

1.1.1 AU & US Guidelines for Tax on Non-Distributed Proceeds

1.1.1.1 Overview

This section details AU & US Market practice principles regarding tax on non-distributed proceeds events. The document will describe general market practice principles for tax on non-distributed proceeds events as well as specific rules per usage of each ISO20022 Corporate Action message used in the tax on non-distributed proceeds full lifecycle flow. The SR2018 approved changes related to Tax on non-distributed proceeds processing are also documented within this paper. Please note that this market practice is based upon the SR2018 standards implementation in November 2018.

1.1.1.1.1 ISO 20022 Corporate Action Messages within Tax on non-distributed proceeds Flow

ISO Message Type	20022 ISO Message Type	15022 Tax on non-distributed proceeds Lifecycle Stage
CANO	MT564	Tax on non-distributed proceeds Announcement
CANO-E	MT564	Eligible Balance Prior to Tax on non-distributed proceeds
CAPA	MT564	<ul style="list-style-type: none">• Tax on non-distributed proceeds• Projection of Cash Debit Movement
CAPC	MT564	<ul style="list-style-type: none">• Tax on non-distributed proceeds Cancellation Advice or• Projection Cancellation Advice
CACO	MT566	Cash Debit Movement Confirmation
CACN	MT564	Tax on non-distributed proceeds Event Cancellation Notice

1.1.1.2 General Market Practice Principles for Tax on non-distributed proceeds Events

- All accounts that are notified of eligibility in a tax on non-distributed proceeds event via the CANO-Eligible message, or the MT564 should be notified of the tax on non-distributed proceeds results via the CAPA tax on non-distributed proceeds results or MT564 regardless of whether their accounts were affected by the Tax on non-distributed proceeds.

US Regulation

- Section 305(c) of the IRC considers that holders of convertible securities may be deemed to have received a dividend as a result of a corporate action on the underlying common stock. Issuers of convertible securities are required to file IRS Form 8937 if a conversion rate adjustment (CRA)

results in a distribution under section 305(c) stating the timing and the amount of the deemed dividend. The deemed dividend is subject to tax withholding if the convertible security is held by a non-US investor in the same manner as a regular cash dividend. Withholding Agents have requirements to withhold tax on the deemed distribution and to perform year-end tax reporting for the deemed distribution to holders.

- Dividend Equivalent Payment (DEP) under Section 871(m) of the Internal Revenue Code and its associated US Treasury Regulations “(Section 871(m))” effectively impose withholding tax on non-U.S. holding certain structured or exchange traded notes where there is an equity-linked instruments (“ELIs”) that triggers a dividend payment.
 - o The following events that were announced would have fallen under the TNDP designation:

CUSIP	COAF	Regulation
90274D218	US108961152	871m
90270L859	US108885394	871m
90274D432	US108889555	871m
40416EAB9	US108583732	305c
680223AH7	US108655366	305c
458140AF7	US108767470	305c

- **Explanation of when you would be notified of the events in the US Market (305c, 871m)**
 - o Issuer provides the “timing date” (typically based on the ex-date of the underlying security).
 - o Payment Date (debit) is determined by the withholding agent which is based on some position capture date.

- **Limitation of uses** – While applicable for global events (e.g. Australia) Deemed Rate should not be used in the U.S. The applicable rate would appear on the MT564 / CANO (for example GRSS for cash dividends) .

AU Regulation

The Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016 establishes a new class of trust known as an attribution managed investment trust (AMIT). For tax purposes, an AMIT is able to attribute income and tax offsets of the trust for an income year to unitholders

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(referred to as “members” of the AMIT) whether or not such an attribution for an income year has been distributed in cash for that year. The attribution of income (assessable income, exempt income and non-assessable non-exempt income) and tax offsets are attributed to a member on the AMIT member’s annual statement (AMMA Statement) issued by the AMIT after the end of the AMIT’s income year. The AMIT provisions introduce the concept of a deemed payment which is broadly the difference between the amounts of income attributed to investors for an income year and the amounts of any such income that has been physically distributed or previously notified to members for that year.

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A deemed payment amount will be subject to withholding tax. The amount of the withholding tax liability is calculated pursuant to Australian withholding tax rules on the assumption that the deemed payment was an actual payment. The rate of withholding tax will depend on whether the deemed payment is subject to resident withholding tax or is subject to non-resident withholding tax (where the deemed payment has the character of interest or dividend or comprises a fund payment). A new deemed payment information field is required as it will show where there is an amount attributed to a member that is potentially subject to withholding tax where the amount is not accompanied in full by a cash amount. The field will be a repeatable field to allow the AMIT or custodian to separately identify different components of the deemed payment.

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1.1.1.3 Message rules for Tax on non-distributed proceeds Flow

1.1.1.3.1 Corporate Action Announcement (CANO / MT564)

- The Corporate Action Notification (CANO) for tax on non-distributed proceeds events contain the following key fields:
 - Official Corporate Action Identifier (COAF)
 - Corporate Action Reference Number (CORP)
 - CUSIP/ISIN (underlying)
 - CAEV Code TNDP
 - Tax on Non Distributed Proceeds Indicator (SMPG data source scheme)
 - Identification: US01 (871m) or US02 (305c)
 - ↳ Issuer: SMPG
 - Record Date

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DEBIT Cash Movement – Please note that the cash movement should appear as a debit to signify the potential debit related to the tax withholding (based upon the Gross Amount and Withholding Rate).

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o Payment Date

o Withholding Rate

o Deemed Rate – Rate applied for the calculation of deemed proceeds which are not paid to security holders but on which withholding tax is applicable.

~~o Tax Event Type Indicator (data source scheme))~~

~~where data source scheme is not applicable, Rate Type Code must be completed.~~

For Australia market, rate type code is required within the Deemed Rate with one of the below qualifiers:

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o Deemed Dividend Proceeds [DED]

o Deemed Fund Proceeds [DEFP]

o Deemed Interest Proceeds [DEIT]

o Deemed Royalties Proceeds [DERY]

1.1.1.3.2 Corporate Action Notification Eligible Balance (CANO-E / MT564)

- The CANO-Eligible Balance Message is a subset of the CANO message with its sole purpose to provide the eligible balance per account before the tax on non-distributed proceeds has occurred. The following key balance fields will be present:

o CAEV Code TNDP

o Tax on Non Distributed Proceeds Indicator (SMPG data source scheme)

▪ Identification: US01 (871m) or US02 (305c)

~~o Issuer: SMPG Tax Event Type Indicator (data source scheme)~~

o Eligible Balance

o Settlement Position Balance

o Pending Receipt and/or Pending Delivery Balance. Please note the depository for the US market does not supply pending receipt or delivery balances.

- For ISO20022, the CANO-Eligible message should follow the CANO message in the tax on non-distributed proceeds flow.

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1.1.1.3.3 Corporate Action Preliminary Advice (CAPA / MT564)

The Corporate Action Movement Preliminary Advice (CAPA, MT564) message will provide preliminary advice of cash debit based upon tax on non-distributed proceeds results.

The CAPA message will contain the following fields:

- CAEV Code TNDP
- Eligible Balance (ELIG)
- Deemed Amount – also known as “Gross Taxable Amount” is the amount of proceeds which is not actually paid to the security holder but on which withholding tax is applicable.
- Deemed Rate – Rate applied for the calculation of deemed proceeds which are not paid to security holders but on which withholding tax is applicable. For Australia market, rate type code is required.
 - Deemed Dividend Proceeds [DEDI]
 - Deemed Fund Proceeds [DEFP]
 - Deemed Interest Proceeds [DEIT]
 - Deemed Royalties Proceeds [DERY]
- Posting Amount / Net Cash Amount – Amount of Tax Debit

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1.1.1.3.4 Corporate Action Movement Preliminary Advice Cancellation (CAPC / MT564)

The Corporate Action Preliminary Advice Cancellation (CAPC) message is used within the tax on non-distributed proceeds flow whenever tax on non-distributed proceeds results have been published through a CAPA / MT564 and either a cancellation of the tax on non-distributed proceeds occurs before the tax on non-distributed proceeds has allocated. The following scenarios occur with the CAPC:

- The CAPC message will be used when a tax on non-distributed proceeds has been announced (CAPA) and then the event is cancelled before the tax on non-distributed proceeds allocates. The CAPC message will cancel the tax on non-distributed proceeds results and projected movements and a CACN event withdrawal message would also be sent withdrawing the event.
- A CAPC tax on non-distributed proceeds cancellation message should not be output unless there has been a CAPA tax on non-distributed proceeds results message which has been output.

1.1.1.3.5 Corporate Action Movement Confirmation (CACO / MT566)

The Corporate Action Movement Confirmation Advice (CACO / MT566) is utilized in the tax on non-distributed proceeds message flow to indicate the cash movements (debit) resulting from the tax on non-distributed proceeds.

- CAEV Code TNDP
- Eligible Balance (ELIG)



- Deemed Amount – also known as “Gross Taxable Amount” is the amount of proceeds which is not actually paid to the security holder but on which withholding tax is applicable.
- Deemed Rate – Rate applied for the calculation of deemed proceeds which are not paid to security holders but on which withholding tax is applicable. For Australia market, rate type code is required
 - Deemed Dividend Proceeds [DEDI]
 - Deemed Fund Proceeds [DEFP]
 - Deemed Interest Proceeds [DEIT]
 - Deemed Royalties Proceeds [DERY]
- Posting Amount / Net Cash Amount – Amount of Tax Debit

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1.1.1.3.6 Corporate Action Cancellation Advice (CACN / MT564)

The Corporate Action Cancellation Advice is used within the tax on non-distributed proceeds workflow to indicate the cancellation of a tax on non-distributed proceeds event.

1.1.1.4 Tax on non-distributed proceeds Appendices

1.1.1.4.1 Tax on non-distributed proceeds Appendix A. Key Definitions

Eligible Balance - Total Eligible balance based on Publication Date -1

Tax Event Type Indicator – Data source scheme to indicate what type of taxable event is occurring (currently 305(c) and 871m).

if Qualifier is DEEM and Data Source Scheme is not present, Rate Type Code must contain one of the following codes:

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<u>DEIT</u>	<u>Deemed Interest Income Australian Sourced</u>	<u>Definition</u> <i>The difference between the amount of Interest Income attributed to the unitholder by the AMIT for the income year and the amount of Interest Income previously notified to the unitholder in relation to cash distributions for the year.</i>
<u>DEDI</u>	<u>Deemed Dividend</u>	<u>Definition</u> <i>The difference between the amount of Unfranked Dividend Income (that is not conduit foreign income) attributed to the unitholder by the AMIT for the income year and the amount of Unfranked Dividend Income (that is not conduit foreign income) previously notified to the unitholder in relation to cash distributions for the year.</i>
<u>DEFP</u>	<u>Deemed Fund</u>	<u>Definition</u> <i>The difference between the amount of the income components</i>

payment

comprising a Fund Payment attributed to the unitholder by the AMIT for the income year and the amount of the Fund Payment previously notified to the unitholder in relation to cash distributions for the year.

DERY Deemed Royalties

The difference between the amount of Royalty Income attributed to the unitholder by the AMIT for the income year and the amount of Royalty Income previously notified to the unitholder in relation to cash distributions for the year.
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- **Deemed Amount** - also known as "Gross Taxable Amount" is the amount of proceeds which is not actually paid to the security holder but on which withholding tax is applicable.

1.1.1.4.2 Tax on non-distributed proceeds Appendix C. Examples

CANO / MT564

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CANO-E / MT564

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CACO / MT566

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