

## Annual Report 2016 – tax transparency excerpt

The following attachments are excerpts from Vicinity Centres' (Vicinity) Annual Report 2016. They are to be read in conjunction with the remainder of the Annual Report.

Attached are:

- Extract 1: The Tax Transparency section, pages 38 to 40, of the Annual Report, and
- Extract 2: The Taxes Note to the financial statements, Note 3 on pages 78 and 79, of the Annual Report.

A full copy of the Annual Report 2016 can be downloaded at <http://www.vicinity.com.au/media/529334/annual-report-2016.pdf>.

More Vicinity tax information can be found on our website at <http://www.vicinity.com.au/investor-centre/tax-information>.

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# TAX TRANSPARENCY

## Our approach to tax

Vicinity Centres operates under a comprehensive tax risk management policy which is designed to ensure that it always conducts itself in a lawful manner with respect to all of its tax obligations. In carrying on its activities, Vicinity:

- has robust tax governance, with ongoing oversight from Vicinity's key executives, Audit Committee and Board of Directors
- has a low risk appetite and does not engage in aggressive tax planning and strategies
- is conservatively geared within a publicly disclosed range of 25% to 35%
- is wholly domestic, does not have any offshore subsidiaries and therefore has no related party cross-border transactions, and
- undertakes to comply with all of its statutory obligations in a timely and transparent manner.

Overall, Vicinity's tax culture and business practices are driven by our Vision and Values, and are consistent with our purpose of enriching the communities that we serve.

## Australian tax transparency

To improve the transparency of business tax affairs, the Board of Taxation has designed a Tax Transparency Code (TTC) that outlines a set of principles and minimum standards to guide the disclosure of tax information. In adopting the TTC's guidelines, Vicinity aims to provide more informative disclosure on its tax affairs.

Furthermore, Vicinity Limited, as a corporate taxpayer with total income in excess of \$100 million, is subject to the Australian Taxation Office's (ATO's) Public Disclosure of Entity Information Report that is released annually. This report discloses Vicinity Limited's total income, taxable income and income tax payable for the relevant financial year.

Vicinity values having good relations with all external stakeholders, including the ATO. Vicinity is working with the ATO in its Pre-Lodgement Compliance Review (PCR) program. Under the PCR program, Vicinity engages with the ATO on a real-time basis so that, where possible, clearance of any tax issues and transactions occurs prior to the lodgement of Vicinity's annual income tax returns. Vicinity has a history of compliance, which is reflective of its approach and attitude towards the ATO.

## Group structure

Vicinity has a dual stapled structure, with each stapled security comprising one share in a company (Vicinity Limited) and one unit in a trust (Vicinity Centres Trust).

Vicinity Limited, and its wholly owned group of entities, undertakes the business of managing Vicinity's shopping centre portfolio including property management, development management and responsible entity and trustee services for Vicinity Centres Trust, its sub-trusts and external wholesale funds. Vicinity Limited also provides property and development management services for joint owners of Vicinity's assets and other third parties.

Vicinity Centres Trust is a managed investment scheme regulated by Australian Securities and Investments Commission (ASIC) and the *Corporations Act 2001*. Vicinity Centres Trust and its controlled trusts hold the real estate investments for Vicinity.

The stapling of companies to trusts to create Australian Real Estate Investment Trusts (AREITs), as in the case of Vicinity, is common in the Australian property industry. A stapled property group generally holds its real estate investments within a trust, while its management and other trading activities are held by the company. The structure provides investors the opportunity to invest in property through a regulated and managed scheme, while

at the same time allowing investors to receive the benefits and efficiencies that result from property investment as if they held their investment directly. These benefits extend to flow-through of the taxable income (including capital gains) of the trust so that this income is taxed in the hands of the investor.

## Taxation of Vicinity

Vicinity is a tax resident of Australia and operates entirely within the Australian market. Vicinity does not own any foreign assets, nor does it have any foreign subsidiaries.

As described above, Vicinity is a stapled group that consists of companies and trusts. Under Australian tax law, companies are subject to income tax at the applicable corporate tax rate (30% for FY16) on their taxable income. Trusts, in comparison, are generally taxed on a flow-through basis, meaning that a trust's taxable income is taxed in the hands of the beneficiaries at their applicable tax rates.

Vicinity Limited and its wholly owned group of entities are consolidated for income tax purposes, resulting in all members of the consolidated group being treated as a single corporate taxpayer. As a result, Vicinity Limited is responsible for the income tax liability of the consolidated tax group, and intra-group transactions are eliminated in order to determine the consolidated tax group's taxable income.

Vicinity Centres Trust and its controlled trusts are not liable to pay income tax (including capital gains tax), as the taxable income from their property investments flows through the trust and is taxed in the hands of investors annually. Vicinity's investors pay tax at their marginal tax rates, in the case of Australian resident investors, or through the Managed Investment Trust (MIT) withholding rules for non-resident investors.

## Reconciliation of accounting profit to income tax paid

A full reconciliation of Vicinity's accounting net profit to income tax paid is included in the deferred and current tax note in Note 3 of the Financial Report. In interpreting the disclosure in the deferred and current tax note, it should be noted that the accounting net profit is determined in accordance with the Australian Accounting Standards. Taxable income, in contrast, is a concept defined under income tax law, which is calculated by subtracting allowable deductions from assessable income. An entity's income tax liability is calculated by multiplying its taxable income by its applicable tax rate.

The accounting net profit that was attributable to securityholders of Vicinity Centres Trust and its controlled entities was \$1,266.5 million for FY16. This accounting net profit was derived through its trust structure, so the taxable income that is referable to this net profit is therefore taxed in the hands of securityholders, as described above.

The Vicinity Limited income tax consolidated group generated an accounting net loss of \$305.6 million. Therefore Vicinity Limited was also in a tax loss position, albeit a much lower tax loss for the year of approximately \$70 million, due to integration costs and costs relating to the internalisation of the Novion Property Group. Therefore, Vicinity Limited will pay nil income tax for FY16. Vicinity Limited's losses that are carried forward to later income years are partly recognised through its deferred tax asset balance and described in detail in the deferred and current tax disclosures at Note 3(c) of the Financial Report. Vicinity Limited will become tax payable when it fully utilises its tax losses and other deferred tax assets.

It is noted that Vicinity Limited's nil taxable income and nil income tax payable will be reported in the ATO's Public Disclosure of Entity Information Report for the 2016 financial year, which is expected to be released in late 2017.

## Effective tax rate

Under the TTC, Vicinity has chosen to calculate its effective tax rate (ETR) as income tax expense (current and deferred) divided by accounting profit. It is noted that this is a simplified method of calculating the ETR, and should not be compared to the corporate tax rate without appreciating the differences between accounting profit and taxable income (as explained above). Further information is available on the ATO's tax transparency webpage explaining such variances (refer to 'Further information' on page 40).

Given that Vicinity Centres Trust does not pay income tax (rather, tax is paid by Vicinity's securityholders), it has nil income tax expense and therefore nil ETR. Vicinity Limited will not pay income tax in respect of FY16 due to its tax losses, hence it has nil tax expense and therefore nil ETR.



Chadstone, VIC



## TAX TRANSPARENCY *continued*

### Contributions to the Australian tax system

Vicinity Centres Trust's flow-through trust status means that Vicinity investors pay income tax directly on Vicinity's property investments income. For FY16, Vicinity's investors will pay income tax on the taxable components of the \$700.7 million distribution paid to them. The taxable components of the distribution will be communicated to retail investors and uploaded onto the Vicinity website, along with the Fund Payment notice for MIT withholding purposes, in late August 2016. As the majority of our non-resident investors hold their interests indirectly (for example through custodians), the Fund Payment notice informs these third parties of the amount of tax to withhold from our distribution.

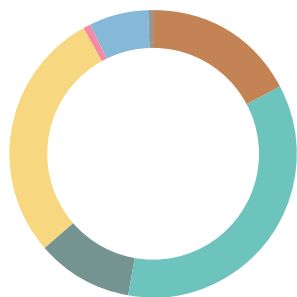
Additionally, as a business that operates in the Australian property industry, Vicinity is subject to various other taxes at the federal, state and local government levels. These taxes amount to approximately \$312.6 million and are either borne by Vicinity as a cost of our business, or are remitted by Vicinity as part of our contribution to the administration of the tax system. As can be seen below, the taxes remitted include pay as you go (PAYG) withholding taxes paid by our employees and Goods and Services Tax (GST) we collect from our retailers who rent space in our centres, net of GST claimed by Vicinity on its own purchases.

The information provided below summarises Vicinity's Australian tax contribution for FY16.

### Further information

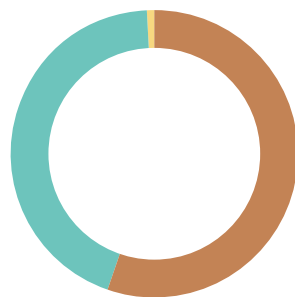
- Vicinity Limited taxes paid information is published by the ATO in its Report of Entity Information published on [data.gov.au](http://data.gov.au)
- A breakdown of the taxable components that investors receive via their annual taxation statements will be available in late August on Vicinity's website: [vicinity.com.au](http://vicinity.com.au)
- ATO's webpage on tax transparency for corporate tax entities, including background information and explanations: [ato.gov.au/Business/Large-business/In-detail/Tax-transparency/Tax-transparency-reporting-of-entity-tax-information](http://ato.gov.au/Business/Large-business/In-detail/Tax-transparency/Tax-transparency-reporting-of-entity-tax-information)
- Further details on the merger can be found in the 'Merger of Federation Centres and Novion Property Group' section under 'About this report' in the Notes to the Financial Statements.

#### Total taxes borne by Vicinity \$177.2m<sup>1,2</sup>



- Land tax **\$30.8m**
- Stamp duty – merger **\$63.2m**
- Stamp duty – property acquisitions **\$18.9m**
- Local rates and levies **\$50.3m**
- Fringe benefits tax **\$1.4m**
- Payroll tax **\$12.0m**
- WorkCover contributions **\$0.6m**

#### Total taxes remitted by Vicinity \$135.4m<sup>2</sup>



- Net GST remitted **\$74.9m**  
– GST collected **\$185.4m**  
– Less GST claimed **\$110.5m**
- PAYG withholding **\$59.7m**
- Taxes withheld from investors<sup>3</sup> **\$0.8m**

1. Land tax and local rates and levies data has been extracted from the group financial statements and therefore may vary from the actual taxes paid due to timing differences.
2. In respect of the financial year ended 30 June 2016.
3. This represents taxes withheld from Vicinity's investors. As the majority of our investors either supply their tax file number or in the case of non-residents, hold their interests indirectly, this figure is not representative of the actual tax paid by our investors.

## OPERATIONS continued

### 3. Taxes

#### (a) Group taxation

##### Income tax

##### *Vicinity Centres Trust (flow through trust structure)*

Vicinity Centres Trust (the Trust) and its controlled trusts are not liable to pay income tax (including capital gains tax) on the basis that their beneficiaries are presently entitled to the net income of the trusts. This means that the taxable income from the Trust's property investments is taxed on a flow through basis in the hands of the Trust's investors. The Trust's investors pay tax at their marginal tax rates, in the case of Australian resident investors, or through the Managed Investment Trust withholding rules for non-resident investors. As a result, the Group has zero income tax expense recognised in respect of the Trust's profit.

##### *Vicinity Limited (corporate tax group)*

Vicinity Limited and its subsidiaries have formed a tax consolidated group (TCG). Under this arrangement, Vicinity Limited, the head entity, accounts for its own current and deferred tax amounts and assumes those from subsidiaries in the TCG. Members of the TCG have entered into a tax funding arrangement which sets out the funding obligations of members of the TCG in respect of tax amounts. The tax funding arrangement requires payments to/from the head entity to be recognised via an inter-entity receivable/payable which is at call.

Income tax expense for the year is calculated at the corporate tax rate of 30% and comprises current and deferred tax expense. These amounts are recognised in profit or loss, except to the extent they relate to items recognised directly in other comprehensive income or equity. Current tax expense represents the expense relating to the expected taxable income at the applicable rate for the financial year. Deferred tax expense represents the tax expenses in respect of future tax consequences of recovering or settling the carrying amount of an asset or liability. These future tax consequences are recorded as deferred tax assets to the extent it is probable that future taxable profits will be available to utilise them or deferred tax liabilities. Where appropriate, deferred tax assets and liabilities are offset as permitted by Australian Accounting Standards.

A summary of Vicinity Limited's current and deferred tax expense, and recognised deferred tax assets, is shown below:

For the 12 months to:	30-Jun-16 \$m	30-Jun-15 \$m
Current income tax benefit/(expense)	6.3	(0.4)
Deferred income tax expense	(2.8)	(4.3)
Adjustment for current year tax of prior periods	0.7	(0.3)
Benefit from tax losses not recognised	(4.2)	-
<b>Income tax expense</b>	<b>-</b>	<b>(5.0)</b>

##### Statutory taxes and levies

The Group also incurs federal, state based or local authority taxes including land tax, council rates and levies. These are included within direct property expenses in the Statement of Comprehensive Income. Also included in employee benefits expenses are employment related taxes such as fringe benefits tax, payroll tax and workcover contributions.

Further details of these taxes can be found in our Vicinity Centres Approach to Taxes section of this Annual Report. The taxes paid report has been prepared in accordance with the Board of Tax Voluntary Tax Transparency Code.

##### Goods and services tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST) except where:

- The GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables and payables in the Balance Sheet. Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, that is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority. Further details of these taxes can be found in our Vicinity Centres Approach to Taxes section of this Annual Report.

## EXTRACT 2

### (b) Reconciliation between income tax expense/(benefit) to net profit

The reconciliation below takes the Group's net profit before tax and deducts:

- The component of the Group's profit attributable to the Trust (which, as described in Note 3(a), is not subject to tax provided that unitholders are presently entitled to the income of the Trust); and
- Items included in net profit before tax which are not subject to tax.

	30-Jun-16 \$m	30-Jun-15 \$m
<b>For the 12 months to:</b>		
Profit before tax for the year	<b>960.9</b>	680.1
Less: Profit attributed to the Trust and not subject to tax	<b>(1,266.5)</b>	(664.3)
<b>Net (loss)/profit before tax attributable to securityholders of Vicinity Limited</b>	<b>(305.6)</b>	15.8
Prima facie income benefit/(expense) at 30%	<b>91.7</b>	(4.7)
<b>Tax effect of amounts not taxable in calculating income tax expense:</b>		
Non-deductible impairment and amortisation of intangible assets	<b>(89.5)</b>	(1.0)
Net adjustment relating to acquisition of share based payments	<b>2.4</b>	-
Prior period adjustments	<b>0.7</b>	(0.3)
Other non-deductible items	<b>(2.4)</b>	(1.3)
Other items	<b>1.3</b>	2.3
Benefit from tax losses not recognised	<b>(4.2)</b>	-
<b>Income tax expense</b>	<b>-</b>	(5.0)

### (c) Movement in temporary differences

A summary of the movements in deferred tax balances is as follows:

	Provisions \$m	Intangible assets \$m	Other \$m	Allowable deductions <sup>1</sup> \$m	Tax losses \$m	Total \$m
<b>At 1 July 2014</b>	<b>17.3</b>	<b>(5.3)</b>	<b>2.2</b>	<b>38.6</b>	<b>10.5</b>	<b>63.3</b>
Acquired through business combination	7.4	-	4.9	-	13.6	25.9
Allowable deductions	-	-	-	(14.7)	14.7	-
Charged:						
– to profit	(5.3)	1.0	0.1	-	(0.8)	(5.0)
– directly to equity	-	-	0.1	-	-	0.1
<b>At 30 June 2015</b>	<b>19.4</b>	<b>(4.3)</b>	<b>7.3</b>	<b>23.9</b>	<b>38.0</b>	<b>84.3</b>
Allowable deductions	-	-	-	(15.0)	15.0	-
Charged:						
– to profit	(1.5)	1.0	(2.3)	0.6	2.2	-
<b>At 30 June 2016</b>	<b>17.9</b>	<b>(3.3)</b>	<b>5.0</b>	<b>9.5</b>	<b>55.2</b>	<b>84.3</b>

1. The Group is entitled to tax deductions under s40-880 of the *Income Tax Assessment Act 1997* primarily resulting from the termination of funds management contracts in March 2014.

The deferred tax asset of \$84.3 million is recognised based on forecasts as it is probable the Group will earn sufficient taxable income in future periods to utilise the tax deductions.

Unrecognised deferred tax assets at 30 June 2016 are \$25.3 million (30 June 2015: \$19.8 million) which will be reviewed on an annual basis and may be recognised at a later date if considered likely to be recovered.