



Guide to Taxation for the Westpac Protected Equity Loan facility (Westpac PEL) for the financial year ended 30 June 2012

General

This guide is designed to provide investors with a general outline of the likely tax consequences in relation to interest paid and dividends and distributions for a Westpac PEL. Investors should be aware that the actual tax consequences may differ depending on their individual circumstances. This guide should not be interpreted as tax advice to any investor, and has been prepared without account of your objectives, financial situation or needs. Because of this, before acting on this information, consider its appropriateness, and seek independent advice as necessary.

This guide is only relevant for a person who:

- is an Australian resident taxpayer including individuals, companies, trusts and complying superannuation funds who is not subject to the TOFA regime in Division 230 of the Income Tax Assessment Act 1997 (**1997 Act**);
- holds their interest in the Securities on capital account and does not, for example, consider an investor who holds their interest in the Securities in the course of a business that involves trading in financial instruments or securities;
- enters into the Westpac PEL and acquires the Securities for the purposes of deriving assessable income. In this regard, it is expected that assessable dividends and/or trust distributions will be received by Investors in relation to the Securities; and
- where the Securities are units in a trust, the trust will have 300 or more beneficiaries and is a widely held unit trust for the purposes of the provisions of the tax law dealing with deductions for prepaid interest.

Westpac does not provide taxation advice and Investors should seek professional taxation advice when preparing their income tax return. For further information in relation to the tax implications of this product, please refer to the Tax Opinion included in the relevant Product Disclosure Statement (**PDS**).

Interest Deductibility

Division 247 of the 1997 Act applies to certain capital protected borrowings entered into on or after 1 July 2007. The amount reasonably attributable to the cost of capital protection will effectively reduce the amount of interest which would otherwise be deductible for investors. Division 247 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 (**Benchmark Rate**) had applied, the excess is not deductible (but instead will form part of the capital gains tax cost base of their put option).

The Benchmark Rate is currently the Reserve Bank of Australia's Indicator Lending Rate for Standard Variable Housing Loans, plus 100 basis points (1%).

To the extent you have used the Loan to acquire securities for the purpose of producing assessable income, the deductible interest is the lesser of:

- (i) The actual amount of interest charged by Westpac (whether payable annually in advance or monthly in arrears or payable on any applicable interest loan); and
- (ii) The amount of interest that would have been incurred if the applicable Benchmark Rate set out in the table below had applied to the loan.

The applicable Benchmark Rate should be the Benchmark Rate at the time of commencement of the relevant Fixed Rate or Annually Resetting Rate.

Month 2011	Benchmark rate	Month 2012	Benchmark rate
July	8.80%	January	8.30%
August	8.80%	February	8.40%
September	8.80%	March	8.40%
October	8.80%	April	8.40%
November	8.55%	May	8.05%
December	8.30%	June	7.85%

Source: RBA

Where you have elected to pay the Capital Protection Fee as a component of the interest rate, the interest amount in your statement includes interest and the amount reasonably attributable to the cost of capital protection.

In these circumstances, the amount reasonably attributable to the cost of capital protection for an income year under Division 247 in respect of the Loan, which will form part of the capital gains tax cost base of your put option, should be equal to the excess (if any) of:

- (a) The interest for that income year (e.g. whether payable annually in advance, or monthly in arrears, or payable on the Interest Loan); over,
- (b) an amount (the **Benchmark Amount**) that would have been incurred if the applicable Benchmark Rate had applied to the loan.

Where you elected to pay the Capital Protection Fee upfront at the time of entering the Westpac PEL, that amount will form part of the capital gains tax cost base of your put option. Generally the interest amount in your statement does not include an amount reasonably attributable to the cost of capital protection. However, in the event that you are also denied a deduction for a portion of interest as a result of Division 247, then that amount would also be included in the cost base of your put option.

Timing of deduction for prepaid interest

For certain individuals (who are not carrying on a business) and small business taxpayers, the prepaid interest that is not reasonably attributable to the cost of capital protection should be deductible in full in the income year in which the interest payment is made if the interest period is 12 months or less and ends before the end of the following income year (which, relevantly, should be the case where the Interest is payable annually in advance).

For other investors, the deduction for the interest may be required to be apportioned over the period to which the interest relates.

Investors should obtain independent legal and taxation advice in relation to the timing of any deduction for Interest which takes into account the relevant Investor's individual facts and circumstances.

Dividends and Distributions

Dividends and distributions paid by the Securities are assessable to you.

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. You may be denied the franking credits in respect of distributions received where you have not held the interest in the underlying securities "at risk" for a continuous period of 45 days (or 90 days if the shares are preference shares) over the prescribed period. You should seek your own taxation advice in relation to the potential application of these provisions, particularly where you have utilised any of the additional features of the Westpac PEL such as the reduced rate facility.

If the 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 PDS for further details on the tax treatment of these distributions.

Things you should know: This summary is provided for information purposes only and does not constitute tax advice. Westpac Banking Corporation does not provide taxation advice and we recommend that you speak to your professional taxation adviser for assistance when preparing your return. This Guide is based on current tax laws and interpretations and has been prepared with the assistance of KPMG. The information contained in this Guide is current as at 19 September 2012.

Important Information: The Westpac Protected Equity Loan facility (**Westpac PEL**) is offered by Westpac Banking Corporation (ABN 33 007 457 141, AFSL 233714) (**Westpac, we, or us**). The Product Disclosure Statement (**PDS**) relating to the Westpac PEL dated 19 April 2012 is available from www.westpac.com.au/pel, or by contacting Westpac Structured Investments on 1800 990 107 or structured.investments@westpac.com.au. It is important that you consider the PDSs before making any decision to invest. The information contained in this document has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness. The information contained in this document is current at the date of publication but remains subject to change. Neither Westpac nor any related body corporate, director, officer or employee warrants or represents this information is free from errors or omissions or is suitable for your intended use. Subject to any terms implied by law and which cannot be excluded, Westpac accepts no responsibility for any loss, damage, cost or expense (whether direct or indirect) incurred by you as a result of any error, omission or misrepresentation in any information in this document. Capitalised terms used in this document have the same meaning given to them in the PDS unless the context otherwise requires. Any reference to taxation matters is a general statement only and should only be used as a guide. It does not constitute tax advice and is based on current laws and their interpretation. Westpac financial planners are not registered tax agents under the Tax Agents Services Act or qualified to give tax advice. The individual situation of investors may differ and investors should seek independent tax advice on any tax matters.