Vodafone shares and what to do with them

Do you have Vodafone shares? Well, 400,000 of us do and you have only until February 20th to inform the company how you wish to be paid the cash and shares they are awarding shareholders after selling their share of their US mobile phone company to the US company, Verizon Communications Inc. the other shareholder.

This story begins with the 1999/2000 privatisation of Eircom, the State-owned telecoms company, which we bought into big-time after the slickest of PR and marketing campaigns – it raised €8 billion.

However, it also didn’t take long for the great share event of the millennium to go pear-shaped: Eircom ended up changing hands three or four times between a bunch of rich guys and their private equity companies, resulting in a financial losses for practically every citizen shareholder, who didn’t sell out shortly after the flotation.

The mobile phone division, Eircell was also eventually sold off, but to the global giant Vodafone and shareholders received Vodafone shares in 2001 in exchange.

Fast forward to late 2013 and it was announced that Vodafone was selling off its stake in its US mobile phone business to the other owner of that company, Verizon plc.

This time, Vodafone shareholders are to receive a combination of cash and some Verizon shares that is expected to be worth about €1.25 per every Vodafone share held (cash of 36c and share value worth 89c. The actual price will be declared on February 21st).

It’s a nice little windfall, but cash/share issues like this attract the attention of the taxman.

Which is why it might be important that you take another look at that package of documents that was sent to you several weeks ago from Vodafone that explained what they are doing.

The documents provided a time-line in which to choose your method of payment for the windfall, whether you wanted to attend the general shareholders meeting on January 28th (that deadline has passed) and finally, if you’d like to sell your shares via a limited period, free share dealing service.

First, the payment option – ‘B’ shares or ‘C’ shares?

Most people with Vodafone shares are still nursing capital gains losses dating all the way back to the Eircom flotation.

Computing gains and losses has been a minor nightmare because of all the share issue permutations and issues over the years and so the Revenue sent out a guidance note stating that anyone with, for example a typical 1000 Vodafone shareholding are unlikely to face any CGT bill this time if they opt for the ‘B’ share and income option.

But tick the ‘C’ share option, which converts this windfall into income, and you could end up paying 52 per cent marginal income tax, USC and PRSI.

If you don’t bother to send the share option form back by February 20th, Vodafone will automatically allocate ‘C’ shares and you could end up paying a tax bill (if you are taxed at the higher rate) of €650 out of the €1,250 allocation you can expect if you own 1,000 shares.

By the way, ‘B’ shareholder certificates will be sent to you by February 24th.

If you opt for ‘C’ shares, your cash payment will be sent either to your bank account if it is registered with Computershare or sent by cheque to you on March 4th.

Finally, anyone who wants to sell their Verizon share allocation at no cost, needs to let Vodafone know that they are taking up the free dealing offer before 5pm on Saturday, April 4th.

This income must be declared and paid in a pay and file tax return by the October 2014 deadline, or by November 15th if you file via ROS, the on-line Revenue service.

The process above applies to every Irish Vodafone shareholder. The windfall, no matter how small, is very welcome in these tight economic times.

But analysts expect that the majority of the 400,000 shareholders will keep their Vodafone/Verizon shares (assuming they don’t end up with the ‘C’ share income) – just like we did with our original Eircom/Eircel/Vodafone shares. But are they worth keeping?

The verdict is out but Verizon (VZ) is a substantial US mobile phone player with global interests. It’s share price hit a 1999 tech bubble high of nearly $60 per share; its low was in 2011 when they were worth under $30.

At the time of writing the price was nearly $47 a share. Like most big, global blue-chip companies, the Vodafone (VOD) share price ($47 at time of writing) fell sharply after the 2008 economic collapse (after hitting a 1999 high of about $65). It is up 130 per cent since 2008.

Only you can decide whether it’s worth holding your Vodafone/Verizon shares and hope that they someday recover to offset the hammering you took with your Eircom outlay or cut your losses, as inexpensively as possible.

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