



BABCOCK & BROWN  
RESIDENTIAL LAND PARTNERS

# Taxation Statement Guide

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## CONTENTS

Important Information	1
1.0 2008 Distributions	2
1.1 Taxable Income Distributions	2
1.2 Tax Deferred Distributions	2
2.0 Implications of Receiving a Tax Deferred Distribution	2
2.1 Australian Tax Resident Securityholders	2
2.1.1 Capital Account	2
2.1.2 Revenue Account	4
2.2 Non-Tax Resident Securityholders	4
2.2.1 Capital Account	4
2.2.2 Revenue Account	5
2.3 Withholding Tax	5
2.3.1 Failure to Quote Tax File Number	5
2.3.2 Withholding Tax for Non-Tax Resident Securityholders	5
3.0 Dividends Received From BBRLPL	6
4.0 Implications of Disposal of your Investment in BLP	6
4.1 Nature of Stapled Securities	6
4.2 Australian Tax Resident Securityholders	6
4.2.1 Capital Account	6
4.2.2 Revenue Account	7
4.3 Non-Tax Resident Securityholders	7
4.3.1 Capital Account	7
4.3.2 Revenue Account	8
Appendix 1 - Key Technical Tax Terms	8

## IMPORTANT INFORMATION

Babcock & Brown Residential Land Partners (BLP) comprises Babcock & Brown Residential Land Partners Limited (BBRLPL) and Babcock & Brown Residential Land Partners Trust (BBRLPT). Babcock & Brown Residential Land Partners Services Limited is the Responsible Entity for BBRLPT. An investment in BLP is an investment in a stapled security comprising a share in BBRLPL and a unit in BBRLPT.

The purpose of this Taxation Statement Guide (the **Guide**) is to provide you, as a Securityholder in BLP, with general information regarding the tax implications arising from the receipt of your 2008 interim and final distributions from BBRLPT. This information may also be relevant if you dispose of any of your securities in BLP.

The 2008 interim and final distributions include the following tax deferred amounts and taxable income amounts.

Distribution	2008 Interim	2008 Final	Total
Payment Date	29 February 2008	29 August 2008	
Tax Deferred Amount \$/unit	0.01951	0.01951	0.03902
Taxable Income Amount (Interest) \$/unit	0.02174	0.02174	0.04348
<b>Totals \$/unit</b>	<b>0.04125</b>	<b>0.04125</b>	<b>0.0825</b>

As the 2008 interim and final distributions include a taxable income amount, the above information will be relevant to you in completing your 2008 tax return. For Securityholders who are Australian tax resident individuals, the taxable income amount (interest) is the figure you will need to include at label "13U" in the Supplementary section for the 2008 tax return.

This Guide has been prepared on the basis of taxation laws prevailing at the date of this Guide. This Guide is intended to assist Securityholders in meeting their Australian income tax compliance obligations. Securityholders are not entitled to rely on this information in relation to managing their specific tax affairs. Securityholders should obtain their own tax advice in relation to the taxation implications associated with their investment in BLP.

This Guide uses technical tax terms in describing both the character of Securityholders and the nature of their investment in BLP that are important in determining the taxation consequences of receiving distributions from BLP and the taxation consequences of disposing of their investment in BLP. Where these terms are not described in the body of this Guide, a brief explanation as to their meaning is set out in Appendix 1. In some instances it may be difficult to determine how these terms apply to you and your investment. If this is the case, you should seek professional advice from your accountant or taxation adviser.

## 1.0 2008 DISTRIBUTIONS

The 2008 interim and final distributions are distributions from BBRLPT (i.e. they are trust distributions, not company dividends). BBRLPL has not declared or paid a dividend during the year from 1 July 2007 to 30 June 2008.

Both the 2008 interim and final distributions from BBRLPT include a tax deferred amount and a taxable income amount.

### 1.1 Taxable Income Distributions

The taxable income component of both the 2008 interim and final distributions represents a distribution of (net) interest income derived by BBRLPT.

If you are an Australian Tax Resident, the taxable income component of your 2008 interim and final distributions will be assessable income and should be included in your 2008 Australian income tax return.

If you are a Non-Tax Resident, the taxable component of your 2008 interim and final distributions that represents (net) interest income will be subject to withholding tax (see 2.3.2 below).

### 1.2 Tax Deferred Distributions

The tax deferred component of the 2008 interim and final distributions includes both a distribution of the excess of accounting profit over net (taxable) income and a return of capital of BBRLPT.

## 2.0 IMPLICATIONS OF RECEIVING A TAX DEFERRED DISTRIBUTION

The taxation implications associated with receipt of a tax deferred distribution from BBRLPT will vary depending on whether you are an Australian Tax Resident or a Non-Tax Resident and whether you hold your investment on Revenue or Capital account. Appendix 1 contains a brief description of factors that may assist you in determining whether you are an Australian Tax Resident and whether you hold your investment on Revenue or Capital account.

### 2.1 Australian Tax Resident Securityholders 2.1.1 Capital Account

The receipt of tax deferred distributions will reduce the capital gains tax (CGT) cost base, or CGT reduced cost base, of your units in BBRLPT, by the amount of the tax deferred distribution. Any such reduction is generally triggered at the end of the income year in which the distribution is received.

It is therefore necessary to firstly determine the initial cost base for your units in BBRLPT and shares in BBRLPL. The cost base of each unit and share will at least equal the acquisition cost of each BLP stapled security. The acquisition cost will then need to be split on a reasonable basis between the unit and share. Securityholders may choose to apply the relative net assets of BBRLPT and BBRLPL to determine

this split. Information regarding the relative net assets of BBRLPT and BBRLPL is set out below:

	Portion of Net Assets	
	BBRLPL	BBRLPT
30 June 2006	1.00%	99.00%
31 December 2006	1.02%	98.98%
30 June 2007	1.03%	98.97%
31 December 2007	0.00%	100%
30 June 2008	0.00%	100%

If applying the relative net assets basis, Securityholders should use the relative net assets of BBRLPL and BBRLPT at the date closest to their date of acquisition.

For example, for Securityholders that acquired their investment through the IPO, the CGT cost base of a unit in BBRLPT, excluding the impact of any Distributions received, is calculated based upon the initial investment in BLP of \$1.00, allocated between the two securities on the basis of \$0.99 to BBRLPT and \$0.01 to BBRLPL.

This allocation gives rise to a cost base for each BBRLPT unit of at least \$0.99 per unit and a cost base for each BBRLPL share of at least \$0.01 per share. The combined cost bases of one unit in BBRLPT and one share in BBRLPL will equate to, at least, the initial subscription price for one BLP security i.e. \$1.00. Please note that there may be other costs you have incurred which also form part of the cost base of the relevant securities.

Taking into account the 2007 and 2008 interim and final distributions, the tax deferred distributions paid in respect of stapled securities issued in the IPO are as follows:

	Tax Deferred Amount	Record Date	Payment Date
2007 Interim Distribution	\$0.017 per unit	31 December 2006	23 February 2007
2007 Final Distribution	\$0.017 per unit	29 June 2007	31 August 2007
2008 Interim Distribution	\$0.01951 per unit	31 December 2007	29 February 2008
2008 Final Distribution	\$0.01951 per unit	30 June 2008	29 August 2008
<b>Total Tax Deferred Distributions</b>	<b>\$0.07302 per unit</b>		

Therefore, given the tax deferred component of the 2007 and 2008 interim and final distributions, a Securityholder who has held their investment in BLP since the IPO would reduce their original CGT cost base by \$0.07302 per unit held in BBRLPT, being the aggregate amount of tax deferred distributions received to date.

Accordingly, for these IPO Securityholders, upon receipt of the 2008 final distribution, the CGT cost base of their units in BBRLPT will be at least \$0.91698 per unit (i.e. \$0.99 less \$0.07302).

As there have been no capital returns by BBRLPL since the IPO, the CGT cost base for these IPO Securityholders in the shares in BBRLPL should remain at \$0.01 per share (at least).

Where the quantum of any given tax deferred distribution received by a Securityholder exceeds the Securityholder's CGT cost base of the units in BBRLPT at the time of the distribution, a capital gain will arise to the extent that the sum of the tax deferred distributions received by the Securityholder exceeds the Securityholder's CGT cost base in the units in BBRLPT at that time.

The CGT implications for Securityholders, and how the capital gain or capital loss arising from an investment in BLP may be calculated, are set out further below. However, if you are an individual, a complying superannuation fund or a trust that holds BLP securities and you have held your investment in BLP for more than 12 months, you may be eligible for the CGT discount. The discount reduces any capital gain (after offsetting any capital losses) that is subject to tax by 50% (for individuals either directly or through a trust) or 33.33% (for superannuation funds).

### **2.1.2 Revenue Account**

Securityholders that hold their investment in BLP on Revenue account should consult their tax adviser in relation to the implications associated with their investment, including those associated with the receipt of tax deferred distributions.

Whether or not you hold your investment on Revenue account, you will need to undertake the above noted CGT calculations (with the exception of Securityholders whose BLP securities are trading stock when the distribution is received).

## **2.2 Non-Tax Resident Securityholders**

### **2.2.1 Capital Account**

Since the IPO Product Disclosure Statement was prepared the Australian CGT rules applicable to Non-Tax Residents have changed. Under the new rules, capital gains or losses of Non-Tax Residents are disregarded for Australian CGT purposes unless, broadly, the relevant CGT asset is taxable Australian real property, an "indirect Australian real property interest", or an asset used by the Non-Tax Resident in carrying on business through a permanent establishment in Australia.

An indirect Australian real property interest exists at a time when a Non-Tax Resident, together with its associates, holds 10% or more of the membership interests in an entity (eg.

units in a trust) at that time or throughout a 12 month period in the two years before that time and more than 50% of the underlying market value of the entity's assets is attributable to taxable Australian real property.

The new CGT rules apply for CGT events occurring from 12 December 2006. As such, these new rules are the relevant rules to consider.

The relevant membership interests held by Non-Tax Residents that are tested at first instance are the units in BBRLPT. Accordingly, the units themselves are not taxable Australian real property. As far as BLP is aware, no Non-Tax Resident Securityholder (together with its associates) is likely to have (or to have had for more than 12 months in the last two years) 10% or more of the units in BBRLPT. As such, the units in BBRLPT should not constitute indirect Australian real property interests. Furthermore, holding units in BBRLPT should not of itself constitute carrying on business in Australia through a permanent establishment.

On this basis, Non-Tax Resident Securityholders whose cost base in BBRLPT units has been fully eroded should not be subject to Australian CGT upon the receipt of the tax deferred components of the 2008 interim and final distributions. However, if you are a Non-Tax Resident and you, together with your associates, hold (or have held) 10% or more of the units in BBRLPT, you should consult your tax adviser in relation to this matter.

### **2.2.2 Revenue Account**

Securityholders that are Non-Tax Residents of Australia and hold their investment in BLP on Revenue account should consult their tax adviser in relation to the implications associated with their investment, including those associated with the receipt of tax deferred distributions.

## **2.3 Withholding Tax**

### **2.3.1 Failure to Quote Tax File Number**

While Securityholders are not obliged to quote a Tax File Number (TFN) to BLP or its security registrar, if you are an Australian Tax Resident and have not quoted a TFN or declared a permitted exemption from quoting a TFN, the Responsible Entity may be obliged to withhold 46.5% of the total distribution and to forward the tax withheld to the Australian Taxation Office.

### **2.3.2 Withholding Tax for Non-Tax Resident Securityholders**

Distributions of (net) interest income to Non-Tax Resident Securityholders are subject to a final withholding tax at the rate of 10%. If you are a Non-Tax Resident and have notified the Registrar that you have a foreign mailing address, the Responsible Entity has deducted this withholding tax from the taxable income component of the 2008 interim and

final distributions and forwarded the tax withheld to the Australian Taxation Office.

### **3.0 DIVIDENDS RECEIVED FROM BBRLPL**

No interim or final dividend has been declared or paid by BBRLPL in the year ended 30 June 2008.

## **4.0 IMPLICATIONS OF DISPOSAL OF YOUR INVESTMENT IN BLP**

### **4.1 Nature of Stapled Securities**

For Australian CGT purposes, each BLP stapled security is considered to comprise two separate assets, being a share in BBRLPL and a unit in BBRLPT. If you dispose of any part of your investment in BLP you will need to do a separate CGT calculation for each of your respective investments in BBRLPL and BBRLPT.

This means that technically you will need to split your acquisition cost and your sales proceeds between the shares in BBRLPL and the units in BBRLPT. However, in most cases the aggregate of the two separate calculations will produce the same net result as if the disposal were treated as the disposal of a single security.

## **4.2 Australian Tax Resident Securityholders**

### **4.2.1 Capital Account**

If you dispose of any part of your investment in BLP, a CGT calculation needs to be performed. One of the components of that CGT calculation is the cost base of your investment. In addition to your acquisition cost, you should include other items of expenditure in your cost base. For example, it is possible to increase the cost base of your investment by including such things as stamp duty and brokerage fees. It should also be noted that your cost base will be reduced by any tax deferred distributions that you have received (as discussed above).

A capital gain will arise where your sale proceeds exceed your cost base. A capital loss will arise where your sale proceeds are less than your reduced cost base. Your reduced cost base is the same as your cost base with the exception of interest payments for which you have not claimed deductions (which will be a rare event for most Securityholders).

If you are an individual, a complying superannuation fund or a trust that holds BLP securities and you have held your investment in BLP for at least 12 months, any net capital gain that you make may be reduced by 50% (for individuals either directly or through a trust) or 33.33% (for superannuation funds). You should seek professional advice to determine your eligibility for this reduction.

## **4.2.2 Revenue Account**

If your investment in BLP is held on Revenue account and you dispose of any part of that investment, you will need to undertake an income tax calculation.

Securityholders that hold their investment on Revenue account should consult their tax adviser in relation to the implications associated with their investment, including those associated with the disposal of their investment.

Whether or not you hold your investment on Revenue account, you will need to undertake the above noted CGT calculation (with the exception of Securityholders whose BLP securities are trading stock at the time of the disposal).

## **4.3 Non-Tax Resident Securityholders**

### **4.3.1 Capital Account**

As discussed above, since the IPO Product Disclosure Statement was prepared, legislation has been enacted which changes the application of the Australian CGT rules to Non-Tax Residents. Under the new rules, capital gains or losses of Non-Tax Residents are disregarded for Australian CGT purposes unless, broadly, the relevant CGT asset is taxable Australian real property, an "indirect Australian real property interest" or an asset used by the Non-Tax Resident in carrying on business through a permanent establishment in Australia.

An indirect Australian real property interest exists at a time when a Non-Tax Resident, together with its associates, holds 10% or more of the membership interests in an entity (eg. shares in a company or units in a trust) at that time or throughout a 12 month period in the two years before that time and 50% or more of the underlying market value of the entity's assets is attributable to taxable Australian real property.

The new CGT rules apply for CGT events occurring on or after 12 December 2006. As such, the new rules are the relevant rules to consider for any disposal on or after that date.

The relevant membership interests held by Non-Tax Residents that are tested at first instance are the shares in BBRLPL and the units in BBRLPT. The units in BBRLPT and shares in BBRLPL are not taxable Australian real property. Accordingly, it is relevant to determine if the relevant interest which you hold in BLP constitutes an indirect Australian real property interest. As far as BLP is aware, no Non-Tax Resident Securityholder (together with its associates) is likely to have (or to have had for more than 12 months in the last two years) 10% or more of the shares in BBRLPL and the units in BBRLPT. As such, the shares in BBRLPL and the units in BBRLPT should not constitute indirect Australian real property interests.

Furthermore, holding shares in BBRLPL and units in BBRLPT should not of itself constitute carrying on business in Australia through a permanent establishment.

On this basis, Non-Tax Resident Securityholders should generally not be subject to Australian CGT upon the disposal of shares in BBRLPL and units in BBRLPT. However, if you are a Non-Tax Resident and you, together with your associates, hold (or have held) 10% or more of the shares in BBRLPL and the units in BBRLPT, you should consult your tax adviser in relation to this matter.

#### **4.3.2 Revenue Account**

If your investment in BLP is held on Revenue account and you dispose of that investment, you will need to undertake an income tax calculation.

Securityholders that hold their investment on Revenue account should consult their tax adviser in relation to the implications associated with their investment, including those associated with the disposal of their investment.

### **APPENDIX 1 - KEY TECHNICAL TAX TERMS**

#### **AUSTRALIAN TAX RESIDENT AND NON TAX RESIDENT**

##### **“Australian Tax Resident”**

If you are an individual you will be considered to be an Australian Tax Resident if you satisfy any one of the following tests:

- you reside in Australia under ordinary concepts. This will include a general examination of your facts to consider whether you can be considered to dwell permanently or at least for a considerable period of time in Australia;
- you are an Australian citizen and have no permanent place of abode outside Australia;
- you have been in Australia for more than half of the income year (i.e. greater than 183 days in the period 1 July to 30 June) and your usual abode is not outside Australia; or
- you are a member of a Commonwealth Superannuation Scheme (broadly, if you work for the Australian public service).

A corporate entity will be considered to be an Australian Tax Resident if any of the following tests are satisfied:

- it is incorporated in Australia;
- it carries on business in Australia and its central management and control is in Australia; or
- it carries on business in Australia and has its voting power controlled by Australian resident shareholders.

A trust or superannuation fund will be considered an Australian Tax Resident if its trustee is a resident of Australia according to the above tests.

##### **“Non Tax Resident” of Australia**

You will be considered a non resident of Australia for Australian tax purposes if you do not fall within one of the tax residency tests referred to above.

You should note that Tax Treaties between Australia and other countries may alter your residency status and in some circumstances you may be considered a dual resident. You should seek professional advice to determine your tax residence if you consider that a relevant Tax Treaty entered into between Australia and your country of residence may apply to you.

You should also note that your tax residency status can change and is tested each financial year.

#### **CAPITAL ACCOUNT AND REVENUE ACCOUNT**

##### **“Capital”**

Broadly, an investment will be held on “capital account” where the intention is to hold the investment so as to benefit from both distributions from the investment and the capital growth of the investment. An intention to hold an investment for an extended period of time is generally indicative of an investment held on capital account.

It is expected that the majority of Securityholders will hold their investments in BLP on capital account.

##### **“Revenue”**

Generally, an investment is held on “revenue account” if it was acquired with the intention of making a profit on resale, or if the investment forms part of or is incidental to a business carried on by the Securityholder. An intention not to hold the investment for a long period of time would be indicative of an investment held on revenue account. Share traders usually hold their investments on revenue account.

This is a highly complex area of taxation law. If you are not able to accurately determine whether you hold your investment on capital or revenue account, we recommend that you seek professional assistance in determining the taxation implications associated with your investment in BLP.



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