gives a number greater than 80, insert 80 in the box.	_____
(c) Total Number of TESOP '99 Extra Shares and TESOP '99 Loyalty Shares [(a) + (b)]	_____
(d) Discount received on TESOP '99 Extra Shares and TESOP '99 Loyalty Shares [(c) x \$7.40]	\$_____
(e) If you were allotted <u>any</u> TESOP '99 Loan Shares , insert "\$1" in this box	\$_____
(f) Total discount received on TESOP '99 Extra Shares , TESOP '99 Loyalty Shares and TESOP '99 Loan Shares [(d)+(e)]	\$_____
(g) Standard maximum exemption	\$1000
(h) Assessable Amount re TESOP '99 Extra Shares , TESOP '99 Loyalty Shares and TESOP '99 Loan Shares [(f) - (g)]	\$_____
If this calculation results in a negative amount, the Assessable Amount for TESOP '99 Extra Shares, TESOP '99 Loyalty Shares and Telstra '99 Loan Shares is NIL	

If this calculation results in a negative amount, the Assessable Amount for TESOP '99 Extra Shares, TESOP '99 Loyalty Shares and Telstra '99 Loan Shares is NIL

Add any positive figure at (h) to any other "Category 2" income under Item 19 in your 1999/2000 tax return (Supplement section) and insert the total of all such values in Box V at Item 19.

6.0 Examples

The following examples assume that you have decided to take advantage of the \$1000 tax exemption option (rather than the tax deferral option). This means that the first \$1000 of the discount benefit for the TESOP '99 Extra Shares, TESOP '99 Loyalty Shares and TESOP '99 Loan Shares is not assessable income. The examples are provided to assist you in completing the above Work Sheet.

If you take advantage of the \$1000 exemption you are assessable on any discount benefit in excess of \$1000. You should include the amount at Item 19, Box V of your 1999/2000 tax return (Supplement section). If you have decided to take advantage of the \$1000 exemption you must also complete a written election before you lodge your 1999/2000 tax return (refer Sample Election Notice above). You should keep your election with your tax records. You should not forward it to the Tax Office with your tax return.

This information is a general guide only. Everyone's circumstances are different. If you have any questions about the tax treatment of your Telstra shares when filling in your 1999/2000 tax return or as to whether you should seek the \$1000 exemption, you should seek assistance from a registered tax adviser.

Example 1 -

Full Participation in the "1 for 4" Employee Share Offer, the "1 for 10" Loyalty Share Offer and the Loan Offer

Employee A has:

- * Acquired 5,000 Guaranteed Allocation Shares (ie the maximum entitlement) under the Commonwealth component of TESOP '99
- * Ticked the application box for TESOP '99 Extra Shares and TESOP '99 Loyalty Shares on the Commonwealth component Application Form
- * Entitled to 200 TESOP '99 Extra Shares (1:4 - maximum 200)
- * Entitled to 80 TESOP '99 Loyalty Shares (1:10 - maximum 80)
- * Acquired 400 TESOP '99 Loan Shares (ie the maximum entitlement)

The following Work Sheet assumes you have decided to take advantage of the \$1000 exemption option and you have not sold any Telstra shares and you do not participate in any other employee share schemes.

Work Sheet to Calculate Assessable Discount (assuming \$1000 exemption election)

- (a) Number of TESOP '99 Extra Shares (1:4 - maximum of 200) 200
- (b) Number of TESOP '99 Loyalty Shares (1:10 - maximum of 80) 80
- (c) Total number of TESOP '99 Extra Shares and TESOP '99 Loyalty Shares [(a) + (b)] 280
- (d) Discount Received on TESOP '99 Extra Shares and TESOP '99 Loyalty Shares [(c) x \$7.40] \$2,072

(e) TESOP '99 Loan Shares nominal \$1 benefit (\$1 total applicable where 100-400 TESOP '99 Loan Shares acquired) \$ 1

(f) Total discount received [(d) + (e)] \$2,073

(g) Standard Maximum Exemption \$1,000

(h) Assessable Discount Amount re TESOP '99 Extra Shares, TESOP '99 Loyalty Shares and TESOP '99 Loan Shares [(f) - (g)] \$ 1,073

You should include the assessable discount amount above at Item 19, Box V of your 1999/2000 tax return (Supplement section). You must complete a written election to take advantage of the \$1000 exemption before you lodge your 1999/2000 tax return.

Example 2

Participation in the "1 for 4" Employee Share Offer, the "1 for 10" Loyalty Share Offer but not the Loan Offer

Employee B has:

* Acquired 400 Guaranteed Allocation Shares under the Commonwealth component of TESOP '99

* Ticked the application box for TESOP'99 Extra Shares and TESOP'99 Loyalty Shares on the Commonwealth component Application Form

* Entitled to 100 TESOP'99 Extra Shares (1:4)

* Entitled to 40 TESOP'99 Loyalty Shares (1:10)

* Did not acquire any TESOP '99 Loan Shares

The following Work Sheet assumes you have decided to take advantage of the \$1000 exemption option and you have not sold any Telstra shares and you do not participate in any other employee share scheme.

Work Sheet to Calculate Assessable Discount (assuming \$1000 exemption election)

(a) Number of TESOP '99 Extra Shares (1:4 - maximum of 200) 100

(b) Number of TESOP '99 Loyalty Shares (1:10 - maximum of 80) 40

(c) Total number of TESOP '99 Extra Shares and TESOP '99 Loyalty Shares [(a) + (b)] 140

(d) Discount Received on TESOP '99 Extra Shares and TESOP '99 Loyalty Shares [(c) x \$7.40] \$1,036

(e) TESOP '99 Loan Shares nominal \$1 benefit (\$1 total applicable where 100-400 TESOP '99 Loan Shares acquired) \$ 0

(f) Total discount received [(d) + (e)] \$1,036

(g) Standard Maximum Exemption \$1,000

(h) Assessable Discount Amount re TESOP '99 Extra Shares, TESOP '99 Loyalty Shares and TESOP '99 Loan Shares [(f) - (g)] \$ 36

You should include the assessable discount amount above at Item 19, Box V of your 1999/2000 tax return (Supplement section). You must complete a written election to take advantage of the \$1000 exemption before you lodge your 1999/2000 tax return.

Example 3 -

Participation in the Loan Offer Only

Employee C has:

* Acquired 400 TESOP '99 Loan Shares (ie the maximum entitlement)

The following Work Sheet assumes you have decided to take advantage of the \$1000 exemption option and you have not sold any Telstra shares and you did not participate in any other employee share scheme.

Work Sheet to Calculate Assessable Discount (assuming \$1000 exemption election)

(a) Number of TESOP '99 Extra Shares (1:4 - maximum of 200) 0

(b) Number of TESOP '99 Loyalty Shares (1:10 - maximum of 80) 0

(c) Total number of TESOP '99 Extra Shares and TESOP '99 Loyalty Shares [(a) + (b)] 0

(d) Discount Received on TESOP '99 Extra Shares and TESOP '99 Loyalty Shares [(c) x \$7.40] \$0

(e) TESOP '99 Loan Shares nominal \$1 benefit (\$1 total applicable where 100-400 TESOP '99 Loan Shares acquired) \$ 1

(f) Total discount received [(d) + (e)] \$1

(g) Standard Maximum Exemption \$1,000

(h) Assessable Discount Amount re TESOP '99 Extra Shares, TESOP '99 Loyalty Shares and TESOP '99 Loan Shares [(f) - (g)] \$ 0

You must complete a written election to take advantage of the \$1000 exemption before you lodge your 1999/2000 tax return.

7.0 At a glance – Telstra ESOP 97, Telstra ESOP 99 and Telstra shares

Tax implications for current Telstra employees for 1999/2000 (except in relation to dividends)

	Capital Gains (Sales Proceeds > Tax Cost)		Capital Losses (Sales Proceeds < Tax Cost)
	Disposal before 1 October 1999	Disposal after 30 September 1999	
<ul style="list-style-type: none"> • TESOP'97 Loyalty Shares (if you elected to seek \$1000 tax exemption in your 1997/98 tax return) • TESOP'97 Non Loan Shares • 1997 Public Offer Shares 	Proceeds of sale less \$3.30 (adjusted for inflation to the quarter in which you disposed of the shares) ¹	Your choice, either: (i) half of – proceeds of sale less \$3.30, or (ii) proceeds of sale less \$3.37 ie \$3.30 adjusted for inflation until 30 September 1999	Not applicable in 1999/2000
<ul style="list-style-type: none"> • TESOP'97 Loyalty Shares (if you did not seek \$1000 exemption in your 1997/98 tax return) 	Proceeds of sale less \$6.55 (adjusted for inflation to the quarter in which you disposed of the share)	Your choice, either: (i) half of – proceeds of sale less \$6.55, or (ii) proceeds of sale less \$6.63 ie \$6.55 adjusted for inflation until 30 September 1999	\$6.55 less proceeds of sale
<ul style="list-style-type: none"> • Guaranteed Allocation Shares (Instalment Receipts) • 1999 Public Offer Instalment Receipts 	Not applicable	Proceeds of sale less \$4.50	\$4.50 less proceeds of sale
<ul style="list-style-type: none"> • Other shares/instalment receipts purchased by you on the stock exchange 	Proceeds of sale less tax cost of shares (if you held the shares for more than 12 months adjusted for inflation to the quarter in which you disposed of the share)	If you held the shares for more than 12 months, your choice either: (i) half of – proceeds of sale less tax cost of shares, or (ii) proceeds of sale less tax cost (adjusted for inflation until 30 September 1999). Otherwise, proceeds of sale less tax cost of shares	Tax Cost of shares less proceeds of sale

1 The adjustment to the cost for inflation of 1997 Public Offer instalment receipts is made from the time each instalment is payable.

2 \$6.55 is the tax market value of shares on 17 November 1998 being the date TESOP '97 Loyalty Shares were allotted.

In determining the gain or loss you may take into account certain additional costs, such as incidental selling costs. For example, brokerage on the sale of shares. You should draw these costs to the attention of your tax agent when preparing your tax return. If you are to be assessed on the gain under the capital gains tax provisions you should include the gain in your calculation of the capital gain in Item 14 Box H of your 1999/2000 tax return (Supplement section). If you have made a capital loss and you are offsetting the loss against another capital gain you made during 1999/2000 you should include the loss in your calculation of net capital gains at Item 14 Box G of your 1999/2000 tax return (Supplement section). Alternatively, if the loss is to be carried forward to be offset against future capital gains the loss should be recorded at Item 14 Box R of your 1999/2000 tax return (Supplement section).

8.0 Sample Election Notice

Sample Election Notice
Income Tax Assessment Act 1936
Section 139E Election

Name of Taxpayer: _____

Tax file Number (optional): _____

This election is made under section 139E of the Income Tax Assessment Act 1936 ('the Act').

I, [name of taxpayer], elect that subsection 139B(2) of the Act is to apply to all of the qualifying shares or qualifying rights acquired by me under an employee share acquisition scheme(s) in terms of Division 13A of Part III of the Act in the 1999/2000 year of income.

The provision of these details (in italics) is optional.

The details of each parcel of shares or rights acquired by me during this year of income are as follows (repeat for each separate parcel acquired):

Name of corporation/scheme: _____

No of shares/rights acquired: _____

Date of acquisition: ____/____/199____

Market value on date shares/rights were acquired: _____

Amount/paid given at time of acquisition: _____

You must sign and date this election

Taxpayer's signature: _____

Date election signed: _____

**Note: You should keep your election with your tax records.
You should not forward it to the Tax Office with your tax return.**

9.0 Glossary

*** 1997 Public Offer Shares**

shares acquired by employees through the public offer in November 1997

*** 1999 Public Offer Instalment receipts**

shares acquired by employees through the public offer in October 1999. The purchase price for shares acquired as part of the 1999 further float of Telstra shares are payable in 2 instalments. On the payment of the first instalment on 7 October 1999 (\$4.50) shareholders received instalment receipts evidencing their interest in the underlying shares. On the payment of the second instalment on 2 November 2000 (\$2.90) the instalment receipts will be cancelled and the underlying shares will be transferred to investors.

*** Guaranteed Allocation Shares**

shares purchased by employees, with their own money, under the Commonwealth component of TESOP '99.

*** Telstra**

Telstra Corporation Limited or a subsidiary of Telstra.

*** TESOP '97**

offer made to employees to acquire shares in Telstra under the Telstra Employee Share Ownership Plan as part of the 1997 initial public float of Telstra shares.

*** TESOP '97 Extra Loan Shares**

the extra 1 for 4 shares provided to employees who acquired Loan shares in TESOP '97.

*** TESOP '97 Extra Non-Loan Shares**

the extra 1 for 4 shares provided to employees who acquired Non-Loan Shares in TESOP '97.

*** TESOP '97 Loan Shares**

shares purchased by employees as part of TESOP '97 using the interest free loan provided by Telstra.

*** TESOP '97 Loyalty Shares**

the extra 1 for 10 shares provided to employees who acquired Public Offer Shares in the 1997 float of Telstra shares and held them for 12 months.

*** TESOP '97 Non-Loan Shares**

shares purchased by employees as part of TESOP '97 using their own money instead of the interest free loan provided by Telstra.

*** TESOP '99**

offer made to employees to acquire shares in Telstra under the Telstra Employee Share Ownership Plan as part of the 1999 additional public float of Telstra shares.

*** TESOP '99 Loan Shares**

shares acquired by employees as part of the Telstra component of TESOP '99 using the interest free loan provided by Telstra.

*** TESOP '99 Loyalty Shares**

the extra 1 for 10 shares to be provided under the Commonwealth component of TESOP 99 to employees who acquired Guaranteed Allocation Shares and hold them until at least 2 November 2000.

*** TESOP Extra '99 Shares**

the extra 1 for 4 shares provided under the Commonwealth component of TESOP '99 to employees who acquired Guaranteed Allocation Shares.

*** Subsequent share purchases**

any other shares or instalment receipts acquired by an employee other than as part of TESOP '97, TESOP '99 or as part of the public float in 1997 or further public float in 1999.

*** Written Election**

the election under tax law made by an employee before they lodged their 1999/2000 Tax Return to treat the discount received (in excess of \$1,000) in respect of their TESOP '99 Extra Shares, TESOP '99 Loyalty Shares and/or TESOP '99 Loan Shares as assessable in 1999/2000.