

# Personal Investment Plan

The Portfolio Service

## Tax guide 2011

Part of the IOOF group.

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This guide has been prepared to help you complete your 2011 Tax Return.

The information in this guide relates to individual Australian residents (for taxation purposes) and contains general information only. It does not replace instructions from the Australian Taxation Office (ATO). As your circumstances are unique, you may wish to seek advice from a qualified tax adviser.

If you are an individual taxpayer, to complete your tax return you will need the following:

- A copy of the Personal Investment Plan '*Consolidated taxation statement for the financial year ended 30 June 2011*' (which we will send to you with this guide)
- Where applicable, a copy of the Personal Investment Plan '*Statement of capital gains for the financial year ended 30 June 2011*' (which we will send to you with this guide)
- '*TaxPack 2011*' available from the ATO
- '*TaxPack 2011 Supplement*' available from the ATO

You may also need a copy of the following ATO publications:

- '*Personal Investors Guide to Capital Gains Tax 2011*' available from the ATO
- '*Guide to foreign income tax offsets rules 2010-11*' available from the ATO

If you have received income from other investments held outside the Plan, you will need to combine the information from those investments with the information we have provided.

## **Your tax return and your taxation statements**

In your tax return, you must declare income that you were entitled to during the period 1 July 2010 to 30 June 2011. This may not coincide with the actual cash distribution you have received during the same period.

Your '*Annual statement for the financial year ended 30 June 2011*' includes the following two statements, where applicable, and you will need to refer to both statements to complete your 2011 tax return.

1. The '*Consolidated taxation statement for the financial year ended 30 June 2011*' summarises all of the income entitlements on the investments held in your Plan, the deductible amount of expenses paid from your Plan as well as any relevant amounts of tax paid and tax offsets for the 2011 financial year.
2. The '*Statement of capital gains for the financial year ended 30 June 2011*' details all capital gains/losses on the disposal of investments held in your Plan during the 2011 financial year. You will only receive this statement if you have disposed of investments.

All items required to complete your tax return are detailed in '*Part A: Summary of Tax Return*' of the '*Consolidated taxation statement for the financial year ended 30 June 2011*'. For capital gains items, you are required to combine the capital gains items detailed in '*Part A: Summary of Tax Return*' with the relevant amounts from the '*Statement of Capital Gains for the financial year ended 30 June 2011*'.

The information contained in this guide is provided for the use of investors in The Portfolio Service Personal Investment Plan (Plan). Questor Financial Services Limited ABN 33 078 662 718 AFSL Number 240829 is the Responsible Entity of the Plan and in this guide is referred to as 'we', 'our' or 'us'. We have taken every care in the preparation of this guide and no warranty is given as to the correctness of this information and no liability is accepted by us, our officers, employees or agents for any statement or for any error or omission (subject to any contrary provision of the Corporations Act and Trade Practices Act 1974 or any other relevant law).

# Understanding the components of your consolidated taxation statement

## Part A: Summary of tax return

This section of your taxation statement shows your income entitlements, allowable deductions, tax paid and tax offsets for the year ended 30 June 2011.

The tax return label references in this section relate to the '2011 Tax Return for Individuals' and the '2011 Tax Return for Individuals (Supplementary Section)'.

The amounts shown should be included in your tax return against the corresponding tax return labels shown on your tax statement.

Additional information regarding the various items in Part A of the Statement are as follows:

### Interest – tax return label 10L

This relates to interest paid, or credited to you, on interest bearing securities. It does not include distribution of interest from your trust investments in the Plan (including Cash Management Trust, Property Trust and other investments that distributed interest). Interest received as part of trust distributions is included with non-primary production income.

### Dividends – tax return label 11S, 11T and 11U

This relates to dividend incomes received through the Plan from your investments in Australian companies:

- Unfranked amounts – label 11S
- Franked amounts – label 11T
- Franking credits – label 11U

### Please note:

If you do not need to lodge a tax return, you may be able to claim a refund of franking credits. You will need to obtain a copy of the refund of franking credits application form from the ATO.

### **Interest deductions – tax return label D7**

This includes all interest income deductions incurred in your Plan during the year.

If you have incurred expenses outside of the Plan relating to interest income you may be able to claim a deduction.

### **Dividend deductions – tax return label D8**

This includes all dividend income deductions incurred in your Plan during the year.

The amount includes any listed investment company (LIC) deductions you may be entitled to for LIC dividends received during the year. Where an LIC pays a dividend that includes an LIC capital gain, you may be entitled to an income tax deduction.

The following tax deduction can be claimed on the attributable component of dividends received from LICs:

- 50 per cent if you are an individual, or
- $33\frac{1}{3}$  per cent if you are a complying superannuation entity

If you have an LIC attributable part of dividend detailed at '*Consolidated taxation statement Part D: LIC capital gains information*' and you are not an individual, the amount of dividend deductions detailed at part A of the statement needs to be adjusted.

If you have incurred expenses outside of the Plan relating to dividend income you may be able to claim a deduction.

### **Non-primary production income – tax return label 13U**

This income includes all Australian income received through the Plan from trust distributions, excluding capital gains and foreign income.

**Other deductions relating to distributions – tax return label 13Y**

This section shows you the tax deductible expenses (other than those included as interest and dividend deductions) charged to your account in the Plan in the income tax year. These expenses may be offset against the distribution income you have received.

You may have additional deductible expenses in relation to your distribution income. These should be disclosed at this label.

**Franking credits – tax return label 13Q**

These franking credits are Australian tax credits that are attached to franked dividends that have been included in trust distributions that have been received in your Plan account.

**Credit for tax paid by trustee – tax return label 13S**

This is the credit for the amount of tax paid or payable by the trustee. This amount may be claimed as a tax offset against the tax payable on your income.

**Tax file number amounts withheld from interest, dividends and trust income – tax return label 10M, 11V and 13R**

If you have not provided a TFN, an Australian business number or TFN exemption, TFN withholding tax is deducted from income at the rate of 46.5 per cent. The tax withheld should be offset against the tax payable on your income when the TFN withholding tax amounts are included in your income tax return.

**Total current year capital gains – tax return label 18H**

This is the total amount of capital gains, before any capital gains tax (CGT) discount has been applied, that have been included in trust distributions received by your account in the Plan. This amount will also include any foreign capital gains.

**Net capital gain – tax return label 18A**

The net capital gain distributed to you is the amount remaining after the Plan has applied the CGT discount to the capital gains received in your Plan account. The items making up this amount are detailed in part B of your consolidated taxation statement.

Your net capital gain is the sum of your taxable discounted capital gains, indexed capital gains and other capital gains received from trust distributions that you are presently entitled to, plus the sum of your discounted capital gains, indexed capital gains, other capital gains and capital losses realised on the sale of your holdings which is noted on the *'Statement of capital gains for the financial year ended 30 June 2011'*.

Capital gains or losses derived from other sources will also need to be taken into account when completing this question. If capital losses are to be applied to a discount capital gain, you must offset these losses against the gross capital gain and then apply the CGT discount. Please refer to the ATO publication *'Personal Investors Guide to Capital Gains Tax 2011'*.

#### **CFC income – tax return label 19K**

The controlled foreign company (CFC) measures apply to income and gains of foreign companies in which you had a direct or indirect controlling interest. For more information on CFC measures please refer to the ATO publication *'The Foreign Income Return Form Guide'*.

#### **Assessable foreign source income – tax return label 20E**

As an Australian resident taxpayer you may be liable for Australian income tax on any assessable income derived from overseas investments. This amount includes foreign dividends, foreign interests and all other assessable foreign income.

#### **Other net foreign source income – tax return label 20M**

You may also be entitled to tax deductions in relation to expenses incurred in earning assessable income from overseas investments. If you have no foreign income deductions then the amount at 20M will be the same as 20E.

### Foreign income tax offset – Tax return label 200

Investors show their entitlement to foreign income tax offsets at this item (including cents). You can claim a tax offset for the foreign tax you have paid on income or gains (including gains of a capital nature), that are included in your assessable income. In some circumstances, the offset is subject to a limit.

For more information on how to work out your entitlement you will need to refer to the ATO publication '*Guide to Foreign Income Tax offset rules 2010-11*'.

# Example of consolidated taxation statement for the financial year ended 30 June 2011

## Part A: Summary of tax return

	Amount	Tax return label
<b>Tax Return</b>		
Interest	\$305.91	10L
Tax file number amounts withheld from interest	\$0.00	10M
Dividends – unfranked amount	\$512.99	11S
Dividends – franked amount	\$3,802.01	11T
Dividends – franking credits	\$1,629.40	11U
Tax file number amounts withheld from dividends	\$0.00	11V
Interest deductions	0.00	D7
Dividend deductions	\$64.55	D8
<b>Tax return (supplementary section)</b>		
Non-primary production income	\$2,195.35	13U
Other deductions relating to distributions	\$152.95	13Y
Franking credits	\$131.10	13Q
Credit for tax file number amounts withheld from trust income	\$2,783.29	13R
Credit for tax paid by trustee	\$ 0.00	13S
Total current year capital gains	\$515.65	18H
Net capital gain	\$401.38	18A
CFC Income	\$1,835.45	19K
Assessable foreign source income	\$5,421.32	20E
Other net foreign source income	\$5,421.32	20M
Foreign income tax offset	\$43.03	20O

## Part B: Capital gains tax information

	Amount	
Capital gains – discount method	\$228.54	(grossed up amount)
Capital gains – indexation method	\$182.71	
Capital gains – other method	\$104.40	
<b>Total current year capital gains</b>	<b>\$515.65</b>	
Capital gains tax (CGT) concession amount	\$111.82	
Tax-deferred amount	\$340.80	

## Part C: Income components

	Income and expense	Tax paid and offsets	Taxable amount
<b>Australian income</b>			
Dividend – franked amount (shares)	\$3,802.01	\$1,629.40	\$5,431.41
Dividend – franked amount (trust)	\$305.91	\$131.10	\$437.01
Dividend – unfranked amount (shares)	\$362.99		\$362.99
Dividend – unfranked amount (fixed interest)	\$150.00		\$150.00
Dividend – unfranked amount (trust)	\$120.00		\$120.00
Dividend – unfranked amount (CFI)*			
Interest (fixed interest)	\$305.91		\$305.91
Interest (trust)	\$724.04		\$724.04
Other income	\$914.30		\$914.30
<b>Capital gains</b>			
Discounted method (TARP)	\$24.73		\$49.46
Discounted method (NTARP)	\$89.54		\$179.08
CGT concession amount	\$111.82		

\* (CFI) - Conduit Foreign Income

	Income and expense	Tax paid and offsets	Taxable amount
Indexation method (TARP)	\$53.17		\$53.17
Indexation method (NTARP)	\$129.54		\$129.54
Other method (TARP)	\$29.08		\$29.08
Other method (NTARP)	\$75.32		\$75.32
<b>Total current year capital gains</b>			<b>515.65</b>
<b>Foreign Income</b>			
Interest income	\$2,447.27	\$0.00	\$2,447.27
Modified passive income (shares)	\$86.07	\$43.03	\$129.10
Modified passive income (trust)	\$397.68	\$0.00	\$397.68
Other assessable income	\$2,447.27	\$0.00	\$2,447.27
<b>Assessable foreign source income</b>	<b>\$5,378.29</b>	<b>\$43.03</b>	<b>\$5,421.32</b>
Attributed income			\$1,835.45
<b>Other non-assessable amounts</b>			
Tax-exempted amounts	\$305.91		
Tax-free amounts	\$5.00		
Tax-deferred amounts	\$340.80		
<b>Gross cash income</b>	<b>\$13,228.36</b>		
<b>Other deductions</b>			
TFN amounts withheld	(\$2,783.29)		
Other allowable trust deductions	(\$152.95)		(\$152.95)
Non-resident withholding tax	(\$318.35)		
Other withholding tax	(\$533.53)		
LIC Deductions			(\$64.55)
<b>Net cash income</b>	<b>\$9,440.24</b>	<b>\$1,803.56</b>	<b>\$16,918.30</b>

## Part D: LIC capital gains information

	Amount
Attributable part of dividend	\$129.10

# Capital gains

To determine the total current year capital gains and net capital gain amounts you are required to disclose in your tax return you are required to combine the capital gains items detailed in 'Part A: Summary of Tax Return' with the relevant amounts from the 'Statement of capital gains for the financial year ended 30 June 2011'.

For general information on capital gains you may need to refer to the publication, 'Personal Investors Guide to Capital Gains Tax 2011' or other related publications from the ATO. There are several alternative methods under Australian taxation legislation for calculating capital gains.

The following table summarises the types of capital gains detailed in the 'Statement of capital gains for the financial year ended 30 June 2011':

Details of investments sold	How a capital gain is calculated
1 Investments held for 12 months or less (excluding purchase and sale dates)	The capital gain is the nominal gain, calculated as the capital sale proceeds less the cost base of the investment. This method of calculation is referred to as the 'Other method' in ATO publications.
2(a) Investments purchased before 21 September 1999	<p>The capital gain is calculated using either of the following methods:</p> <ul style="list-style-type: none"> <li>• Indexation method, with the cost base being indexed for inflation to 30 September 1999 (the frozen indexed gain).</li> <li>• Discount method, by applying a discount to the nominal gain (the discount capital gain) and no indexation of the cost base.</li> </ul> <p>If the investor of the Plan is an individual, or trust, the discount is 50 per cent and if the investor is a complying superannuation fund the discount is 33<math>\frac{1}{3}</math> per cent (the discount percentage).</p>
2(b) Investments held for more than 12 months (purchased on or after 21 September 1999)	The capital gain is calculated using the discount method.

To calculate capital gains on your disposals that fall within category 2(a), you may choose the method that produces the most favourable result (lowest capital gain). The optimum choice of method may vary if you have capital losses to offset against your capital gains.

Please note, Australian residents are generally assessed on capital gains and losses on all domestic and foreign assets. The distinction between capital gains for assets classified as taxable Australian real property (TARP) and assets that are not taxable Australian real property (NTARP) is irrelevant for Australian tax residents.

A non-resident for Australian tax purposes is only subject to capital gains tax on assets classified as TARP. Non-residents for tax purposes are not subject to capital gains tax on assets classified as NTARP.

To assist you we have provided the nominal gain and the frozen indexed gain for every disposal in your '*Statement of capital gains for the financial year ended 30 June 2011*'.

## Examples of statement of capital gains for the financial year ended 30 June 2011

Investment	Date sold	Date of purchase	Units sold
Investment option 1	30/11/2010	3/03/2008	150
Investment option 2	12/04/2011	6/06/1996	845
Investment option 3	18/01/2011	20/12/2000	745
Investment option 4	2/07/2010	1/08/1995	4,000

We have used the figures from the sample statement of capital gains for the financial year ended 30 June 2011 shown above and the sample Personal Investment Plan Consolidated taxation statement on pages 6 to 9 of this guide to illustrate how to calculate net capital gains.

We have assumed that there are no net capital losses carried forward from previous years. This is a guide only and may not be applicable to your personal circumstances. You may need to consult your taxation adviser.

Sale proceeds	Adjusted cost base	Nominal gain/(loss)	Frozen indexed gain
\$900.00	\$425.00	\$475.00	\$475.00
\$10,000.00	\$7,000.00	\$3,000.00	\$2,790.00
\$8,500.00	\$6,250.00	\$2,250.00	\$2,250.00
\$7,250.00	\$10,475.00	\$(3,225.00)	–

The sample statement of capital gains for the financial year ended 30 June 2011 shows that the client has incurred a capital loss of \$3,225.00 on the disposal of investment option 4. Capital losses may be offset against capital gains, such as trust distributions of capital gains and/or arising from the disposal of units/ shares, in the order that minimises your overall net capital gain.

Please note that the sequence in which capital losses have been offset in this example will not necessarily be suitable in your circumstances.

## Calculating net capital gain (tax return label 18A)

- The capital gain from the disposal of investment option 1 represents a capital gain on an investment held for less than 12 months (excluding purchase and sale dates) and, therefore, the discount method is not available. A more favourable result is achieved by offsetting capital losses against these type and indexation type gains first:

Capital loss	(\$3,225.00)
Less nominal gain	\$475.00
Remaining capital loss	(\$2,750.00)

- Offset remaining capital losses against distributed capital gains from indexation method:

Less distributed indexed gain	
(from trusts) – TARP	\$53.17
– NTARP	\$129.54
Remaining capital loss	(\$2,567.29)

- Offset remaining capital losses against distributed capital gains from other method:

Less distributed gains from	
Other method – TARP	\$29.08
– NTARP	\$75.32
Remaining capital loss	(\$2,462.89)

- Offset remaining capital losses against capital gains from disposal of investment option 2.

As we may choose either the discount capital gain or the frozen indexed gain for each unit disposed, we have used the latter. In practice, you or your tax adviser will need to determine which combination will produce the lowest assessable net capital gain:

Less frozen indexed gain	\$2,790.00
Remaining capital gain	\$327.11

- Calculate discount gains next, starting with the disposal of investment option 3. Here a choice of method is not available – the discount capital gain must be used:

Nominal capital gain	\$2,250.00
Apply 50 per cent discount	(\$1,125.00)
Resultant capital gain	\$1,125.00

## 6. Add any other capital gain:

Distributed discount		
capital gain	– TARP	\$24.73
	– NTARP	\$89.54

(Note, these amounts are already discounted.)

## 7. Add up the net gains:

Net capital gain using		
discount method:		\$1,239.27
add gains from other methods		\$327.11
<b>Total net capital gain</b>		<b>\$1,566.38</b>

(Tax return label 18A)

Please note that, if there were no capital losses (ie no disposal of investment option 4), in this example the resultant overall net capital gain would be calculated as:

Nominal gain – shares/units		
Investment option 1		\$475.00
Add frozen indexed gain		
Investment option 2		\$2,790.00
Add discount capital gain		
– shares/units		
Investment option 3		\$1,125.00
(after application of 50 per cent discount)		
Add capital gains from trust		
distributions		\$401.38
<b>Total net capital gain</b>		<b>\$4,791.38</b>

(Tax return label 18A)

## Calculating total current year capital gains (tax return label 18H)

To determine the total current year capital gains to be returned at tax return label 18H use the following simplified worksheet:

Current year capital gains	Amount
<b>A. Capital gains from disposal of units/shares</b>	
Nominal gains from investments for which the discount capital gain is chosen (disposal of investment option 3)	\$2,250.00
Capital gains from other investments (disposal of investment option 1 and investment option 2, \$475.00 + \$2,790.00)	\$3,265.00
<b>Total current year capital gain disposal</b>	<b>\$5,515.00</b>
<b>B. Capital gains from trust distributions (discount capital gains multiplied by 2)</b>	
Discounted method TARP: ( $\$24.73 \times 2$ )	\$49.46
Discounted method NTARP: ( $\$89.54 \times 2$ )	\$179.08
Indexation method ( $\$53.17 + \$129.54$ )	\$182.71
Other method ( $\$29.08 + \$75.32$ )	\$104.40
<b>Total current year capital gain distribution</b>	<b>\$515.65</b>
<b>Total current year capital gain (A+B) (tax return label 18H)</b>	<b>\$6,030.65</b>

## Carried forward capital losses

If there are net capital losses to be carried forward to future income years, enter the amount at tax return label 18V.

In this example the value is zero.

## Additional information

### Reminder to all investors in the Plan

Investment managers and administrators are required to report information on investment income to the ATO. The ATO uses a data matching system to check that all the taxable income you have received from investment bodies is recorded in your tax return. We provide you with information regarding your investments within the Plan to include in your tax return.

Please note, it is your responsibility to include all your taxable income in your tax return.

### Pay as you go (PAYG) instalment payers in the Plan

If you have paid PAYG instalments for the 2011 financial year, you will still need to lodge a tax return.

The ATO will take into account these payments to determine how much tax is payable by or refundable to you.

### Franking credits

You may be entitled to a refund of franking credits received even if you have no tax liability and are exempt from lodging a tax return.

Please refer to the '*Refund of franking credits instructions and application for individuals 2010-11*' available from the ATO.

### Non-resident investors in the Plan

The tax reporting provided has been prepared for Australian resident investors. This reporting may not be appropriate for you if you are a non-resident for tax purposes.

We are unable to provide information on the implications of any double tax agreements which may be applicable to you. Therefore, we strongly recommend you seek tax advice before lodging any tax return.

