TESOP 1998/1999

Tax Time and Telstra Shares

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1.0 INTRODUCTION - It's tax time again

While you do not have to consider making any written elections (taxation choices) this time around, you should have received dividends directly from Telstra or indirectly via the Telstra Employee Share Ownership Plan (ESOP) 97 Trust and may have disposed of some of your instalment receipts or shares during 1998/99.

The purpose of this guide is to provide you with a very brief overview of the taxation implications, applicable to most employees, of receiving Telstra dividends and the taxation consequences of disposing of shares, or instalment receipts, during 1998/99.

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

It is stressed that this 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, we do not intend to provide individual advice. If you are unsure as to the tax implications of your share purchase you should approach your tax adviser.

At the end of this guide is a glossary of terms used, as well as an 'at a glance' table summarising the issues discussed.

2.0 Generally

No written election required for 1998/99

A written election in respect of your Telstra ESOP 97 shares should not be made in preparing your 1998/99 tax return.

However, as discussed below, whether or not you made such a written election in 1997/98 may influence the tax consequences of any shares or instalment receipts disposed of in 1998/99.

Cancellation of instalment receipts and transfer of shares

On the payment of the final instalment on 17 November 1998, of the purchase price of shares in Telstra acquired from the Commonwealth, instalment receipts were cancelled and shares in Telstra were transferred to investors. This cancellation has no taxation consequences for you. This is the case whether or not the shares are held directly by you or on your behalf by the Telstra ESOP 97 Trustee.

3.0 Tax treatment of dividends received in 1998/1999

During 1998/99 Telstra paid a fully franked final dividend for 1997/98 of seven cents per instalment receipt which was paid on 30 October 1998, and a fully franked interim dividend for 1998/99 of seven cents per share which was paid on 30 April 1999.

You should include both these dividends together with the attached franking credits as assessable income at Item 9, Boxes T and U of your 1998/99 tax return. This is the case even if the dividends were paid to you by the Telstra ESOP 97 Trustee as part of Telstra ESOP 97 and even if part of the dividend has been applied to reduce your Telstra loan.

4.0 Sale of Shares (except extra Loyalty shares)

Tax treatment of disposal of Telstra shares, or instalment receipts, during 1998/99

This guide assumes that you are still an employee of Telstra and consequently are not able to dispose of loan shares, extra loan shares and extra non-loan shares until 17 November 2000, as long as you remain employed by the Telstra Group.

During 1998/99, you may have disposed of:

* Extra loyalty shares

* Non-loan shares or instalment receipts

* Public offer shares or instalment receipts

* Shares or instalment receipts purchased under a subsequent share purchase.

Sale of extra loyalty shares

Refer below under heading 'extra loyalty shares'.

Sale of non-loan shares

If you disposed of your non-loan shares, you will generally have derived an assessable capital gain on disposal equal to the proceeds of disposal, reduced by any incidental selling costs, less $3.30 per share (or $1.95 per instalment receipt), adjusted for indexation if you have held the shares for more than 12 months. This is the case irrespective of whether you made the written election before you lodged your 1997/98 tax return.

You should include this gain as part of your calculation of capital gains or losses shown at Item 13 of your 1998/99 tax return (Supplement Section).

Sale of public offer shares

If you have disposed of public offer shares after the initial float of the Telstra shares you should generally have derived an assessable capital gain on the disposal equal to the proceeds of the disposal, reduced by any incidental selling costs, less $3.30 per share (or $1.95 per instalment receipt), adjusted for indexation if you have held the shares for more than 12 months. This is the case irrespective of whether you made the written election before you lodged your 1997/98 tax return.

You should include this gain as part of your calculation of capital gains or losses shown at Item 13 of your 1998/99 tax return (supplement section).

Sale of subsequent share purchases

If you have disposed of shares purchased through the stock exchange, or acquired some other way, you may have derived a capital gain or capital loss equal to the proceeds of the disposal, reduced by any incidental selling costs, less the cost of the shares to you, adjusted for indexation if you have held the shares for more than 12 months. This is the case irrespective of whether you made the written election before you lodged your 1997/98 tax return.

You should include this gain as part of your calculation of capital gains or losses shown at Item 13 of your 1998/99 tax return (supplement section).

5.0 Extra Loyalty Shares

Tax treatment (if any) of acquisition of extra loyalty shares

The tax consequences to you of acquiring extra loyalty shares on 17 November 1998 depend on whether you made a written election before you lodged your 1997/98 tax return.

If you made such an election, you should not be assessed in 1998/99 on the acquisition of your extra loyalty shares. You may be assessed on a subsequent disposal of your extra loyalty shares - see below.

If you did not make such an election, you will generally be assessed in 1998/99 on:

* An amount equal to the market value, at the time of acquisition, of the extra loyalty shares you receive, or

* If you sold your extra loyalty shares on or before 16 December 1998, the full sale proceeds. In this case, the capital gains tax rules will not apply to the disposal.

This amount is assessable income to you rather than a capital gain. You should include this amount at Item 18, Box V of your 1998/99 tax return (supplement section).

Sale of extra loyalty shares

If you have disposed of extra loyalty shares in 1998/99 the tax consequences of the disposal will depend on whether you made a written election before you lodged your 1997/98 tax return.

If such an election was made you should generally have derived an assessable capital gain on the disposal equal to the proceeds of the disposal, reduced by any incidental selling costs, less $3.30 per share.

If such an election was not made by you and you sold your extra loyalty shares after 16 December 1998 you will generally be assessable on the excess, if any, of the sale proceeds over the market value of the extra loyalty share at the time of acquisition. In this case, you will also have been assessed at the time you acquired your extra loyalty share (refer above).

If such an election was not made by you and you sold your extra loyalty shares on or before 16 December 1998, the capital gains tax rules should generally not apply to the disposal. In this case, you will have been assessed at the time you acquired your extra loyalty shares on the full sale proceeds (refer above).

Any capital gain should be included as part of your calculation of capital gains or losses shown at Item 13 of your 1998/99 tax return (supplement section).

Failure to acquire extra loyalty shares

If you acquired public offer shares and sold those shares before 17 November 1998 you did not qualify for any extra loyalty shares. In this case:

* If you made a written election in your 1997/98 tax return, you should request an amended assessment for 1997/98 to obtain a refund for any tax paid in respect of any extra loyalty shares.

* If you did not make such an election, then there should be no tax consequences to you in respect of the extra loyalty shares.

6.0 Glossary

* **Extra loan shares** - the extra one for four shares provided to employees who acquired loan shares.

* **Extra loyalty shares** - the extra one for 10 shares provided to employees who acquired public offer shares and held them for 12 months.

* **Extra non-loan shares** - the extra one for four shares provided to employees who acquired non-loan shares.

* **Instalment receipts** - the purchase price for shares acquired as part of the 1997 float of Telstra shares was payable in two instalments. On payment of the first instalment on 17 November 1997 ($1.95) shareholders received instalment receipts evidencing their interest in the underlying shares. On payment of the second instalment on 17 November 1998 ($1.35) the instalment receipts were cancelled and the underlying shares were transferred to investors.

* **Loan shares** - shares purchased by employees as part of the Telstra Employee Share Ownership Plan in 1997 ('Telstra ESOP 97') using the interest free loan provided by Telstra.

* **Non-loan shares** - shares purchased by employees as part of Telstra ESOP 97 using their own money instead of the interest free loan provided by Telstra.

* **Public offer shares** - shares acquired by employees independently through the public offer in November 1997.

* **Subsequent share purchases** - any other shares or instalment receipts acquired by an employee other than as part of Telstra ESOP 97 or as part of the public float in 1997.

* **Telstra** - Telstra Corporation Limited or a subsidiary of Telstra.

* **Telstra ESOP 97 shares** - shares acquired by employees pursuant to the Telstra Employee Share Ownership Plan offered to eligible employees as part of the 1997 public float of Telstra shares.

* **Written election** - the election under tax law made by an employee before they lodged their 1997/98 tax return to treat the discount received (in excess of $1000) in respect of their loan shares, extra loan shares or extra non-loan shares as assessable in 1997/98 and/or to treat the full discount in respect of their extra loyalty shares as assessable in 1997/98.

At a glance – Telstra ESOP 97 and Telstra Shares

Tax implications for current Telstra employees for 1998/99 (except in relation to dividends)

	No disposal of share	Disposal of share	
Loan shares	No tax consequences	Before or on 16 December 1998	After 16 December 1998
		N/A - ineligible for disposal in 1998/99 for continuing employees	
Non-loan shares	No tax consequences	Subject to capital gains tax (CGT)	
Extra loan shares (1:4)	No tax consequences	N/A - ineligible for disposal in 1998/99 for continuing employees	
Extra non-loan shares (1:4)	No tax consequences	N/A - ineligible for disposal in 1998/99 for continuing employees	
Extra loyalty shares (1:10) - 1997/98 election made	No tax consequences	Subject to CGT	
Extra loyalty shares (1:10) - no 1997/98 election	Tax market value of shares (on 17/11/98) assessable as ordinary income	Full sale proceeds (less incidental costs) assessable as ordinary income	(1) Tax market value of shares (on 17/11/98) assessable as ordinary income. (2) Sale proceeds less (1) are subject to CGT
Public offer shares	No tax consequences	Subject to CGT**1**&**2**	Subject to CGT**1**
Stock exchange purchases	No tax consequences	Subject to CGT**1**	

1 It is possible that some shareholders may be assessed on gains as ordinary income, for example, if they are in the business of trading shares.

2 If an election is made in 1997/98 you may seek an amended assessment to obtain a refund of tax on an extra loyalty share if you sold your public offer shares before 17 November 1998.

This table does not deal with the taxation of dividends you have received on your shares. It is a general guide only and circumstances may vary greatly between employees. Consequently, you should seek expert taxation advice when preparing your tax return.