

ANNUAL TAX RETURN GUIDE

FOR NEW ZEALAND INDIVIDUAL INVESTORS



2011

CENTRO MCS MANAGER LIMITED
ABN 69 051 908 984

1.0 BACKGROUND

The purpose of this document is to provide a guide as to the potential New Zealand (NZ) and Australian income taxation consequences for a NZ Investor who has invested in a Centro MCS Syndicate.

The information contained in this guide relates only to NZ Investors who:

- are individuals;
- are residents of New Zealand for New Zealand income taxation purposes; and
- are not residents of Australia for Australian income tax purposes.

The information contained in this guide is a general outline for NZ investors and is based on the income tax legislation, rulings and case law in existence as at the date of this guide. In the event that such legislation, rulings or case law changes over time, the position taken may be affected. Further, this guide is not intended to provide an exhaustive or definitive statement as to all the possible taxation outcomes for NZ Investors.

Taxation is a complex area of law and taxation consequences for a NZ Investor may differ from those detailed in this guide depending on the NZ Investor's particular circumstances. Accordingly, NZ Investors should not rely on this guide as a substitute for professional advice. We recommend investors seek independent professional tax advice particular to their circumstances.

2.0 GENERAL NZ INCOME TAX TREATMENT OF CENTRO MCS SYNDICATES FOR NZ INDIVIDUAL INVESTORS

2.1 CLASSIFICATION

The investments in the Centro MCS Syndicates are likely to be characterised as investments in unit trusts and accordingly deemed to be investments in a company for NZ income tax purposes.

The investors will therefore be considered to be shareholders for NZ tax purposes.

We do not anticipate any NZ resident being taxed under the controlled foreign company rules.

2.2 INTEREST INCOME RECEIVED ON NOTES ISSUED BY US REIT

All notes issued by the US REIT under Centro MCS Syndicates 35, 36 Trust 1 and Trust 2 and 38 were cancelled and the funds were recontributed back into the appropriate Centro MCS Syndicate during the 2010 income year. No further notes have been issued during the 2011 income year.

2.3 NZ INCOME TAX TREATMENT OF DISTRIBUTIONS MADE BY CENTRO MCS SYNDICATES

2.3.1 INCOME TAX TREATMENT – FOREIGN INVESTMENT FUND (FIF)

An investment in a foreign company (including a foreign unit trust) should generally be a FIF under NZ tax legislation and subject to a specific taxation regime.

Assessable income should be calculated under the FIF rules using one of six calculation methods where available.

The most common calculation method applied is the fair dividend rate method (FDR). Under FDR, assessable income should be calculated as 5% of the market value of the FIF interest at the start of the taxpayer's income year (generally 1 April).

As an alternative, individuals (and some trusts) may choose to apply the comparative value method which calculates assessable income based on the actual returns (dividends and capital appreciation). Note that any loss should be reduced to nil under this method.

Further calculation alternatives are also available in limited circumstances as follows:

- the cost method, being 5% of cost (applies where the holding is in a grey list country entity (including Australia) and less than 10% is held and the FDR method cannot be applied due to an inability to determine the market value of the investment at the start of the income year);
- the deemed rate of return method being book value at a prescribed rate currently 8.52% (applies to natural persons with total FIF holdings with a value of less than NZ\$250,000, holding more than 10% and where the comparative value or accounting profits methods cannot be used);
- the accounting profits method, being the net after tax accounting profit (available if more than 10% interest is held and the FIF is listed on a recognised exchange or offered widely to the public in one or more countries); and
- the branch equivalent method (available only where sufficient information is held).

Calculation of amount included in income and subsequent sale of units under FDR Method

As the FDR method is the most common method applied, we have set out below some further comments in relation to the FDR method.

As noted above, under the FDR method, assessable income should be calculated as 5% of the market value of the FIF interest at the start of the taxpayer's income year (generally 1 April).

Foreign tax credits should generally be available to credit against assessable income arising under FDR where tax has been withheld from distributions by Centro MCS Syndicates to the NZ investors to the extent NZ tax arises. A foreign tax credit should not be available for underlying foreign taxes incurred by Centro MCS Syndicates.

Further, as noted below, under the FDR method, gains derived from the disposal of a FIF (including the redemption of units) should be excluded from assessable income even where the FIF is held on revenue account (note this should not be the case where a sale occurs in the year of acquisition, termed the 'quick sale adjustment' – please see Paragraph 2.4.1, below).

Market value at the start of the income year

Under the FDR and the comparative value methods the market value of the units would need to be established at the start of the income year. It is noted that Centro MCS Syndicates each establish the market value of units as part of its annual and half yearly reporting to investors as at 30 June and 31 December each year.

Most individual investors will have a 31 March income tax year. In this case, the legislation requires a market value to reflect the amount a willing purchaser would pay to acquire the investment in an arm's length acquisition at the time the value is being measured. Given the long term nature of the investments held, it may be that the valuation published at 30 June or 31 December is representative of the value at 31 March. Alternatively, the taxpayer may be required to apply the cost method.

Treatment of distributions under FDR Method

For NZ income tax purposes where the FDR method is used, any distributions made - whether from capital or current year income - should not impact the tax income calculation (i.e. 5% of the opening market value is taken irrespective of actual receipts in the period)¹.

Exemptions from the FIF regime

The following exemptions from the FIF rules are considered likely to be of relevance to individual Centro MCS Syndicate investors:

- Individuals holding otherwise non-exempt FIF interests with a cost of NZ\$50,000 or less should fall outside the FIF regime (there is a very limited exemption for certain trusts also).
- 10% or greater holdings in an Australian company including a unit trust (provided the investor is not a portfolio investment entity, unit trust, life insurer, superannuation fund or a group investment fund).

Where a taxpayer is not subject to the FIF regime, the general income calculation rules apply. Broadly this should mean:

- All cash distributed or vested absolutely for the NZ investors should be taxable at their marginal rate of income tax.
- The distributions paid by Centro MCS 5, 12 Unit Trust, 17 Unit Trust, 19 Unit Trust, 25 and 34 in the 30 June 2011 period were net of an amount referred to as either "other taxable components not paid in cash" or "income not paid in cash". This is the amount applied by these syndicates on the investors' behalf to clear debt. Consequently, this amount should be treated as paid to the investor for NZ income tax purposes and should be included in assessable income. Please note that the assessable component of this amount has been included in the 'Foreign Source Income' of the 2011 Annual Taxation Statement.
- Australian tax withheld should be creditable to the extent NZ income tax arises on the income.
- On sale or other disposal of units, any gain or loss should be taxable if the investment was held on revenue account. Please see the discussion at paragraph 2.4.2.

2.3.2 DEDUCTIONS AVAILABLE TO THE INVESTORS

Interest and other borrowing costs (e.g. fees for raising finance) incurred by the NZ investors in borrowing money to invest in Centro MCS Syndicates to derive assessable income should be deductible by the NZ investors, provided the borrowings are directly attributable to the investment.

¹ Centro MCS 8, 32, 35, 36 Trusts 1 & 2 and 38 distributed capital to their investors during the year ended 30 June 2011 but did not decrease the number of units held. Units in Centro MCS 24 Property Trust and 24 Investment Trusts were redeemed at nil value on 30 June 2011. Centro MCS 5, 12 Unit Trust, 17 Unit Trust, 19 Unit Trust, 25 and 34 made distributions less than their taxable income. In all cases these distributions may be ignored by the investors when preparing their New Zealand income tax returns under the FDR method, except in the case of the unit redemptions where the units were redeemed in the same income year as they were purchased (in this latter case, see Paragraph 2.4.1).

2.4 NZ INCOME TAX TREATMENT ON DISPOSAL OF UNITS

2.4.1 SALE OF UNITS IN AUSTRALIAN UNIT TRUSTS FOR FIF INTERESTS

Where the investment is taxed under the FIF regime, an additional tax liability should not arise on the sale, redemption, or other disposal of the investment.

Please note that where any units are sold in the year they are acquired, assessable income may arise as a result of the quick sale adjustment (calculated as the lesser of 5% of the cost of the quick sale FIF interest and the gain realised from the purchase and sale).

2.4.2 SALE OF UNITS IN AUSTRALIAN UNIT TRUSTS FOR NON-FIF INTERESTS

NZ does not have a capital gains tax regime. However, as can be seen below, a number of instances exist where the capital gain made on an investment should be subject to income tax.

Where the FIF regime is not applicable, any disposal gain or loss should be assessable / deductible if the asset was held on revenue account, that is, if the taxpayer carries on a business of dealing in such property, or the investment was acquired with the dominant purpose of sale (measured at the time of acquisition). Whilst the individual circumstances of the investors would need to be considered, it is noted that the prospectuses reviewed envisage a reasonably long term investment in the units of between five and ten years. Early disposition is not encouraged by the terms of these documents.

2.4.3 UNIT REDEMPTION FOR NON-FIF INTERESTS

On redemption of a taxpayer's investment in a foreign unlisted widely held trust, such as the Centro MCS Syndicates (unless Centro chooses to provide information regarding the amount of available subscribed capital attributable to the units redeemed) the taxpayer should only be taxable on the redemption to the extent it exceeds the amount they paid for the units.

2.5 TRANSITIONAL RESIDENCE EXEMPTION

If the NZ individual investor qualifies as a transitional resident, further relief is available.²

2.6 SALE OF PROPERTY HELD BY THE CENTRO MCS SYNDICATE TRUSTS

The sale of property held by the Centro MCS Syndicate trusts should not result in taxable income for any individual NZ tax resident investors.

3.0 GENERAL AUSTRALIAN INCOME TAX TREATMENT FOR NZ INVESTORS

We have set out below our comments in relation to the Australian income tax implications for NZ Investors.

There are essentially two circumstances in which NZ Investors, as non-residents of Australia, should be subject to Australian tax.

Firstly, the assessable income (for Australian income tax purposes) of the NZ Investors should include income from sources in Australia. NZ Investors should, however, be entitled to a deduction for deductible expenditure incurred in deriving this income for the purposes of determining the NZ Investor's taxable income.

² Transitional NZ residents are new NZ tax residents, (or returning residents after a period of at least ten years non-residence). They are not taxable in regard to foreign sourced income, (including FIF income but excluding employment related income) for the first 4 years of residence unless they have elected not to apply the concession.

Secondly, the NZ investors may be subject to tax at source under Australia's withholding tax rules in relation to distributions made to the investors from Australian resident unit trusts.

We have set out below our comments in relation to the Australian income tax and withholding tax implications associated with a NZ Investor holding an investment in a Centro MCS Syndicate.

All of the Centro MCS Syndicates are structured as an investment in an Australian unit trust. As a non-resident of Australia, a NZ Investor may be subject to withholding tax on distributions from an Australian unit trust.

Australian withholding tax should apply to distributions at the applicable Australian non-resident tax rates. There are a variety of different types of withholding which may apply depending on the circumstances.

1. **Managed Investment Trust withholding tax** – As each of the Centro MCS Syndicates is a Managed Investment Trust (MIT), all distributions of Australian sourced net income, other than interest, dividends, royalties or exempt capital gains, should be subject to MIT withholding tax.

MIT withholding is a tax at source and for the 2011 income year the rate of MIT withholding tax should be 7.5%. The amount of the payment subject to MIT withholding should be treated as non-assessable non-exempt income for Australian income tax purposes. MIT withholding tax should take precedence to Tax File Number (TFN) withholding tax.
2. **Interest withholding tax** – Australian interest withholding tax should be applied to payments of interest by a Syndicate, irrespective of whether an Australian TFN has been provided to the Responsible Entity (RE). Interest withholding tax is a final tax and is applied to gross interest at the rate of 10%. Interest withholding tax should take precedence to TFN withholding tax.
3. **TFN withholding tax** – A NZ Investor may be subject to Australian TFN withholding tax if they do not quote an Australian TFN to the RE. The current rate of withholding is 46.5% of the payment.

ANNUAL TAX RETURN GUIDE – NZ EDITION

This guide has been prepared to help New Zealand investors in Centro MCS Syndicates to complete their 2010-11 New Zealand income tax return.

WHAT YOU WILL NEED:

You will need the following documentation to assist you to complete your 2011 income tax return:

1. A copy of your 2011 income tax return (IR3) and income tax return guide (IR3G).
2. A copy of the relevant return disclosure schedule in order to disclose the value of all your foreign investment fund (FIF) investments. Choose one of the following:
 - (a) Interest in a foreign Investment fund disclosure schedule for individuals and closely-held entities (fair dividend rate method) – IR447
 - (b) Interest in a foreign Investment fund disclosure schedule for individuals and closely-held entities (comparative value method) – IR448
 - (c) Interest in a foreign Investment fund disclosure schedule (cost method) – IR449
3. Copy of the conversion of overseas income to New Zealand currency leaflet – 2011 IR270
4. Your annual taxation statement – for the year ended 30 June 2011
5. Copy of the Centro MCS financial reports as at 30 June 2011 in which you were invested in as at 31 March 2011.

The first three publications listed above can be downloaded from the New Zealand Inland Revenue website at www.ird.govt.nz or by calling the New Zealand Inland Revenue on 0800 227 774.

IMPORTANT INFORMATION

- This guide assumes you are a New Zealand resident individual taxpayer with units in one or more Centro MCS Syndicate holding less than 10% of any Centro MCS Syndicate trust. This guide should not be used for other investment income, nor should it be used for other types of taxpayers such as a company, trust, partnership or superannuation fund.
- This guide assumes that you do not have any current year or carried forward ring-fenced FIF losses and that you acquired your units with the intention of holding them rather than as part of a business that trades in these types of investments.
- Your Annual Taxation Statement for the year ended 30 June 2011 summarises the distributions you received in respect of the 12 months ended 30 June 2011. This will provide your taxable income information if you fall outside the FIF regime.
- Unless you qualify for an exemption under the FIF rules, you may determine your FIF income under the FDR method. Please note that, as an individual, you may apply the comparative value method and base your return on actual receipts and capital movements (note any loss so calculated would be reduced to zero).
- This guide assumes that the market values of all Centro MCS Syndicates at 1 April 2010 are equal to the published market value as at 30 June 2010.

NOTE

The taxation of investment income can be complex. We recommend you seek professional taxation advice from your accountant or taxation adviser. This guide should not be relied on as taxation advice.

Steps to complete your New Zealand 2011 income tax return for your investments in the Centro MCS syndicates

STEP 1: DETERMINE WHETHER YOU QUALIFY FOR A FIF EXEMPTION

You will qualify for a FIF exemption if the total cost of all your FIF investments (not just your Centro MCS Syndicate holdings) is NZ\$50,000 or less or if you hold a greater than 10% interest in a particular Centro MCS Syndicate. It is also noted that a general exemption may apply if you are a transitional NZ tax resident (that is, the income year is within four years of your becoming a NZ resident, including after a period of non-residence of 10 years or more).

If you qualify for exemption under the FIF rules, proceed to step 8. If you do not qualify for an exemption, proceed to step 2.

STEP 2: DETERMINE YOUR INTEREST AT START OF THE 2011 INCOME YEAR.

Determine your interest (i.e. the total number of units held) in each of the FIFs at the start of the income year (i.e. 1 April 2010).

STEP 3: DETERMINE THE OPENING MARKET VALUE

Identify the final Net Asset Backing (NAB) unit valuations for each Centro MCS Syndicate you hold units in as at 1 April 2010 (note value published is as at 30 June 2010) as published on our website. Determine the value of your holdings by multiplying this value by the number of units held on 1 April 2010.

STEP 4: CONVERTING THE OPENING MARKET VALUE TO NZ\$

Convert the opening market value (disclosed in AU\$ - result of step 3) to NZ\$ using the conversion table in IR270.

STEP 5: AGGREGATE FIF INCOME

Your FIF income, using the FDR method, is calculated by multiplying the investment value (result from step 4) by 5%.

In regard to any units in a single Centro MCS Syndicate bought and sold during the 2011 income year, you will also need to include the 'quick-sale adjustment' (being the lower of 5% of the average acquisition cost in the period or the sale proceeds less the average acquisition costs in the period (no less than zero can result)).

STEP 6: COMPLETE THE RELEVANT INTEREST IN FOREIGN INVESTMENT FUND DISCLOSURE SCHEDULE (BEING EITHER FORM IR447, IR448 OR IR449 - REFERRED TO ON PAGE 1 OF THIS GUIDE)

Complete the returns by disclosing, for each of your investments in a Centro MCS Syndicate as at 1 April 2010, the name of the syndicate, country of incorporation/tax residence (i.e. Australia) and the market value in NZ dollars as at 1 April 2010 (refer step 4).

STEP 7: DISCLOSE WHETHER YOU HAVE RECEIVED OVERSEAS INCOME

Select "Yes" for question 17 of your IR3 return.

STEP 8: ENTER THE INCOME / FIF INCOME IN YOUR TAX RETURN

If you qualify for an exemption from the FIF rules, enter the gross amount of cash distributions received or vested (i.e. the amounts distributed by the Centro MCS Syndicate before deduction of any taxes) as per your Annual Taxation Statement for the period in Box 17B. This amount will include the “other taxable components not paid in cash” or “income not paid in cash” for Centro MCS 5, 12 Unit Trust, 17 Unit Trust, 19 Unit Trust, 25 and 34 investors, being amounts applied to debt on the investors’ behalf.

If you do not qualify for exemption, and you are applying the FDR method, enter the amount calculated at Step 5 in Box 17B (“total overseas income”).

STEP 9: ENTER THE AMOUNT OF FOREIGN TAX PAID RELATING TO THE OVERSEAS INCOME

Enter the total of foreign tax paid (including all Australian tax withheld in respect of the Centro MCS Syndicates distributions) in Box 17A (“Total overseas tax paid”). A credit for this foreign tax paid is limited to your New Zealand tax liability on this income.

STEP 10: CLAIMING INTEREST AND BORROWING COST DIRECTLY ATTRIBUTABLE TO NZ RESIDENT INVESTOR

Select “Yes” for question 26 of your IR3 return.

Enter the total of interest and borrowing costs which is directly attributable to you and incurred by you in acquiring your interest in the Centro MCS Syndicate.

STEP 11: DISCLOSURE OF INTEREST IN FOREIGN COMPANIES AND UNIT TRUSTS

Select “Yes” for question 38 of your IR3 return.

Finally attach the disclosure schedule(s) (Step 6) for all your FIF investments to your income tax return.

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