

## 2020 Annual Report – tax transparency excerpt

The following attachments are excerpts from Vicinity Centres' 2020 Annual Report. They are to be read in conjunction with the remainder of the Annual Report.

Attached are:

- Extract 1: The Tax Transparency section, pages 42 to 45, of the Annual Report, and
- Extract 2: Note 3 to the financial statements, Taxes, on pages 88 to 90 of the Annual Report.

A full copy of the 2020 Annual Report can be downloaded at

<https://www.vicinity.com.au/media/916388/200819-2020-annual-report.pdf>

More Vicinity tax information can be found on our website at

<https://www.vicinity.com.au/investor-centre/tax-information>

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# Tax Transparency

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**Vicinity aims to create long-term value and sustainable growth from our portfolio of Australian retail assets, creating places where people love to connect and true to our purpose, enriching the communities in which we operate. Vicinity's approach to tax and the economic contribution it makes through the taxes it pays aligns to those aims.**

## Australian tax transparency

To improve the transparency of business tax affairs in Australia, the Board of Taxation designed the Tax Transparency Code (TTC) in 2016 to outline a set of principles and minimum standards to guide the disclosure of tax information. In adopting the TTC's guidelines from its inception, Vicinity aims to provide transparent and informative disclosure on its tax affairs. Part A of the TTC disclosures can be found in Note 3 of the Financial Report and the Part B disclosures are contained within this section.

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.

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## Vicinity's group structure

Vicinity has a 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 operating in accordance with the *Corporations Act 2001* (Cth), and is regulated by the Australian Securities and Investments Commission (ASIC). 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 and its predecessor organisations, has been commonplace in the Australian property industry since the 1990s. 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 securityholders the opportunity to invest in property through a regulated and managed scheme, while at the same time allowing securityholders to receive the benefits and efficiencies that result from property investment as if they held their investment directly. These benefits extend to receiving distributions of income on those investments directly from Vicinity Centres Trust as holder of the properties, with that income taxed directly in the hands of the securityholder.

## Stapled structures legislation

Following the review of stapled structures in Australia by Federal Treasury which began in 2017, legislation has been enacted which introduced integrity measures aimed at addressing the inappropriate use of stapled structures and limiting the access for foreign investors to concessions for passive income. In particular, the legislation prevents stapled structures from re-characterising trading income into passive income. Effective from 1 July 2019, unless transitional arrangements apply, the managed investment trust (MIT) withholding tax rate of 30% applies to amounts which fall within the definition of non-concessional MIT income.

Vicinity has reviewed the stapled structures legislation to ensure that it is compliant with the integrity measures. As an AREIT that adopts a stapled structure in a traditional manner to derive passive rental income in its trust structure and trading income in its corporate structure, Vicinity is not materially impacted by the measures.

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## Our approach to tax

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. Vicinity is also committed to strong corporate governance policies and practices across all of its functions, including tax.

Vicinity has an established Tax Risk Management Framework (the Framework) that is endorsed by the Vicinity Board and reflects the Group's low-risk approach to taxation. When carrying on its activities, Vicinity:

- has a low risk appetite and does not engage in aggressive tax planning and strategies
- complies with all of its statutory obligations in a timely and transparent manner
- conducts itself in a lawful manner with respect to its tax obligations and protects its reputation
- has robust tax governance, with ongoing oversight and escalation points for managing tax risk from Vicinity's key executives to the Audit Committee and Board of Directors
- has a set of tax policies, procedures and systems across the Vicinity business to enable compliance with tax laws and the management of tax risk, and
- engages directly with the ATO to provide transparency and understanding of Vicinity's tax affairs.

A robust set of internal controls and policies has been put in place to support the operational effectiveness of the Framework within Vicinity. Furthermore, the Audit Committee and independent assurance functions such as internal and external auditors provide independent and objective assurance on the effectiveness of risk management, control and governance processes.

Vicinity applies the Framework across its business to integrate the assessment of the tax implications of transactions, projects and business initiatives into day-to-day business. In this way, Vicinity can assess the tax implications of all transactions before committing to them and mitigate any tax risks that might arise.

The Group can then also put in place adequate processes to efficiently manage our ongoing tax compliance obligations.

Vicinity values having a good relationship with all external regulatory bodies, including the ATO. Vicinity continues to engage with the ATO directly in a co-operative manner. During FY20, the ATO finalised the Top 100 Tax Assurance Review of Vicinity Centres group for the 2017 income year with no adjustments made to tax calculations. Following the Review, Vicinity is no longer considered a Top 100 public and multinational taxpayer under the ATO's framework. Instead, Vicinity has transitioned to the Top 1,000 taxpayer program and going forward, the ATO's engagement with Vicinity will be based on a more streamlined assurance review approach.

Under the ATO's Justified Trust program, Vicinity has worked with the ATO to assist with the ATO's understanding of:

- Vicinity's tax governance framework
- how Vicinity addresses the risks or concerns that the ATO has identified and communicated to the broader market
- the tax impact of any significant or new transactions for Vicinity, and
- how Vicinity's financial performance translates to its tax position.

The aim of the Justified Trust program is to assure the community that large businesses, including Vicinity are paying the right amount of tax.

Finally, management engages and consults with regulatory bodies regarding tax policy, tax reform and tax law design on matters that affect Vicinity's business and its securityholders.

Further information on Vicinity's corporate governance is available in its 2020 Corporate Governance Statement.

## 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 related party subsidiaries. As a result, Vicinity does not have any transfer pricing risk.

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 FY20) 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 (or in the case of Vicinity, its securityholders) at their applicable tax rates.

## Vicinity Limited

Vicinity Limited and its wholly-owned entities are consolidated for income tax purposes, resulting in all members of the consolidated group being treated as a single corporate taxpayer. 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

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 securityholders annually. Vicinity's securityholders pay tax at their marginal tax rates if they are Australian resident securityholders, or through the Attribution Managed Investment Trust (AMIT) withholding tax rules if they are non-resident securityholders. The Vicinity Centres Trust group elected into the AMIT regime with effect from 1 July 2017.

# Tax Transparency continued

## Reconciliation of accounting profit to income tax paid and payable

A full reconciliation of Vicinity's accounting net profit to income tax expense 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 an income tax concept, which is calculated by subtracting allowable deductions from assessable income. A taxpayer's income tax liability is calculated by multiplying its taxable income by its applicable tax rate.

### Vicinity Centres Trust

The accounting net loss that was attributable to securityholders of Vicinity Centres Trust and its controlled entities was \$1,830.70 million for FY20. Despite the net accounting loss, Vicinity Centres Trust has derived a taxable income which will be attributed to the securityholders under the AMIT rules and taxed accordingly in the hands of securityholders, as described above.

### Vicinity Limited

The Vicinity Limited consolidated group generated an accounting profit before tax of \$42.3 million for FY20. The Group recognised a current income tax expense of \$7.8 million and deferred income tax expense of \$4.4 million for FY20. After the adjustment for current year tax of prior periods and the utilisation of off balance sheet deferred tax assets, the total income tax expense for FY20 was \$12.1 million.

With respect to its tax position for FY20, the Vicinity Limited Income Tax Consolidated Group generated taxable income of approximately \$27.8 million<sup>1</sup>, which was fully offset by its carry-forward tax losses and franking credit tax offsets. Accordingly, Vicinity Limited is not required to pay income tax for FY20.

Vicinity Limited's tax 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 be in a tax payable position when it fully utilises its carry-forward tax losses.

It is noted that Vicinity Limited's taxable income and income tax payable will be reported in the ATO's Public Disclosure of Entity Information Report for FY20, which is expected to be released in late 2021.

The summary below provides a reconciliation from accounting net profit before tax to income tax payable for the Vicinity Limited Income Tax Consolidated Group for the 2019 tax return. The total income, taxable income and tax payable amounts disclosed below are anticipated to reconcile to the ATO's Public Disclosure of Entity Information Report for FY19 (ATO Tax Transparency Disclosure), which is expected to be available in December 2020.

The tax payable will not reconcile to the income tax expense at Note 3(b) of the Financial Report as the tax payable calculation includes tax temporary

differences such as movements in provisions and the adjustments are stated at their gross values (not tax effected). Income tax expense also includes items which are not included in income tax payable for a year such as prior period adjustments.

## Effective tax rate

Under the TTC, Vicinity Limited has chosen to calculate its effective tax rate (ETR) as income tax expense (current and deferred) divided by accounting profit. 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.

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Given that Vicinity Centres Trust does not pay income tax (rather, tax is paid by Vicinity's securityholders), it has no income tax expense and therefore a zero ETR. As described above, Vicinity Limited has an income tax expense of \$12.1 million in FY20 and an ETR of 28.6%.

## Reconciliation to ATO Tax Transparency Disclosure

	30-Jun-19
<b>Vicinity Limited Income Tax Consolidated Group</b>	<b>\$m</b>
Total income	231.1
Total expenses	(205.4)
<b>Profit before income tax</b>	<b>25.7</b>
Net adjustments relating to acquisition of share based payments	4.4
Other adjustments	3.4
Tax losses utilised	(30.2)
<b>Total taxable income/(loss)</b>	<b>3.3</b>
Income tax of 30% on taxable income	1.0
Less tax offsets	(1.0)
<b>Tax payable</b>	<b>0.0</b>

1. Prior to the recoupment of prior year tax losses and the utilisation of tax offsets.

## Contributions to the Australian tax system

Vicinity Centres Trust's flow-through tax status means that Vicinity securityholders pay income tax directly on Vicinity's property investments income. For FY20, Vicinity's securityholders will pay income tax on the taxable components of the cash distribution paid or attributed to them. The taxable components of the distribution will be communicated to securityholders and uploaded onto the Vicinity website, along with the Fund Payment notice for MIT withholding purposes, in late August 2020. As the majority of our non-resident securityholders 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.

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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. In FY20, these taxes amounted to approximately \$223 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<sup>2</sup>. 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 adjacent summarises Vicinity's Australian tax contribution for FY20.

As part of State Governments' response to COVID-19, land tax relief and deferrals have been announced across all states. Vicinity is still working through the eligibility criteria and application process for each state. No land tax relief and deferrals have been recognised within the 2020 financial statements or in the chart adjacent.

## Basis of preparation

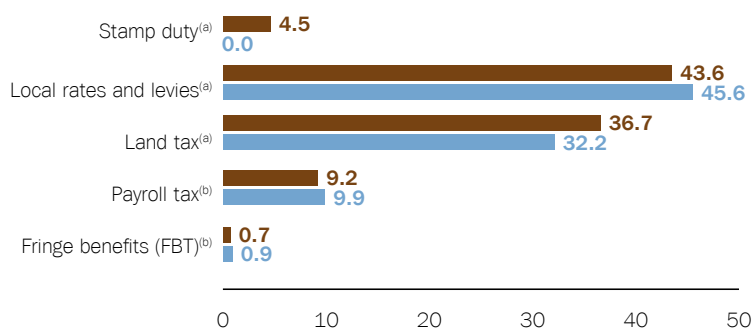
The basis of preparation for Vicinity's Australian tax contribution information presented below has been outlined in the footnotes to the disclosures. Vicinity undertakes an internal review process through its Finance and Internal Audit functions to verify the Australian tax contribution disclosures made.

## Further information

- Vicinity Limited taxes paid information is published by the ATO in its Report of Entity Information published on: [data.gov.au/dataset/corporate-transparency](http://data.gov.au/dataset/corporate-transparency)
- ATO's webpage on the enactment of the Stapled Structures legislation: [ato.gov.au/General/New-legislation/In-detail/Direct-taxes/Income-tax-for-businesses/Stapled-structures/](http://ato.gov.au/General/New-legislation/In-detail/Direct-taxes/Income-tax-for-businesses/Stapled-structures/)
- 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)
- A breakdown of the taxable components that securityholders receive via their annual taxation statements will be available in late August 2020 on Vicinity's website: [vicinity.com.au/investor-centre/tax-information](http://vicinity.com.au/investor-centre/tax-information)

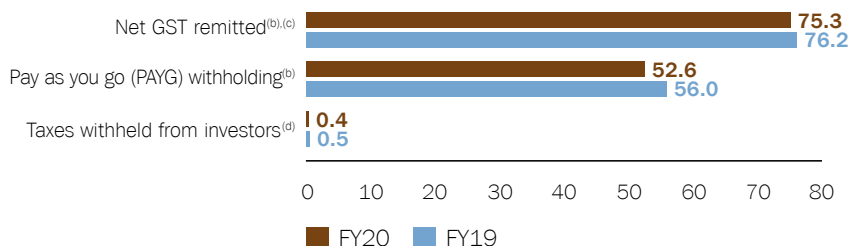
## Total taxes borne by Vicinity (\$m)

### \$94.7 million



## Total taxes remitted by Vicinity (\$m)

### \$128.3 million



(a) Stamp duty, land tax, and local rates and levies data have been reported on the same basis as they are recognised for financial statement purposes, and therefore may vary from the actual taxes paid in FY19 and FY20 due to timing differences.

(b) Payroll tax, FBT, GST and PAYG withholding data has been reported based on the amounts paid in respect of tax returns or notices of assessment issued to Vicinity for FY20 from the respective revenue authorities.

(c) Net GST remitted for FY20 is comprised of \$160.7 million of GST collected (FY19: \$171.1 million) and \$85.3 million of GST claimed (FY19: \$94.9 million).

(d) This represents taxes withheld from Vicinity's securityholders, which has been prepared based on information maintained by Vicinity's external share registry provider. As the majority of our securityholders either supply their tax file number or in the case of non-residents, hold their interests indirectly, this figure is not representative of the taxes actually paid by our securityholders.

2. In this regard, Vicinity includes entities which have been equity accounted in these financial statements.

# Operations continued

## 3. Taxes

### (a) Group taxation summary

#### Income tax

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

The Trust and its controlled trusts are not liable to pay income tax (including capital gains tax) on the basis that the taxable income from the Trust's property investments is taxed on a flow through basis in the hands of the Trust's securityholders in accordance with the Attribution Managed Investment Trust Regime. The Trust's securityholders pay tax at their marginal tax rates, in the case of Australian resident securityholders, or through the withholding rules that apply to non-resident securityholders investing in Managed Investment Trusts. As a result, the Group has zero income tax expense recognised in respect of the Trust's profit.

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

The Company and its subsidiaries have formed a Tax Consolidated Group (TCG). Under this arrangement, the Company, the head entity of the TCG, 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 Australian corporate tax rate of 30% and comprises current and deferred tax expense, any adjustments relating to current tax of prior periods and movements in off balance sheet deferred tax assets. 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 current financial year.

Deferred tax assets and liabilities are measured based on the expected manner of recovery of the carrying value of an asset or liability. Deferred tax charges represent the 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 or deferred tax liabilities will be available to utilise them. Where appropriate, deferred tax assets and liabilities are offset as permitted by Australian Accounting Standards.

Forecasts of future taxable income are determined based on the results of the Group's budgeting and planning process, adjusted for items with specific tax consequences for the Company. This process requires estimates to be made in developing assumptions about income and expenses (and their tax consequences) in future periods and significant judgement is applied in determining the length of the future time period to use in the assessment. The impact of the COVID-19 pandemic on these assumptions and judgements is discussed in Note 4(c).

A summary of the components of Vicinity Limited's income tax expense is shown below:

<b>For the 12 months to:</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>
	<b>\$m</b>	<b>\$m</b>
Current income tax expense	<b>(7.8)</b>	(9.6)
Deferred income tax (expense)/benefit	<b>(4.4)</b>	4.7
Adjustment for current year tax of prior periods	<b>(0.4)</b>	(1.2)
Decrease in unrecognised deferred tax assets	<b>0.5</b>	6.1
<b>Income tax expense</b>	<b>(12.1)</b>	-

#### Statutory taxes and levies

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

Further details on statutory taxes and levies can be found in the Tax Transparency section of the Annual Report.



### 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 within 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 on GST can be found in the Tax Transparency section of the Annual Report.

### Voluntary Tax Transparency Code

The Group is a signatory to the Tax Transparency Code (TTC). Part A of the TTC recommends disclosure of Company effective tax rates. As outlined above, taxable income from the Trust's property investments is taxed on a flow through basis in the hands of the Trust's securityholders. The Company is taxed at the Australian corporate tax rate (currently 30%); however, as a result of utilising previously unrecognised deferred tax assets, the effective tax rate based on current income tax payable for the Company is 28.6%. Further information can be found in the Tax Transparency section of the Annual Report.

### (b) Reconciliation between net profit and income tax benefit

	30-Jun-20 \$m	30-Jun-19 \$m
<b>For the 12 months to:</b>		
(Loss)/Profit before tax for the year	<b>(1,788.9)</b>	346.1
Less: Loss/(Profit) attributed to the Trust and not subject to tax <sup>1</sup>	<b>1,831.2</b>	(320.8)
<b>Net profit before tax attributable to securityholders of Vicinity Limited</b>	<b>42.3</b>	25.3
Prima facie income tax (expense) at 30%	<b>(12.7)</b>	(7.6)
Tax effect of amounts not taxable in calculating income tax expense:		
Net adjustment relating to share based payments	<b>0.4</b>	1.3
Other permanent differences	<b>0.1</b>	1.4
Prior period adjustments	<b>(0.4)</b>	(1.2)
Decrease in unrecognised deferred tax assets (allowable deductions)	<b>0.5</b>	0.7
Decrease in unrecognised deferred tax assets (tax losses)	<b>-</b>	5.4
<b>Income tax (expense)</b>	<b>(12.1)</b>	-

1. As outlined above taxable income from the Trust's property investments is taxed on a flow through basis in the hands of the Trust's securityholders. Includes adjustment for \$0.5 million income tax expense recognised by Vicinity Limited which has been offset against the Vicinity Group's unrecognised deferred tax assets disclosed below (30 June 2019: \$6.1 million).

# Operations continued

## 3. Taxes continued

### (c) Movement in temporary differences

#### Impact of the COVID-19 pandemic

The COVID-19 pandemic has caused increased uncertainty in determining certain key assumptions within the assessment of future taxable income of the Company upon which recognition of deferred tax assets is assessed. Key assumptions subject to this increased uncertainty include future funds, property and development management fee revenues, which are linked to the performance and value of the investment properties under management by the Company.

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

	Provisions \$m	Intangible assets \$m	Other \$m	Tax losses \$m	Total \$m
<b>At 30 June 2018</b>	19.9	(1.1)	(2.4)	67.9	84.3
Deferred income tax (expense)/benefit	(0.4)	1.1	4.0	(4.7)	–
<b>At 30 June 2019</b>	19.5	–	1.6	63.2	84.3
Current tax expense	–	–	–	<b>(7.8)</b>	<b>(7.8)</b>
Adjustment of current tax of prior periods	–	–	–	<b>(0.4)</b>	<b>(0.4)</b>
Deferred income tax (expense)/benefit					
Charged to profit	<b>(8.5)</b>	–	<b>4.6</b>	–	<b>(3.9)</b>
Charged directly to equity	–	–	<b>0.4</b>	–	<b>0.4</b>
Transfers	–	–	<b>(0.2)</b>	<b>0.2</b>	–
<b>At 30 June 2020</b>	<b>11.0</b>	–	<b>6.4</b>	<b>55.2</b>	<b>72.6</b>

Unrecognised deferred tax assets totalled \$13.0 million at 30 June 2020 (30 June 2019: \$13.5 million) comprising:

- allowable deductions of \$nil (30 June 2019: \$0.5 million); and
- tax losses of \$13.0 million (30 June 2019: \$13.0 million).

These unrecognised deferred tax assets do not expire.