



Grow Wrap Guide to Notional Tax Calculation

Grow Wrap Super and Pension Service
A guide to notional tax calculation for the year ended 30 June 2023



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The Grow Wrap Super and Pension Service is offered under the Retirement Portfolio Service (the Fund). When an investor invests in the Grow Wrap Super and Pension Service, they become 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 095 825.

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 Hub of members on the annual processing date for the Retirement Portfolio Service (known as Grow Wrap Super and Pension Service) (the Fund), for the period 1 July 2022 to 30 June 2023.

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, amounts were deducted 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 Hub. 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 Hub.

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 10.

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 excludes 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:** Income section that calculates the Net Tax Payable.
- **Section 2:** Capital gains section that provides further details on net capital gains used in the calculation of Net Tax Payable.
- **Section 3:** 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 2022 to 30 June 2023 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 2023

Name: John Sample

Account No: 801109999

Section 1 – Income	\$	Section 2 – Capital gains	\$
Dividend income	750.00	Prior year cap losses carried forward	(24,014.67)
Franking credits	321.43	Fully taxable cap gains	1,434.72
Interest income	8,134.82	Discounted cap gains	0
Taxable contributions	2,700.00	Current year cap losses	(601.14)
Other income	474.53		
Foreign income	0.00	Capital gains/(loss) sub-total	(23,181.09)
Foreign income tax offsets	0.00	Applied capital gains	15,074.44
Applied capital gains	(15,074.44)		
Capital loss reversal	15,074.44	Excess cap loss carried forward	(8,106.65)
Exempt pension income	0.00		
		Section 3 – Tax position	\$
Total assessable income	12,380.78	Net tax payable	(1,125.64)
		Excess franking credits benefit	0.00
Expenses	(2,733.67)	Excess foreign income tax offsets benefit	0.00
		Capital losses benefit	2,261.17
Taxable income	9,647.11	Revenue losses benefit	0.00
		Foreign losses benefit	0.00
Gross tax payable	1,447.07	Net tax position	1,135.53
Less franking credits used	(321.43)	Tax paid to date	(1,426.68)
Less foreign income tax offsets used	0.00		
		Amount credited/(charged) to account	2,562.21
Net tax payable	1,125.64		
Excess franking credits	0.00	Surplus tax benefit	74.39
Excess foreign income tax offsets	0.00		

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' (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 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 Hub. 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 the Fund. 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 capital gains and foreign income.

Distributions received from managed investments and listed trusts were recognised on a present entitlement/ attribution basis.

This includes:

- distributions received from managed investments other than foreign income and capital gain
- gains or losses from certain listed securities that are treated on revenue account rather than capital account for tax purposes. Gains from the sale of these securities 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 on a present entitlement/attribution basis. Income is allocated to members based on their holdings at the entitlement date of the distribution.

Foreign income from listed securities is recognised on a due and payable basis and allocated to members based on their holdings at the entitlement date of the dividend/distribution.

For Pension members this balance is zero.

1.7 Foreign income tax offsets

Foreign Income Tax Offsets (FITOs) were derived from investments in managed investments or listed securities by Super members.

For managed investments, FITOs were recognised on a present entitlement/attribution basis and allocated to members based on their holdings at the entitlement date.

FITOs from listed securities were recognised on a due and payable basis and allocated to members based on their holdings at the entitlement date.

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 from managed investments and listed trusts, allocated to members based on their holdings.
- capital gains or losses from the sale of investments. The cost base has been adjusted for any tax-free, tax deferred and return of capital distributions or Attribution Managed Investment Trust (AMIT) cost base net amounts (where applicable).
- tax deferred, AMIT cost base net amounts or returns of capital that exceed the cost base of the asset.

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.
- After losses have been applied, the 331/3% CGT discount is then applied to any eligible remaining capital gains.

After losses have been applied, the 331/3% CGT discount is then applied to any eligible remaining 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). Section 2 provides a breakdown of the underlying capital gains and losses that comprise this balance.

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) inclusive.

1.12 Expenses

For superannuation members, this represents the total expenses incurred during the year. It may include:

- administration and other fees charged
- management fees
- adviser fees paid, excluding adviser establishment fees which are non-deductible for tax purposes
- 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

Taxable Income is the amount derived by subtracting Expenses (1.12) from Total Assessable Income (1.11).

1.14 Gross tax payable

Gross Tax Payable is 15% of Taxable Income (1.13).

1.15 Franking credits used

Franking credits may be applied to reduce the gross tax payable (1.14).

- Where gross tax payable (1.14), is greater than the franking credits (1.2), all franking credits are used.
- Where gross tax payable is less than the franking credits, the amount of franking credits used is equal to the Gross Tax Payable, and the difference is recorded at Excess Franking Credits (1.18).

1.16 Foreign income tax offsets used

Foreign income tax offsets (FITOs) (1.7) may be used to reduce Gross Tax Payable (1.14).

The maximum amount of Foreign Income Tax Offsets (FITOs) (1.7) that may be used to reduce Gross Tax Payable (1.14) 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 (FITOs) (1.7).

For Pension members this balance is zero.

1.17 Net tax payable

Net Tax Payable is the balance derived by subtracting the Franking Credits Used (1.15) and Foreign Income Tax Offsets Used (1.16) from Gross Tax Payable (1.14).

1.18 Excess franking credits

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

1.19 Excess foreign income tax offsets

This balance is equal to the FITOs (1.7) less the FITOs Used (1.16).

For Pension members this balance is zero.

Section 2 – Capital gains

This section provides a breakdown of Applied Capital Gains (1.8)

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

This amount is any excess capital losses from prior years which will be used to offset current year and future capital gains where possible.

For Pension members this balance is zero.

2.2 Fully taxable capital gains

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

- distributions/attributions of non-discount capital gains from managed funds and listed trusts.
- capital gains from the sale of investments during the year, where the investment was held for less than 12 months.

For Pension members this balance is zero.

2.3 Discounted capital gains

This amount is the total discounted capital gains generated by Super members from:

- Distributions/attributions from managed investments and listed trusts where a discount of 33⅓% was applicable. Discounted capital gains have been 'grossed-up' to the 100% amount and then, if appropriate the 33⅓% discount has been applied.

- Capital gains from the sale of investments during the year, where the investment was held for more than 12 months. These gains have been subject to a 33⅓% discount.

This figure is two-thirds of the distributed capital gain as this represents the taxable amount.

For Pension members this balance is zero.

2.4 Current year capital losses

The total capital losses generated from the sale of investments during the year.

For Pension members, this balance is zero.

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).

For Pension members, this balance is zero.

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 15% of losses transferred at capital losses benefit (3.4).

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) above. 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 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 (i.e. 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 1 July 2022 to 30 June 2023.

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 2022 to 30 June 2023.

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 positive, a refund has been credited to the member's Cash Hub. Where the balance is negative, a tax charge has been debited against the member's Cash Hub.

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 2022 to 30 June 2023 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 Hub.

