2018 Annual Report – tax transparency excerpt

The following attachments are excerpts from Vicinity Centres' (Vicinity) 2018 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 48 to 51, of the Annual Report, and
- Extract 2: Note 3 to the financial statements, Taxes, on pages 87 and 88 of the Annual Report.

A full copy of the 2018 Annual Report can be downloaded at http://www.vicinity.com.au/media/763327/vicinity-annual-report-2018.pdf

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

Tax Transparency

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 for the third year, Vicinity aims to continue 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*, 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.

$291.1m
Total tax contribution

Stapled structures review

Following a year-long review of the use of stapled structures in Australia, Federal Treasury released its package of measures on 27 March 2018 followed by draft legislation on 26 June 2018. The review of stapled structures was originally undertaken at the direction of the Federal Treasurer with a view to protecting the integrity of Australia's corporate tax system. In particular, Federal Treasury was seeking to prevent stapled structures being inappropriately used as a means of re-characterising trading income into passive rental income.

The Government has acknowledged that the measures are targeted at taxpayers that use stapled structures beyond their traditional use in commercial and retail property. As such, Vicinity is not a key target of this review. The review will not materially impact Vicinity's structure or the way in which it carries on business. As a leader in the Australian property industry, Vicinity will continue to operate in a lawful manner with respect to all of its tax obligations, including appropriately conforming with the stapled structures integrity measures.

Vicinity will continue to monitor and engage with Federal Treasury so that the reforms are appropriate for the traditional retail property industry, as well as to enable Vicinity to adapt to the implementation of the reforms, which are to apply from 1 July 2019.

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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 on-going 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 FY18, Vicinity participated in the ATO's Pre-Lodgement Compliance Review (PCR) program. Under the PCR program, Vicinity engages with the ATO on a real-time and transparent basis so that, where possible, new tax issues can be resolved prior to the lodgement of Vicinity's annual income tax returns. As part of the PCR, Vicinity is also participating in the ATO's Justified Trust review. The aim of that review is to assure the community that it can trust that Vicinity is paying the right amount of tax. That review remains ongoing.

The stapled structures review will not materially impact Vicinity's structure or the way in which it carries on business

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 2018 Corporate Governance Statement.

2018 Corporate Governance Statement
vicinity.com.au

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 FY18) 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.

Taxation of Vicinity continued

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 has elected into the AMIT regime with effect from 1 July 2017. Details of the impact of the AMIT regime will be included in various fact sheets, available on Vicinity's website in late August 2018.

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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. A taxpayer's income tax liability is calculated by multiplying its taxable income by its applicable tax rate.

Vicinity Centres Trust

The accounting net profit that was attributable to securityholders of Vicinity Centres Trust and its controlled entities was $1,179.1 million for FY18. As this accounting net profit was derived through its trust structure, the taxable income that is referrable to this net profit is taxed in the hands of securityholders, as described above.

Vicinity Limited

The Vicinity Limited consolidated group generated an accounting profit of $39.6 million for FY18. Accordingly, the Group recognised a current income tax expense of $11.2 million for FY18 but largely due to the use of previously unrecognised deferred tax assets, income tax expense was reduced to nil.

With respect to its tax position for FY18, the Vicinity Limited income tax consolidated group generated a tax loss of approximately $11.5 million. This tax loss was primarily driven by the tax deduction (of $48.9 million)[1] for costs associated with the internalisation of management in 2014. FY18 is the final year of this deduction. Accordingly, Vicinity Limited is not required to pay income tax for FY18.

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

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 FY18, which is expected to be released in late 2019.

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 also has no income tax expense in FY18 due to the recognition of previously unrecognised deferred tax assets. As a result, Vicinity Limited has a zero ETR.

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 FY18, 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 2018. 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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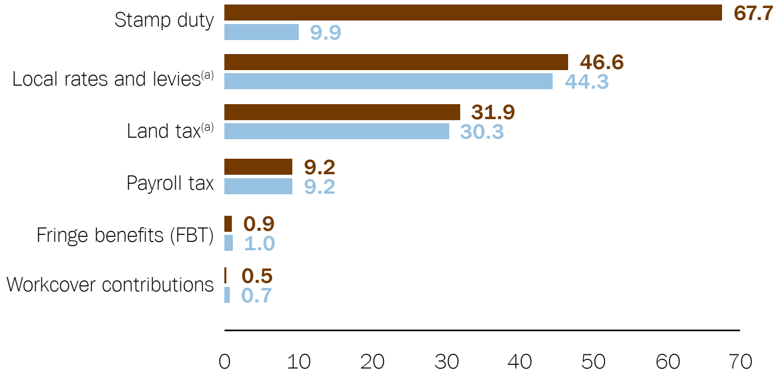
1. Although these costs were paid and recognised as an accounting expense in FY14, the allowable deductions are required to be amortised for tax purposes over five years (refer to Note 3 of the Financial Report for further information).

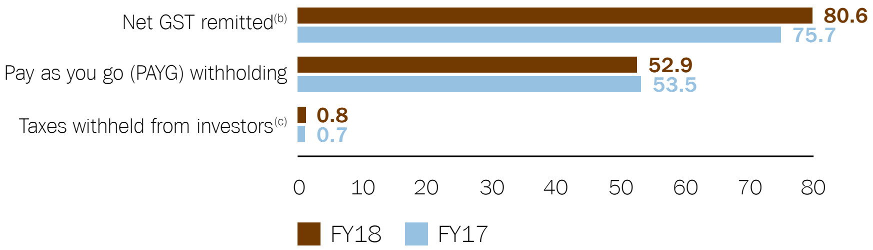
Additionally, as a business that operates in the Australian property industry, Vicinity is subject to various other taxes at the federal, state and local government levels. In FY18, these taxes amounted to approximately $291.1 million and are either borne by Vicinity as a cost of our business, or are remitted by Vicinity as part of our contribution to the administration of the tax system.[1] 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 FY18. The most material change between the taxes paid in FY17 and FY18 arose in the area of stamp duty. FY18 stamp duty increased by approximately $57.8 million due to the acquisition of 50% interests in Queen Victoria Building, The Galeries and The Strand Arcade, in addition to the acquisition of the freehold interests in Myer Bourke Street and Emporium Melbourne. These property transactions are described in detail in Note 4 of the Financial Report.

Total taxes borne by Vicinity ($m)
$156.8 million



Total taxes remitted by Vicinity ($m)
$134.3 million



(a) 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 FY17 and FY18 due to timing differences.

(b) Net GST remitted for FY18 is comprised of $180.9 million of GST collected (FY17: $180.2 million) and $100.3 million of GST claimed (FY17: $104.5 million).

(c) This represents taxes withheld from Vicinity's securityholders. 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.

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

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
- Treasurer's Media Release – Levelling the playing field for Australian investors: Taxation of Stapled Securities: sjm.ministers.treasury.gov.au/media-release/024-2018/
- Treasury's publication on the tax treatment of stapled structures: treasury.gov.au/publication/p2018-t273732/
- 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/
- A breakdown of the taxable components that securityholders receive via their annual taxation statements, as well as details on the impact of Vicinity Centres Trust group electing into AMIT, will be available in late August 2018 on Vicinity's website: vicinity.com.au/investor-centre/tax-information

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

3. Taxes

(a) Group taxation

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 Managed Investment Trust withholding rules for non-resident securityholders. 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, 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 assets and liabilities are measured based on the expected manner of recovery of the carrying value of an asset or liability. 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 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.

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-18 $m	30-Jun-17 $m
Current income tax (expense)/benefit	**(11.2)**	5.9
Deferred income tax benefit/(expense)	**0.3**	(3.5)
Adjustment for current year tax of prior periods	**0.7**	2.1
Decrease/(increase) in off balance sheet deferred tax assets	**10.2**	(4.5)
Income tax expense	**-**	-

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. 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 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 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 the Tax Transparency section of the Annual Report.

3. Taxes continued

(a) Group taxation continued

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, in the current year the Company has made a tax loss. As a result of recognising previously unrecognised deferred tax assets, the effective tax rate based on current income tax payable for the Company is nil. Further information can be found in the Tax Transparency section of the Annual Report.

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

For the 12 months to:	30-Jun-18 $m	30-Jun-17 $m
Profit before tax for the year	**1,218.7**	1,583.6
Less: Profit attributed to the Trust and not subject to tax[1]	**1,179.1**	1,595.9
Net profit/(loss) before tax attributable to securityholders of Vicinity Limited	**39.6**	(12.3)
Prima facie income (expense)/benefit at 30%	**(11.9)**	3.7
Tax effect of amounts not taxable in calculating income tax expense:		
Net adjustment relating to acquisition of share based payments	**(1.0)**	(0.2)
Other permanent differences	**2.0**	(1.1)
Prior period adjustments	**0.7**	2.1
Recognition of off balance sheet deferred tax assets (allowable deductions)	**15.4**	4.7
Increase in unrecognised deferred tax assets (tax losses)	**(5.2)**	(9.2)
Income tax expense	**-**	-

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.

(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 $m[1]	Tax losses $m	Total $m
At 30 June 2016	**17.9**	**(3.3)**	**5.0**	**9.5**	**55.2**	**84.3**
Transfers	-	-	-	(9.5)	9.5	-
Deferred income tax (expense)/benefit	0.3	0.9	(4.7)	-	3.5	-
At 30 June 2017	**18.2**	**(2.4)**	**0.3**	**-**	**68.2**	**84.3**
Deferred income tax (expense)/benefit	1.7	1.3	(2.7)	-	(0.3)	-
At 30 June 2018	**19.9**	**(1.1)**	**(2.4)**	**-**	**67.9**	**84.3**

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 assets are recognised as it is probable that the Group will earn sufficient taxable income in future periods for them to be utilised.

Unrecognised deferred tax assets will be reviewed on an annual basis and may be recognised at a later date if considered likely to be recovered. These totalled $19.6 million at 30 June 2018 (30 June 2017: $29.8 million) comprising:

- Allowable deductions of $1.2 million (30 June 2017: $16.6 million); and
- Tax losses of $18.4 million (30 June 2017: $13.2 million).