

PortfolioOne

Your premium investment solution

Guide to Notional Tax Calculation

PortfolioOne Superannuation and Pension Service

A Guide to Notional Tax Calculation for the year ended 30 June 2021

Provided by

OnePath

Contents

Introduction	3	Section 2 – Capital gains	10
General principles	3	2.1 Prior year capital losses carried forward	10
Tax calculation components	4	2.2 Fully taxable capital gains	10
Superannuation tax calculation	5	2.3 Discounted capital gains	10
Section 1 – Income	6	2.4 Current year capital losses	11
1.1 Dividend income	6	2.5 Capital gains/(loss) sub-total	11
1.2 Franking credits	6	2.6 Applied capital gains	11
1.3 Interest income	6	2.7 Excess capital loss carried forward	11
1.4 Taxable contributions	7	Section 3 – Tax position	12
1.5 Other income	7	3.1 Net tax payable	12
1.6 Foreign income	7	3.2 Excess franking credits benefit	12
1.7 Foreign income tax offsets	7	3.3 Excess foreign income tax offsets benefit	12
1.8 Applied capital gains	8	3.4 Capital losses benefit	12
1.9 Capital loss reversal	8	3.5 Revenue losses benefit	12
1.10 Exempt pension income	8	3.6 Foreign losses benefit	12
1.11 Total assessable income	8	3.7 Net tax position	12
1.12 Expenses	8	3.8 Tax paid to date	12
1.13 Taxable income	9	3.9 Amount credited/(charged) to account	13
1.14 Gross tax payable	9	3.10 Surplus tax benefit	13
1.15 Franking credits used	9		
1.16 Foreign income tax offsets used	9		
1.17 Net tax payable	9		
1.18 Excess franking credits	9		
1.19 Excess foreign income tax offsets	9		
1.20 Attribution Managed Investment Trust (AMIT)	9		

Introduction

This guide is provided to explain the calculation principles, assumptions and components in arriving at the tax charge and the tax adjustment credited (or charged) to the Cash Accounts of members on the annual processing date for the Retirement Portfolio Service (known as PortfolioOne Superannuation and Pension Service) (the Fund), for the period 1 July 2020 to 30 June 2021.

This guide and the member notional tax calculation has been supplied for information purposes only. No action is required by you or your client.

General principles

During the year ended 30 June 2021, we deducted amounts from certain contributions, distributions and gains received on behalf of members to cover the potential income tax liability of the Fund.

In determining the Fund's annual tax liability, we prepared a comprehensive calculation of the notional tax liability of each member, which in aggregation and subject to certain modifications represents the annual tax liability of the Fund. These tax calculations include consideration of certain tax benefits referable to income derived, including franking credits and tax deferred amounts.

The member notional tax calculation also includes a benefit relating to excess franking credits, revenue losses, capital losses and other tax credits in relation to each member's investments. Generally, net capital losses can only be offset against current and future capital gains.

The Fund's annual tax liability is calculated once a year after the 30 June tax year end. When the income tax position of the Fund is calculated, member tax adjustments are processed. If the notional annual tax liability of a member was less than the progressive payments made, we credited a tax refund to the member's Cash Account. If the notional annual tax liability of a member was greater than the progressive payments made, we debited a tax charge against the member's Cash Account.

Members who leave the Fund prior to the year's annual processing date will not receive any of the benefits associated with the member notional tax calculation. The total amount of tax benefits from members who have left the Fund up to the annual processing date has been allocated and paid to current non-pension members on a proportional basis. For further details refer to page 12.

The Fund:

- is part of a superannuation fund established by way of a trust deed and is a complying superannuation fund for the purpose of the *Superannuation Industry (Supervision) Act 1993* (Cth)
- is required to complete a tax return annually, for the period ended 30 June
- has taxable income which is subject to tax at the complying superannuation fund rate of 15%
- did not derive any non-arm's length income that would be taxed at 45%
- has Pension members who have had their assets segregated to meet current pension liabilities. Income derived from the segregated pension assets by the Fund is exempt from tax, but continues to attract the benefit of franking credits.

From 1 July 2017, Pension members exclude transition to retirement pensions that are not in the 'retirement phase'. A transition to retirement pension will only be in the retirement phase where the member has turned 65 or notifies the trustee they have met the condition of release for retirement, permanent incapacity or terminal medical condition. Transition to retirement pensions that are not in the retirement phase are subject to tax at the complying superannuation fund rate of 15%.

Tax calculation components

The tax calculation components are detailed in the member notional tax calculation as shown on the next page.

Where a member commenced a pension or held a transition to retirement pension and met one of the conditions of release that results in the pension being in the retirement phase, they may have two member level reports: one for the period where the account was taxable*, and the second where the account was tax free.

There are three sections:

- Section 1: an income section that calculates the net tax payable
- Section 2: a capital gains section that provides further details on net capital gains used in the calculation of net tax payable
- Section 3: a tax position section that adjusts the net tax payable for certain benefits to arrive at the amount charged/credited to a member's account.

The outline commencing on page 6 describes each component and should be read in conjunction with the member level report.

Each section is a general description of the principles applied. The components referred to are in respect of the period 1 July 2020 to 30 June 2021 inclusive.

Note regarding pension members:

Income and capital gains derived from assets held for pension members are exempt from tax in the Fund. The pension tax calculation report will therefore show no amounts in most sections (e.g. capital gains, expenses, foreign income tax offsets, etc.). Pension members do receive the benefit from franking credits which is reflected in Section 3 of the report.

* For pensions that commenced during the year, the pension is taxed for the period of time from account opening until pension commencement. Pension commencement is generally the day of receipt of last contribution or rollover into the account.

Superannuation tax calculation

As at 30 June 2021

Name: John Sample

Account No: 801109999

Section 1 – Income	\$
Dividend income	750.00
Franking credits	321.43
Interest income	8,134.82
Taxable contributions	2,700.00
Other income	474.53
Foreign income	0.00
Foreign income tax offsets	0.00
Applied capital gains	(15,074.44)
Capital loss reversal	15,074.44
Exempt pension income	0.00
Total assessable income	12,380.78
Expenses	(2,733.67)
Taxable income	9,647.11
Gross tax payable	1,447.07
Less franking credits used	(321.43)
Less foreign income tax offsets used	0.00
Net tax payable	1,125.64
Excess franking credits	0.00
Excess foreign income tax offsets	0.00

Section 2 – Capital gains	\$
Prior year cap losses carried forward	(24,014.67)
Fully taxable cap gains	1,434.72
Discounted cap gains	0
Current year cap losses	(601.14)
Capital gains/(loss) sub-total	(23,181.09)
Applied capital gains	15,074.44
Excess cap loss carried forward	(8,106.65)

Section 3 – Tax position	\$
Net tax payable	(1,125.64)
Excess franking credits benefit	0.00
Excess foreign income tax offsets benefit	0.00
Capital losses benefit	2,261.17
Revenue losses benefit	0.00
Foreign losses benefit	0.00
Net tax position	1,135.53
Tax paid to date	(1,426.68)
Amount credited/(charged) to account	2,562.21
Surplus tax benefit	74.39

Section 1 – Income

This section calculates the net tax payable

	Section 1 – Income	\$
1.1	Dividend income	750.00
1.2	Franking credits	321.43
1.3	Interest income	8,134.82
1.4	Taxable contributions	2,700.00
1.5	Other income	474.53
1.6	Foreign income	0.00
1.7	Foreign income tax offsets	0.00
1.8	Applied capital gains	(15,074.44)
1.9	Capital loss reversal	15,074.44
1.10	Exempt pension income	0.00
1.11	Total assessable income	12,380.78
1.12	Expenses	(2,733.67)
1.13	Taxable income	9,647.11
1.14	Gross tax payable	1,447.07
1.15	Less franking credits used	(321.43)
1.16	Less foreign income tax offsets used	0.00
1.17	Net tax payable	1,125.64
1.18	Excess franking credits	0.00
1.19	Excess foreign income tax offsets	0.00

1.1 Dividend income

Dividend income was derived through investments in listed securities and self-funding instalment warrants (recognised on a paid or credited basis).

Any dividend income derived from managed investments is included in 'Other Income', further described in Section 1.5.

Dividends were allocated to members based on their holding in the listed security at the entitlement date of the dividend.

1.2 Franking credits

Franking credits were derived through managed investments, listed securities and self-funding instalment warrants. All franking credits received during the year are reported here.

For managed investments and listed securities, franking credits were allocated on a pro rata basis to each member based on their holding in the investment at the entitlement date of the distribution.

Please note, this amount may be reduced by franking credits denied as a result of the '45 day' rule or the 'Dividend washing' rule.

1.3 Interest income

This balance relates to interest income attributable to members' investments in term deposits, convertible notes, listed securities and interest received on the Cash Account. Note: Interest received from managed investments is included in 'Other income' (see 1.5).

The Taxation of Financial Arrangements (TOFA) regime broadly changes the way in which gains and losses from certain financial arrangements are recognised for income tax purposes. The rules apply to superannuation funds where the value of their assets (determined at the end of the immediately preceding income year) is \$100 million or more. The Fund is required to comply with TOFA rules and these have been applied at the member level where appropriate. Any adjustment related to the application of the TOFA regime will be reflected in interest income.

1.4 Taxable contributions

This balance relates to contributions that have been received. Taxable contributions include the following:

- employer contributions
- concessional member contributions
- specified rollover amounts
- any eligible termination payment amount rolled over to the Fund to the extent that it consists of any untaxed component.

Non-concessional member contributions are non-assessable.

1.5 Other income

Other income was derived through managed investments, listed trusts and listed securities. This balance includes all the taxable income received excluding distributions of capital gains and foreign income.

Distributions received from managed investments and listed trusts were recognised when the Fund had been attributed or had a present entitlement to the income.

This includes:

- distributions received from managed investments other than foreign income and capital gains
- distributions from listed trusts (e.g. Listed Property Trusts)
- gains or losses as a result of the disposal of certain listed securities that are treated for tax purposes on revenue rather than capital account. Gains from the sale of these investments during the period have been included in Other Income and losses have been offset against Other Income.

- distributions and dividends from stapled securities.

1.6 Foreign income

Foreign income from investments in managed investments and certain listed securities.

Foreign income from managed investments and listed trusts is recognised as income when the Fund has been attributed or has a present entitlement to the income and is allocated on a pro rata basis to members based on their holding in the managed investment at the entitlement date of the distribution.

Foreign income from listed securities is recognised as income by the Fund on a due and payable basis and allocated to members based on their holding in the listed security at the entitlement date of the dividend/distribution.

For Pension members this balance is zero.

1.7 Foreign income tax offsets

Total of foreign income tax offsets (FITOs) received from managed investments and certain listed securities by Super members.

For managed investments, FITOs are recognised on an attribution or present entitlement basis and were allocated on a pro rata basis to members based on their holding in the managed investment.

FITOs from listed securities are recognised on a due and payable basis and were allocated to members based on their holding in the listed security at the entitlement date of the dividend/distribution.

For Pension members this balance is zero.

1.8 Applied capital gains

This balance is the net capital gain/(loss) from investments by Super members of the Fund attributable to:

- distributions received from managed investments and listed trusts. These have been allocated to members based on the size of their managed investment holding. Certain capital gains have been grossed up to the 100% amount and then, if appropriate, the 33⅓% discount has been applied, depending on the nature of the capital gain as described in the tax statement provided by the product issuer or relevant share registry
- capital gains or losses from the sale of investments. The cost base used for determining capital gains or losses has been adjusted for any tax free, tax deferred and return of capital distributions or Attribution Managed Investment Trust (AMIT) cost base net amount (where applicable) as required under current Australian tax legislation. Gains may have been subject to a 33⅓% discount depending on whether the investment was held for at least 12 months.

There may be some situations where excessive tax deferred/return of capital amounts or AMIT cost base net amount (where applicable) have been distributed causing a capital gain to be realised in the current tax year.

Capital losses have been offset against capital gains as follows:

- capital losses are first offset against fully taxable capital gains and indexed capital gains

- to the extent that losses exceed these gains, the remaining losses are offset against the gross value of discounted capital gains.

If the member's capital gain position is an overall loss, this balance will equal the Applied Capital Gain as calculated at 2.6. Refer to details in Section 2 of the guide.

For Pension members this balance is zero.

1.9 Capital loss reversal

Capital losses can only be offset against capital gains. For members with a net capital loss at 1.8, this amount offsets that loss to ensure that losses are not used to offset other income. For all other members this balance is zero.

1.10 Exempt pension income

For pension members, income and capital gains are exempt from tax in the Fund. This amount nets out the income earned ensuring the total assessable income is zero. For all other members this balance is zero.

1.11 Total assessable income

Total assessable income is the total of items (1.1) through to (1.10) above.

1.12 Expenses

For superannuation members, this represents the total expenses incurred for the period 1 July 2020 to 30 June 2021. It may include:

- administration and other fees charged
- management fees
- adviser fees
- contribution fees

- insurance premiums for death and disability and certain income protection insurance
- specific fund manager transaction fees.

For Pension members this balance is zero.

1.13 Taxable income

Total assessable income (1.11) less expenses (1.12).

1.14 Gross tax payable

15% of taxable income (1.13).

1.15 Franking credits used

Franking credits may be applied to reduce the gross tax payable. Where gross tax payable (1.14), is greater than the franking credits (1.2), this balance is equal to the franking credit balance (1.2). Where gross tax payable is less than the franking credits, this balance is equal to the gross tax payable (1.14), and the difference is recorded at Excess Franking Credits (1.18).

1.16 Foreign income tax offsets used

Foreign income tax offsets (1.7) may be used to reduce Gross Tax Payable (1.14). The maximum amount of Foreign Income Tax Offsets (1.7) that may be used to reduce Gross Tax Payable (1.14) – this is the lesser of:

- total allowable foreign income tax offsets (1.7) or
- 15% of the sum of foreign income (1.6) and foreign income tax offsets (1.7).

For Pension members this balance is zero.

1.17 Net tax payable

Gross tax payable (1.14) less franking credits used (1.15) and foreign income tax offsets used (1.16).

1.18 Excess franking credits

Franking credits (1.2) less the franking credits used (1.15).

1.19 Excess foreign income tax offsets

Foreign income tax offsets (1.7) less the foreign income tax offsets used (1.16).

For Pension members this balance is zero.

1.20 Attribution Managed Investment Trust (AMIT)

From 1 July 2015, certain managed investment trusts may elect to be an Attribution Managed Investment Trust (AMIT).

Managed funds that elect into the AMIT regime may attribute tax components to underlying investors. When distributing components to investors, the cash distributed may not equate to the attributed distributions for tax purposes. Adjustments to tax cost bases of units holdings in an AMIT will be based on a 'AMIT cost base net amount' which will be factored into the calculation of capital gain/loss.

Section 2 – Capital gains

This section is not applicable to pension members

Section 2 – Capital gains		\$
2.1	Prior year cap losses carried forward	(24,014.67)
2.2	Fully taxable cap gains	1,434.72
2.3	Discounted cap gains	0
2.4	Current year cap losses	(601.14)
2.5	Capital gains/(loss) sub-total	(23,181.09)
2.6	Applied capital gains	15,074.44
2.7	Excess cap loss carried forward	(8,106.65)

Please note, the First In First Out (FIFO) method will be used on the disposal of asset parcels in the member's account. Under this method the first parcel purchased will be deemed to be the first parcel sold, for the purposes of calculating any capital gain or capital loss.

2.1 Prior year capital losses carried forward

Excess capital losses carried forward from prior years. This balance is used to offset current year and future capital gains where possible.

2.2 Fully taxable capital gains

This balance relates to the total capital gains from investments by Super members of the Fund from:

- distributions from managed investments and listed investments which were allocated on a pro rata basis to members based on their holding in the investment

- capital gains from the sale of investments during the period 1 July 2020 to 30 June 2021 inclusive, where the investment was held for less than 12 months or the indexation method was used. The cost base and reduced cost base for determining capital gains or losses has been adjusted for tax free, tax deferred and return of capital distributions or AMIT cost base net amount (where applicable) as required under current Australian tax legislation.

2.3 Discounted capital gains

Two-thirds of capital gains in respect to:

- capital gains that qualify for the CGT discount included in distributions from managed investments and listed trusts. Discounted capital gains have been grossed up to the 100% amount and then, if appropriate the 33⅓% discount has been applied. This component was allocated on a pro rata basis to members based on their holding in the investment.
- capital gains from the sale of investments during the period 1 July 2020 to 30 June 2021 inclusive, where the investment was held for more than 12 months. The cost base and reduced cost base for determining capital gains or losses has been adjusted for any return of capital on tax deferred income or tax free distributions or AMIT cost base net amount (where applicable) as required under current Australian tax legislation.

2.4 Current year capital losses

The total capital loss from the sale of investments during the period 1 July 2020 to 30 June 2021 inclusive. The cost base and reduced cost base for determining capital losses from the sale of investments has been adjusted for tax free, tax deferred and return of capital distributions or AMIT cost base net amount (where applicable) as required under current Australian tax legislation.

2.5 Capital gains/(loss) sub-total

The member's total net capital gain or loss for the year.

Capital losses are offset against capital gains in the following order:

- fully taxable capital gains and indexed capital gains, then
- the gross value of discount capital gains.

If there is a net discount capital gain remaining after the above offsets, the balance is then discounted by 33⅓%.

If there were no losses to offset, then the capital gains/(loss) sub-total is the sum of the fully taxable capital gains (2.2) and discounted capital gains (2.3).

2.6 Applied capital gains

If the member's capital gain/(loss) sub-total (2.5) is a loss, then this balance is equal to the portion of that loss that was able to be utilised by the Fund. Members are compensated at a rate of between 10% and 15% of losses transferred at capital losses benefit (3.4). Refer to page 12.

2.7 Excess capital loss carried forward

This balance is any capital loss made by the member that was not able to be utilised by the Fund at 2.6. The amount is carried forward and will be available to be offset against gains derived in future years.

Section 3 – Tax position

This section adjusts the net tax payable for certain benefits to arrive at the amount (charged)/credited to a member's account.

Section 3 – Tax position		\$
3.1	Net tax payable	(1,125.64)
3.2	Excess franking credits benefit	0.00
3.3	Excess foreign income tax offsets benefit	0.00
3.4	Capital losses benefit	2,261.17
3.5	Revenue losses benefit	0.00
3.6	Foreign losses benefit	0.00
3.7	Net tax position	1,135.53
3.8	Tax paid to date	(1,426.68)
3.9	Amount credited/ (charged) to account	2,562.21
3.10	Surplus tax benefit	74.39

3.1 Net tax payable

Net tax payable from 1.17.

3.2 Excess franking credits benefit

This balance is equal to Excess Franking Credits (1.18) and represents a refund to the member of franking credits that were not able to be used to reduce the member's taxable income.

3.3 Excess foreign income tax offsets benefit

This balance is equal to the foreign income tax offsets (1.7), less the foreign income tax offsets used (1.16).

For Pension members this balance is zero.

3.4 Capital losses benefit

This balance is equal to between 10% and 15% of the capital loss reversal (1.9).

For Pension members this balance is zero.

3.5 Revenue losses benefit

Where Taxable Income (1.13) is less than zero (ie a loss situation), the balance is equal to 15% of Taxable Income (1.13). Where Taxable Income (1.13) is greater than zero, the balance is zero.

For Pension members this balance is zero.

3.6 Foreign losses benefit

There was no foreign losses benefit for the period during the period 1 July 2020 to 30 June 2021.

3.7 Net tax position

This balance is the member's net tax liability or refund calculated by the sum of the amounts referred to above at 3.1 to 3.6.

3.8 Tax paid to date

This represents the amount of tax deducted from a member's account in respect of contributions, distributions and capital gains for the period 1 July 2020 to 30 June 2021.

3.9 Amount credited/(charged) to account

This amount is equal to the net balance of tax payable or refund receivable. It is calculated by adding the Net Tax Position (3.7) to the Tax Paid to Date (3.8). Where the balance is greater than zero, a refund has been credited to the member's Cash Account. Where the balance is less than zero, a tax charge has been debited against the member's Cash Account.

3.10 Surplus tax benefit

This represents the surplus tax benefit held by the Fund arising from:

- the value of benefits derived from members during the period 1 July 2020 to 30 June 2021 who exited the Fund prior to the date the tax calculation was finalised, such as excess franking credits, foreign income tax offsets, revenue losses and capital loss reversal. This amount may be reduced by the application of the '45 Day' rule or the 'Dividend washing' rule (if applicable)
- a net overall gain or loss from the netting of capital losses against fully taxable gains within the Fund.

The surplus tax benefit has been allocated to superannuation members with active accounts, based on the proportional absolute value of the member's taxable income (1.13), and has been credited to the member's Cash Account.

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The PortfolioOne Superannuation and Pension Service is offered under the Retirement Portfolio Service (the Fund). When an investor invested in the PortfolioOne Superannuation and Pension Service, they became a member of the Fund.

This document sets out general information as to the possible taxation consequences of various events in relation to the benefit available under the Fund. This information is based on our views of the current interpretations of tax law, which may change over time, and may affect an investor's taxation considerations. It is not tax advice and an investor should seek professional advice on their own taxation position. The case study used in this document is hypothetical and is not meant to illustrate the circumstances of any particular individual.

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The information in this document is current as at the date on this document and may be subject to change. For further information, please contact your financial adviser or Customer Services on 1800 675 831.

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