

## 2017 Annual Report – tax transparency excerpt

The following attachments are excerpts from Vicinity Centres' (Vicinity) 2017 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 40 to 42, of the Annual Report, and
- Extract 2: The Taxes Note to the financial statements, Note 3 on pages 76 and 77, of the Annual Report.

A full copy of the 2017 Annual Report can be downloaded at <http://www.vicinity.com.au/media/686503/170816-fy17-annual-report.pdf>.

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

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## Tax Transparency

### Our approach to tax

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

- has robust tax governance, with ongoing oversight from Vicinity's key executives, Audit Committee and Board of Directors
- has a low risk appetite and does not engage in aggressive tax planning and strategies
- is conservatively geared with a publically disclosed target gearing range of 25% to 35%
- is wholly domestic, does not have any offshore subsidiaries and therefore has no related party cross-border transactions
- undertakes to comply with all of its statutory obligations in a timely and transparent manner, and
- engages directly with the Australian Taxation Office (ATO) to provide greater transparency and understanding of Vicinity's tax affairs.

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



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### 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 for the purpose of guiding the disclosure of tax information. In adopting the TTC's guidelines for the second year, Vicinity aims to continue to provide informative disclosure on its tax affairs.

Furthermore, Vicinity Limited, as a corporate taxpayer with total income in excess of \$100 million, is subject to the 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 values having a good relationship with all external regulatory bodies, including the ATO. As a Key Taxpayer, Vicinity is working with the ATO in its Pre-Lodgement Compliance Review (PCR) program. Under the PCR program, Vicinity engages with the ATO on a real-time basis so that, where possible, clearance of any tax issues and transactions occurs prior to the lodgement of Vicinity's annual income tax returns. Vicinity has a history of compliance, which is reflective of its approach and attitude towards the ATO.

### Tax governance

Vicinity's Tax Risk Management Framework (the Framework) enables compliance with tax laws and the management of tax risk through the implementation of a set of tax policies, procedures and systems across the Vicinity business.

The Framework outlines the role of management teams, defines their responsibility and also provides escalation protocols within management, the Audit Committee and the Board to effectively manage tax risk. The Framework guides management on how to appropriately analyse, mitigate and report tax risks. Further, a robust set of internal controls has been put in place including periodic reconciliations, information technology systems and provision for external advisor review, along with audit procedures to ensure the Framework effectively addresses tax risk. Finally, the Framework also gives authority to management to engage and consult with regulatory bodies (including the ATO) regarding tax policy, tax reform and tax law design on matters that affect Vicinity's business and its securityholders.

### 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 flow-through of the taxable income (including capital gains) of the trust so that this income is taxed directly in the hands of the securityholder.

## Stapled structures review

On 24 March 2017, Federal Treasury announced a review of stapled structures in Australia and released its Consultation Paper on Stapled Structures. The review is being undertaken at the direction of the Federal Treasurer with a view to protecting the integrity of Australia's corporate tax system. Federal Treasury is seeking to ensure that stapled structures are not being inappropriately used as a means of re-characterising trading income into more favourably taxed passive income. Federal Treasury has consistently indicated throughout consultation that its integrity concern regarding the use of stapled structures does not extend to traditional property staples like Vicinity.

As a leader in the Australian property industry and a stapled AREIT, Vicinity has been actively engaged in the consultation process with Treasury and also made written submissions. In its submissions, Vicinity has outlined its views and suggestions on ensuring that Australia's regime for taxing property is appropriately balanced and fosters an environment that promotes investment, growth and efficiency.

Vicinity will continue to monitor and engage with Federal Treasury to ensure that they understand the impact of any potential reforms on Vicinity's structure and its securityholder's tax position, as well as to ensure that it is in a position to appropriately adapt to the implementation of any announced reforms.

## Taxation of Vicinity

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

As described above, Vicinity is a stapled group that consists of companies and trusts. Under Australian tax law, companies are subject to income tax at the applicable corporate tax rate (30% for FY17) on their taxable income. Trusts, in comparison, are

generally taxed on a flow-through basis, meaning that a trust's taxable income is taxed in the hands of the beneficiaries (or in the case of Vicinity, its securityholders) at their applicable tax rates.

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

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

## 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.

The accounting net profit that was attributable to securityholders of Vicinity Centres Trust and its controlled entities was \$1,595.9 million for FY17. This accounting net profit was derived through its trust structure, so the taxable

income that is referrable to this net profit is therefore taxed in the hands of securityholders, as described above.

The Vicinity Limited consolidated group generated an accounting loss of \$12.3 million. With respect to its tax position for FY17, the Vicinity Limited income tax consolidated group generated a tax loss of approximately \$74 million. The tax loss was primarily driven by the accounting loss, adjusted for allowable deductions (of \$48.9 million<sup>1</sup>) that arose from the internalisation of management in 2014. Accordingly, Vicinity Limited is not required to pay income tax for FY17. 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 pay tax when it fully utilises its tax losses and other deferred tax assets.

It is noted that Vicinity Limited's nil taxable income and nil income tax payable will be reported in the ATO's Public Disclosure of Entity Information Report for FY17, which is expected to be released in late 2018.

## Effective tax rate

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



### Further information

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Given that Vicinity Centres Trust does not pay income tax (rather, tax is paid by Vicinity's securityholders), it has nil income tax expense and therefore nil ETR. Vicinity Limited will not pay income tax in respect of FY17 due to its tax losses, hence it has nil tax expense and therefore nil ETR.

1. Although the consideration for the internalisation of the funds management business was paid 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).

# Extract 1

## Contributions to the Australian tax system

Vicinity Centres Trust's flow-through trust status means that Vicinity securityholders pay income tax directly on Vicinity's property investments income. For FY17, Vicinity's securityholders will pay income tax on the taxable components of the \$684.8 million distribution paid 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 2017. As the majority of our

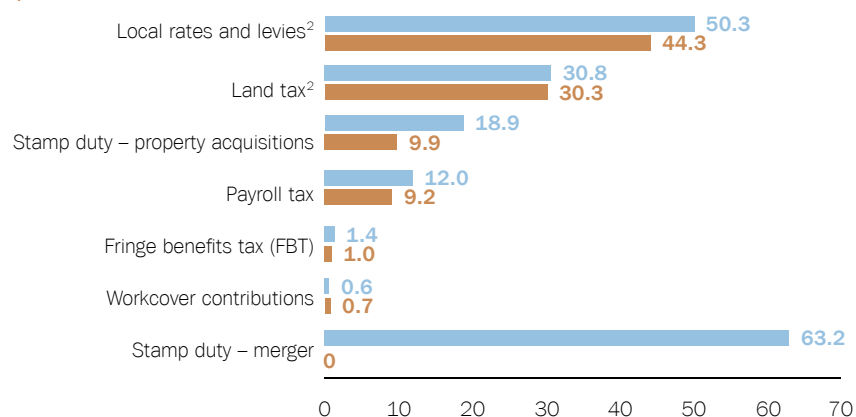
non-resident securityholders hold their interests indirectly (for example through custodians), the Fund Payment notice informs these third parties of the amount of tax to withhold from our distribution.

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 FY17, these taxes amounted to approximately \$225.3 million and are either borne by Vicinity as a cost of our business, or are remitted by Vicinity as part of our contribution to the administration of the tax system.<sup>1</sup> As can be seen below, the taxes remitted include pay as you

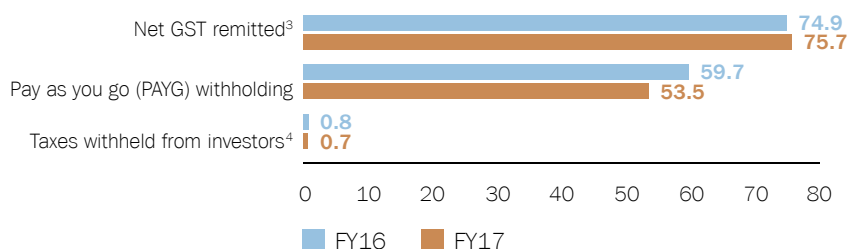
go (PAYG) withholding taxes paid by our employees and Goods and Services Tax (GST) we collect from our retailers who rent space in our centres, net of GST claimed by Vicinity on its own purchases.

The information provided below summarises Vicinity's Australian tax contribution for FY17. The most material changes between the taxes paid in FY16 and FY17 arise in the areas of stamp duty and local rates and levies; FY16 included stamp duty paid on the merger to create Vicinity, while local rates and levies have fallen during FY17 due to asset sales through the year. Payroll taxes and PAYG withholding were also higher in the prior year due to significant people cost associated with the merger.

### Total taxes borne by Vicinity (\$m) \$95.4 million



### Total taxes remitted by Vicinity (\$m) \$129.9 million



## Further information

- Vicinity Limited taxes paid information is published by the ATO in its Report of Entity Information published on: [data.gov.au/dataset/corporate-transparency](http://data.gov.au/dataset/corporate-transparency)
- A breakdown of the taxable components that securityholders receive via their annual taxation statements will be available in late August on Vicinity's website: [vicinity.com.au](http://vicinity.com.au)
- ATO's webpage on tax transparency for corporate tax entities, including background information and explanations: [ato.gov.au/Business/Large-business/In-detail/Tax-transparency/Tax-transparency--reporting-of-entity-tax-information](http://ato.gov.au/Business/Large-business/In-detail/Tax-transparency/Tax-transparency--reporting-of-entity-tax-information)
- The Treasury's Consultation Paper on Stapled Structures (March 2017) is published on: [treasury.gov.au/ConsultationsandReviews/Consultations/2017/Stapled-Structures](http://treasury.gov.au/ConsultationsandReviews/Consultations/2017/Stapled-Structures)

1. In this regard, Vicinity includes entities which have been equity accounted in these financial statements.  
 2. Land tax and local rates and levies data has been extracted from the group financial statements and therefore may vary from the actual taxes paid in FY16 and FY17 due to timing differences.  
 3. Net GST remitted for FY17 is comprised of \$180.2 million of GST collected (FY16: \$185.4 million) and \$104.5 million of GST claimed (FY16: \$110.5 million).  
 4. 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.

## 3. Taxes

### (a) Group taxation

#### Income tax

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

Vicinity Centres Trust (the Trust) and its controlled trusts are not liable to pay income tax (including capital gains tax) on the basis that their beneficiaries are presently entitled to the net income of the trusts. This means that the taxable income from the Trust's property investments is taxed on a flow through basis in the hands of the Trust's securityholders. 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)*

Vicinity Limited (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:

<b>For the 12 months to:</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
	<b>\$m</b>	<b>\$m</b>
Current income tax benefit	<b>5.9</b>	6.3
Deferred income tax expense	<b>(3.5)</b>	(2.8)
Adjustment for current year tax of prior periods	<b>2.1</b>	0.7
Benefit from tax losses not recognised	<b>(4.5)</b>	(4.2)
<b>Income tax expense</b>	<b>-</b>	<b>-</b>

#### Statutory taxes and levies

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

Further details of these taxes can be found in the Tax Transparency section of this 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 this Annual Report.

## Extract 2

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

<b>For the 12 months to:</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
	<b>\$m</b>	<b>\$m</b>
Profit before tax for the year	<b>1,583.6</b>	960.9
Less: Profit attributed to the Trust and not subject to tax	<b>1,595.9</b>	1,266.5
<b>Net loss before tax attributable to securityholders of Vicinity Limited</b>	<b>(12.3)</b>	(305.6)
Prima facie income benefit at 30%	<b>3.7</b>	91.7
<b>Tax effect of amounts not taxable in calculating income tax expense:</b>		
Non-deductible impairment and amortisation of intangible assets	<b>(0.9)</b>	(89.5)
Net adjustment relating to acquisition of share based payments	<b>(0.2)</b>	2.4
Prior period adjustments	<b>2.1</b>	0.7
Other non-deductible items	<b>(0.2)</b>	(1.1)
Benefit from tax losses not recognised	<b>(4.5)</b>	(4.2)
<b>Income tax expense</b>	<b>-</b>	-

### (c) Movement in temporary differences

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

	<b>Provisions</b>	<b>Intangible</b>	<b>Other</b>	<b>Allowable</b>	<b>Tax losses</b>	<b>Total</b>
	<b>\$m</b>	<b>assets</b>	<b>\$m</b>	<b>deductions<sup>1</sup></b>	<b>\$m</b>	<b>\$m</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
At 30 June 2015	<b>19.4</b>	<b>(4.3)</b>	<b>7.3</b>	<b>23.9</b>	<b>38.0</b>	<b>84.3</b>
Transfers	-	-	-	(15.0)	15.0	-
Charged to profit	(1.5)	1.0	(2.3)	0.6	2.2	-
At 30 June 2016	<b>17.9</b>	<b>(3.3)</b>	<b>5.0</b>	<b>9.5</b>	<b>55.2</b>	<b>84.3</b>
Transfers	-	-	-	(9.5)	9.5	-
Charged to profit	0.3	0.9	(4.7)	-	3.5	-
At 30 June 2017	<b>18.2</b>	<b>(2.4)</b>	<b>0.3</b>	<b>-</b>	<b>68.2</b>	<b>84.3</b>

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

The deferred tax 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 \$29.8 million at 30 June 2017 (30 June 2016: \$25.3 million) comprising:

- allowable deductions of \$16.6 million (30 June 2016: \$21.3 million); and
- tax losses of \$13.2 million (30 June 2016: \$4.0 million).