Vodafone Return of Value

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On 02 September 2013 Vodafone announced the sale of its US group to Verizon Communications Inc. ("Verizon"). Vodafone gave a return of value to its shareholders from the sale in the form of new Vodafone shares, Verizon shares and a cash payment of €0.36 for each existing Vodafone share.

Taxation of the Return of Value

The return of value to shareholders involved the issue by Vodafone of B Shares ("Capital Option") or C Shares ("Income Option").

Those who did not elect for CGT treatment on time will be subject to income tax on the payment as if the receipt was a dividend.

Capital Gains Tax Treatment – B Shares

The Vodafone shares will be treated as being partly sold (for the cash consideration) and partly swapped for the Verizon and new Vodafone shares. The original base cost for the Vodafone shares will be available to offset against the value of the cash and new shares.

Vodafone shareholders who acquired their shares in exchange for Eircom shares in 2001 would not have a CGT liability as they would make an overall capital loss.

Income Tax Treatment – C Shares

The amount of the dividend for income tax purposes is circa €1.24 per share and this value will be subject to income tax (up to 41%), PRSI (4%) and USC (up to 10%).

Shareholders who are exempt from income tax, PRSI and USC (e.g. older taxpayers on lower income levels) may opt for income tax treatment as no tax would arise, and it would preserve their base cost for CGT on the ultimate sale of the new shares being received.

Individuals who opted for the Income Option ("C" shares) or failed to indicate either option, received a dividend from Vodafone in February 2014 consisting of two elements – a cash amount and an entitlement to shares in Verizon.

The amount of the dividend for income tax purposes is the sum of the cash actually received and the market value of the Verizon Shares.

Revenue's Guide indicates that Vodafone shareholders who acquired their shares in exchange for Eircom shares in 2001 and did not acquire further shares in Vodafone would have received a cash dividend of €358 and an entitlement to Verizon Shares worth €886 (total €1,244), on a holding of 1,000 shares.

This value is subject to income tax (up to 41%), PRSI (4%) and USC (up to 10%) and should be included in the taxpayer's 2013 income tax return.

Finance Act 2014

Section 48 of Finance Act 2014 provides that a "return of value" payment of €1,000 or less made by Vodafone plc to its Irish shareholders in the form of a special dividend (in respect of fully paid bonus C shares) will be treated as a capital receipt for tax purposes unless shareholders specifically opt to have the payment treated as income, by including the payment as income in the 2014 income tax return.

The effect of this provision is that Irish shareholders who received the shares because of an original investment in Eircom, will have no tax liability because of capital losses on the original Eircom investment.

Conclusion

Taxpayers who are retaining the US Verizon shares in the longer term should consider completing an IRS form W8-BEN (click here) and sending it to their stockbroker, or the person making the dividend payment.

This confirms that the taxpayer is not US resident so that any US dividends on the shares will have a reduced level of US withholding tax (15% as opposed to 30%).

Caveat: *These notes are intended as a guide to the tax issues arising on the receipt of the Vodafone return of value. The guide is general in nature and OHT recommends that formal tax advice should be obtained before any steps are taken that may have a tax effect.*

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