TESOP 2001/2002

Tax Time and Telstra Shares

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1.0 Tax Time and Telstra Shares

Once again it's tax time!

The purpose of this Guide is to provide you with a brief overview of the taxation implications, applicable to most employees and former employees, of your participation in TESOP 97 or TESOP 99, including receiving Telstra dividends and the taxation consequences of disposing of shares during 2001/2002.

This is a general guide only as to the consequences of participation in TESOP 97 and TESOP 99 and circumstances may vary greatly between employees and former employees. **The particular tax consequences for you may be different due to your individual circumstances.**

This Guide is important. You will should refer to this Guide when preparing your tax return. You should also provide a copy of this Guide to your tax agent or the person who prepares your tax return.

For the purpose of this Guide certain terms have specific meanings. To find out the meaning of these terms have a look at the Glossary.

Disclaimer

This is a general description of the tax consequences which can apply to your participation in TESOP 97 or TESOP 99. The tax consequences for you may be different depending on your own circumstances, particularly if you have participated in other employee share schemes, if you have any particular arrangements in relation to your shares or for shares you acquire otherwise than under TESOP 97 or TESOP 99.

The description of the capital gains tax consequences of your participation in TESOP 97 and/ or TESOP 99 is based on **Class Ruling (CR 2001/28) issued by the Commissioner of Taxation.**

If you have any questions about filling in your tax return or the tax consequences of your participation in TESOP 97 or TESOP 99 (including the capital gains tax consequences) in your particular circumstances you **should seek guidance from your own registered tax adviser.**

2.0 General

No Written Election Required for 2001/2 but past Written Elections still relevant

Again, this year you do **not** have to consider making any written elections in respect of your TESOP shares you acquired under TESOP 97 or TESOP 99.

Whether or not you made a written election in preparing your 1997/1998 tax return (affecting your TESOP 97 shares) and/or your 1999/2000 tax return (affecting your TESOP 99 shares) will be relevant if the Restriction Period on you dealing in your shares has expired in 2001/2002.

A written election may also influence the tax consequences of any shares you disposed of in 2001/2002.

When does the Restriction Period on you dealing in TESOP shares expire?

The Restriction Period on you dealing in various TESOP 97 and TESOP 99 shares may have expired during 2001/2002, depending on your circumstances.

To find out when the Restriction Period expires, see Restriction Periods.

The Restriction Period may have expired for TESOP 99 shares and TESOP 97 shares if your relevant employment with Telstra ceased during 2001/2002 and/or you repaid the relevant TESOP loan.

If you did **not** make a written election in preparing your 1997/1998 tax return (affecting your TESOP 97 shares) and/or your 1999/2000 tax return (affecting your TESOP 99 shares) and you ceased relevant employment or the Restriction Period expired during 2001/2002 you may be assessable in your 2001/2002 return based on the Tax Market Value of the shares when you cease relevant employment or the Restriction Period expires. This is explained in more detail in the "What Happens if You Sold Your TESOP or Other Telstra Shares in 2001/2002?" section below. In this case, you should include the assessable discount (if any) at Item 22, Box V of your 2001/2002 tax return (Supplement section).

The tax market value of Telstra shares is available from the Share Registry (Freecall 1800 626 999 * a free call from fixed phones).

TESOP Shares not subject to Fringe Benefits Tax

The acquisition or holding of TESOP shares is not subject to Fringe Benefits Tax and, accordingly, is not a Reportable Fringe Benefit on your Statement of Income (ie your group certificate).

DIVIDENDS ON TESOP 97 AND TESOP 99 SHARES RECEIVED IN 2001/2002 TO BE INCLUDED IN YOUR ASSESSABLE INCOME

During 2001/2002 Telstra paid a fully franked final dividend for 2000/2001 of 11 cents per share which was paid on 26 October 2001 and a fully franked interim dividend for 2001/2002 of 11 cents per share which was paid on 29 April 2002.

You should include the dividends you received, together with the attached franking credits, as assessable income at Item 11, Boxes S, T and U of your 2001/2002 tax return. This is the case even if the dividends were paid to you via the TESOP Trusts and even if part of the dividend has been applied to reduce your Telstra provided loans.

3.0 Taxation

WHAT HAPPENS IF YOU SOLD YOUR TESOP OR OTHER TELSTRA SHARES IN 2001/2002?

There will be tax consequences if you disposed of your TESOP shares. The tax consequences will differ depending upon your particular circumstances.

You should click on the table below to assist you in determining the capital gains tax consequences for you. It will be important for you to refer to the appropriate box in the table to determine the capital gains tax consequences. These boxes do not deal with circumstances where you are assessed otherwise than under the capital gains tax provisions.

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

See Share Disposal "At a glance - Tax Consequences when you dispose of your Telstra ESOP 97, ESOP 99 and Telstra Shares"

You should also click on the examples below to assist you in determining the tax consequences for you.

The following general comments will also help you to determine the tax consequences under the capital gains tax rules if you sold any of your Telstra shares.

If you dispose of shares for more than their tax cost you may be assessed on any net gain. If you disposed of shares for less than their tax cost you may be entitled to offset the loss against other capital gains you made in 2001/2002 or to carry the loss forward to be offset against any capital gains you may make in the future.

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 17 Box H of your 2001/2002 tax return (Supplement section).

If you have made a capital loss and you are offsetting the loss against another capital gain you made during 2001/2002 you should include the loss in your calculation of net capital gains at Item 17 Box A of your 2001/2002 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 17 Box V of your 2001/2002 tax return (Supplement section).

If you did not make an election in your 1997/1998 tax return (affecting your TESOP 97 shares) and/or your 1999/2000 tax return (affecting your TESOP 99 shares) and you sold your shares within 30 days of the end of the restriction period you will **not** be assessed under the Capital Gains Tax provisions. Instead you will be assessable under the employee share scheme provisions of the Tax Act.

Will you get the 50% Capital Gains Tax Discount?

Under the Capital Gains Tax provisions you may be entitled to a discount for assets you have held for 12 months or more. Under the discount you may only be assessed on 50% of a capital gain you make (after allowance for any capital losses you may have) when you sell certain assets such as your Telstra shares.

The Commissioner of Taxation issued a Class Ruling (CR 2001/28) on 18 July 2001 applicable to TESOP Participants stating that in **the Commissioner's** opinion:

- **Under the current law, where you sought the benefit of the $1,000 tax exemption, shares must be held for longer than 12 months from the date that the Restriction Period ends (t**he Restriction Period, in some cases, does not end when your relevant employment ceases) **not from the date when you acquired your shares under TESOP ,** before the 50% CGT discount will be available; and

- Where you sought the benefit of the $1,000 tax exemption, when working out whether you make a capital gain or loss when you sold your TESOP shares, **the tax cost for the shares will be the "tax market value" of those shares when the Restriction Period ends, not when you acquired your shares under TESOP**.

This is the same as the treatment for continuing Telstra employees where the $1,000 exemption has not been sought. (This is not specifically dealt with in the Class Ruling.)

Under TESOP 97 and TESOP 99 on the Restriction Period Expiry Date the Trustee can, depending on the particular circumstances, sell the shares for you or transfer the shares to you. In either case the availability of the CGT discount and the cost of your shares in determining whether you make a capital gain or loss is worked out in the way described in the table above.

In February 2001 the Government announced changes to the CGT rules (which have not yet been enacted) for **new** acquisitions of shares under **any** employee share plans. These new rules only apply to shares allotted after 27 February 2001 and therefore do **not** apply to shares you have already acquired under TESOP 97 and TESOP 99.

4.0 Restrictions

TESOP Trade Restriction Periods

Where you sought the relevant $1,000 tax exemption (in your 1997/98 tax return and/or your 1999/2000 tax return)

Share Type	Restriction Period Expiry Date
TESOP '97 – Loan Shares / Extra Loan Shares	Latter of : • 15 November 2000; or • the date the loan is repaid [1]
TESOP '97 – Extra (1:4) Non-loan Shares	Earlier of: • 15 November 2000; or • when you cease employment with the Telstra Group [2]
TESOP '99 – Extra (1:4) Shares and TESOP '99 – Loyalty (1:10) Shares	Earlier of: • 16 October 2002; or • when you cease employment with the Telstra Group [2]
TESOP '99 - Loan Shares	For continuing employees the date is the latter of : • 16 October 2002; or • the date the loan is repaid [3]

1. This is irrespective of whether your relevant employment with the Telstra Group has ceased. If you had ceased employment prior to 15 November 2000, the relevant date was when the loan was repaid. Where the shares are sold for you by the Trustee, the relevant time is immediately prior to when the shares are sold.
2. This also includes situations where you cease employment with a company that was part of the Telstra Group at the time of the relevant Telstra float (and you were employed by that company at the time of the float).
3. This is irrespective of whether your relevant employment with the Telstra Group has ceased. However, if you cease employment prior to 16 October 2002, the relevant date is when the loan was repaid. Where the shares are sold for you by the trustee, the relevant time is immediately prior to when the shares are sold

Where you did not seek the relevant $1,000 tax exemption (in your 1997/1998 tax return and/or your 1999/2000 tax return)

The expiry of the relevant restriction period will be determined in the same manner as described in the table.

When working out whether you make a capital gain or loss when you sold your TESOP shares, the tax cost will be the Tax Market Value of those shares at the earlier of:

- the abovementioned times; or
- when your relevant employment with the Telstra Group ceased

5.0 Share Disposals

At a glance - Tax consequences when you dispose of your Telstra ESOP 97, Telstra ESOP 99 and Telstra Shares in 2001/2

This section will assist you in determining the capital gains tax consequences if you sell your TESOP 97, TESOP 99 or Telstra Shares in 2001/2 or the Trustee disposes of your TESOP 97 or TESOP 99 Shares on your behalf in 2001/2. The table also indicates the tax consequences which arise when the Restriction Period (if any) expires.

It is important that you refer to the appropriate box in the main table below. The appropriate box for you to refer to in the main table below depends upon:

- the type of shares you acquired;
- whether you made an election in respect of those shares or not; and
- whether your relevant employment with Telstra continues or ceased in 2001/2.

You cease relevant employment with Telstra if you are no longer employed by any of the following:

- your employer when you acquired your shares; or
- a company in the Telstra Group.

The following points and the Summary Reference Table below will help you to refer to the appropriate box in the main table below.

Type of Share	Continuing employee		Employee who ceased employment in 2001/2	
	Tax Election made in year shares acquired	**No Tax Election made in year shares acquired**	**Tax Election made in year shares acquired**	**No Tax Election made in year shares acquired**
TESOP 97 Loan Shares **TESOP 97 Extra Loan Shares**	**C**	**E**	**I**	**K**
TESOP 97 Extra Non-Loan Shares	**D**	**F**	**J**	**L**
TESOP 99 Loyalty Shares **TESOP 99 Extra Shares**	N/A - You can not sell these shares in 2001/2 while you are a continuing employee	N/A - You can not sell these shares in 2001/2 while you are a continuing employee	**M**	**O**
TESOP 99 Loan Shares	N/A - You can not sell these shares in 2001/2 while you are a continuing employee	N/A - You can not sell these shares in 2001/2 while you are a continuing employee	**N**	**P**

1. Refer to **BOX A** for TESOP 97 Non Loan Shares, 1997 Public Offer Shares and TESOP 97 Loyalty Shares (where you elected to seek the $1,000 tax exemption in your 1997/98 tax return).

2. Refer to **BOX B** for TESOP 97 Loyalty Shares (where you did not elect to seek the $1,000 tax exemption in your 1997/98 tax return).

3. Refer to **BOX G** for Guaranteed Allocation Shares and 1999 Public Offer Shares

4. Refer to **BOX H** for other Shares purchased on the Stock Exchange

Summary Reference Table

The main table below deals with the capital gains tax consequences of arm's length sales of shares in 2001/2. It is possible for a capital gains tax event to occur on a disposal of shares other than a sale.

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 for 2001/2.

Box	Type of Shares	Capital Gains when you sell your shares Sales Proceeds >Tax Cost	Capital Losses when you sell your shares Sales Proceeds < Tax Cost
A	• **1997 Public Offer Shares** • **TESOP 97 Non Loan Shares** • **TESOP 97 Loyalty Shares (Where you <u>elected</u> to seek the $1,000 tax exemption in your 1997/98 tax return)**	**<u>Restriction Period expires</u>** There is no Restriction Period for these shares. **<u>When you sell your shares</u>** When you sell these shares you have a choice to calculate your capital gain as either: (i) half of - the amount equal to proceeds of sale less $3.30; or (ii) proceeds of sale less $3.37 (ie $3.30 adjusted for inflation until 30 September 1999)	**<u>Restriction Period expires</u>** There is no Restriction Period for these shares. **<u>When you sell your shares</u>** This is not applicable in 2001/2
B	**Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1997/98 tax return** • **TESOP 97 Loyalty Shares**	**<u>Restriction period expires</u>** These shares were allocated to you on 17 November 1998 with no Restriction Period. **<u>When you sell your shares</u>** When you sell these shares you have a choice to calculate your capital gain as either: (i) half of - the amount equal to proceeds of sale less $6.55 (which was the Tax Market Value at 17 November 1998); or (ii) proceeds of sale less $6.63 (ie $6.55 adjusted for inflation until 30 September 1999)	**<u>Restriction period expires</u>** These shares were allocated to you on 17 November 1998 with no Restriction Period. **<u>When you sell your shares</u>** When you sell your shares you calculate your capital loss as $6.55 (which was the Tax Market Value at 17 November 1998) less proceeds of sale The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains.

C	**Where you <u>elected</u> to seek the $1,000 tax exemption in your 1997/98 tax return**
	
	• **TESOP 97 Loan Shares**
	
	• **TESOP 97 Extra Loan Shares**
		<u>Restriction period expires</u>
		
		There are no tax consequences to you when the Restriction Period expires
		
		<u>When you sell your shares</u>
		
		When you sell your shares you calculate your capital gain as:
		
		• Proceeds of sale
		
		• less the Tax Market Value of the shares on the <u>latter</u> of :
		    • 15 November 2000; or
		    • the earlier of:
		        • the date the loan is repaid; or
		        • immediately prior to when the Trustee disposes of the shares on your behalf
		
		If the shares were held by you for longer than 12 months after that time, the assessable capital gain will be reduced by 50%.
			<u>Restriction period expires</u>
			
			There are no tax consequences to you when the Restriction Period expires
			
			<u>When you sell your shares</u>
			
			When you sell your shares you calculate your capital loss as:
			
			• Tax Market Value of the shares on the <u>latter</u> of :
			    • 15 November 2000; or
			    • the earlier of:
			        • the date the loan is repaid; or
			        • immediately prior to when the Trustee disposes of the shares on your behalf
			
			• Less proceeds of sale
			
			The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains.

D	**Where you <u>elected</u> to seek the $1,000 tax exemption in your 1997/98 tax return** • **TESOP 97 Extra Non-Loan Shares**	**<u>Restriction period expires</u>** The Restriction Period for these shares expired on 15 November 2000 ie in the 2000/1 year of income. **<u>When you sell your shares</u>** If you sell your shares prior to 16 November 2001 you calculate your capital gain as: • Proceeds of sale • Less $6.58 being the Tax Market Value of the shares on 15 November 2000. If you sell your shares after 15 November 2001 the assessable capital gain will be reduced by 50%.	**<u>Restriction period expires</u>** The Restriction Period for these shares expired on 15 November 2000 ie in the 2000/1 year of income. **<u>When you sell your shares</u>** When you sell your shares you calculate your capital loss as: • $6.58, being the Tax Market Value of the shares on 15 November 2000 • Less proceeds of sale The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains.

E	**Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1997/98 tax return**
	
	• **TESOP 97 Loan Shares**
	• **TESOP 97 Extra Loan Shares**
		<u>When the Restriction Period expires</u>
		
		You will be taxed on the Tax Market Value of your shares at the <u>latter</u> of:
		
		• 15 November 2000; or
		• the earlier of:
		    • the date the loan is repaid; or
		    • immediately prior to when the Trustee disposes of the shares on your behalf.
		
		<u>less</u> any amount you paid for the shares.
		
		You work out how much you paid for the Loan Shares by multiplying the number of Loan Shares you acquired by $3.30 and then subtracting from the total $1.00
		
		You did not pay any amount for your Extra Loan shares.
		
		If you sell your shares <u>within 30 days</u> from the relevant dates above you will be taxed on:
		
		• Proceeds of sale
		
		• less any amount you paid for the shares.
		
		<u>When you sell your shares</u>
		
		The CGT provisions will not be applicable if you sell your shares <u>within 30 days</u> of when the Restriction Period expires.
		
		If you sell your shares <u>30 days or more after</u> the Restriction Period expires your Capital Gain will be:
		
		• Proceeds of sale
		
		• less the Tax Market Value of the shares when the Restriction Period expires (as explained above).
		
		If the shares were held by you for longer than 12 months after the Restrcition Period expires (as explained above) , the assessable capital gain will be reduced by 50%.
			<u>When the Restriction Period expires</u>
			
			You will be taxed on the Tax Market Value of your shares at the <u>latter</u> of:
			
			• 15 November 2000; or
			• the earlier of:
			    • the date the loan is repaid; or
			    • immediately prior to when the Trustee disposes of the shares on your behalf
			
			less the amount you paid for the shares.
			
			You work out how much you paid for the Loan Shares by multiplying the number of Loan Shares you acquired by $3.30 and then subtracting from the total $1.00
			
			You did not pay any amount for your Extra Loan shares.
			
			If you sell your shares <u>within 30 days</u> from the relevant dates above you will be taxed on:
			
			• Proceeds of sale
			
			• less any amount you paid for the shares.
			
			<u>When you sell your shares</u>
			
			The CGT provisions will not be applicable if you sell your shares <u>within 30 days</u> of when the Restriction Period expires.
			
			If you sell your shares <u>30 days</u> or more after the Restriction Period expires your Capital Loss will be:
			
			• the Tax Market Value of the shares when the Restriction Period expires (as explained above)
			
			• less proceeds of sale.
			
			The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains.

F	**Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1997/98 tax return** • **TESOP 97 Extra Non-Loan Shares**	**<u>When the Restriction Period expires</u>** The restriction period expired on 15 November 2000 ie in the 2000/1 year of income **<u>When you sell your shares</u>** If you sell your shares <u>prior to 16 November 2001</u> your Capital Gain will be: • Proceeds of sale • less $6.58 being the Tax Market Value of the shares at 15 November 2000. If you sell your shares after 15 November 2001 the assessable capital gain will be reduced by 50%.	**<u>When the Restriction Period expires</u>** The restriction period expired on 15 November 2000 ie in the 2000/1 year of income. **<u>When you sell your shares</u>** Your Capital Loss will be: • $6.58 being Tax Market Value of the shares at 15 November 2000 • less proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains.
G	• **1999 Guaranteed Allocation Shares** • **1999 Public Offer shares**	**<u>Restriction Period expires</u>** There is no restriction period for these shares. **<u>When you sell your shares</u>** Your capital gain will be: • <u>Half of</u> - the amount equal to proceeds of sale less $7.40	**<u>Restriction Period expires</u>** There is no restriction period for these shares. **<u>When you sell your shares</u>** Your capital loss will be: • $7.40 less proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains

H	• **Other shares purchased by you on the stock exchange**	**<u>Restriction Period expires</u>** There is no restriction period for these shares **<u>Where you purchased the shares on or before 21 September 1999</u>** When you sell these shares you have a choice to calculate your capital gain as either: (i) half of - the amount equal to proceeds of sale less tax cost of shares; or (ii) proceeds of sale less tax cost (adjusted for inflation until 30 September 1999). **<u>Where you purchased the shares after 21 September 1999</u>** If you held the shares for 12 months or more your capital gain will be: • <u>half of</u> - the amount equal to proceeds of sale less tax cost of shares. If you had <u>not</u> held the shares for 12 months or more when you sold them your capital gain will be: • proceeds of sale less tax cost of shares.	**<u>Restriction Period expires</u>** There is no restriction period for these shares **<u>Where you purchased the shares on or before 21 September 1999</u>** Your capital loss will be the tax cost of your shares less proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains. **<u>Where you purchased the shares after 21 September 1999</u>** Your capital loss will be the tax cost of your shares less proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains.

I	**<u>Only applicable if you ceased relevant employment with Telstra during 2001/2002</u>**
	
	Where you elected to seek the $1,000 tax exemption in your 1997/1998 tax return
	
	• **TESOP 97 Loan Shares**
	
	• **TESOP 97 Extra Loan Shares**
		<u>Restriction Period expires</u>
		
		There are no tax consequences to you when the Restriction Period expires.
		
		<u>When you sell your shares</u>
		
		If the loan was repaid in full when you ceased relevant employment your capital gain will be:
		
		• Proceeds of sale
		
		• less the Tax Market Value of the shares when you repaid the loan in full.[1]
		
		If the loan was NOT repaid in full when you ceased relevant employment your capital gain will be:
		
		• Proceeds of sale
		
		• less the Tax Market Value of the shares on the earlier of:
		  • date the loan was repaid in full; or
		  • immediately prior to when the Trustee disposes of the shares on your behalf
			<u>Restriction Period expires</u>
			
			There are no tax consequences to you when the Restriction Period expires.
			
			<u>When you sell your shares</u>
			
			If the loan was repaid in full when you ceased relevant employment your capital loss will be:
			
			• Tax Market Value of the shares when you repaid the loan in full[1]
			
			• less proceeds of sale.
			
			If the loan was NOT repaid in full when you ceased relevant employment your capital loss will be:
			
			• Tax Market Value of the shares on the earlier of:
			  • date the loan was repaid in full; or
			  • immediately prior to when the Trustee disposes of the shares on your behalf.
			
			• less proceeds of sale.
			
			The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains.

J	**<u>Only applicable if you ceased relevant employment with Telstra during 2001/2002</u>** **Where you elected to seek the $1,000 tax exemption in your 1997/1998 tax return** • **TESOP 97 Extra Non-Loan Shares**	**<u>Restriction Period expires</u>** The restriction period expired on 15 November 2000 ie in the 2000/1 year of income **<u>When you sell your shares</u>** If you sell your shares prior to 16 November 2001 your capital gain will be: • Proceeds of sale • less $6.58 being the Tax Market Value of the shares at 15 November 2000. If you sell your shares after 15 November 2001 the assessable capital gain will be reduced by 50%.	**<u>Restriction Period expires</u>** The restriction period expired on 15 November 2000 ie in the 2000/1 year of income **<u>When you sell your shares</u>** Your capital loss will be: • $6.58 being the Tax Market Value of the shares at 15 November 2000: • less proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains.

K	**Only applicable if you ceased relevant employment with Telstra during 2001/2002** **Where you did not elect to seek the $1,000 tax exemption in your 1997/1998 tax return** • **TESOP 97 Loan Shares** • **TESOP 97 Extra Loan Shares**	**When the Restriction Period expires** You will be taxed on the amount (if any) calculated as the Tax Market Value of your shares at the Taxing Point which is the earlier of: • the date your relevant employment with the Telstra group ceases; or • the latter of: • 15 November 2000; or • the earlier of the date the loan is repaid in full or immediately prior to when the Trustee disposes of the shares on your behalf less the amount you paid for the shares. You work out how much you paid for the Loan Shares by multiplying the number of Loan Shares by $3.30 and then subtracting from the total $1.00. You did not pay any amount for your Extra Loan Shares. If you sell your shares within 30 days of the relevant date above you will be taxed on the sales proceeds less the amount you paid for your shares. **When you sell your shares** The CGT Provisions will not be applicable if you sell your shares within 30 days of the date of the Taxing Point (explained above). If you sell your shares 30 days or more after the date of the Taxing Point (explained above) your capital gain will be: • Proceeds of sale • less the Tax Market Value of the shares on the date of the Taxing Point (explained above).	**When the Restriction Period expires** You will be taxed on the amount (if any) calculated as the Tax Market Value of your shares at the Taxing Point which is the earlier of: • the date your relevant employment with the Telstra group ceases; or • the latter of: • 15 November 2000; or • the earlier of the date the loan is repaid in full or immediately prior to when the Trustee disposes of the shares on your behalf less the amount you paid for the shares. You work out how much you paid for the Loan Shares by multiplying the number of Loan Shares by $3.30 and then subtracting from the total $1.00. You did not pay any amount for your Extra Loan Shares. If you sell your shares within 30 days of the relevant date above you will be taxed on the sales proceeds less the amount you paid for your shares. **When you sell your shares** The CGT provisions will not be applicable if you sell your within 30 days of the date of the Taxing Point (explained above). If you sell your shares 30 days or more after the date of the Taxing Point (explained above) your capital loss will be: • Tax Market Value of the shares on the date of the Taxing Point (explained above) • less proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains.

L	**<u>Only applicable if you ceased relevant employment with Telstra during 2001/2002</u>** **Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1997/1998 tax return** • **TESOP 97 Extra Non -Loan Shares**	**<u>When the Restriction Period expires</u>** The restriction period expired on 15 November 2000 ie in the 2000/1 year of income **<u>When you sell your shares</u>** If you sell your shares <u>prior to 16 November 2001</u> your capital gain will be: • Proceeds of sale • less $6.58 being the Tax Market Value of the shares on 15 November 2000. If you sell your shares after 15 November 2001 the assessable capital gain will be reduced by 50%.	**<u>When the Restriction Period expires</u>** The restriction period expired on 15 November 2000 ie in the 2000/1 year of income **<u>When you sell your shares</u>** Your capital loss will be: • $6.58 being the Tax Market Value of the shares on 15 November 2000. • less proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains.
M	**<u>Only applicable if you ceased relevant employment with Telstra during 2001/2002</u>** **Where you elected to seek the $1,000 tax exemption in your 1999/2000 tax return** • **TESOP 99 Loyalty Shares** • **TESOP 99 Extra Shares**	**<u>Restriction Period expires</u>** There are no tax consequences to you when the Restriction Period expires. **<u>When you sell your shares</u>** Your capital gain will be: • Proceeds of sale • less the Tax Market Value of the shares when you cease relevant employment with the Telstra Group.	**<u>Restriction Period expires</u>** There are no tax consequences to you when the Restriction Period expires. **<u>When you sell your shares</u>** Your capital loss will be: • Tax Market Value of the shares when you cease relevant employment with the Telstra Group • less proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains.

N	<u>**Only applicable if you ceased relevant employment with Telstra during 2001/2002**</u> **Where you elected to seek the $1,000 tax exemption in your 1999/2000 tax return** • **TESOP 99 Loan Shares**	<u>**Restriction Period expires**</u> There are no tax consequences to you when the Restriction Period expires. <u>**When you sell your shares**</u> **If the loan was repaid in full** when you ceased relevant employment your capital gain will be: Proceeds of sale less the Tax Market Value of the shares when your relevant employment ceased **If the loan was NOT repaid in full** when you ceased relevant employment your capital gain will be: • Proceeds of sale • less the Tax Market Value of the shares on the earlier of the date the loan was repaid in full or immediately prior to when the Trustee disposes of the shares on your behalf	<u>**Restriction Period expires**</u> There are no tax consequences to you when the Restriction Period expires. <u>**When you sell your shares**</u> **If the loan was repaid in full** when you ceased relevant employment your capital loss will be: Tax Market Value of the shares when your relevant employment ceased less proceeds of sale. **If the loan was NOT repaid in full** when you ceased relevant employment your capital loss will be: • Tax Market Value of the shares on the earlier of the date the loan was repaid in full or immediately prior to when the Trustee disposes of the shares on your behalf. • less proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains.

O	**<u>Only applicable if you ceased relevant employment with Telstra during 2001/2002</u>** **Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1999/2000 tax return** • **TESOP 99 Loyalty Shares** • **TESOP 99 Extra Shares**	**<u>When the Restriction Period expires</u>** You will be taxed on the Tax Market Value of your shares on the date you ceased relevant employment with the Telstra Group If you sell your shares <u>within 30 days</u> from the date your relevant employment ceased you will be taxed on the sale proceeds for the shares. **<u>When you sell your shares</u>** The CGT provisions will not be applicable if you sell your shares <u>within 30 days</u> of when the Restriction Period expires If you sell your shares <u>30 days or more after</u> the Restriction Period expires your capital gain will be: • Proceeds of sale • less the Tax Market Value of the shares on the date you ceased relevant employment with the Telstra Group	**<u>When the Restriction Period expires</u>** You will be taxed on the Tax Market Value of your shares on the date you ceased relevant employment with the Telstra Group If you sell your shares <u>within 30 days</u> from the date your relevant employment ceased you will be taxed on the sale proceeds for the shares. **<u>When you sell your shares</u>** The CGT provisions will not be applicable if you sell your shares <u>within 30 days</u> of when the Restriction Period expires. If you sell your shares <u>30 days or more after</u> the Restriction Period expires your capital loss will be: • Tax Market Value of the shares on the date you cease relevant employment with the Telstra Group • less proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains.

P	**Only applicable if you ceased relevant employment with Telstra during 2001/2002** **Where you did not elect to seek the $1,000 tax exemption in your 1999/2000 tax return** • **TESOP 99 Loan Shares**	**When the Restriction Period expires** There is a Taxing Point on the date your relevant employment ceased with the Telstra group. You will only be taxed at the Taxing Point to the extent that the Tax Market Value of the shares on the date your relevant employment ceased is greater than the amount determined by multiplying the number of Loan Shares by $7.40 and then subtracting from the total $1.00. If you sell your shares within 30 days of your relevant employment ceasing you will be taxed on the sales proceeds less the amount determined by multiplying the number of Loan Shares by $7.40 and then subtracting from the total $1.00. **When you sell your shares** The CGT Provisions will not be applicable if you sell your shares within 30 days of the date of the Taxing Point (explained above). If you sell your shares 30 days or more after the date the Taxing Point (explained above) expires your capital gain will be: • Proceeds of sale • less the Tax Market Value of the shares on the date of the Taxing Point (explained above).	**When the Restriction Period expires** There is a Taxing Point on the date your relevant employment ceased with the Telstra group. You will only be taxed at the Taxing Point to the extent the Tax Market Value of the shares on the date your relevant employment ceased is greater than the amount determined by multiplying the number of Loan Shares by $7.40 and then subtracting from the total $1.00. If you sell your shares within 30 days of your relevant employment ceasing you will be taxed on the sales proceeds less the amount determined by multiplying the number of Loan Shares by $7.40 and then subtracting from the total $1.00. **When you sell your shares** The CGT provisions will not be applicable if you sell your shares within 30 days of the date of the Taxing Point (explained above) . If you sell your shares 30 days or more after the date the Taxing Point (explained above) expires your capital loss will be: • Tax Market Value of the shares on the date of the Taxing Point (explained above) • less proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains.

1. If the loan was repaid in full by 15 November 2000, your capital gain will be proceeds of sale less Tax Market Value of your shares on 15 November 2000 ie $6.58. The 50% CGT discount will be available if the shares were held by you for longer than 12 months.

6.0 Examples

 # Note – the share prices and the tax market values referred to in these examples are for illustration purposes only. The tax market value of a share on a particular day is available from the Telstra Share Registry (Freecall 1800 626 999 * unless from a mobile phone which will be charged at the applicable mobile rate).

 # Note - these examples deal only with the taxation consequences of a disposal of shares in the 2001/2002 year. They do not deal with the taxation consequences of disposing of shares in earlier or later years.

Example	Share Type
1	TESOP 97 Loan Shares
2	TESOP 97 Non-Loan Shares
3	TESOP 97 Extra Loan Shares
4	TESOP 97 Extra Non-Loan Shares
5	TESOP 97 Loyalty Shares
6	1997 Public Offer Shares
7	1997 Shares Purchased through the stock exchange
8	1999 Guaranteed Allocation Shares
9	1999 Public Offer shares
10	TESOP 99 Loan Shares
11	TESOP 99 Extra Shares
12	TESOP 99 Loyalty Shares
13	1999 Shares Purchased through the stock exchange

Example 1

TESOP 97 Loan Shares

Example:

- As part of the 1997 Public float of Telstra shares you took up the maximum employee offer of 2,000 loan shares.
- These shares were subject to a trade Restriction Period.
- On 1 December 2001 you asked the TESOP Trustee to sell your shares.
- The TESOP Trustee sold your shares for $5.41 per share and repaid your loan immediately.
- For the purposes of this example we have assumed that the tax market value of the share is the same as its market value and we have ignored selling costs such as brokerage.
- We have also assumed that you are a continuing employee of Telstra

For more information on when the Restriction Period expires for these shares refer to the TESOP Trade Restriction Periods table.

Tax consequences - If you elected to seek $1,000 tax exemption in your 1997/98 tax return

Your capital gain or loss from the sale will equal the proceeds of the sale less the tax market value of the shares at 1 December 2001 which is the expiry of the Restriction Period ie when the loan was repaid by the Trustee.

Consequently, your capital gain or loss is: (2,000 x $5.41) – (2,000 x $5.41) = Nil

Note – if you had paid out the loan on 1 December 2001 and had the TESOP Trustee transfer the shares to you:

- *Your cost base for future sale purposes would be $5.41; and*
- *You would have to hold the shares for a further 12 months to be eligible for the 50% CGT discount.*

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1997/98 tax return

You will be assessable under the Employee Share Scheme provisions of the Tax Act on the difference between the sales proceeds for your shares and what you paid for the shares (ie the amount initially loaned to you to purchase the shares). In this example the expiry of the restriction period is 1 December 2001 ie when the loan was repaid.

Consequently, you will be assessed on: (2,000 x $5.41) – ((2,000 x $3.30)-$1.00) = $4,221

In these circumstances the sale will not have any CGT consequences because the sale was made within 30 days of the expiry of the restriction period.

Note – if you had paid out the loan on 1 December 2001 and had the TESOP Trustee pass the shares to you:

- *Your cost base for future sale purposes would be $5.41 (assuming you held the shares for at least 30 days prior to disposing of them); and*
- *You would have to hold the shares for a further 12 months to be eligible for the 50% CGT discount.*

Example 2

<u>TESOP 97 Non-Loan Shares</u>

Example:

- As part of the 1997 Public float of Telstra shares you took up the maximum employee offer of 2,000 non-loan shares at their public offer price of $3.30
- These shares were **not** subject to a trade Restriction Period.
- On 1 December 2001 you sold your shares for $5.41 per share.
- For the purposes of this example we have assumed that the tax market value of the share is the same as its market value and we have ignored selling costs such as brokerage.
- We have also assumed that you are a continuing employee

Whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return is irrelevant in respect of the tax consequences arising from the disposal of these shares.

In calculating your capital gain from the sale you will have a choice between being assessed on **either**:

- half of the amount equal to the proceeds of sale less $3.30 (Alternative A); or
- the proceeds of sale less the indexed cost base of the shares at 30 September 1999 (Alternative B).

Alternative A

Under this alternative, your capital gain is:

[(2,000 x $5.41) – (2,000 x $3.30)] x 50% = $2,110

Alternative B

Under this alternative, your capital gain is:

(2,000 x $5.41) – (2,000 x $3.37) = $4,080

Indexed cost base at 30 September 1999:

- Instalment 1 (16 November 1997) - $1.95 x 123.4/120.0 = $2.00
- Instalment 2 (17 November 1998) - $1.35 x 123.4/121.9 = $1.37
- Total - $2.00 + $1.37 = $3.37

Refer *Tax Determination 98/11 - Income Tax: Capital Gains: When Are Shares Acquired, And Instalments Paid, Under The Commonwealth Bank Of Australia (CBA) And Telstra Public Share Offers?*

Example 3

TESOP 97 Extra Loan Shares

Example:

- As part of the 1997 Public float of Telstra shares you took up the maximum employee offer of 2,000 loan shares
- Consequently you were entitled to 500 extra loan shares.
- These shares were subject to a trade Restriction Period.
- On 1 December 2001 you asked the TESOP Trustee to sell your shares.

- The TESOP Trustee sold your shares for $5.41 per share.
- For the purposes of this example we have assumed that the tax market value of the share is the same as its market value and we have ignored selling costs such as brokerage.
- We have also assumed that you are a continuing employee

For more information on when the Restriction Period expires for these shares refer to the TESOP Trade Restriction Periods table.

Tax consequences - If you elected to seek $1,000 tax exemption in your 1997/98 tax return

Your capital gain from the sale will equal the proceeds of the sale less the tax market value of shares at 1 December 2001 which is when the Restriction Period expires in this example ie when the loan was repaid.

Consequently, your capital gain is: (500 x $5.41) – (500 x $5.41) = Nil

Note –if you had paid out the loan on 1December 2001 and had the TESOP Trustee pass the shares to you:

- *Your cost base for future sale purposes would be $5.41; and*
- *You would have to hold the shares for a further 12 months to be eligible for the 50% CGT discount.*

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1997/98 tax return

You will be assessable under the Employee Share Scheme provisions of the Tax Act on the sales proceeds for your shares.

Consequently, you will be assessed on: (500 x $5.41) = $2,705

In these circumstances the sale will not have any CGT consequences because the sale was made within 30 days of the expiry of the restriction period.

Note – if you had paid out the loan on 1 December 2001 and had the TESOP Trustee pass the shares to you:

- *Your cost base for future sale purposes would be $5.41 (assuming you held these shares for at least 30 days prior to disposing of them); and*

- *You would have to hold the shares for a further 12 months to be eligible for the 50% CGT discount.*

Example 4

TESOP 97 Extra Non-Loan Shares

Example:

- As part of the 1997 Public float of Telstra shares you took up the maximum employee offer of 2,000 non-loan shares. You did not take advantage of the Telstra loan.
- Consequently you were entitled to 500 extra non-loan shares.
- These shares were subject to a trade Restriction Period which expired on 15 November 2000. The tax market value of the shares was $6.58 on 15 November 2000.
- On 1 November 2001, you sold your shares for $4.90 per share.
- For the purposes of this example we have assumed that the tax market value of the share is the same as its market value and we have ignored selling costs such as brokerage.
- We have also assumed that you are a continuing employee

For more information on when the Restriction Period expires for these shares refer to the TESOP Trade Restriction Periods table.

Whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return is irrelevant in respect of the tax consequences arising from the disposal of these shares.

Your capital loss from the sale will equal $6.58 (being the tax market value of shares at 15 November 2000, which is when the restriction period expired for extra non loan shares) less the proceeds of the sale.

Consequently, your capital loss is: (500 x $6.58) - (500 x $4.90) = ($840)

The capital loss could only be used as an offset against other capital gains you may have made during the year. Otherwise, the loss would need to be carried forward for offset against other capital gains you may make in the future. Once offset against a capital gain, it will be the net gain which may or may not be subject to the 50% discount, depending on how long the gain asset was held.

Note – if the TESOP Trustee transferred the shares to you and you did not dispose of them:

- *Your cost base for future sale purposes would be $6.58; and*
- *If you sold your shares after 15 November 2001 (ie you held the shares in your own right for longer than 12 months) you would be eligible for the 50% CGT discount.*

Example 5

TESOP 97 Loyalty Shares
Example:

- As part of the 1997 Public float of Telstra shares you purchased 2,000 shares under the public offer (at their public offer price of $3.30)
- You held your purchased shares for more than 12 months and consequently you were entitled, under the employee offer, to a further 200 loyalty shares.
- These loyalty shares were **not** subject to a trade Restriction Period.
- On 20 December 2001 you sold your loyalty shares for $5.26 per share.
- For the purposes of this example we have assumed that the tax market value of the share is the same as its market value and we have ignored selling costs such as brokerage.
- We have also assumed that you are a continuing employee

Tax consequences - If you elected to seek $1,000 tax exemption in your 1997/98 tax return

In calculating your capital gain or loss from the sale you will have a choice between being assessed on **either**:

- half of the amount equal to the proceeds of sale less $3.30 (Alternative A); or
- the proceeds of sale less the indexed cost base of the shares at 30 September 1999 (Alternative B).

Alternative A

Under this alternative, your capital gain is: [(200 x $5.26) – (200 x $3.30)] x 50% = $196

Alternative B

Under this alternative, your capital gain is:

(200 x $5.26) – (200 x $3.37) = $378

Indexed cost base at 30 September 1999:

- Instalment 1 (16 November 1997) - $1.95 x 123.4/120.0 = $2.00
- Instalment 2 (17 November 1998) - $1.35 x 123.4/121.9 = $1.37
- Total - $2.00 + $1.37 = $3.37

Refer *Tax Determination 98/11 - Income Tax: Capital Gains: When Are Shares Acquired, And Instalments Paid, Under The Commonwealth Bank Of Australia (CBA) And Telstra Public Share Offers?*

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1997/98 tax return

Your capital loss from the sale will be $6.55 less the proceeds of sale

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

Your capital loss is: (200 x $6.55) - (200 x $5.26) = ($258)

The capital loss could only be used as an offset against other capital gains you may have made during the year. Otherwise, the loss would need to be carried forward for offset against other capital gains you may make in the future. Once offset against a capital gain, it will be the net gain which may or may not be subject to the 50% discount, depending on how long the gain asset was held.

Example 6

1997 Public Offer Shares
Example:

- As part of the 1997 Public float of Telstra shares you acquired 2,000 shares at their public offer price of $3.30
- These shares were **not** subject to a trade Restriction Period.
- On 1 December 2001 you sold your shares for $5.41 per share.

- For the purposes of this example we have ignored selling costs such as brokerage.

Whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return is irrelevant in respect of the tax consequences arising from the disposal of these shares.

Under the capital gains tax provisions, in calculating your capital gain from the sale you will have a choice between being assessed on **either**:

- half of the amount equal to the proceeds of sale less $3.30 (Alternative A); or
- the proceeds of sale less the indexed cost base of the shares at 30 September 1999 (Alternative B).

For certain taxpayers the gain made on the sale of the shares will be treated as ordinary income.

Alternative A

Under this alternative, your capital gain is: (2,000 x $5.41) – (2,000 x $3.30) x 50% = $2,110

Alternative B

Under this alternative, your capital gain is:

(2,000 x $5.41) – (2,000 x $3.37) = $4,080

Indexed cost base at 30 September 1999:

- Instalment 1 (16 November 1997) - $1.95 x 123.4/120.0 = $2.00
- Instalment 2 (17 November 1998) - $1.35 x 123.4/121.9 = $1.37
- Total - $2.00 + $1.37 = $3.37

Refer *Tax Determination 98/11 - Income Tax: Capital Gains: When Are Shares Acquired, And Instalments Paid, Under The Commonwealth Bank Of Australia (CBA) And Telstra Public Share Offers?*

Example 7

<u>1997 Shares through the Stock Exchange</u>

Example:

- On 1 December 1997 you purchased 2,000 instalment receipts through the stock exchange for $2.70
- These shares were **not** subject to a trade Restriction Period.
- On 17 November 1998 you paid the 2nd instalment of $1.40.
- On 1 December 2001 you sold your shares for $5.41 per share.
- For the purposes of this example we have ignored selling costs such as brokerage.

Whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return is irrelevant in respect of the tax consequences arising from the disposal of these shares.

Under the capital gains tax provisions, in calculating your capital gain from the sale you will have a choice between being assessed on **either**:

- half of the amount equal to the proceeds of sale less $4.10 (Alternative A); or
- the proceeds of sale less the indexed cost base of the shares at 30 September 1999 (Alternative B).

For some taxpayers the gain on the sale of the shares will be treated as ordinary income.

Alternative A

Under this alternative, your capital gain is: [(2,000 x $5.41) – (2,000 x $4.10)] x 50% = $1,310

Alternative B

Under this alternative, your capital gain is:

(2,000 x $5.41) – (2,000 x $4.20) = $2,420

Indexed cost base at 30 September 1999:

- Instalment 1 (1 December 1997) - $2.70 x 123.4/120.0 = $2.78
- Instalment 2 (17 November 1998) - $1.40 x 123.4/121.9 = $1.42
- Total - $2.78 + $1.42 = $4.20

Refer *Tax Determination 98/11 - Income Tax: Capital Gains: When Are Shares Acquired, And Instalments Paid, Under The Commonwealth Bank Of Australia (CBA) And Telstra Public Share Offers?*

Example 8

1999 Guaranteed Allocation Shares

Example:

- As part of the 1999 **Staff** Offer you acquired 2,000 shares at their public offer price of $7.40
- These shares were **not** subject to a trade Restriction Period.
- On 29 January 2002 you sold these shares for $5.44 per share.
- For the purposes of this example we have ignored selling costs such as brokerage.

Whether you elected to seek the $1,000 tax exemption in your 1999/2000 tax return is irrelevant in respect of the tax consequences arising from the disposal of these shares.

Under the capital gains tax provisions, your capital loss is: (2,000 x $5.44) – (2,000 x $7.40) = $(3,920)

For some taxpayers the gain/loss made on the sale of the shares will be treated under ordinary concepts of income.

Note:

- *The capital loss could only be used as an offset against other capital gains you may have made during the year. Otherwise, the loss would need to be carried forward for offset against other capital gains you may make in the future. Once offset against a capital gain, it will be the net gain which may or may not be subject to the 50% discount, depending on how long the gain asset was held.*

Example 9

<u>1999 Public Offer Shares</u>
Example:

- As part of the 1999 **<u>Public</u>** Offer of Telstra shares you acquired 2,000 shares at their public offer price of $7.40
- These shares were **not** subject to a trade Restriction Period.
- On 29 January 2002 you sold these shares for $5.44 per share.
- For the purposes of this example we have ignored selling costs such as brokerage.

Whether you elected to seek the $1,000 tax exemption in your 1999/2000 tax return is irrelevant in respect of the tax consequences arising from the disposal of these shares.

Under the capital gains tax provisions, your capital loss is: (2,000 x $5.44) – (2,000 x $7.40) = $(3,920)

For some taxpayers the gain/loss made on the sale of the shares will be treated under ordinary concepts of income.

Note:

- *The capital loss could only be used as an offset against other capital gains you may have made during the year. Otherwise, the loss would need to be carried forward for offset against other capital gains you may make in the future. Once offset against a capital gain, it will be the net gain which may or may not be subject to the 50% discount, depending on how long the gain asset was held.*

Example 10

<u>TESOP 99 – Loan Shares</u>

Example:

- As part of the 1999 float of Telstra shares you took up the maximum employee offer of 400 loan shares
- These shares were subject to a trade Restriction Period.

- On 1 December 2001 your relevant employment ceased with Telstra. At the time your outstanding loan was $2,800 and the shares were trading at $5.41.
- As the loan balance in respect of these shares exceeded the net amount (ie including brokerage etc) that could be realised on the disposal of the shares, the TESOP Trustee continued (in accordance with the TESOP Trust Deed) to hold the shares on your behalf. The TESOP Trustee will continue to hold the shares until the shares are sold. The shares will be sold when and only if the proceeds of the sale (after deducting the costs of the sale) exceed the amount which remains outstanding on the loan. . The TESOP Trustee will notify you of the disposal of the shares. In the meantime, a proportion (currently 80%) of future dividends payable after the time your relevant employment with Telstra ceased and before the shares are disposed of, will continue be used to reduce the outstanding loan balance.

Tax consequences - If you elected to seek $1,000 tax exemption in your 1999/2000 tax return

In the 2001/2 year of Income:

None – The shares have not been sold in this period because the net proceeds of any sale in this period would be insufficient to fully repay your outstanding loan in respect of the shares.

Note – if you had paid out the loan on 1 December 2001 and had the TESOP Trustee transfer the shares to you:

- *Your cost base for future sale purposes would be $5.41*
- *You would have to hold the shares for a further 12 months to be eligible for the 50% CGT discount*

Future years of Income:

You may make a capital gain or loss in the year in which the TESOP Trustee ultimately disposes of these shares

The capital gain or loss when the Trustee sells your shares will be calculated by reference to the proceeds of the sale and the tax market value of shares when the loan is repaid by the Trustee.

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1999/2000 tax return

As the tax market value of your shares when you ceased relevant employment with the Telstra group was less than what you paid for your shares (ie the amount initially loaned to you to purchase the shares) there is no amount assessable under the Employee Share Scheme provisions of the Tax Act.

The capital gain or loss when the Trustee sells your shares will be calculated by reference to the sales proceeds and the tax market value of the shares on the date you ceased relevant employment with the Telstra Group.

Note – if you had paid out the loan on 1 December 2001 and had the TESOP Trustee transfer the shares to you:

- *Your cost base for future sale purposes would be $5.41 (assuming you held these shares for at least 30 days prior to disposing of them); and*
- *You would have to hold the shares for a further 12 months to be eligible for the 50% CGT discount.*
-

Example 11

<u>TESOP 99 – Extra Shares</u>

Example:

- As part of the 1999 float of Telstra shares you acquired 800 Guaranteed Entitlement shares
- Consequently you were entitled to 200 extra shares.
- These shares were subject to a trade Restriction Period.
- On 1 December 2001 your ceased employment with Telstra. Telstra shares tax market value on that date was $5.41 per share.

- The TESOP Trustee transferred the shares to you and you sold them on 8 December 2001 for $5.54 per share.
- For the purposes of this example we have assumed that the tax market value of the share is the same as its market value and we have ignored selling costs such as brokerage.

For more information on when the Restriction Period expires for these shares refer to the TESOP Trade Restriction Periods table.

Tax consequences - If you elected to seek $1,000 tax exemption in your 1999/2000 tax return

Your capital gain from the sale will equal the proceeds of the sale less the tax market value of shares at the expiry of the restriction period. In this example the expiry of the restriction period is 1 December 2001 ie when you ceased employment with Telstra.

Consequently, your capital gain is: (200 x $$5.54) – (200 x $5.41) = $26

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1999/2000 tax return

You will be assessable under the Employee Share Scheme provisions of the Tax Act on the sales proceeds for your shares.

Consequently, you will be assessed on:

200 x $5.54 = $1,108

In these circumstances the sale will not have any CGT consequences because the sale was made within 30 days of the expiry of the restriction period.

Example 12

TESOP 99 – Loyalty Shares

Example:

- As part of the 1999 float of Telstra shares you acquired 800 Guaranteed Entitlement shares
- You held these shares for longer than 12 months and therefore you were entitled to 80 loyalty shares.
- These shares were subject to a trade Restriction Period.
- On 1 December 2001 your relevant employment ceased with Telstra. Telstra shares tax market value on that date was $5.41 per share.
- The TESOP Trustee transferred the shares to you and you sold them on 8 December 2001 for $5.54 per share.
- For the purposes of this example we have assumed that the tax market value of the share is the same as its market value and we have ignored selling costs such as brokerage.

For more information on when the Restriction Period expires for these shares refer to the TESOP Trade Restriction Periods table.

Tax consequences - If you elected to seek $1,000 tax exemption in your 1999/2000 tax return

Your capital gain or loss from the sale will equal the proceeds of the sale less the tax market value of shares at the expiry of the restriction period. In this example the expiry of the restriction period is 1 December 2001 ie when ceased employment with Telstra.

Consequently, your capital gain is: (80 x $5.54) – (80 x $5.41) = $10.40

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1999/2000 tax return

You will be assessable under the Employee Share Scheme provisions of the Tax Act on the sales proceeds for your shares.

Consequently, you will be assessed on: 80 x $5.54 = $443.20

In these circumstances the sale will not have any CGT consequences because the sale was made within 30 days of the expiry of the restriction period.

Example 13

1999 Shares Purchased through the Stock Exchange

Example:

- On 1 December 1999 you purchased 2,000 instalment receipts through the stock exchange for $3.70
- These shares were **not** subject to a trade Restriction Period.
- On 2 November 2000 you paid the 2nd instalment of $2.90.
- On 22 January 2002 you sold your shares for $5.55 per share.
- For the purposes of this example we have ignored selling costs such as brokerage.

Whether you elected to seek the $1,000 tax exemption in your 1999/2000 tax return is irrelevant in respect of the tax consequences arising from the disposal of these shares.

Your capital loss from the sale will equal the cost of the shares/instalment receipts less your proceeds from the disposal .

Consequently, your capital loss is: (2,000 x ($3.70+$2.90) - (2,000 x $5.55) = $2,100

The capital loss could only be used as an offset against other capital gains you may have made during the year. Otherwise, the loss would need to be carried forward for offset against other capital gains you may make in the future. Once offset against a capital gain, it will be the net gain which may or may not be subject to the 50% discount, depending on how long the gain asset was held.

7.0 Questions & Answers

Q. How do I find out what TESOP shares I have if I can't remember?

A. If you would like to find out more information on what TESOP shares you have you should contact the Telstra ESOP hot line on 1300 88 66 77 or you can visit the Share Registrar's web site at **www.asxperpetual.com.au**. To gain access to data on your TESOP shares, you will need to enter in your Securityholder Reference Number (SRN), your surname and postcode.

Q. What do I need to do if I have TESOP 97 and/or TESOP 99 shares, still work with Telstra and have not sold any of my TESOP 97 or TESOP 99 shares?

A. You should include the dividends you received, together with the attached franking credits, as assessable income at Item 11, Boxes S, T and U of your 2001/2002 tax return. This is the case even if the dividends were paid to you via the TESOP Trusts and even if part of the dividend has been applied to reduce your Telstra provided loans.

Q. Under what circumstances will the gains made on the disposal of shares be assessed as ordinary income?

A. Generally if the shares were purchased for "share trading" purposes. However, this will depend entirely upon your own circumstances and you should seek expert taxation advice in relation to this matter.

Q. What is the tax market value and why is it important for me to know what it is?

A. The tax market value of a share on a particular day is the weighted average of the prices at which the share was traded on the stock exchange in the one week up to and including the particular day.

The tax market value of a share on a particular day is available from the Telstra Share Registry (1300 88 66 77).

The tax market value is relevant to determining any capital gains/losses you may have made if you have disposed of your TESOP shares. It is also relevant in determining any amount you may be assessed on at the end of the restriction period if you have not made a written election to seek the $1,000 tax exemption in your 1997/1998 tax return (in respect of your TESOP 97 shares) or in your 1999/2000 tax return (in respect of your TESOP 99 shares).

Q. What are TESOP 97 and TESOP 99?

A. 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 '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.

Q. Can I change my mind about making a written election?

A. No, if you made an election for TESOP 97 and TESOP 99 the election is irrevocable. It is also too late to make a written election in respect of your TESOP 97 or TESOP 99 shares if you have not already made the written election, unless the Commissioner of Taxation specifically allows you to do so. You should discuss this matter further with your tax adviser.

Q. What happens if I sold my shares, or some of my shares before 30 June 2002 but don't get paid for them until after that date?

A. Generally, the relevant date on a sale of shares for capital gains tax purposes is the contract date. This means that if you made a contract to sell your shares in the year ending 30 June 2002 the tax consequences of selling your shares will generally be in the year ending 30 June 2002. You should discuss this matter further with your tax adviser.

Q. I find this all very confusing - where can I get some help?

A. This is a very complex area of taxation law. However, if you have any further queries you should seek your own expert tax advice.

Q. If I am a former employee who sold my shares in the last few years and calculated my Capital Gains Tax liability based on a cost base of $3.30 rather than the relevant tax market value what should I do?

A. You are able to request an amended assessment from the ATO within 4 years of the date of the incorrect original assessment.

The increased cost base does not relate to all TESOP shares, only those where the shares are subject to a trade restriction period (refer the restriction period table in the Guide) and only where you sought the $1,000 tax exemption in your 1997/1998 tax return (in respect of your TESOP 97 shares) or in your 1999/2000 tax return (in respect of your TESOP 99 shares).

8.0 Glossary

- **1997 Public Offer Shares** – shares acquired through the public offer in November 1997
- **1999 Public Offer Shares** – shares acquired through the public offer in October 1999.
- **Guaranteed Allocation Shares –** shares purchased by employees, with their own money, under the Commonwealth component of TESOP '99.
- **Tax Market Value** - the weighted average of the prices at which the shares were traded on the stock exchange in the one week up to and including the day on which the restriction period ends. This value is available from the Telstra Share Registry (Freecall 1800 626 999 * unless from a mobile phone which will be charged at the applicable mobile rate).
- **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 provided under the Commonwealth component of TESOP 99 to employees who acquired Guaranteed Allocation Shares and held 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 Elections** – the election under tax law made by an employee before they lodged their 1997/98 Tax Return (affecting their TESOP 97 shares) and/or their 1999/2000 Tax Return (affecting their TESOP 99 shares).

9.0 Glossary

This is a general description of the tax consequences which can apply to your participation in TESOP 97 or TESOP 99. The tax consequences for you may be different depending on your own circumstances, particularly if you have participated in other employee share schemes, if you have any particular arrangements in relation to your shares or for shares you acquire otherwise than under TESOP 97 or TESOP 99.

The description of the capital gains tax consequences of your participation in TESOP 97 and/or TESOP 99 is based on **Class Ruling (CR 2001/28) issued by the Commissioner of Taxation.**

If you have any questions about filling in your tax return or the tax consequences of your participation in TESOP 97 or TESOP 99 (including the capital gains tax consequences) in your particular circumstances you **should seek guidance from your own registered tax adviser.**