Guide to Taxation of Westpac Self-Funding Instalments for the Financial Year ended 30 June 2011.

1. Taxation of capital protected borrowings

Division 247 applies to certain capital protected borrowings entered into on or after 1 July 2007. Transitional provisions apply to arrangements entered into between 16 April 2003 and 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.

From 1 July 2007 to before 7:30pm (AEST) on 13 May 2008, the benchmark interest rate was the Reserve Bank of Australia's variable indicator rate for personal unsecured loans. For these arrangements entered into after 1 July 2007 and before 7:30pm (AEST) on 13 May 2008, the Reserve Bank's variable rate for personal unsecured loans will continue to be the applicable benchmark rate until 30 June 2013 or over the life of the product, whichever is the shorter. For arrangements entered into after 7:30pm (AEST) on 13 May 2008, the benchmark interest rate is the Reserve Bank's variable indicator rate for standard housing loans plus 100 basis points (1%).

Month	Personal unsecured rate	Housing loan rate plus 100 basis points
July 2007	12.60%	
August 2007	13.35%	
September 2007	13.35%	
October 2007	13.45%	
November 2007	13.80%	
December 2007	13.85%	
January 2008	13.90%	
February 2008	14.15%	
March 2008	14.55%	
April 2008	14.60%	
May 2008	14.65%	10.45%
June 2008	14.65%	10.45%
July 2008	14.90%	10.60%
August 2008	14.90%	10.60%
September 2008	14.85%	10.35%
October 2008	14.85%	9.35%
November 2008	14.60%	8.75%
December 2008	14.25%	7.85%
January 2009	14.10%	7.85%
February 2009	13.75%	6.85%

Month	Personal unsecured rate	Housing loan rate plus 100 basis points
March 2009	13.50%	6.85%
April 2009	13.50%	6.75%
May 2009	13.50%	6.75%
June 2009	13.50%	6.80%
July 2009	13.50%	6.80%
August 2009	13.50%	6.80%
September 2009	13.50%	6.80%
October 2009	13.75%	7.05%
November 2009	14.00%	7.30%
December 2009	14.25%	7.65%
January 2010	14.25%	7.65%
February 2010	14.25%	7.65%
March 2010	14.50%	7.90%
April 2010	14.75%	8.15%
May 2010	15.00%	8.40%
June 2010	15.00%	8.40%
July 2010	15.00%	8.40%
August 2010	15.00%	8.40%
September 2010	14.75%	8.40%
October 2010	15.00%	8.40%
November 2010	15.25%	8.80%
December 2010	15.25%	8.80%
January 2011	15.25%	8.80%
February 2011	15.25%	8.80%
March 2011	15.25%	8.80%
April 2011	15.10%	8.80%
May 2011	15.10%	8.80%
June 2011	15.10%	8.80%

2. Purchasing Westpac Self-Funding Instalments during the 2010–2011 financial year

Your Westpac Tax Statement shows the amount of prepaid interest, Borrowing Fees* (if any) 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	
Borrowing Fees	Deductible over the lesser of 5 years or the period to the Completion Date	

*If you purchased your instalments via a Primary Market Application (Cash, Security Holder, or Rollover), you may have been charged a Borrowing Fee as indicated in the statement confirming your purchase.

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 in relation to the purchase of Westpac Self Funding Instalments during the 2010-2011 year are applicable to Westpac Self-Funding Instalments issued under the Product Disclosure Statement dated 1 February 2011. For comments on the tax implications of purchases of Westpac Self-Funding Instalments issued under previous Product Disclosure Statements please refer to page 4 and 5 of the "Guide to Taxation of Westpac Self-Funding Instalments for the Financial Year ended 30 June 2010". You can request a copy of this guide by calling Westpac on 1800 990 107. You should check that the "Guide to Taxation of Westpac Self-Funding Instalments for the Financial Year ended 30 June 2010" is still applicable.

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.

Timing of deduction for interest

For certain individuals (who are not carrying on a business) and small business taxpayers, the prepaid interest 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

	Individual/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 Instalments acquired prior to 1 July 2007	The prepaid interest deduction is the amount actually incurred and is determined by reference to the interest rate charged by Westpac and the amount of the new Loan Amount.	No additional amount is treated as attributable to the cost of capital protection by Division 247.
Westpac Self-Funding Instalments acquired from 1 July 2007 to 13 May 2008	The prepaid interest deduction is the amount actually incurred and is determined by reference to the interest rate charged by Westpac and the amount of the new Completion Payment.	Currently no additional amount is treated as attributable to the cost of capital protection by Division 247.
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 1 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 1 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 February 2011, 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.

The net amount of capital proceeds received upon the sale of Westpac Self-Funding Instalments on the ASX is therefore the same for instalments issued under the Product Disclosure Statement dated 1 February 2011 and previous series.

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 2011, 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. You will be entitled to a deduction for the remaining balance of any undeducted Borrowing Fees.

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

5. Dividends and Distributions

Dividends and 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.

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.

If the Underlying Securities are or include units in a listed trust (e.g. STW), distributions from the trust should have the same character as the amounts derived by the trust (e.g. they may include capital gains, foreign tax credits or franked dividends). The tax composition of distributions from trusts are generally available from the relevant entities or their websites. You should refer to the Tax section of the relevant PDS for further details on the tax treatment of these distributions.

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