



**Tax Reporting Guide 2007
Funds, Trusts & Companies**

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1.0 Important Information Relevant to this Guide

This guide is provided to enable investors and advisers to understand the purpose of each report contained in the tax entity's 2007 tax return package, and provide further detail which may assist in understanding the package.

The package has been provided to users in electronic format (CD) this year.

The notes in this guide are specific to Superannuation Funds, Trusts and Companies and follow the order in which the reports will appear in tax entity's directory on the CD.

Some of the reports listed in the directory may not be relevant to every investor (e.g. not every investor will have a margin loan). Where that is the case, an investor alert will replace the "missing" report, advising accordingly.

The package reflects the transactions of which the administrator has been advised during the reporting year, in respect of the investments comprising the portfolio. Items not advised or originating outside the portfolio are not accounted for.

The format is designed to assist investors and their advisers in the preparation of annual income tax and (where appropriate) other statutory returns. The information collected during the reporting year is presented in a manner which allows investors and their advisers to finalise the necessary returns with a minimum of duplication of effort.

The package also incorporates an independent (accountant's) report on the administration procedures, accounting procedures and internal controls of the administrator. This report is not strictly required, as the administrator is not subject to the requirements of Australian Securities & Investment Commission Class Order 02/294 "Investor Directed Portfolio Services". The report is provided as an additional service to investors and their advisers in order to provide additional comfort in their ability to rely upon the information contained within the tax report package without performing additional work.

If the investor holds AUSMAQ investments, the IDPS section includes the annual AUSMAQ investment reports and associated audit report. Please note that the AUSMAQ reports are source documents, supporting the entries made by the administrator in this report. AUSMAQ do not provide any further tax substantiation documents, nor should any be required, as the AUSMAQ report is fully audited.

Property loans may not, on the instructions of the adviser, be reflected within the portfolio. This is specifically brought to your attention, as it may mean that the portfolio is overvalued and/or that potentially deductible interest may need to be reviewed and added to the entries in this report before finalising the entity's income tax return.

The package should be read in conjunction with the notes which are attached to each report within the package.

The report is current as at the date recorded on the electronic copy of the report. This may differ to the date the electronic copy is sent to you. The delay between the two dates results from our internal checking and collating processes. Any documents received subsequent to the issue date will be forwarded under separate cover. The administrator reserves the right to charge a fee for re-issuing reports where the change was not foreseeable.

Your attention is drawn to the privacy statement included in this guide.

Information contained in this package should not be construed as taxation advice – it merely reflects and summarises the taxation treatment afforded to each transaction by the investment bodies distributing income to the investor, interpreted with reference to the income tax legislation and the relevant known circumstances relating to the investor. Assumptions which have been made in the absence of specific relevant information are stated in this guide and in the notes to the report. Investors and their advisers should review the package in the light of their knowledge of the specific circumstances relevant to, and choices made by, the investor.

2.0 Summary Tax Reports

2.1 Tax return report

This report provides the information required to make the necessary entries in the income tax return in respect of the investment portfolio under administration ("the portfolio"). The report format follows the question and label references used in the relevant Australian Taxation Office ("ATO") income tax return for 2007. Certain assumptions and choices may have been made in preparing the report, and for this reason it is imperative to read the report in conjunction with both this guide, and the notes which are attached to the report.

2.2 Investment valuation and unrealised gains report

Superannuation funds are required to report annually at the balance date on unrealised gains or losses inherent in each investment. This report fully details these unrealised gains and losses. Because of its potential for wider usage the report is also included for companies and trusts.

Realised gains and losses on investments arising during the financial year and income earned on each investment are also disclosed on this report.

The following pricing policy has been adopted when valuing the portfolio at year-end:

Securities Listed on the ASX (including warrants) - the 'last' price quoted by the ASX in respect of each security as quoted at close of business on 30 June, or the last working day prior to that date.

International securities not listed on the ASX - international shares are valued using the closing market price as at 30 June and converted using the foreign currency buy rate per the Australian Financial Review on 1 July, representing the previous days closing value.

Managed Investments (Unit Linked) - the ex-distribution exit price as advised by Morningstar Research at 30 June is used. For those managed funds not supported by Morningstar Research, the redemption price (cum-distribution exit price) at 30 June as advised by the fund manager is used. In some cases, 30 June prices used in this package may differ from those reported by the fund manager. Examples of where this may arise are where:

- the package applies the "ex" price, whilst the fund manager has quoted the "cum" price, inclusive of the 30 June distribution, which will already have been incorporated into this report as income earned not yet received;
- the fund managers quote the "ex" price as at the first or second working day after 30 June.

Other Managed Investments (Non Unit Priced) - non unit linked 'managed' investments will appear at the value last advised by the respective fund manager.

Products with loans attached (excluding warrants) - products with loans attached are reflected in the valuation report at their GROSS value – ie the loan amount has not been deducted from the value of the underlying investment/s. This affects investments such as mortgaged properties, property trusts with loans attached and margin loan facilities.

Real property – real property is valued at the most recent valuation provided by the adviser. Where no valuation has been received, the property will be valued at its CGT cost base.

Other Investments - Investments other than those listed above will be reflected in the report at the most recent valuation provided to the administrator by the investor or adviser.

Where distributions have been reinvested, some fund managers include in their 30 June valuation reports the units acquired with the reinvested 30 June income. This package treats income earned but not received at 30 June as income, but does not reinvest that income (where

relevant) until 1 July – for this reason the number of units shown as held in a particular fund may differ from the valuation statement issued by the fund manager.

Please note that broker rebate amounts below \$100 which arise from managed funds and are reinvested on behalf of the investor, are processed at the date the units are notified as allocated. Strictly this rebate accumulates monthly, however notification is usually received quarterly, half-yearly or annually. Where the periodic total value exceeds \$100, that amount will be broken down and the new units allocated monthly.

Where withholding tax has been deducted from income received, the gross income including withholding tax is reflected in this report. The deduction for the withholding tax will be reported separately in the expense report.

2.3 Trial balance

The balances of open ledger accounts are listed and totalled to prove the books are in balance as at the date of the report.

2.4 Trial balance movement report

This report shows **the reporting year movement only** on each account in the general ledger. Effectively, it provides a journal entry, which can be used to update a general ledger external to the portfolio in respect of transactions which have impacted the portfolio during the reporting year. A separate journal is required to process prior year adjustments – refer the “Prior year journal summary” in the details section of this package.

2.5 Income summary report

This report provides an analysis, by income type, of the total accounting income received by the taxpayer for the year. For taxation purposes, some of the items reflected here may not be assessable.

The income breakdown report, which can be found in the detailed tax reports section, provides further detail, analysing each category of income by investment. Both reports should be read in conjunction with the notes attached to those reports.

Where the portfolio was brought onto the PAS during the reporting year, and was previously administered using another wrap service, the income and capital gains arising from the portfolio whilst it was administered by the previous wrap service will be included in this report **to the extent that the relevant information has been made available to the administrator.**

It is important to note that the administrator has no authority to directly seek the information required to record the transactions occurring during a period when the portfolio was administered elsewhere, therefore the accuracy of the data for the period the portfolio was not under administration is totally dependent upon the accuracy of information provided to us by the investor/adviser. Furthermore, great care should be taken when preparing the investors tax return for the changeover year of income, to avoid potential double counting of income, deductions or gains in the tax entity’s income tax return, where they may be reported in both the legacy wrap service report & the administrators report.

The administrator has assumed that all shares held by superannuation funds comprise shares in public companies. Income derived from private company shares by a self-managed

superannuation fund should be treated as “special income”, and taxed at the top marginal rate, rather than the 15% concessional rate.

Where withholding tax has been deducted from income received, the gross income including withholding tax is reflected in this report. Withholding tax expense will be reported separately in the expense report.

The income summary report includes receipts of a capital and non-capital nature. Discussions as to their taxation treatment follow:

Receipts of a non-capital nature

Interest:	This comprises interest other than from trust distributions, and is generally assessable when received. Note that interest from an AUSMAQ (National Australia Bank) bank account will be included here as such accounts are NOT cash management trust accounts.
IBI income	Infrastructure Borrowing Interest may be included in interest received. This income may not be assessable, or may attract a rebate equal to 30% of the IBI amount. Where fund managers have specifically advised the amount of any IBI, it has been shown separately to allow further review.
CMT interest:	Interest from the Macquarie cash management trust. These amounts are included in the tax report as trust distributions for taxation purposes, in accordance with tax return instructions issued by the ATO.
Franked dividends:	Share income which is franked and is effectively grossed up by the amount of the franking credit. The gross dividend is fully taxable, but credit is given for the tax already paid by the company paying the dividend (as franking credits).
Franking credits:	The credit attached to franked dividend income as discussed above. This amount is negative as it reduces the gross distribution payable to result in the net amount of income physically received. Tax ultimately payable by the tax entity may be reduced by the total of franking credits available. Superannuation Funds maybe eligible for refund of any excess of franking credits earned during the year.
Unfranked dividends:	Share income which is unfranked and fully taxable to the tax entity.
Distributions taxable:	Generally from unit trust investments. May include unfranked dividends, interest and property income components earned and distributed on by the trust.
Distributions franked:	This is franked income from a unit trust, and is the tax entity’s entitlement to grossed up franked distributions reported by the trust (i.e. the franked distribution plus the franking credit). The gross distribution is taxable, with a credit being allowed for the franking credits attached to the distribution.

Franking credits - distributions: This entry comprises the total franking credit arising from unit trust distributions received. This amount is negative as it reduces the gross distribution to result in the net amount of income physically received. Tax ultimately payable by the tax entity may be reduced by the total of franking credits available. Superannuation Funds maybe eligible for refund of any excess of franking credits earned during the reporting year.

Australian franking credits from a New Zealand company: New Zealand companies are allowed to elect to enter the Australian imputation system. This allows such companies to maintain an Australian franking account and attach Australian franking credits to dividends paid. These franking credits must be reported separately in the income tax return. They are included with other franking credits on the income summary and income breakdown reports, but are also shown separately on the tax report at the appropriate label.

Capital gains generated by unit trusts: Within a unit trust investment, the manager may derive capital gains from trading trust assets. This may produce a capital gains tax liability, which is passed through the trust to the investor. Assessable capital gains are included in taxable income where appropriate, via the optimised CGT schedule. For eligible entities, the CGT optimiser will calculate which available treatment is most beneficial (within assumed parameters), given circumstances known to the administrator (such as current year and brought forward capital losses).

The resultant capital gain may fall into one of three categories:

Assessable capital gain – **no discount**: CGT Discount has **not** been applied by the manager on these gains and therefore discount cannot be applied by the administrator or investor. Gains described as “no discount” in the annual tax statement issued by the Trust/Fund are usually capital gains to which indexation has been applied. Assessable capital gains are included in taxable income where appropriate, via the optimised CGT schedule. Prior to 12 December 2006, these gains may have been further broken down between CWA (connected with Australia) & NCWA (not connected with Australia) – this is only relevant for taxpayers who are NON-resident for taxation purposes. Effective 12 December 2006, new legislation narrows the range of assets subject to CGT when distributed to non-residents. Under the new rules, such gains may instead be broken down into TAP (“Taxable Australian Property”) gains, and NTAP (“Non-taxable Australian Property”) gains. In order to allow any non-resident investors to complete their tax returns, the administrator has combined CWA gains with TAP gains, & NCWA gains with NTAP gains. Investors can review the relevant source documents attached to the report where it is considered necessary to break these entries down further. Some fund managers have not specified which category the gains fall into, in which case a separate category, not designated as either TAP/CWA or NTAP/NCWA, has been used. This report has been prepared on the premise that the investor is a

resident of Australia for taxation purposes, therefore this data is provided for information purposes only, for the benefit of any investors who are NOT resident for taxation purposes. If the tax entity falls into this category, this should be brought to the attention of the investors' taxation adviser.

Assessable capital gains – **discounted:** These are capital gains to which the trust manager has applied CGT discount. However, availability of discount is dependent upon the nature of the investor. Companies are not eligible for discount. Superannuation funds are eligible for discount of one third. Trusts are eligible for discount of one half. Very often, the manager of the trust does not correctly identify the type of tax entity holding the investment, and therefore applies incorrect CGT discount in documentation. In order to remove the discount applied by the manager, and allow correct treatment of the distribution determined according to the tax entity status, the amount shown in the report under this heading has been grossed up. The amount by which the gain has been grossed up is shown separately in the income summary as a negative amount ("discounted capital gains adjustment"). Prior to 12 December 2006, these gains may have been further broken down between CWA (connected with Australia) & NCWA (not connected with Australia) – this is only relevant for taxpayers who are NON-resident for taxation purposes. Effective 12 December 2006, new legislation narrows the range of assets subject to CGT when distributed to non-residents. Under the new rules, such gains may instead be broken down into TAP ("Taxable Australian Property") gains, and NTAP ("Non-taxable Australian Property") gains. In order to allow any non-resident investors to complete their tax returns, the administrator has combined CWA gains with TAP gains, & NCWA gains with NTAP gains. Investors can review the relevant source documents attached to the report where it is considered necessary to break these entries down further. Some fund managers have not specified which category the gains fall into, in which case a separate category, not designated as either TAP/CWA or NTAP/NCWA, has been used. This report has been prepared on the premise that the investor is a resident of Australia for taxation purposes, therefore this data is provided for information purposes only, for the benefit of any investors who are NOT resident for taxation purposes. If the tax entity falls into this category, this should be brought to the attention of the investors' taxation adviser.

Assessable capital gains – **Other:** This means that neither CGT discount nor indexation is available. This may occur where either the underlying investment held by the investment body was bought and sold within 12 months or it was owned by a company & purchased post 21 September 1999. Prior to 12 December 2006, these gains may have been further broken down between CWA (connected with Australia) & NCWA (not connected with Australia) – this is only relevant for taxpayers who are NON-resident for taxation purposes. Effective 12 December 2006, new legislation narrows the range of assets subject to CGT when distributed to non-residents. Under the new rules, such gains

may instead be broken down into TAP (“Taxable Australian Property”) gains, and NTAP (“Non-taxable Australian Property”) gains. In order to allow any non-resident investors to complete their tax returns, the administrator has combined CWA gains with TAP gains, & NCWA gains with NTAP gains. Investors can review the relevant source documents attached to the report where it is considered necessary to break these entries down further. Some fund managers have not specified which category the gains fall into, in which case a separate category, not designated as either TAP/CWA or NTAP/NCWA, has been used. This report has been prepared on the premise that the investor is a resident of Australia for taxation purposes, therefore this data is provided for information purposes only, for the benefit of any investors who are NOT resident for taxation purposes. If the tax entity falls into this category, this should be brought to the attention of the investors’ taxation adviser.

Discounted capital gains adjustment:	This is the amount by which the discounted capital gain as reported by the investment manager is required to be grossed up, in order to arrive at the gross gain, pre-discount. This should be read in conjunction with the note on “assessable capital gains – discounted” above. The purpose of this entry is to enable investors to reconcile the funds physically received to the entries in this report. It is a book entry and plays no further part in the tax return report.
CGT concession amount:	This amount comprises the non-assessable CGT discount amount paid to investors (dependant upon tax entity status – i.e. there is no discount available to companies). Some fund managers may include in this amount any capital loss or net capital loss which may have been applied to reduce capital gains made, resultant in an additional non-taxable payment to the unit holder. This amount is tax-free and does not impact the cost base of the asset. The purpose of this entry is to enable investors to reconcile the funds physically received to the amounts reflected in their tax report. It is a book entry and plays no further part in the tax return report.
Gross foreign income:	This comprises gross income earned from foreign sources before deducting foreign tax paid. Assuming the investor is an Australian resident for taxation purposes, this income is fully assessable, although credit may be allowed for foreign taxes paid.
Foreign tax credits:	Credits for tax paid offshore on foreign income.
CFC income	This is foreign sourced income which has been attributed back to Australia under the Controlled Foreign Company rules. This should be brought to the attention of the entity’s taxation adviser, for further consideration.
CFI income	Conduit foreign income is unfranked income which can be tax free in Australia if the recipient is non-resident, or is a company which on-pays the income. If this is relevant to the tax entity, this should

be brought to the attention of the entity's adviser for further consideration.

Rental / Lease Income Gross rent received from rental properties or leased assets. Tax deductible expenses relating to rental properties are detailed on the rental property worksheet/s contained in the detailed tax reports section of this report.

TFN Withholding tax: Taxation regulations require anyone paying interest, distributions, dividends, etc, to withhold tax if the investor has not lodged their tax file number with the paying institution. Any tax withheld will be credited against the overall tax liability of the tax entity for the reporting year.

Other taxable income – category 1: This may include foreign exchange gains, reimbursements of tax-related expenses and gains derived on the disposal of traditional securities.

Other taxable income – category 2: This includes any other income not described in category 1, typically broker rebates.

Exempt income: This is income that is tax-free and does not adjust the cost base of any investment for capital gains tax purposes.

Receipts of a capital nature

Distributions non taxable: This income is generally reported as “tax free” income from trusts, and arises where certain tax concessions allowed to the trust mean it can make tax-free distributions to its unit holders. Tax-free income adjusts the reduced cost base (but not the cost base) of the investment to which it relates for capital gains tax purposes.

Distributions - section 104-70: This income is also tax-free and is generally reported as “tax deferred” income. It arises from such items as building allowances and accounting differences in income. Section 104-70 income reduces the cost base **and** reduced cost base of the investment to which it relates for capital gains tax purposes. Where tax deferred receipts derived from a particular investment exceed available cost base, the excess causes a capital gain to crystallise as a “tax-deferred, assessable capital gain”.

Return of capital: This is an amount of capital repaid by the investment body to the investor. The investor still retains the same number of shares or units held prior to the return of capital. This type of receipt is capital in nature and is consequently not included in assessable income. It reduces the cost bases of the investment to which it relates. Where a return of capital exceeds available cost base, the excess causes a capital gain to crystallise as a “tax-deferred, assessable capital gain”.

2.6 Expense summary report

All expenses advised to the administrator are included on this report, including amounts paid out of the Portfolio Bank Account (“PBA”) or margin lending account, paid directly out of income or paid externally to the portfolio and notified to the administrator accordingly. Full details of payments made external to the portfolio must be provided to the administrator to ensure those payments are correctly reflected in the portfolio. Where transactions have occurred external to the portfolio and the administrator has not been provided with appropriate detail, this report will not reflect those transactions.

Insurance premiums paid and recorded within the PAS have been treated as deductible except where specifically advised otherwise. These expenses should be reviewed prior to lodging a claim in the tax entity’s income tax return.

Bank account fees such as overseas telegraphic transfer fees and same day withdrawal fees have been treated as a deductible expense by the administrator unless specifically requested to be treated otherwise by the investor/adviser. It is possible that such fees could form part of the cost base of an investment asset, for example where the funds being transferred/withdrawn relate to the purchase of an investment. Such expenses should be reviewed further to consider deductibility.

The report should be read in conjunction with the notes attached.

2.7 Funds introduced / withdrawn

This report analyses the funds that have been introduced or withdrawn from the portfolio during the year.

If use of the service commenced part way through the reporting year, and opted to have their transactions reconstructed for the entire year of income, all transactions occurring before the CMT was opened will be processed as funds introduced/withdrawn.

For share buy-backs, your attention is drawn to ATO Taxation Determination TD 2004/22. This determination requires the capital component of a share buy-back price for taxation purposes to be “deemed” to be higher than the actual capital component received in certain circumstances. Where this is the case, the excess of the deemed capital component over the actual capital component received has been treated as ex-portfolio funds withdrawn. This transaction is purely a “notional” entry for taxation purposes, and does not constitute a true withdrawal for accounting purposes.

2.8 Optimised CGT schedule

This schedule calculates the optimum capital gains tax position in respect of the portfolio transactions for the year. The administrator has calculated what is considered to be the optimal capital gains position within the confines of the information provided, together with the choices made by the tax entity and the default position taken by the entity’s adviser regarding partial disposals.

This assumes that:

- The optimal CGT position for the investor’s circumstances is to minimise current year tax payable.
- The administrator has been advised of all prior year capital losses available.

- There are no capital gains or losses arising in the reporting year outside the portfolio.

The choices made could include choosing to apply a capital gains tax rollover where available, choices regarding utilisation of brought forward capital losses and whether to apply indexation or CGT discount to gains made, where relevant.

If any of the assumptions listed above are incorrect, the choices made may not be appropriate. Detailed capital gains schedules are attached to this report which would enable the choices to be reviewed by the investors' advisers and amended if necessary.

If the entity has a net capital gain or loss for the year which exceeds \$10,000, a capital gains tax schedule may need to be lodged with the tax entity's annual income tax return. To assist in this process, this schedule has been formatted consistently with the schedule required to be lodged by the ATO, using the same label references.

2.9 Optimised CGT summary

This report provides the detail relevant to disposals made during the year, and the decisions that have been made in respect of those disposals. The report has three sections to it.

The first section is "Capital losses brought forward from previous years". This should be the amount of capital losses carried forward in the prior year income tax return. We request this information for all investors annually. Unless we have been notified of an amount, the words "not advised" will be printed here.

If the entity has capital losses available from prior years of which we have not been advised, or capital losses from current year transactions outside the portfolio, the capital gains tax position as shown in the tax report **may not give the optimum result**.

The second section reflects capital gains/losses derived from income (eg trust distributions) during the year.

The third section shows capital gains/losses derived during the year from direct disposals. Where partial disposals of holdings have taken place, selection of the parcels to be sold is based upon the choices made by the entity/adviser & the default position selected by the adviser where specific instructions have not been issued.

The gains are split by CGT calculation method, as follows:

Method 1 (indexation method) is available for disposals of assets acquired prior to 21 September 1999. Where available, this method is optional to trusts and superannuation funds – i.e. they can either choose the indexation or the discount method (see below). The administrator has made this choice on behalf of the tax entity, where relevant, following the assumptions discussed above. Companies are not able to choose between indexation and discount, therefore if they meet the criteria required for indexation to apply, it would always be selected. The capital gain is calculated using the indexed cost base of the asset (note that indexation ceased as at the September 1999 quarter).

Method 2 (discount method) is available for trusts (50% discount) and superannuation funds (33.33% discount) that have held the asset for more than 12 months. This method is optional where the asset was acquired before 21 September 1999 (ie – if indexation gives a better result (following the assumptions discussed above), the administrator entity would choose that

method on behalf of the tax entity, instead of the discount method). The capital gain is calculated using the unindexed cost base, but is reduced by the appropriate percentage **after** losses have been offset.

Method 3 (no discount or indexation method) is used where neither the indexation method nor the discount method is available as an option, such as where the asset has been held for less than twelve months or the asset has been acquired post 21 September 1999 by a company. The capital gain is calculated using the unindexed cost base.

Current year capital losses are calculated using the reduced cost base. Whilst the loss may appear under any one of the method columns, the calculation will always be the same, as the benefit of indexation or discount is not available where a capital loss is generated.

Where choices are available, both in terms of the choice of method used to calculate the gain, and the choice of which gains to offset capital losses against, the result giving the lowest taxable income for the year has been selected.

Capital gains for disposals marked with an asterisk (*) have been calculated using components of the cost base that are unsubstantiated by original documentation. Where authorised, the cost base used in this scenario has been reconstructed using best endeavours to establish the constituent components. Where advice has been received that the unsubstantiated cost base should be used without incurring reconstruction costs, resultant capital gains and losses may not be accurate.

3.0 Detailed Tax Reports

3.1 Tax entity reference report

The purpose of this report is to provide a key relating the full investment description, the “short name” and the codes which may be used throughout the report to refer to each particular investment. Wherever possible, the short name is used, as that is more user-friendly than the code. In the majority of cases, codes used are consistent with the codes used by the Australian Stock Exchange (“ASX”).

If for some reason the particular holding is not currently available for trading (for example employee shares under a period of restriction, or escrowed shares), and the administrator has been advised accordingly, a separate code will have been established for that holding. This is to protect the investor from inadvertently ordering a sale, which would subsequently fail and may result in unnecessary costs.

A “Y” in the column headed “AUSMAQ” denotes that the investment is a wholesale fund for which AUSMAQ is the custodian.

The administrator has assumed that all shares held by superannuation funds comprise shares in public companies. Income derived from private company shares by a self-managed superannuation fund should be treated as “special income”, and taxed at the top marginal rate, rather than the 15% concessional rate.

3.2 Tax return breakdown report

This report breaks down each entry in the tax return report, by income or expense components.

3.3 General ledger

By necessity, terminology used in naming each account is ‘global’, and in some circumstances may seem an inappropriate description. This is to allow the system to deal with all tax entities. Debtors include not only genuine “accounting” debtors such as sale proceeds outstanding at balance date, but also distributions which for taxation purposes are assessable in the financial year in which they were earned, even though they are physically received in the following financial year.

3.4 Prior year journal summary

Where a transaction that relates to a previous financial year is processed in the reporting year, a prior year adjusting journal is automatically generated. Any transaction of this nature is reflected in the general ledger as a “prior year transaction”. If this were not done, the closing balances in the prior year report would not reconcile to the opening balances in the reporting year. A common example results from a change in the 30 June value attributed to units in a trust, which may be made by the fund manager several months after the initial 30 June value has been advised to the administrator, and after the relevant tax report has been issued.

These transactions are summarised in the “Prior year journal summary”, which can be used as a journal entry to amend the previous years’ closing balances, which will then agree to the opening balances in the reporting year. Where the administrator is aware that prior year adjustments may have tax implications, an investor alert is generally attached to the report to bring the matter to the specific attention of the investor/adviser. The detailed prior year journals are available on-line to your adviser if required.

3.5 Cashbook / bank reconciliation

This report details all transactions effected through the portfolio bank account (“PBA”), and reconciles to the closing bank statement as at the balance date. A summary is also provided showing the totals of transactions through the bank account for the reporting year. The receipts reflected in this report comprise the funds physically received into the bank account during that year. They may differ from the income reflected in the income summary report because of timing differences such as income which is assessable for taxation purposes in the reporting year, but has not been physically received at year end.

3.6 Debtors, creditors and funds in transit report

This report provides an analysis of funds receivable (debtors) or payable (creditors) as at the balance date.

Prepayment legislation greatly limits the deductibility of prepaid expenditure over \$1,000 for companies, superannuation funds and trusts, and in some cases, for individuals incurring business expenditure. The tax status of the taxpayer and the nature of the expenditure determine the timing of the deductibility of prepaid expenses. **For the purposes of this report, all prepaid expenditure has been treated as deductible except where a specific circumstance has determined otherwise.**

Identified borrowing costs have been amortised over the lesser of the term of the loan or 5 years. Taxpayers are advised to review the nature of any prepaid expenses, which will be evident from this report, in the light of their circumstances, and seek professional taxation advice where necessary.

3.7 Income breakdown report

This report provides further detail of income received, analysed by investment. The notes on the income summary report are also relevant to the more detailed breakdown provided on this schedule. The income reflected in this report comprises the assessable income generated by the portfolio for the year, by investment. It may differ from the receipts reflected in the cash book report because of timing differences arising from (for example) income assessable for taxation purposes in the reporting year, not physically received at year end.

Please note that broker rebate amounts below \$100 which arise from managed funds and are reinvested on behalf of the investor, are processed at the date the units are notified as allocated. Strictly this rebate accumulates monthly, however notification is usually received quarterly, half-yearly or annually. Where the periodic total exceeds \$100, that amount will be broken down and the new units allocated monthly.

Where withholding tax has been deducted from income received, the gross income including withholding tax is reflected in this report. The deduction for withholding tax will be reported separately in the expense report.

3.8 Expense breakdown report

This report provides further detail of expenses incurred, analysed by source. The notes on the portfolio expenses report are also relevant to the more detailed breakdown provided on this schedule.

3.9 Rental property worksheet

This report is in the same format as the rental property worksheet produced by the ATO, which may need to be lodged with the tax entity's income tax return, at the ATO's request. The worksheet analyses the expenses incurred in respect of the particular rental property in question for the reporting year. A separate worksheet is produced for each rental property held within the portfolio.

Where, advisers and their clients have chosen not to reflect rental property loans in the portfolio, the rental property worksheet will not include deductible interest arising in respect of the property loan. Loan repayments may have been made out of the CMT, but unless the administrator is specifically provided with a breakdown between capital repayments & interest, such payments will have been posted as ex-portfolio withdrawals. Where this is the case, it is imperative that investors/their advisers consider the interest deduction entitlement, external to this report, in order to avoid missed income tax deductions for interest incurred.

3.10 CGT details report

When an investment subject to CGT is sold (in part or full), a **CGT details** report will be generated to indicate the taxable gain, or loss, arising, on a parcel by parcel basis.

In dealing with each parcel sold, the report will show the original date of purchase of the parcel, the quantity owned, the purchase costs and CPI indexes at relevant dates.

The remaining columns of the report are explained as follows:

- The adjustment column reflects all adjustments that may have been made to the original cost base during the ownership period, such as s104-70 (tax deferred) receipts, initial fees and indexation.
- The indexed cost base column reflects the cumulative indexed cost base, taking into account all relevant entries in the adjustment column. Note that CGT indexation ceased to be available as of 21 September 1999 (final indexation available is for the quarter ended 30th September 1999).
- Post-21 September 1999, use of the indexed cost base is optional for eligible taxpayers (superannuation funds and trusts), as using the CGT discount method may result in a lower taxable income. The unindexed cost base column reflects the cost base without indexation, for use in making the decision whether to opt for indexation or discount. It will comprise the original cost base adjusted for such things as holding costs and returns of capital, but not indexation.
- The reduced cost base column is the cost base to be used for calculating capital losses.
- The taxable gain/loss column displays the resultant gain or loss, which will have been calculated using the various methods available. From this information, the optimum choice will be made via the optimised capital gains tax summary.

The report may include details of tax-deferred assessable capital gains. These arise when the cost base of an investment has already been reduced to nil, and the investor receives further income of a tax-free nature that should reduce the cost base, if there were one (eg. s104-70 distributions, or returns of capital).

The report may also include nil sale transactions creating a capital gain or loss where income or costs that affect the cost base have been notified after the sale of an investment.

3.11 GST tax invoices

These are tax invoices for the portfolio administration service. Negative tax invoices arise where fees have been refunded during the year (i.e. credit notes).

Initial fees are not considered to be tax deductible by the ATO. They are capital in nature and form part of the cost base of the investments being reported. Reconstruction fees are tax deductible, as they are accounting fees charged to maintain records of existing income producing investments.

The administrator allocates initial fees against the cost bases of each investment made. These allocations are reported in the general ledger accounts for initial fees and investment holdings.

3.12 Insurance bond redemptions

This report records the 'taxable component' arising from the full or partial draw down of an insurance or friendly society bond before the expiration of ten years from the date of original investment. The amount recorded as the 'taxable component' is required to be included in your tax return. A tax rebate, calculated by the ATO, may be available. Please note that the 'taxable component' amount recorded is as advised by the insurance company or friendly society. Any queries concerning the amount should be directed to the payer.

3.13 Margin lending / Embedded loan account transactions

This report details all transactions via your margin lending account/s for the reporting year. This report is also used for investments with embedded loans, such as warrants.

3.14 Retirement income streams (superannuation funds only)

This report breaks down retirement payments made by the fund by member and by income stream.

4.0 IDPS reports

If the investor holds AUSMAQ investments, the IDPS section includes the annual AUSMAQ investment reports and associated audit report. Please note that the AUSMAQ reports are source documents, supporting the entries made by the administrator in this report. AUSMAQ do not provide any further tax substantiation documents, nor should any be required, as the AUSMAQ report is fully audited.

5.0 Investor alerts

The purpose of these alerts is to draw the attention of the investor and/or their advisers to a specific issue which is or may be relevant to this portfolio and which may warrant further examination prior to the tax return/s being lodged. It is imperative that any alerts on the CD are presented to your taxation adviser for such consideration.

6.0 Independent review report

This is a copy of the 2007 independent auditor's report on the PAS. The report reviews the administration procedures, accounting procedures and internal controls of the administrator for the year ended 30 June 2007. The administrator is not strictly required to undertake such a review, but has chosen to do so to provide additional comfort to users by demonstrating voluntary compliance with Australian Securities and Investment Commission Class Order 02/294, "Investor Directed Portfolio Services", as it applies to WRAPS, Master Trusts, Self Managed Accounts and other such portfolio services.

7.0 Substantiation documents

Scanned copies of the original documents are available on the CD, as well as the hard copy original file sent with the CD.

In addition to providing substantiation documents supporting income and expenditure arising, this section includes contract notes for purchases and sales occurring during the year, where they have been forwarded to the administrator.

These documents should be retained for at least 5 years after the CGT event to which they are relevant occurs (i.e. for purchases during the year, "buy" contract notes need to be retained until 5 years after the year in which the holding is eventually **sold**, not 5 years after purchase.)

The majority of contract notes are now processed via electronic feed received daily, directly from most brokers. It is possible that the physical contract note supporting the entry has not been forwarded to the administrator, in which case these records will be incomplete. Should this prove to be the case, please contact the Senior Manager, Technical Services, on 08 9425 5888, so that arrangements can be made to obtain and forward to you a copy of the missing document/s.

Because of the direct electronic of transaction from the relevant broker/s, an e-mailed copy may replace the formal contract note normally received. The document nevertheless

substantiates the transaction to the satisfaction of the ATO, and should be retained by the investor until 5 years after the year in which the CGT event to which it is relevant occurs.

Superannuation fund and corporate entities will also find documents supporting changes in holdings, and documents supporting investment valuation as at 30 June 2007.

General Journal

This comprises all journal entries processed during the reporting year, and is available on-line to your adviser if required.

Goods and Services Tax (GST)

GST has only been separately identified in the package where the administrator has been advised that the investor is registered for GST purposes (for example – where the investor holds a commercial rental property & has chosen to register for GST). In that scenario, GST is identifiable on the income summary as “GST received – income” or as “GST paid – outgoings” (negative income, being a deduction from the gross receivable).

In such circumstances, (where GST has been separated from gross income or expenditure), the entries included in the tax return report are net of GST. All other entries are processed GST-inclusive.

If investors are reporting GST on income/expenditure which has not been disclosed net of GST in this package, entries in the tax return report will be incorrect and should be reviewed to remove GST before input to the tax return.

Privacy policy

In accordance with our commitment to protect privacy and the confidential nature of the investor’s personal information, the administrator has adopted a corporate privacy policy. Under that policy we will only collect personal information that is necessary for us to provide the agreed service, and will only use the information collected in a way that you would reasonably expect us to do.

Disclaimer

This report and guide is intended for information purposes only and is not intended and should not be construed as taxation advice. It does not consider specific circumstances, needs or objectives of particular taxpayers, who should seek independent professional taxation advice regarding the appropriate taxation treatment of this issue relevant to their circumstance.

8.0 Glossary of terms

Some of the reports use abbreviations and terms which may not be familiar to all investors. The following key seeks to explain the terms & abbreviations used.

APA Custodial Service	Formerly known as AUSMAQ (see below) (new name effective 1 July 2007)
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
AUSMAQ	Australian Market Automated Quotation System Ltd – the operator of the wholesale funds capability within PAMS. AUSMAQ is a wholly owned subsidiary of National Australia Bank Ltd
CFC	Controlled Foreign Company
CFI	Conduit Foreign Income
C/G Rollover	Capital gains tax rollover
CGT	Capital gains tax
CMT	Cash management trust account with Macquarie Bank
COSTBASINC	Cost base increase
CWA	Connected with Australia – relevant to Capital Gains which have resulted indirectly from disposals of assets which are connected with Australia. This is only relevant to non-residents of Australia for taxation purposes, and for transactions pre 12 December 2006.
Ex P/F	Ex-Portfolio – income or expenses relevant to the Portfolio where the funds have not been processed via the PBA or margin lending account/s
GST	Goods and services tax
IBI	Infrastructure Borrowing Income
M/L	Margin lending
NCWA	Not connected with Australia – relevant to Capital Gains which have resulted indirectly from disposals of assets which are not connected with Australia. This is only relevant to non-residents of Australia for taxation purposes, and for transactions pre 12 December 2006.
Non PAS	Income/expenses generated from an investment outside the Portfolio

Non-tax	Impacts reduced cost base only
NTAP	Non-Taxable Australian Property (see TAP below for further explanation)
NZ Franking credits	Australian franking credits attached to dividends received from New Zealand companies who have elected to join the Australian imputation system
PAS	Portfolio administration service
PBA	Portfolio bank account (the CMT or the AUSMAQ bank account)
P/P	Periodic payment made directly from the CMT
s104-70 amounts	Tax-free income which reduces the cost base of the investment to which it relates, and may result in an assessable capital gain if the tax-free amount exceeds cost base.
TAP	Taxable Australian Property – relevant to distribution of Capital Gains which have resulted indirectly from disposals of assets which are TAP assets. This is only relevant to non-residents of Australia for taxation purposes, and for transactions post 12 December 2006. TAP assets include Taxable Australian Real Property (“TARP”), indirect interests greater than 10% in an entity where the value of the entity’s assets is principally derived from TARP, the business assets of a permanent establishment and an option or right over TAP assets.
“The portfolio”	The investment portfolio under administration
“The reporting year”	The year ended 30 June 2007

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