2005 standard trust distribution statement: guidance notes for fund managers

Standard distribution statement for use by managed funds to report tax information to investors.

26 March 2020

Introduction

The 2005 standard format has been developed as a result of the concern of both the Tax Office and IFSA about the complexity and confusion experienced by managed fund investors in completing their tax returns. The standardisation of terms and presentation used in trust distribution statements to unitholders is addressing these difficulties by promoting consistency. The input of the Australian Shareholders Association and Australian Independent Retirees Association in developing this agreed format is also acknowledged.

The 2005 standard distribution statement is the Tax Office-IFSA recommended format for disclosure by managed funds of tax information to resident individuals for completion of *TaxPack*, relevant schedules and other requirements.

Purpose

Basis of the standard distribution statement

Basic structure

Standard distribution statement

Guidance notes

18149

Purpose

26 March 2020

These notes are prepared to assist those involved in the preparation of fund manager distribution statements to understand the basis on which the 2005 standard distribution statement format has been determined and the rationale behind the various items disclosed on the statement.

18149

Basis of the standard distribution statement

26 March 2020

The standard format does not purport to deal with all possible scenarios a fund manager may encounter. Where the fund's circumstances are outside those shown in the standard format, additional information or requirements need to be considered.

The format is predicated on the standard information needs of a resident individual unitholder in a unit trust operated by the funds management industry. It is also assumed that the unitholder 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).

The 2005 standard distribution statement is current as at 28 June 2005 and is issued at this time to enable the necessary systems changes to be implemented by the fund managers prior to 30 June 2005 for 2005 income year reporting. If subsequent changes are necessary the Tax Office will discuss these with industry bodies.

18149

Basic structure

26 March 2020

Part A of the 2005 standard distribution statement is designed to directly highlight the 2005 tax return (supplementary section) Items 12, 17 and 19 that must 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 required by a unitholder to determine their foreign tax credit entitlement in accordance with the ITAA 1936.

Part C provides details of the components of the distribution made that investors require in certain circumstances - such as for applying capital losses, the capital gains tax (CGT) schedule, foreign loss quarantining and cost base adjustment information - and to allow a reconciliation of the net cash amount distributed to the unitholder.

18149

Standard distribution statement

26 March 2020

Part A: Summary of 2005 tax return (supplementary section) items

Tax return (supplementary section)	Amount	Tax return label
Non-Primary Production Income	$165	12U
Other deductions relating to distributions	$4	12Y
Franking credits	$30.00	12Q
Credit for TFN amounts withheld	$10.00	12R
Credit for tax paid by trustee	$0.00	12S
Total current year capital gains	$230	17H
Net capital gain	$160	17A
Assessable foreign source income	$220	19E
Other net foreign source income	$220	19M

Part B: Foreign tax credit information – Additional information for schedule Q19

Foreign income categories:	Amount	Foreign tax paid
Passive income (see note)	$235	$37.00

Other income	$14	$6.00
Discount capital gains	$16	$5.00
Other capital gains	$44	$7.00

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

Part C Components of distribution

Australian income	Cash distribution	Tax paid/offsets	Taxable income
Dividends – franked amount	$70	$30.00	$100
Dividends – unfranked amount	$50	-	$50
Interest	$10	-	$10
Other income	$5	-	$5
Non-primary production income	$135	$30.00	$165

Capital gains

Australian income	Cash distribution	Tax paid/offsets	Taxable income
Discounted capital gain	$70	-	$70
CGT concession amount	$80	-	$0

Capital gains – indexation method	$60	-	$60
Capital gains – other method	$30	-	$30
Distributed capital gains	$240	-	-
Net capital gain	-	-	$160

Foreign income

Australian income	Cash distribution	Tax paid/offsets	Taxable income
Interest income	$90	$10	$100
Modified passive income	$85	$15	$100
Other assessable foreign income	$14	$6	$20
Assessable foreign income	$189	-	$220

Other non-assessable amounts

Australian income	Cash distribution	Tax paid/offsets	Taxable income
Tax-exempted amounts	$25	-	-

Tax-free amounts	$15	-	-
Tax-deferred amounts	$30	-	-
less TFN amounts withheld	−$10	-	-
less Other expenses	−$4	-	-
Net cash distribution	$620	-	-

Additional capital gains information:

Australian income	Cash distribution	Tax paid/offsets	Taxable income
Capital gains - discount method	$140	(grossed up amount)	-
Capital gains - indexation method	$60	-	-
Capital gains - other method	$30	-	-
Total current year capital gains	$230	-	-

Please retain this statement for income tax purposes

Guidance notes

26 March 2020

Part A: Summary of 2005 tax return (supplementary section) items.

1. The references in Part A are to the 2005 tax return for individuals (supplementary section).
2. **Label 12U - non-primary production income**
   This item excludes net capital gains and foreign income. It includes the unit holder's share of franked dividends as well as the share of franking credits. The standard format also assumes that there is no primary production activities carried out by the managed fund.
3. **Label 12Y - other deductions relating to distributions**
   This is to be used for deductible expenses incurred by unitholders outside of the net income calculation per section 95 of the ITAA 1936. Ordinarily, deductible expenses would be netted off against the relevant class of income in the trust estate.
4. **Label 12Q - franking credits**
   This shows the unitholder's share of franking credits from franked dividends (**include cents**).
5. **Label 12R - credit for TFN amounts withheld**
   This shows the unitholder's share of credit for tax file number 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 *Taxation Administration Act 1953* (cents should be included).
6. **Label 12S - credit for tax paid by trustee**
   This includes the tax paid or payable by the trustee (including cents). For example, where the trustee is assessed under subsection 98(1) of the ITAA 1936 in respect of beneficiaries under a legal disability - including beneficiaries under the age of 18.
7. **Label 17H - total current year capital gains**
   Label 17A - net capital gain
   The components of these items are set out in Part C. It is important to note that an individual investor 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 the Tax Office publications - **Guide to capital gains tax 2004-05** or the **Personal investors guide to capital gains tax 2004–05** or provide details in their own explanatory material.

8. **Item 18 - 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 18 of the tax return 2005 supplement is not applicable to the managed fund investment. If this is not the case this information should be provided to unitholders.

9. **Label 19E - assessable foreign source income**
   Label 19M - other net foreign source income
   We would expect that Part A of the trust distribution statement would show the amounts for these labels to be the same. If the unitholder has foreign income deductions they should follow the instructions in *2005 TaxPack Supplement*.

Part B: Foreign tax credit information.

Part C: Components of distribution.

18149

Part B: Foreign tax credit information.

26 March 2020

10. This Part contains information relevant to determining the Australian resident unitholder'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 unitholder separately for each class of foreign income. The foreign tax credit for each class cannot be more than the Australian tax

applicable to that class of taxable foreign income. Due to these requirements Part A cannot simply identify the unitholder's share of foreign tax paid by the trustee as the amount to claim at label 19O (foreign tax credits) in the unitholder's return.

Full details are set out in the Tax Office publication **How to claim a foreign tax credit 2004–05**.

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, additional information will need to be provided.

13. **Passive income**
    This is defined in section 160AEA of the ITAA 1936.

14. **Foreign capital gains**
    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.

    Therefore, do not show a foreign capital gain in Part B if:

- 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. The break up of the foreign net capital gains that are included in passive income is necessary for determining the unitholder's foreign tax credit entitlement, as per subsection 160AE(2) and section 160AF of the ITAA 1936. For example, the unitholder may have offset losses against gross capital gains such that no foreign capital gain is ultimately included in the unitholder's assessable income as per subsection 160AE(2). In these circumstances, the unitholder would have no foreign tax credit entitlement in relation to their share of the foreign tax paid by the trustee.

Part C: Components of distribution.

26 March 2020

16. **Australian income**
    These details provide a break up of label 12U (non-primary production income) and information necessary for those investors using the 2005 application for refund of imputation credits.

17. **Capital gains**
    It is assumed that the managed fund has no capital gains from collectables and the small business capital gains concessions are not applicable.

    The information in this section is necessary to allow the unitholder to offset any capital losses against the grossed-up discount capital gain, to make choices about the order in which to deduct capital losses, and to provide the details for those investors required to complete the CGT schedule.

    It is important to remember that foreign capital gains are shown in this section and not as foreign income in Part C. However, foreign capital gains that are deemed foreign income for foreign tax credit purposes are also shown in Part B. (Refer to Part B notes)

18. **Line 1: Discounted capital gain**
    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 unitholder.

    The figures used as an example, show $10 of trust expenses being offset against the discounted capital gain. This is to illustrate that, the gross up rules in Subdivision 115-C of the *Income Tax Assessment Act 1997* (ITAA 1997) effectively require the line 1 figure to be multiplied by 2 (and not added to the CGT concession amount in line 2) – see Additional capital gains information.

19. **Line 2: CGT concession amount**
    The CGT concession amount is identified as the amount referred to in subsection 104-71(4) of the ITAA 1997. Frozen indexation amounts paid to the unitholder should not be shown as CGT concession amounts on the distribution statement.

This amount comprises the non-assessable CGT discount amount paid to the unitholder. It also includes the amount of capital loss or net capital loss applied by the trust (or another trust in the chain) to reduce capital gains made that is reflected in the payment to the unitholder. (Refer Items 1 and 7 of the Table in subsection 104-71(4).)

Following amendments to sections 104-70 and 104-71, unitholders are not required to adjust the cost base of their units for these amounts paid on or after 1 July 2001.

20. **Line 3: Capital gains - indexation method**
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 unitholder. 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.

21. **Line 4: Capital gains - other method**
This line item shows the part of the capital gain included in the share of net income of the unitholder 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.

22. **Line 5: Distributed capital gains**
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 a tax figure but it allows fund managers to reconcile the Net cash distribution amount paid to the unitholder.

In our example, line 5 distributed capital gains is $240, being $70 + $80 + $60 + $30. The difference between $240 received and $230 total current year capital gains is due to the grossed up discounted capital gain ($140) being $10 less than the $150 discount capital gains actually received by the unitholder (that is, the $10 expenses referred to in paragraph 18).

23. **Line 6: Net capital gain**
    This item is the sum of line items 1, 3 and 4 of the taxable income column of capital gains and represents the net capital gain under the three methods included in the share of net income of the unitholder. In our example, this is $160 which feeds directly into label 17A of Part A.

    Where the individual unitholder has no current year capital losses or prior year net capital losses, this figure can be used directly for completion of label 17A. If the unitholder has capital losses to offset, investors would need to refer to the Tax Office publications - **Guide to capital gains tax 2004-05** or **Personal investors guide to capital gains tax 2004-05**

24. **Foreign income**
    This section is relevant for unitholders applying the foreign loss quarantining provisions under section 160AFD of the ITAA 1936. The classes shown are those considered relevant for a managed fund. If this is not the case, additional information should be provided. 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 C but are included under capital gains.

    The foreign tax credit amounts are shown only to reconcile the cash and taxable amount as foreign tax credit entitlements are determined under Part B.

25. **Other non-assessable amounts**
    The headings used are based on the terminology used in sections 104-70 and 104-71 of the ITAA 1997.

    'Tax-exempted amounts' are amounts referred to in subsection 104-71(1). Unitholders are not required to adjust either the cost base or reduced cost base of their units for these amounts.

    'Tax-free amounts' are amounts referred to in subsection 104-71(3). Unitholders are required to reduce the reduced cost base of their units by these amounts but not their cost base.

These amounts now only include infrastructure borrowing amounts under section 159GZZZZE and exempt income arising from shares in a PDF under sections 124ZM and 124ZN. (references are to the ITAA 1936)

'Tax-deferred amounts' are amounts referred to in subsection 104-70(1). Unitholders 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.

'CGT concession amounts' are shown in the capital gains section to allow reconciliation of capital gains.

26. **less TFN amounts withheld**
    This item allows the cash amount to be reconciled in Part C.
27. **less other expenses**
    This item allows the cash amount to be reconciled in Part C.

    This is to be used for expenses incurred by unitholders outside of the net income calculation per section 95 of the ITAA 1936. Ordinarily, deductible expenses would be netted off against the relevant class of income in the trust estate.

    Only deductible expenses should feed through to Part A, label 12Y.
28. **Additional capital gains information**
    These items provide tax figures for the break up of Label 17H (total current year capital gains) shown in Part A. They are also necessary for unitholders with capital losses to offset and for completion of the CGT schedule.

    Line 1: Capital gains - discount method.

    This amount is the grossed up discounted capital gain. (that is, in our example, $70 × 2). It would assist understanding of instructions and guides if the words 'grossed up amount' were placed adjacent to this figure.

    Line 2: Capital gains - indexation method.

    This figure is taken from the taxable income column of the capital gains section of Part C (that is, line 3).

Line 3: Capital gains - other method.

This figure is taken from the taxable income column of the capital gains section of Part C (that is, line 4).

29. **'please retain this statement for income tax purposes'**
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. The Tax Office's position on this and other PAYG withholding payer issues was provided to IFSA on 21 December 2001.

Issued by the Tax Office on 28 June 2005.

18149

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

Copyright notice