Guide to Taxation of Westpac Self-Funding Instalments.

For the Financial Year ended 30 June 2020.

1. Taxation of capital protected borrowings.

Division 247 applies to certain capital protected borrowings entered into on or after 1 July 2007.

Division 247 operates to ensure that part of the expense on a capital protected product that is attributable to the capital protection feature is not deductible as interest or otherwise (but instead forms part of the capital gains tax cost base of the relevant asset). It effectively caps an investor’s interest deductions by reference to a benchmark rate of interest. To the extent that the interest paid by the investor on a capital protected loan exceeds what would have been incurred if the benchmark rate had applied, the excess is not deductible.

The benchmark interest rate is the Reserve Bank of Australia’s (**RBA**) Indicator Lending Rate for Standard Variable Housing Loans – Investor plus 100 basis points (1%).

Month	Benchmark Rate	Month	Benchmark Rate
July 2019	6.522%	**January 2020**	6.378%
August 2019	6.522%	**February 2020**	6.378%
September 2019	6.522%	**March 2020**	6.098%
October 2019	6.378%	**April 2020**	6.098%
November 2019	6.378%	**May 2020**	6.098%
December 2019	6.378%	**June 2020**	6.098%

On 11 September 2015 the Reserve Bank of Australia published, for the first time, two indicator lending rates for standard variable housing loans – one for Owner-occupier and one for Investor loans. These indicator lending rates replaced the Standard Variable Housing Loans indicator rate that is referred to in the capital protected borrowing rules. The Australian Taxation Office released Taxation Determination TD 2016/10 (the **Determination**) on 22 June 2016 which expresses the Commissioner of Taxation's view that the indicator lending rate that should be used for the purpose of the capital protected borrowing rules is the RBA's Indicator Lending Rate for Standard Variable Housing Loans – Investor. The Determination applies from 11 September 2015. The table above reflects the Commissioner's view in the Determination.

2. Purchasing Westpac Self-Funding Instalments during the 2019–2020 financial year.

Your Westpac Tax Statement shows the amount of prepaid interest and (notional) put option cost you are treated as having incurred as a result of the application of Division 247 at the time of purchasing your Westpac Self-Funding Instalments. The following table sets out the income tax treatment of the amounts in your Westpac Tax Statement.

	Individuals/Small Business Entities	Other Taxpayers
Interest (less any (notional) put option cost)	Immediately deductible*	Deduction is spread on a days basis to the next Annual Interest Date
(Notional) put option cost	Non deductible, but is added to the cost base of your (notional) put option.	

* Where the interest is for a period longer than 12 months the deduction has been apportioned on a day count basis over the period to the Completion Date.

The allocation of amounts incurred between interest and (notional) put option cost on the Tax Statement has been determined by the application of Division 247 as follows. Please note that the below comments are applicable to Westpac Self-Funding Instalments issued under the Product Disclosure Statement dated on or after 1 July 2013.

Primary market purchases.

For primary market purchasers, Westpac Self-Funding Instalments have a separately identifiable Initial Interest Amount.

Primary market purchases of those Westpac Self-Funding Instalments are likely to have an amount of the Initial Interest Amount attributed to the cost of the capital protection as determined by the application of Division 247. Where this is the case, the interest deductions shown on the Tax Statement have been appropriately reduced and the reduction amounts are disclosed as (notional) put option cost.

Secondary market purchases.

If you acquire your Westpac Self-Funding Instalments on the secondary market, there is no itemised cost associated with the payment of an Initial Interest Amount.

Broadly, the purchase price paid by the investor to acquire their Westpac Self-Funding Instalments in the secondary market includes an amount that is attributable to the Initial Interest Amount. The Initial Interest Amount is calculated as the purchase consideration for the warrant plus the Loan Amount less the market price of the Underlying Security.

The amount of the Initial Interest Amount (if any) attributable to the cost of capital protection will be determined by the application of Division 247. Division 247 will treat any amount above what would have been paid if the benchmark interest rate had applied as attributable to the cost of capital protection. The amounts shown as deductible prepaid interest and (notional) put option cost in your Tax Statement have been determined by the application of Division 247.

The following table sets out how the interest and notional put option amounts in your Westpac Tax Statement have been determined:

	Deductible Interest*	Notional Put Option
Primary market acquisitions	Is the lesser of: • the actual amount of Initial Interest Amount charged by Westpac; and • the amount of interest that would have been incurred if the applicable benchmark interest rate had applied to the loan.	Is the excess (if any) of the actual Initial Interest Amount over the amount of interest that would have been incurred if the benchmark interest rate had applied to the loan.
Secondary market applications	Is the lesser of: • the actual acquisition price attributable to the Initial Interest Amount; and • the amount of interest that would have been incurred if the applicable benchmark interest rate had applied to the loan.	Is the excess (if any) of the actual acquisition price attributable to the Initial Interest Amount over the amount of interest that would have been incurred if the benchmark interest rate had applied to the loan.

* Deductible Interest – we have assumed that you expect to derive assessable income other than capital gains from the investment acquired using the loan. Refer to the Tax Section of the Westpac Self-Funding Instalments Product Disclosure Statement for more details.

Timing of deduction for interest.

For certain individuals (who are not carrying on a business) and small business taxpayers, the prepaid Interest for the period, no greater than 12 months, that is not attributable to the (notional) put option should be deductible in full in the income year in which the interest payment is made. For other investors, the deduction for the interest will be required to be spread over the period to which the interest relates.

Cost Base of Underlying Securities.

Cash applicants and on-market purchasers will, for CGT purposes, be considered to have acquired a beneficial interest in the respective Underlying Securities of their Westpac Self-Funding Instalments although the legal title to the Underlying Securities will be held by the Security Trustee.

Your cost base in the Underlying Securities depends on how you acquired your Westpac Self-Funding Instalments:

Cash applicant	Securityholder applicant	Rollover	Purchase on ASX
The acquisition price of the Underlying Security is stated in your investment confirmation and in your Westpac Tax Statement.	Your cost base in the Underlying Securities prior to converting them to Westpac Self-Funding Instalments.	Your cost base in the Underlying Securities from your previous series of Westpac Self-Funding Instalments.	Market Value of the Underlying Securities at the time of acquisition of your Westpac Self-Funding Instalment. As an estimate we provide you with the closing Market Value of the Underlying Securities in your Westpac Tax Statement.

3. Annual Interest Date.

On an Annual Interest Date, the tax consequences depend upon your choice to make the Completion Payment or continue to hold your Westpac Self-Funding Instalments. Other scenarios are considered under the heading "Disposal" below.

Continue to hold Instalments.

	Individuals/ Small Business Entities	Other Taxpayers
Interest	Interest prepaid on the Annual Interest Date is immediately deductible.	Your deduction for the Prepaid Interest is spread over the next 12 months to the next Annual Interest Date. Interest prepaid in the prior year but not deducted in that year is deductible in the current year.
(Notional) Put Option	Any excess of the actual Prepaid Interest over the benchmark interest amount that is treated as attributable to the (notional) put option by Division 247 is non-deductible, but forms part of your (notional) put option cost base.	

How interest deductions and (notional) put option costs are determined.

On the Annual Interest Date, Westpac charges investors an amount of Prepaid Interest. Division 247 may operate to treat part of the prepaid interest amount as attributable to the cost of the capital protection (i.e. the cost of a notional put option). The following table sets out how the prepaid interest and notional put option cost on your Tax Statement have been determined.

	Prepaid interest	(Notional) Put Option Costs
Westpac Self-Funding Instalment acquired after 13 May 2008	Is the lesser of: • the actual amount of prepaid interest charged by Westpac; and • the amount of interest that would have been incurred if the benchmark interest rate had applied to the loan. As the interest rate charged is less than the applicable benchmark interest rate, Division 247 currently has no practical application.	Currently no additional amount is treated as attributable to the cost of capital protection by Division 247.

4. Disposal.

Sell Instalment on the ASX.

If you dispose of your Westpac Self-Funding Instalments on the ASX, you will receive a refund of prepaid interest as set out on your Westpac Tax Statement. The interest refund is assessable to you in the year you sell your Westpac Self-Funding Instalments to the extent that the interest was previously claimed as an allowable deduction. You must also determine the capital gains tax consequences for both the Underlying Securities and your (notional) put options.

Underlying Securities.

Capital proceeds	Instalment sale price + Completion Payment – interest refund – proceeds allocated to the (notional) put option (see below)
Cost base	See section 2 above.
Capital gain	Where the capital proceeds > the cost base, you will make a capital gain; if not, a capital loss may arise.

(Notional) put option.

	If Market Value of Underlying Securities	Capital Proceeds on (notional) put option
Capital proceeds	> Completion Payment	Instalment sale price + Completion Payment – Interest refund – Market value of underlying security
	< Completion Payment	Instalment sale price – Interest refund
Cost base	See section 2 above.	
Capital gain	Where the capital proceeds > the cost base, you will make a capital gain, if not a capital loss may arise.	

Please note that for Westpac Self-Funding Instalments issued under the Product Disclosure Statement dated 1 July 2013, which do not have an explicit put option, any notional put option expires when the instalment is sold on the ASX. This may result in a capital loss equal to the cost base in the notional put option.

However, for those instalments the capital proceeds received for the disposal of the Underlying Securities must be increased by an amount equal to the capital proceeds on the notional put option as shown in your statement.

If you are an individual or trustee, you should be entitled to the capital gains tax discount (50% for individuals and trusts, 33% for complying superannuation funds) if you have held your Westpac Self-Funding Instalments (or in the case of a Securityholder Applicant, the underlying shares) for at least 12 months.

Make Completion Payment.

If you provided Westpac with a valid Completion Payment Notice by 5pm on 30 June 2020, you would have received legal title to one underlying share per warrant. This should not have given rise to the disposal of the Underlying Parcel for the purposes of the CGT provisions. On making the Completion Payment however, you would have realised a capital loss on the lapsing of the (Notional) Put Option for an amount equal to its reduced cost base.

Capital losses can generally be offset against other capital gains derived during the income year or against future year capital gains.

5. Dividends, Distributions and Attributions.

Dividends and trust distributions paid by the Underlying Securities are assessable to you. This is the case even if you do not physically receive the dividends or distributions, as they are used to reduce the Completion Payment. Income attributed by an Underlying Security that is an Attribution Managed Investment Trust (**AMIT**) is also assessable to you even if part or all of it is not paid in cash.

Where there is a reduction in the Completion Payment there may also be a refund of interest. Any refund of interest shown on your Tax Statement should be included in assessable income.

Where dividends are wholly or partially “franked” and you are a “qualified person” in relation to the dividends, you are required to include an additional amount (representing the franking credits) in your assessable income and are entitled to a tax offset equal to this additional amount. The tax offset will reduce your tax liability and, in certain circumstances, an individual, superannuation fund or tax exempt entity may be entitled to a tax refund.

Where a trust distribution/attribution includes an amount on which the trustee has paid foreign income tax, you may be entitled to the foreign income tax offset (**FITO**) if the foreign income tax is paid in respect of an amount that is included in your assessable income. Where only a portion of the amount in respect of which foreign income tax has been paid is included in your assessable income (e.g. due to the operation of the CGT discount), only that portion of the foreign income tax may count towards the FITO.

From 1 July 2019, the new component of Non-concessional MIT income (**NCMI**) and Excluded from Non-concessional MIT income (**ENCMI**) are introduced. This impacts foreign investors’ access to tax concessions by increasing Managed Investment Trust (**MIT**) withholding tax rate on NCMI to 30%. The withholding tax rate on ENCMI and other MIT income remain the same at 15% for most foreign investors in an Exchange of Information country or 30% for foreign investors in a non-Exchange of Information country. For financial year 2019/2020, the amount that is attributable to NCMI and ENCMI are included in the Trust Distribution – Other Australian income and capital gains tax. Trusts and partnerships must disclose these components in their income tax return. For Trusts, partnerships and foreign resident investors, your Annual Investor Income summary will have a breakdown of the NCMI income and ENCMI income.

If the Underlying Securities are or include units in an AMIT, listed trust, exchange traded fund (**ETF**) or stapled security (e.g. STW), attributions from the AMIT and distributions from the trust, ETF or stapled security should have the same character as the amounts derived by the AMIT, trust, ETF or stapled security (e.g. they may include capital gains, foreign tax credits or franked dividends). The tax composition of attributions from AMITs, distributions from trusts, ETFs or stapled securities is contained in the Annual Distribution and Attribution Statement for the relevant AMIT, trust, ETF or stapled security. This statement will be issued by Westpac once the underlying issuer has released these details. You should refer to the Tax section of the relevant PDS for further details on the tax treatment of these attributions or distributions.

Things you should know.

This Guide is provided for information purposes only and does not constitute taxation advice. Westpac Banking Corporation does not provide taxation advice and we recommend that you speak to your professional taxation adviser when preparing your income tax return. This Guide is based on current taxation laws and interpretations and has been prepared with the assistance of KPMG. The information contained in this Guide is current as at 28 August 2020.

WBCW92343 06/20