HLB MANN JUDD
ADVISORY AND ACCOUNTING

Property Funds
Tax 101

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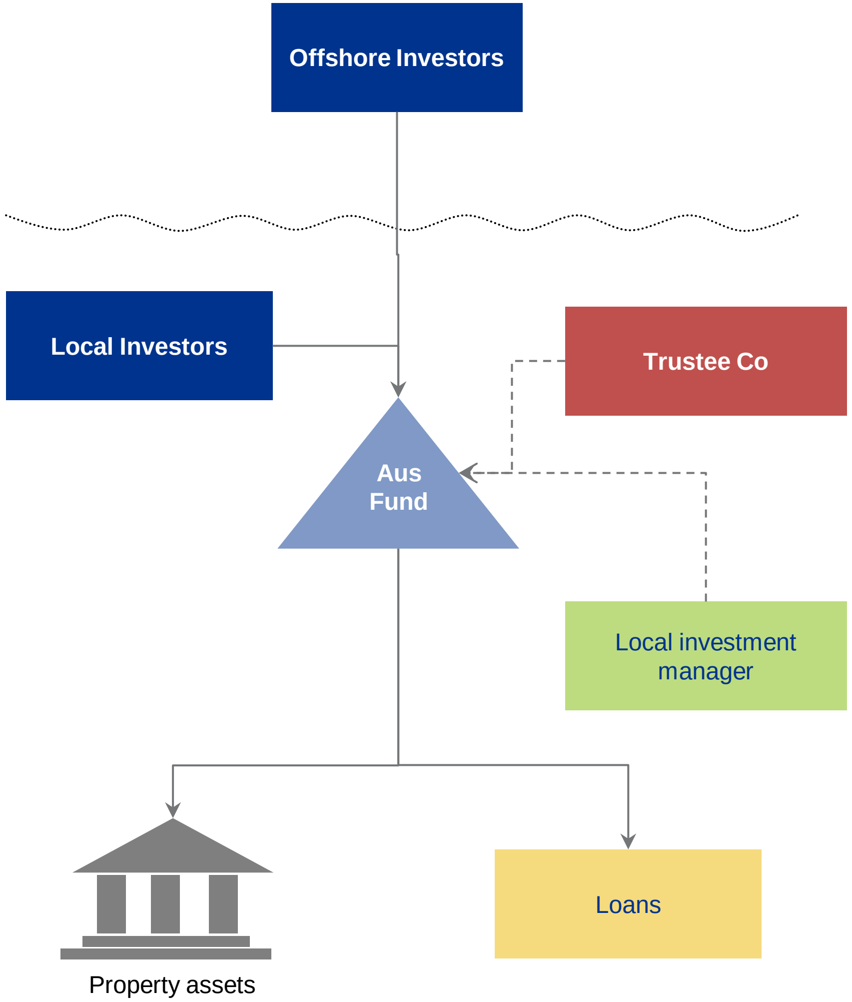
OVERVIEW

1. Offers “flow through” tax treatment – CGT discount concession is preserved
2. Can provide “tax deferred” distributions - i.e. income distributions can be partly sheltered from tax
3. Certain trust structures (MITs) provide tax concessions to attract offshore capital
4. High risk – needs to be carefully managed to ensure correct income and components distributed correctly

TRUST



Key Tax Points

- Unit trust is a “flow through” vehicle for tax purposes
- Make “tax deferred” distributions
- Pass on CGT discount to local investors
- Offshore investors subject to 10% WHT on interest income

Typically used for:

- Single asset property funds with a small number (e.g. less than 25) investors
- Passive investments – i.e. property for passive rental holding
- Mortgage / debt funds
- For Joint Venture arrangements between a local and offshore investor

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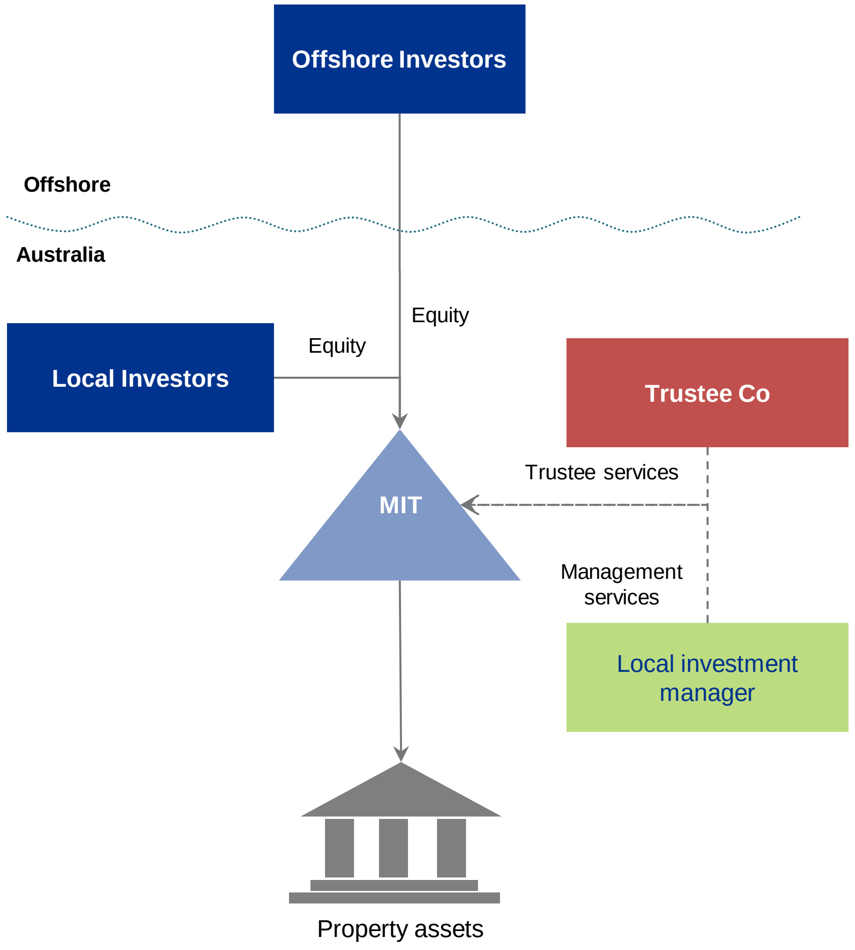
MANAGED INVESTMENT TRUST



Key tax points

- MIT structure introduced to attract offshore capital
- Provides concessional **15% MIT withholding tax** rate on income and capital gains distributed to non resident investors
- CGT treatment certainty for local investors
- Election to be treated as an "Attribution MIT"
  - Provides greater certainty over administration; and
  - Provides further structuring opportunities

Key requirements to be a MIT:

- MIT Trust must be a widely held scheme;
- MIT Trust must have substantial proportion of investment activities undertaken in Australia;
- Must be in relation to assets held as "passive assets" to assets

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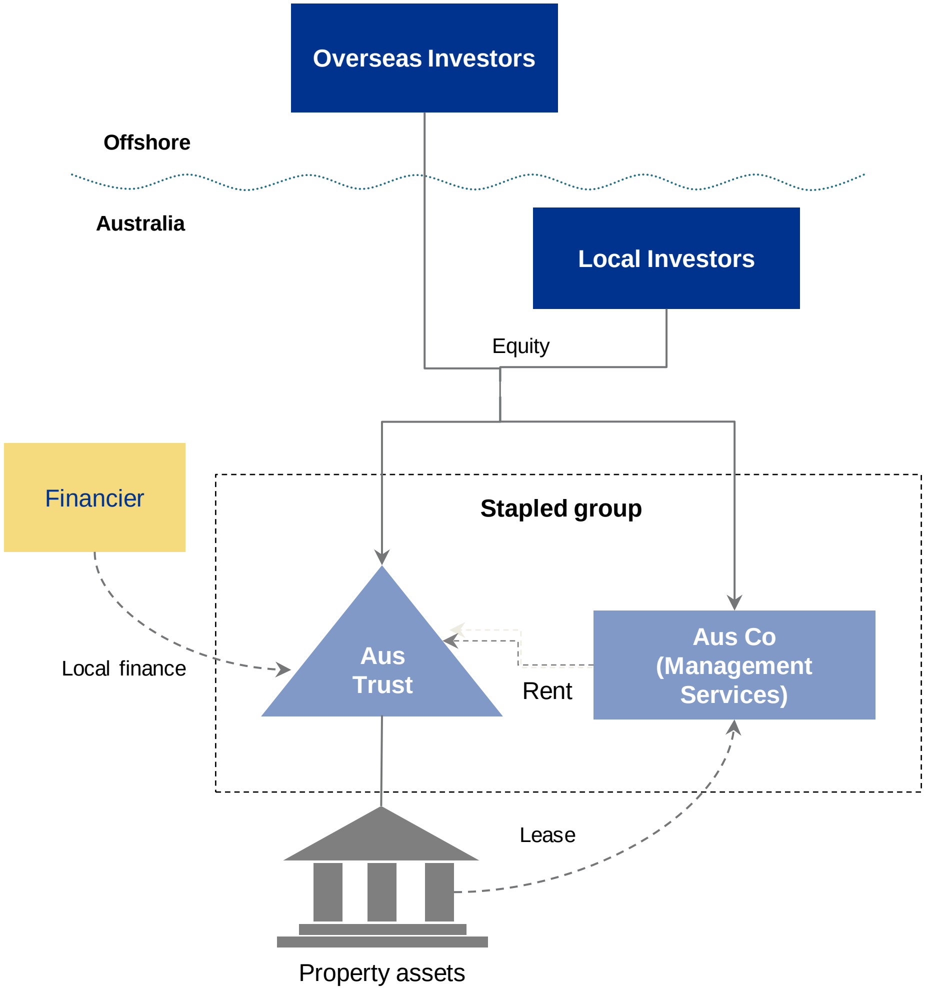
STAPLED STRUCTURE



Key tax points

- A stapled structure arises where an investor purchases equity in say “ABC REIT” for $1 but legally gets 1 share in a Company and 1 unit in a Trust – i.e. “stapled” together
- This structure evolved in the REIT industry as the tax law can in certain circumstances treat a Trust be to taxed as a company if it is considered a “public trading trust”
- Therefore stapled structures are used to ensure that any “active trading activities” are undertaken in a separate company to protect the flow through treatment of the property holding trust

TAX DEFERRED

	Distributable Income	Taxable income
Rental income	$1,750,000	$1,750,000
Tax depreciation		-$625,000
Property expenses	-$250,000	-$250,000
Interest expenses	-$490,000	-$490,000
	$1,010,000	$385,000

Tax deferred amount	$625,000
Tax deferred percentage	**62%**
Marginal tax rate investor tax (47%)	$180,950
Effective Tax Rate	**18%**

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INVESTOR COMMUNICATIONS

Offer Document

- Recommend some general comments on tax for investors

Tax statements

- Aim within 2 months year end
- Accuracy of tax components is critical

Wind up / capital raisings

- Appropriate level comments on tax for investors – want to keep them happy for future capital raises

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Thank you

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