



2008 Standard distribution statement: guidance notes for fund managers

Issued by the Tax Office on 19 May 2008.

22 May 2008

Introduction

The *2008 standard distribution statement* is the format recommended by the Tax Office and the Investment and Financial Services Association (IFSA) for disclosure by managed funds of tax information to resident individuals for completion of 2008 tax returns, relevant schedules and other requirements.

The 2008 standard format has been developed to help reduce any confusion experienced by managed fund investors in completing their tax returns. The standardisation of terms and presentation used in trust distribution statements to unit holders should promote clarity and consistency. The work of the Australian Shareholders Association and the Australian Independent Retirees Association in originally helping to develop this agreed format is acknowledged.

The *2008 standard distribution statement* has amounts included as examples, which are referred to in the guidance notes that follow the statement.

The 2008 version has had year references and tax return item numbers updated.

Abbreviations

Abbreviations

CGT	capital gains tax
IFSA	Investment and Financial Services Association
ITAA 1936	<i>Income Tax Assessment Act 1936</i>
ITAA 1997	<i>Income Tax Assessment Act 1997</i>
TFN	tax file number

Purpose

These notes have been prepared to help those involved in the preparation of fund manager distribution statements to understand the basis on which the *2008 standard distribution statement* format has been determined, and the rationale behind the various items disclosed on the statement.

Basis of standard distribution statement



Basic structure



Standard distribution statement



Guidance notes



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Basis of standard distribution statement

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The standard format does not purport to deal with all possible scenarios that a fund manager may encounter. Where the funds' circumstances are outside those shown in the standard format, additional information or requirements need to be considered. For example, attributed foreign income may need to be included.

Fund managers may delete lines that are not relevant to their particular circumstances. For example, if there is no indexed capital gain, the lines for an indexed capital gain may be deleted. Also, if there is no foreign income, Part B may be deleted, but we recommend that the fund manager include a note advising that Part B is not shown as it is not applicable.

The format is based on the standard information needs of a resident individual unit holder in a unit trust operated by the funds management industry. The circumstances are relevant to those unit holders who hold units on capital account and where distributions labelled as 'non-assessable amounts' are not capital gains or ordinary income of the unit holder. It is also assumed that the unit holder is a resident for the whole of the year of income.

Fund managers should apply relevant provisions of the income tax law in preparing the taxation information in the distribution statement, in particular Division 6 of Part III of the *Income Tax Assessment Act 1936* (ITAA 1936). Trustees should carefully consider the specific facts and circumstances applying to the trust, especially in determining the nature of distribution components, such as the characterisation of gains on assets advised to unit holders.

The *2008 standard distribution statement* is current as at 19 May 2008 and is issued at this time to allow the necessary systems changes to be implemented by the fund managers before 30 June 2008 for 2008 income year reporting. If subsequent changes are necessary we will discuss these with industry bodies.

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Basic structure

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Part A of the *2008 standard distribution statement* explains items **13**, **18** and **20** in the *Tax return for individuals (supplementary section) 2008*, which may need to be completed by an investor in a managed fund. For investors with straightforward circumstances the information in Part A should be sufficient to complete their tax return.

Part B contains the specific information needed by a unit holder to determine their foreign tax credit entitlement in accordance with the ITAA 1936.

Part C explains the components of a distribution which investors may need to know to work out their net capital gain or loss.

Part D allows a reconciliation of the net cash amount distributed to the unit holder and provides information relevant to cost base adjustments and foreign loss quarantining.

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2008 tax return information: Resident individual unit holder for year ended 30 June 2008

Part A: Summary of 2008 tax return (supplementary section) items

The tax return item labels are the white letters inside coloured boxes on the *Tax return for individuals (supplementary section) 2008*.

Part A: Summary of 2008 tax return (supplementary section) items

Tax return (supplementary section)	Amount	Tax return label
Non-primary production income	165	13U
Other deductions relating to distributions	4	13Y
Franking credits	30.00	13Q
Credit for tax file number (TFN) amounts withheld	10.00	13R
Credit for tax paid by trustee	0.00	13S
Total current year capital gains	230	18H
Net capital gain	160	18A
Assessable foreign source income	220	20E
Other net foreign source income	220	20M

Part B: Foreign tax credit information - additional information for item 20

Part B: Foreign tax credit information - additional information for item 20

Foreign income categories	Amount	Foreign tax paid
passive income (see Note)	235	37.00
other income	14	6.00

Note: Includes foreign net capital gains and attaching foreign tax as follows:

Part B: Foreign tax credit information - additional information for item 20

Foreign income categories	Amount	Foreign tax paid
• discount capital gains	16	5.00
• indexed capital gains	30	5.00
• other capital gains	14	2.00

Part C: Capital gains tax information - additional information for item 18

Part C: Capital gains tax information - additional information for item 18

Capital gains - discounted method (grossed up amount)	140
Capital gains - indexation method	65
Capital gains - other method	25
Total current year capital gains	230

Part D: Components of a distribution

Part D – Table 1: Australian income

Australian income	Cash distribution	Tax paid or tax offsets	Taxable amount
Dividends: franked amount	\$70	\$30	\$100
Dividends: unfranked amount	\$60	-	\$60

Interest	\$20	-	\$20
Other income	\$15	-	\$15
Less other allowable trust deductions	-\$30	-	-\$30
Non-primary production income	\$135	\$30	\$165

Part D – Table 2: Capital gains

Capital gains	Cash distribution	Tax paid or tax offsets	Taxable amount
Discounted capital gain	\$65	\$5	\$70
Capital gains tax (CGT) concession amount	\$70	-	\$0
Capital gains: indexation method	\$60	\$5	\$65
Capital gains: other method	\$23	\$2	\$25
Distributed capital gains	\$218	\$12	-
Net capital gains	-	-	\$160

Part D – Table 3: Foreign income

Foreign income	Cash distribution	Tax paid or tax	Taxable amount
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		offsets	
Interest income	\$90	\$10	\$100
Modified passive income	\$85	\$15	\$100
Other assessable foreign income	\$14	\$6	\$20
Assessable foreign income	\$189	\$31	\$220

Part D – Table 4: Other non-assessable amounts

Other non-assessable amounts	Cash distribution	Tax paid or tax offsets	Taxable amount
Tax-exempted amounts	\$25	-	-
Tax-free amounts	\$15	-	-
Tax-deferred amounts	\$30	-	-
Gross cash distribution	\$612	-	-

Part D – Table 5: Other deductions from distribution

Other deductions from distribution	Cash distribution	Tax paid or tax offsets	Taxable amount
TFN amounts withheld	-\$10	-	-

Other expenses	-\$4	-	-
Net cash distribution	\$598	-	-

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Guidance notes

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Part A: Summary of Tax return for individuals (supplementary section) 2008 items

Part A: Summary of Tax return for individuals (supplementary section) 2008 items

1	The references in Part A are to the <i>Tax return for individuals (supplementary section) 2008</i> .
2	U item 13 - Non-primary production income Unit holders include their share of franked dividends and their share of franking credits at this item. Net capital gains and foreign income are not shown here. The standard format assumes that there are no primary production activities carried out by the managed fund.
3	Y item 13 - Other deductions relating to distributions At this item unit holders show the total of deductible expenses they incurred during the income year. Deductions allowable to the trustees that are taken into account in the net income calculation under section 95 of the ITAA 1936 are not shown at this item. Ordinarily, deductible expenses would be netted off against the relevant class of income in the trust estate.)
4	Q item 13 - Franking credits Unit holders show their share of franking credits from franked dividends at this item. Include cents.

5	<p>R item 13 - Credit for TFN amounts withheld At this item unit holders show their share of any credit for TFN amounts withheld from interest, dividends, and unit trust distributions paid or payable, in accordance with sections 12-140 and 12-145 of Schedule 1 to the <i>Taxation Administration Act 1953</i>. Include cents.</p>
6	<p>S item 13 - Credit for tax paid by trustee At this item unit holders show their share of any credit for tax paid or payable by the trustee, including cents, for example, tax paid or payable when the trustee has been assessed under subsection 98(1) of the ITAA 1936 in respect of beneficiaries under a legal disability (includes beneficiaries under the age of 18).</p>
7	<p>H item 18 - Total current year capital gain A item 18 - Net capital gain. The components of these items are set out in Part C. Unit holders will need to gross up their cash distribution by the amount of any tax paid on capital gains (for example, foreign tax on foreign net capital gains). It is important to note that an individual unit holder who has capital losses will not simply be able to transfer the net capital gain amount from Part A to their tax return. Fund managers may wish to refer investors in these circumstances to our publications <i>Guide to capital gains tax 2008</i> (NAT 4151) or <i>Personal investors guide to capital gains tax 2008</i> (NAT 4152), or provide details in their own explanatory material.</p>
8	<p>Item 19 - Foreign entities Part A of the standard format assumes that there is no attributed foreign income of the trust such that the information requested at item 19 of the <i>Tax return for individuals (supplementary section) 2008</i> is not applicable to the managed fund investment. If this is not the case, this information should be provided to unit holders.</p>
9	<p>E item 20 - Assessable foreign source income M item 20 - Other net foreign source income We would expect that Part A of the trust distribution statement would show the amounts for these items to be the same. If the unit holder has foreign income deductions they should follow the instructions in <i>TaxPack 2008 supplement</i> (NAT 2677).</p>

Part B: Foreign tax credit information

Part C: Capital gains tax information



Part D: Components of a distribution



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Part B: Foreign tax credit information

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Part B: Foreign tax credit information

10	This Part contains information relevant for determining the Australian resident unit holder's entitlement to foreign tax credits under Division 18, Part III of the ITAA 1936.
11	The foreign tax credit entitlement needs to be determined by the unit holder separately for each class of foreign income. The foreign tax credit for each class cannot be more than the Australian tax payable by the unit holder on that class of taxable foreign income. Due to these requirements Part A cannot simply identify the unit holder's share of foreign tax paid by the trustee as the amount to claim at O item 20 Foreign tax credits in the unit holder's tax return Full details are set out in our publication <i>How to claim a foreign tax credit 2008</i> (NAT 2338).
12	Foreign income categories Part B assumes that 'passive income' and 'other income' are the relevant foreign income categories for foreign tax credit purposes under subsection 160AF(7) of the ITAA 1936 for managed funds. If this is not the case then additional information will need to be provided.
13	Passive income is defined in section 160AEA of the

	ITAA 1936.
14	<p>Foreign capital gains</p> <p>Fund managers should only show foreign capital gains and attached foreign tax paid in Part B if the capital gain is deemed to be foreign source income under subsection 160AE(2) of the ITAA 1936.</p> <p>Therefore do not show a foreign capital gain in Part B if:</p> <ul style="list-style-type: none"> • no foreign tax was paid in relation to that capital gain; or • the foreign capital gain is not included in the net income of the trust estate.
15	<p>The separation of the foreign net capital gains that are included in passive income is necessary for determining the unit holder's foreign tax credit entitlement under subsection 160AE(2) and section 160AF of the ITAA 1936. For example, the unit holder may have offset losses against gross capital gains such that no foreign capital gain is ultimately included in the unit holder's assessable income under subsection 160AE(2). In these circumstances, the unit holder would have no foreign tax credit entitlement in relation to their share of the foreign tax paid by the trustee.</p>

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Part C: Capital gains tax information

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Part C: Capital gains tax information

16	<p>Capital gains</p> <p>These items provide tax figures for the break up of H item 18 Total current year capital gains shown in Part A. They are also necessary for unit holders with capital losses to offset and for completion of the Capital gains tax (CGT) schedule (NAT 3423).</p> <p>We have assumed that the managed fund has no capital gains from collectables and the small business capital gains concessions are not applicable.</p>
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Line 1: Capital gains - discount method

This amount is the grossed up discounted capital gain (that is, in our example, $\$70 \times 2$). It would help unit holders understand instructions and guides if the words 'grossed up amount' were placed next to this figure.

Line 2: Capital gains - indexation method

This figure is taken from the tax amount column of the capital gains section of Part D (that is, line 3).

Line 3: Capital gains - other method

This figure is taken from the tax amount column of the capital gains section of Part D (that is, line 4).

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Part D: Components of a distribution

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Part D: Components of a distribution

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Australian income

These details provide a break up of U item 13 Non-primary production income and the information is necessary for those investors who use the Application for refund of franking credits for individuals 2008 (NAT 4098/NAT 4105).

Show the net income for each item. The net income is either:

- the gross income less expenses directly relevant to that income, or
- the gross income less expenses directly relevant to that income and indirect expenses that are apportioned against all income components. Expenses indirectly incurred in respect of deriving the income, for example trust operating expenses can be shown here or separately at the 'Less other allowable trust deductions' item.

The practice of offsetting indirect trust expenses against one type of income (for example, Dividends - franked amount) or successively against income types rather than apportioning the expense against all income components should be discontinued. The 'Less other allowable trust

	deductions' item uses the same information as the 'Other trust deductions not included elsewhere' field in version 8 of the <i>Annual investment income report</i> .
18	<p>Line 1: Discounted capital gain</p> <p>If the trust's capital gain has been reduced by the 50% discount show the part of the discounted capital gain that is included in the share of net income of the unit holder. The \$5 amount shown in the 'Tax paid or tax offsets' column is the foreign tax credit amount shown in Part B.</p>
19	<p>Line 2: CGT concession amount</p> <p>The CGT concession amount is identified as the amounts referred to in subsection 104-71(4) of the <i>Income Tax Assessment Act 1997</i> (ITAA 1997). Frozen indexation amounts paid to the unit holder should not be shown as CGT concession amounts on the distribution statement. This amount comprises the non-assessable CGT discount amount paid to the unit holder. Also included is the amount of any capital losses (including unapplied net capital losses carried forward from previous years) applied by the trust (or another trust in the chain) to reduce capital gains made, which is reflected in the payment to the unit holder. (Refer to items 1 and 7 of the table in subsection 104-71(4) of the ITAA 1997.)</p> <p>Following amendments to sections 104-70 and 104-71 of the ITAA 1997, unit holders are not required to adjust the cost base of their units for these amounts if paid on or after 1 July 2001.</p>
20	<p>Line 3: Capital gains - indexation method</p> <p>This line item shows the part of the capital gain calculated by the trustee under the indexation method that is included in the share of net income of the unit holder. This item, which is required to allow an investor to make choices about the order in which to deduct capital losses, is taken into account in working out their net capital gain, and is also relevant for CGT schedule preparers. The \$5 amount shown in the 'Tax paid or tax offsets' column is the foreign tax credit amount shown in Part B.</p>
21	<p>Line 4: Capital gains - other method</p> <p>This line item shows the part of the capital gain included in the share of net income of the unit holder where the trustee has not applied the indexation or discount methods. This item, which is required to allow an investor to make choices about the order in which to deduct capital losses, forms part of the calculation of net capital gain, and is also relevant for CGT schedule preparers.</p>

	<p>The \$2 amount shown in the 'Tax paid or tax offsets' column is the foreign tax credit amount shown in Part B.</p>
22	<p>Line 5: Distributed capital gains</p> <p>This item represents the actual cash amount of capital gains distributed and includes the non-assessable CGT concession amount. It is calculated as the sum of lines 1 to 4 of the cash distribution column for capital gains. This figure is not taken into account in working out the unit holder's net capital gain but it allows fund managers to reconcile the net cash distribution amount paid to the unit holder.</p> <p>The total distributed capital gains (that is, the cash distribution plus the tax paid or tax offsets) equals the total current year capital gains in Part C.</p>
23	<p>Line 6: Net capital gain</p> <p>This item is the sum of line items 1, 3 and 4 of the 'Taxable amount' column of capital gains and represents the net capital gain under the three methods included in the share of net income of the unit holder. In our example, this is \$160, which is transferred directly to A item 18 of the <i>Tax return for individuals (supplementary section) 2008</i> as discussed in Part A above.</p> <p>Where the individual unit holder has no current year capital losses or prior year net capital losses, this figure can be used directly for completion of A item 18. If the unit holder has capital losses to offset, investors would need to refer to the Tax Office publications- <i>Guide to capital gains tax 2008</i> or <i>Personal investors guide to capital gains tax 2008</i>.</p>
24	<p>Foreign income</p> <p>This section is relevant for unit holders applying the foreign loss quarantining provisions under section 160AFD of the ITAA 1936. The classes shown in the statement are those considered relevant for a managed fund. If this is not the case then additional information should be provided.</p> <p>The classes of assessable foreign income and definitions are set out in subsections 160AFD(8) and (9) respectively. It should be noted that foreign capital gains are not 'assessable foreign income' and should not be shown in this section of Part D but in the capital gains section.</p> <p>The foreign tax credit amounts are shown only to reconcile the cash and taxable amounts, as foreign tax credit entitlements are determined under Part B.</p>
25	<p>Other non-assessable amounts</p> <p>The headings used are based on the terminology used in sections 104-70 and 104-71 of the ITAA 1997.</p>

	<p>'Tax-exempted amounts' are amounts referred to in subsection 104-71(1). Unit holders are not required to adjust either the cost base or reduced cost base of their units for these amounts.</p> <p>'Tax-free amounts' are amounts referred to in subsection 104-71(3). Unit holders are required to reduce the reduced cost base of their units by these amounts but not their cost base.</p> <p>These amounts now only include infrastructure borrowing amounts under section 159GZZZZE and exempt income arising from shares in a pooled development fund under sections 124ZM and 124ZN of the ITAA 1936.</p> <p>'Tax-deferred amounts' are amounts referred to in subsection 104-70(1) of the ITAA 1997. Unit holders are required to reduce both the cost base and reduced cost base of their units by these amounts. It should be noted that building allowance amounts paid on or after 1 July 2001 are now treated as tax-deferred amounts.</p> <p>'CGT concession amounts' are shown in the capital gains section to allow reconciliation of capital gains.</p>
26	<p>Other amounts deducted from trust distribution 'TFN amounts withheld'</p> <p>This item allows the cash amount to be reconciled in Part D.</p> <p>'Other expenses'</p> <p>This item allows the cash amount to be reconciled in Part D.</p> <p>This is to be used for expenses incurred by unit holders, for example management fees, and not deductions allowable to the trustees that are taken into account in the net income calculation under section 95 of the ITAA 1936 and are discussed at paragraph 17 above.</p> <p>Only the deductible expenses component of this amount should feed through to Part A, Y item 13.</p>
27	<p>'Please retain this statement for income tax purposes'</p> <p>The use of this wording also exempts the fund manager from the requirement to include the words 'Payment summary' on the distribution statement where TFN amounts have been withheld from the investment. Our position on this and other PAYG withholding payer issues was provided to IFSA on 21 December 2001.</p>

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