Buy-back Illustrative Examples

Note:

- **These examples deal only with the taxation consequences of a disposal of TESOP shares in the Telstra Buy-back.**

- **The tax consequences of selling your TESOP Shares in the Buy-Back may be worse than selling your shares on-market.**

- **The examples assume that the Buy-Back Price will be $4.80. $4.80 is an illustrative Buy-Back Price only. You should not rely on this price as being the Buy-Back Price. You should refer to section [1.8] of the Telstra Buy-Back Tender Booklet for an explanation of how the Buy-Back Price will be determined.**

- **These examples assume that you will be entitled to the benefit of tax offsets arising from the franked distribution component of the Buy-Back Price. You should refer to section 2.5 "Limits on Availability of Franking Credits and Tax Offsets" on page 19 of the Telstra Buy-Back Tender Booklet for a discussion of these rules. This is particularly the case if you acquired *any* Telstra shares after 8 October 2003.**

- **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).**

- **The examples are based on income tax legislation and administrative practice as at 17 October 2003.**

- **If you decide to participate in the Buy-Back Tender, your particular tax treatment will depend upon your own circumstances. This will be the case particularly if you are a former employee. It is important that you seek professional tax advice to take into account your particular circumstances.**

Share Type	Current Employees Example	Former Employees Example
TESOP 97 Loan Shares and TESOP 97 Extra Loan Shares	1	7
TESOP 97 Extra Non-Loan Shares	2	8
TESOP 97 Loyalty Shares	3	9
TESOP 99 Loan Shares	4	10
TESOP 99 Extra Shares	5	11
TESOP 99 Loyalty Shares	6	12

Example 1

TESOP 97 Loan Shares & Extra Loan Shares

Assumed circumstances:

- You are a continuing employee of Telstra.
- As part of the 1997 Public float of Telstra shares you took up the maximum employee offer of 2,000 loan shares and were allocated 500 extra loan shares.
- In accordance with the TESOP Buy-Back Document, you asked the TESOP Trustee to tender your 2,000 TESOP 97 Loan Shares and 500 TESOP 97 Extra Loan Shares in the Telstra share Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section [1.8] of the Buy-Back Booklet.)
- The tender was successful and the TESOP Trustee sold your shares at the Buy-Back Price of $4.80 per share. The gross proceeds for the sale of the shares were $12,000, of which $4,183 was applied by the TESOP Trustee in repayment of your outstanding loan.
- The tax market value (TMV) of Telstra shares immediately prior to the Trustee selling your shares in the buy-back was $4.75

  As the TMV is equal to the weighted average of the prices at which Telstra shares traded in the one week up to and including the day on which the TESOP Trustee sold the shares on your behalf, the TMV may be different from the Buy-Back Price.
- The Buy-Back Price consists of:
  - $1.50 capital component - which is deemed for tax purposes to be the sales proceeds for the shares; and
  - $3.30 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.41).

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

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 2,500 x ($3.30 + $1.41) = $11,775

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $3,525 (2,500 x $1.41) for the franking credits.

> *Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable.* ***You could be liable to pay tax of up to 92c per share on the dividend component.***

Capital Gains Tax Consequences

Your capital loss from the sale will equal the tax market value of the shares at the time immediately before the Trustee sold the shares on your behalf in the Buy-Back less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is:(2,500 x $4.75) - (2,500 x $1.50) = $8,125

> *Under recently enacted legislation, you may choose to calculate the capital loss on a different basis from that outlined above. However, such a choice may result in you reducing your capital loss for tax purposes.*

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The ‘value’ of the capital loss to you may be reduced where the capital loss is offset against capital gains which are 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

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Deferred assessable amount

If the sales proceeds for your shares (being $1.50 per share) exceed the amount you paid for the shares, you will be assessed on the excess. If there is no excess, no assessable amount or allowable deduction will arise.

Amount paid for Loan Shares = (2,000 x $3.30) less $1.00 = $6,599

Amount paid for your Extra Loan Shares = Nil

For your TESOP 97 Loan Shares, no deferred assessable amount will arise. This is because the sales proceeds (being $1.50 per share) do not exceed the amount you paid for the shares.

For your TESOP 97 Extra Loan Shares, you will be assessed on:

- (500 x $1.50) - 0 = $750

Capital gains tax consequences

In these circumstances, the sale will not have any CGT consequences for you because the sale was made within 30 days of the expiry of the restriction period (i.e. the time immediately before the TESOP Trustee disposed of the shares on your behalf).

Example 2

TESOP 97 Extra Non-Loan Shares

Assumed circumstances:

- You are a continuing employee of Telstra.
- 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 at which time the shares were transferred to you. The tax market value of the shares was $6.58 on 15 November 2000.
- In accordance with the Telstra Buy-Back Tender Booklet, you tendered your 500 TESOP 97 Extra Non-Loan Shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section [1.8] of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.80 per share.
- The Buy-Back Price consists of:
  - $1.50 capital component - which is deemed for tax purposes to be the sales proceeds for the shares; and
  - $3.30 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.41).

Whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return does not affect the tax consequences arising from the disposal of these shares.

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 500 x ($3.30 + $1.41) = $2,355

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $705 (500 x $1.41) for the franking credits.

> *Depending on your marginal rate of tax , the dividend component may give rise to a tax liability or to a refund/offset against other tax payable.* ***You could be liable to pay tax of up to 92c per share on the dividend component****.*

Capital Gains Tax Consequences

Your capital loss from the sale will equal $6.58 (being the tax market value of shares at 15 November 2000, which is when your restriction period expired for Extra Non-Loan Shares)less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is: - (500 x $6.58) - (500 x $1.50) = $2,540

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

> *If you elected to seek the $1,000 tax exemption in your 1997/98 tax return, you may choose, under recently enacted legislation, to calculate the capital loss on a different basis from that outlined above. However, such a choice may result in you reducing your capital loss for tax purposes.*

Example 3

TESOP 97 Loyalty Shares

Assumed circumstances:

- You are a continuing employee of Telstra.
- 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 shares were allotted to you on 17 November 1998 (the tax market value of the shares was $6.55 on 17 November 1998).
- These loyalty shares were **not** subject to a trade Restriction Period.
- In accordance with the Telstra Buy-Back Tender Booklet, you tendered your 200 TESOP 97 Loyalty Shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section [1.8] of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.80 per share.
- The Buy-Back Price consists of:
  - $1.50 capital component - which is deemed for tax purposes to be the sales proceeds for the shares; and
  - $3.30 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.41).

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

Assessable dividend

You assessable income relating to the dividend component will be as follows:

- 200 x ($3.30 + $1.41) = $942

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $282 (200 x $1.41) for the franking credits.

> *Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable.* ***You could be liable to pay tax of up to 92c per share on the dividend component****.*

Capital Gains Tax Consequences

Your capital loss from the sale will equal $3.30 less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is: (200 x $3.30) - (200 x $1.50) = $360

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are 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

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Capital Gains Tax Consequences

Your capital loss from the sale will equal $6.55 (being the tax market value of shares on 17 November 1998, the date TESOP 97 Loyalty Shares were allotted) less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is: (200 x $6.55) - (200 x $1.50) = $1,010

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The ‘value’ of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Example 4

TESOP 99 – Loan Shares

Assumed circumstances:

- You are a continuing employee of Telstra.
- As part of the 1999 float of Telstra shares you took up the maximum employee offer of 400 TESOP 99 Loan Shares.
- In accordance with the TESOP Buy-Back Document, you forwarded a cheque for $2,705 to the TESOP Trustee and asked the TESOP Trustee to tender your 400 TESOP 99 Loan Shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section [1.8] of the Buy-Back Booklet.)
- Your tender was successful and the TESOP Trustee sold your shares at the Buy-Back Price of $4.80 per share. The gross proceeds for the sale of the shares were $1,920. **This is less than the amount you were required to repay to the TESOP Trustee up-front.**
- The tax market value (TMV) of Telstra shares at the time immediately before the Trustee sold your shares in the Buy-Back was $4.75.

  As the TMV is equal to the weighted average of the prices at which Telstra shares traded in the one week up to and including the day on which the TESOP Trustee sold the shares on your behalf, the TMV may be different from the Buy-Back Price.

- Your loan was repaid immediately before the Trustee sold your shares in the Buy-Back.
- The Buy-Back Price consists of:
  - $1.50 capital component - which is deemed for tax purposes to be the sales proceeds for the shares; and
  - $3.30 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.41).

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

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 400 x ($3.30 + $1.41) = $1,884

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $564 (400 x $1.41) for the franking credits.

> *Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable.* ***You could be liable to pay tax of up to 92c per share on the dividend component****.*

Capital Gains Tax Consequences

Under recently enacted legislation, you <u>may choose</u> to calculate your capital loss from the sale of each share as $7.40 (being the tax market value of the share at 16 October 1999) less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is: (400 x $7.40) - (400 x $1.50) = $2,360

If you don't choose to calculate your capital loss under the recently enacted legislation, this may result in you reducing your capital loss for tax purposes.

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

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

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Deferred assessable amount

If the sales proceeds for your shares (being $1.50 per share) exceed the amount you paid for the shares, you will be assessed on the excess. If there is no excess, no assessable amount or allowable deduction will arise.

Amount paid for Loan Shares = (400 x $7.40) <u>less</u> $1.00 = $2,959

For your TESOP 99 Loan Shares, no deferred assessable amount will arise. This is because the sales proceeds do not exceed the amount you paid for the shares.

Capital Gains Tax Consequences

In these circumstances the sale will not have any CGT consequences for you because the sale was made within 30 days of the expiry of the restriction period (i.e. the loan being repaid).

<u>Note</u> **– If your TESOP 99 Loan Shares are not bought back because you asked the TESOP Trustee to submit a Tender at a price above the Buy-Back Price, the TESOP 99 Loan Shares will be transferred to you. This should not, of itself, result in a tax liability for you.**

Example 5

TESOP 99 – Extra Shares

Assumed circumstances:

- You are a continuing employee of Telstra.
- As part of the 1999 float of Telstra shares you acquired 800 Guaranteed Entitlement shares
- Consequently you were entitled to 200 TESOP 99 Extra Shares.
- These shares were subject to a trade Restriction Period which expired on 16 October 2002, at which time the TESOP Trustee transferred the shares to you.
- The tax market value of Telstra shares on that date was $4.81 per share.
- In accordance the Telstra Buy-Back Tender Booklet, you tendered your 200 TESOP 99 extra shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section [1.8] of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.80 per share.
- The Buy-Back Price consists of:
  - $1.50 capital component - which is deemed for tax purposes to be the sales proceeds for the shares; and
  - $3.30 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.41).

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

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 200 x ($3.30 + $1.41) = $942

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $282 (200 x $1.41) for the franking credits.

Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable. ***You could be liable to pay tax of up to 92c per share on the dividend component****.*

Capital Gains Tax Consequences

Under recently enacted legislation, you may choose to calculate your capital loss from the sale of each share as $7.40 less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is:(200 x $7.40) - (200 x $1.50) = $1,180

If you don't choose to calculate your capital loss under the recently enacted legislation, this may result in you reducing your capital loss for tax purposes.

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

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

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Capital Gains Tax Consequences

Your capital loss from the sale will equal the tax market value of the shares at the expiry of the restriction period on 16 October 2002 (being $4.81) less the $1.50 capital component of the Buy-Back Price

- Consequently, your capital loss is:(200 x $4.81) - (200 x $1.50) = $662

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Example 6

TESOP 99 – Loyalty Shares

Assumed circumstances:

- You are a continuing employee of Telstra.
- 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 TESOP 99 loyalty shares.
- These shares were subject to a trade Restriction Period which expired on 16 October 2002, at which time the TESOP Trustee transferred the shares to you.
- The tax market value of Telstra shares on that date was $4.81 per share.
- In accordance with the Telstra Buy-Back Tender Booklet, you tendered your 80 TESOP 99 loyalty shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section [1.8] of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.80 per share.
- The Buy-Back Price consists of:
  - $1.50 capital component - which is deemed for tax purposes to be the sales proceeds for the shares; and
  - $3.30 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.41).

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

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 80 x ($3.30 + $1.41) = $377

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $113 (80 x $1.41) for the franking credits.

> *Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable.* ***You could be liable to pay tax of up to 92c per share on the dividend component****.*

Capital Gains Tax Consequences

Under recently enacted legislation, you may choose to calculate your capital loss from the sale of each share as $7.40 less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is: (80 x $7.40) - (80 x $1.50)= $472

If you don't choose to calculate your capital loss under the recently enacted legislation, this may result in you reducing your capital loss for tax purposes.

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

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

Assessable dividend

The taxation consequences of receiving the assessable dividend are described above.

The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Capital Gains Tax Consequences

Your capital loss from the sale will equal the tax market value of the shares at the expiry of the restriction period on 16 October 2002 (being $4.81) less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is:(80 x $4.81) - (80 x $1.50) = $265

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The ‘value’ of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Example 7

TESOP 97 Loan Shares & Extra Loan Shares

Assumed circumstances:

- You are no longer a Telstra employee as you ceased employment with Telstra on 1 August 2003. (The tax market value for Telstra Shares on that date was $4.71.)
- As part of the 1997 Public float of Telstra shares you took up the maximum employee offer of 2,000 loan Shares and were allocated 500 Extra Loan Shares.
- You repaid your TESOP 97 loan on 13 August 2003 (the tax market value for Telstra shares on that date was $4.73) and the TESOP Trustee transferred your TESOP 97 Loan Shares and TESOP 97 Extra Loan Shares to you.
- In accordance with the Telstra Buy-Back Tender Booklet, you tendered your 2,000 TESOP 97 Loan Shares and 500 TESOP 97 Extra Loan Shares in the Telstra share Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section [1.8] of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.80 per share.
- The Buy-Back Price consists of:
  - $1.50 capital component - which is deemed for tax purposes to be the sales proceeds for the shares; and
  - $3.30 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.41).

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

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 2,500 x ($3.30 + $1.41) = $11,775

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $3,525 (2,500 x $1.41) for the franking credits.

> Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable. **You could be liable to pay tax of up to 92c per share on the dividend component**.

Capital Gains Tax Consequences

Your capital loss from the sale will equal the tax market value of the shares at the time you repaid your TESOP loan ($4.73) less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is: (2,500 x $4.73) - (2,500 x $1.50) = $8,075

> *Under recently enacted legislation, you may choose to calculate the capital loss on a different basis from that outlined above. However, such a choice may result in you reducing your capital loss for tax purposes.*

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are 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

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Deferred assessable amount

You will be assessed on the excess of the tax market value of the shares on the date you ceased employment (i.e. 1 August 2003) over what you paid for the shares.

> *Amount paid for Loan Shares = (2,000 x $3.30) less $1.00 = $6,599*
>
> *Amount paid for your Extra Loan Shares = Nil*

For your TESOP 97 Loan Shares, you will be assessed on:

- (2,000 x $4.71) - $6,599 = $2,821

For your TESOP 97 Extra Loan Shares, you will be assessed on:

- (500 x $4.71) - 0 = $2,355

Capital gains tax consequences

Your capital loss from the sale will equal the tax market value of the shares at the time you ceased employment less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is: (2,500 x $4.71) - (2,500 x $1.50) = $8,025

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The ‘value’ of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Example 8

TESOP 97 Extra Non-Loan Shares

Assumed circumstances:

- You are no longer a Telstra employee as you ceased employment with Telstra on 1 August 2003.
- 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 at which time the shares were transferred to you. The tax market value of the shares was $6.58 on 15 November 2000.
- In accordance with the Telstra Buy-Back Tender Booklet, you tendered your 500 TESOP 97 Extra Non-Loan Shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section [1.8] of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.80 per share.
- The Buy-Back Price consists of:
  - $1.50 capital component - which is deemed for tax purposes to be the sales proceeds for the shares; and
  - $3.30 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.41).

<u>Whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return does not affect of the tax consequences arising from the disposal of these shares.</u>

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 500 x ($3.30 + $1.41) = $2,355

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $705 (500 x $1.41) for the franking credits.

> *Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable.* ***You could be liable to pay tax of up to 92c per share on the dividend component****.*

Capital Gains Tax Consequences

Your capital loss from the sale will equal $6.58 (being the tax market value of shares at 15 November 2000, which is when your restriction period would have expired for
Extra Non-Loan Shares) less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is: (500 x $6.58) - (500 x $1.50) = $2,540

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

> *If you elected to seek the $1,000 tax exemption in your 1997/98 tax return, you may choose, under recently enacted legislation, to calculate the capital loss on a different basis from that outlined above. However, such a choice may result in you reducing your capital loss for tax purposes.*

Example 9

TESOP 97 Loyalty Shares

Assumed circumstances:

- You are no longer a Telstra employee as you ceased employment with Telstra on 1 August 2003.
- 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 shares were allotted to you on 17 November 1998 (the tax market value of the shares was $6.55 on 17 November 1998).
- These Loyalty Shares were **not** subject to a trade Restriction Period.
- In accordance with the Telstra Buy-Back Tender Booklet, you tendered your 200 TESOP 97 Loyalty Shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section [1.8] of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.80 per share.
- The Buy-Back Price consists of:
  - $1.50 capital component - which is deemed for tax purposes to be the sales proceeds for the shares; and
  - $3.30 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.41).

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

Assessable dividend

You assessable income relating to the dividend component will be as follows:

- 200 x ($3.30 + $1.41) = $942

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $282 (200 x $1.41) for the franking credits.

> *Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable.* ***You could be liable to pay tax of up to 92c per share on the dividend component****.*

Capital Gains Tax Consequences

Your capital loss from the sale will equal $3.30 less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is: (200 x $3.30) - (200 x $1.50) = $360

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains The ‘value’ of the capital loss to you may be reduced where the capital loss is offset against capital gains which are 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

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price do not vary depending upon whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Capital Gains Tax Consequences

Your capital loss from the sale will equal $6.55 (being the tax market value of shares on 17 November 1998, the date TESOP 97 Loyalty Shares were allotted) less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is: (200 x $6.55) - (200 x $1.50) = $1,010

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Example 10

TESOP 99 – Loan Shares

Assumed circumstances:

- You are no longer a Telstra employee as you ceased employment with Telstra on 1 August 2003. (The tax market value for Telstra shares on that date was $4.71.)
- As part of the 1999 float of Telstra shares you took up the maximum employee offer of 400 TESOP 99 Loan Shares.
- In accordance with the TESOP Buy-Back Document, you forwarded a cheque for $2,705 to the TESOP Trustee and asked the TESOP Trustee to tender your 400 TESOP 99 Loan Shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section [1.8] of the Buy-Back Booklet.)
- Your tender was successful and the TESOP Trustee sold your shares at the Buy-Back Price of $4.80 per share. The gross proceeds for the sale of the shares were $1,920. **This is less than the amount you were required to repay to the TESOP Trustee up-front.**
- The tax market value (TMV) of Telstra shares at the time the loan was repaid was $4.75 for the purposes of this example.
  As the TMV is equal to the weighted average of the prices at which Telstra shares traded in the one week up to and including the day on which the TESOP Trustee sold the shares on your behalf, the TMV may be different from the Buy-Back Price.
- The Buy-Back Price consists of:
  - $1.50 capital component - which is deemed for tax purposes to be the sales proceeds for the shares; and
  - $3.30 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.41).

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

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 400 x ($3.30 + $1.41) = $1,884

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $564 (400 x $1.41) for the franking credits.

> Depending on your marginal rate of tax, the dividend component may give rise to a tax or to a refund/offset against other tax payable. **You could be liable to pay tax of up to 92c per share on the dividend component**.

Capital Gains Tax Consequences

Under recently enacted legislation, you <u>may choose</u> to calculate your capital loss from the sale of each share as $7.40 less $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is:(400 x $7.40) - (400 x $1.50) = $2,360

If you don't choose to calculate your capital loss under the recently enacted legislation, this may result in you reducing your capital loss for tax purposes.

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

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

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Deferred assessable amount

If the tax market value of the shares on the date you ceased employment (i.e. 1 August 2003) exceeds the amount you paid for the shares, you would be assessed on the excess. If there is no excess, no assessable amount or allowable deduction will arise.

> *Amount paid for Loan Shares = (400 x $7.40) less $1.00 = $2,959*

For your TESOP 99 Loan Shares, no deferred assessable amount will arise in this case. This is because the tax market value of the shares at the date of the cessation of employment does not exceed the amount you paid for the shares.

Capital Gains Tax Consequences

Your capital loss from the sale will equal the tax market value of the shares at the time you ceased employment less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is:(400 x $4.71) - (400 x $1.50) = $1,284

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Note – If your TESOP 99 Loan Shares are not bought back because you asked the TESOP Trustee to submit a Tender at a price above the Buy-Back Price, the TESOP 99 Loan Shares will be transferred to you. This should not, of itself, result in a tax liability for you.

Example 11

TESOP 99 – Extra Shares

Assumed circumstances:

- You are no longer a Telstra employee as you ceased employment with Telstra on 1 August 2003.
- As part of the 1999 float of Telstra shares you acquired 800 Guaranteed Entitlement shares
- Consequently you were entitled to 200 TESOP 99 Extra Shares.
- These shares were subject to a trade Restriction Period which expired on 16 October 2002, at which time the TESOP Trustee transferred the shares to you.
- The tax market value of Telstra shares on that date was $4.81 per share.
- In accordance the Telstra Buy-Back Tender Booklet, you tendered your 200 TESOP 99 Extra Shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section [1.8] of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.80 per share.
- The Buy-Back Price consists of:
  - $1.50 capital component - which is deemed for tax purposes to be the sales proceeds for the shares; and
  - $3.30 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.41).

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

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 200 x ($3.30 + $1.41) = $942

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $282 (200 x $1.41) for the franking credits.

Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax. ***You could be liable to pay tax of up to 92c per share on the dividend component****.*

Capital Gains Tax Consequences

Under recently enacted legislation, you <u>may choose</u> to calculate your capital loss from the sale of each share as $7.40 less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is:(200 x $7.40) - (200 x $1.50) = $1,180

In this example, if you don't choose to calculate your capital loss under the recently enacted legislation, this may result in you reducing your capital loss for tax purposes.

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced, where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

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

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Capital Gains Tax Consequences

Your capital loss from the sale will equal the tax market value of the shares at the expiry of the restriction period on 16 October 2002 (being $4.81) less the $1.50 capital component of the buy-back price.

- Consequently, your capital loss is:(200 x $4.81) - (200 x $1.50) = $662

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

Example 12

TESOP 99 – Loyalty Shares

Assumed circumstances:

- You are no longer a Telstra employee as you ceased employment with Telstra on 1 August 2003.
- 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 TESOP 99 Loyalty Shares.
- These shares were subject to a trade Restriction Period which expired on 16 October 2002, at which time the TESOP Trustee transferred the shares to you.
- The tax market value of Telstra shares on that date was $4.81 per share.
- In accordance with the Telstra Buy-Back Tender Booklet, you tendered your 80 TESOP 99 Loyalty Shares in the Buy-Back as a Final Price Tender. (For more information about Final Price Tenders, refer to section [1.8] of the Buy-Back Booklet.)
- Your tender was successful and Telstra acquired the shares from you at the Buy-Back Price of $4.80[1] per share.
- The Buy-Back Price consists of:
  - $1.50 capital component - which is deemed for tax purposes to be the sales proceeds for the shares; and
  - $3.30 dividend component – which is fully franked (franking credits attaching to the dividend component will be $1.41).

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

Assessable dividend

Your assessable income arising from the dividend component will be calculated as follows:

- 80 x ($3.30 + $1.41) = $377

This amount will be assessed at your marginal rate and you should generally be entitled to a tax offset of $113 (80 x $1.41) for the franking credits.

> *Depending on your marginal rate of tax, the dividend component may give rise to a tax liability or to a refund/offset against other tax payable.* ***You could be liable to pay tax of up to 92c per share on the dividend component****.*

Capital Gains Tax Consequences

Under recently enacted legislation, you may choose to calculate your capital loss from the sale of each share as $7.40 less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is: (80 x $7.40) - (80 x $1.50) = $472

> *In this example, if you don't choose to calculate your capital loss under the recently enacted legislation, this may result in you reducing your capital loss for tax purposes.*

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.

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

Assessable dividend

The tax consequences of receiving the assessable dividend are described above. The tax consequences arising from the dividend component of the Buy-Back Price are the same irrespective of whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return.

Capital Gains Tax Consequences

Your capital loss from the sale will equal the tax market value of the shares at the expiry of the restriction period on 16 October 2002 (being $4.81) less the $1.50 capital component of the Buy-Back Price.

- Consequently, your capital loss is: (80 x $4.81) - (80 x $1.50)= $265

The capital loss can only be offset against current year capital gains or carried forward to be offset against future capital gains. The 'value' of the capital loss to you may be reduced where the capital loss is offset against capital gains which are eligible for the 50% CGT discount.