Home Consortium

15 January 2021

CAPITAL DISTRIBUTION OF UNITS IN HOMECO DAILY NEEDS REIT

TAX INFORMATION GUIDE FOR AUSTRALIAN RESIDENT HOMECO SECURITYHOLDERS

On 26 November 2020, Home Consortium (**HomeCo**) undertook a capital reduction via an in-specie distribution of ordinary units in HomeCo Daily Needs REIT (**HDN**) to HomeCo securityholders (**Capital Distribution**).

The record date for the Capital Distribution was 24 November 2020.

For Australian Capital Gains Tax (**CGT**) purposes, each HomeCo stapled security comprises 2 separate assets, being a share in Home Consortium Limited (**HCL**) and a share in Home Consortium Developments Limited (**HCDL**). HomeCo securityholders will need to account for the Capital Distribution as a CGT event in respect of their HCL shares on 26 November 2020.

A general guide to the Australian tax implications of the Capital Distribution is contained within Section 7 of the Explanatory Memorandum in relation to the establishment of HDN. The Explanatory Memorandum was previously sent to shareholders and is available on the HomeCo website at www.home-co.com.au. As indicated in the Explanatory Memorandum, this guide is necessarily general in nature without consideration for securityholders' personal investment objectives, financial circumstances or needs and it is recommended that HomeCo securityholders consult with a professional tax advisor regarding the taxation implications of the Capital Distribution to their particular circumstances.

HCL applied to the Commissioner of Taxation (**Commissioner**) for a class ruling confirming certain income tax implications of the Capital Distribution for certain HCL shareholders. The Commissioner issued Class Ruling CR 2021/2 (**Class Ruling**), in accordance with the application made by HCL. A copy of the Class Ruling is available on the HomeCo website at www.home-co.com.au.

Tax consequences for Australian resident HCL shareholders

HCL shareholders received one HDN unit for every 2 HCL shares they held on 24 November 2020 (rounded down to the nearest whole number of units).

The cost base of each HDN unit acquired via the Capital Distribution is the market value of a HDN unit on 26 November 2020. The date of acquisition of such a HDN unit for CGT purposes is 26 November 2020.

Generally, HCL shareholders must reduce the cost base of their HCL shares by the market value of the HDN units received via the Capital Distribution.

However, if a HCL shareholder sold their HCL shares on 25 November 2020, they will instead make a capital gain equal to the market value of the HDN units received in respect of the sold HCL shares. Such HCL shareholders should be entitled to discount this capital gain if they owned their HCL shares for at least 12 months.

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In the Class Ruling, the Commissioner confirmed that the market value of the HDN units received via the Capital Distribution should be the 1 day volume weighted average price (**VWAP**) of the HDN units, as traded on the Australian Securities Exchange on 26 November 2020.

The 1 day VWAP of the HDN units on 26 November 2020 was $1.3722.

Example 1

Jane bought 1,000 HomeCo stapled securities in October 2019 for a total cost of $3,900 including brokerage. Jane apportioned this total cost such that the cost base in her HCL shares is $3,900 and the cost base in her HCDL shares is nil.

On 26 November 2020, Jane received 500 HDN units, which have an aggregate market value of $686 (500 x $1.3722).

Jane's aggregate cost base in her 1,000 HCL shares will be reduced to $3,214 ($3,900 - $686).

Jane's aggregate cost base in the 500 HDN units received will be $686 (500 x $1.3722).

Example 2

Assume the same facts as per Example 1, except that Jane sells 200 HCL shares on 25 November 2020.

For CGT purposes:

- on 25 November 2020, Jane made a capital gain or capital loss on the sale of her 200 HCL shares to the extent that the sale proceeds exceeded or were less than the aggregate cost base for these HCL shares, being $780 ($3,900 x 200 ÷ 1,000);
- on 26 November 2020, Jane made a capital gain of $137 being the market value of the 100 HDN units received in respect of the 200 HCL shares that she sold on 25 November 2020. Jane should be eligible for a 50% discount on the gross capital gain as Jane has owned the relevant HCL shares for at least 12 months;
- Jane must reduce her cost base in the 800 HCL shares that she continues to own by the market value of the 400 HDN units received in respect of those HCL shares. Jane's remaining 800 HCL shares will have an aggregate cost base of $2,571 ($3,120[1] – (400 x $1.3722)); and
- Jane's aggregate cost base in her 500 HDN units is $686 (500 x $1.3722).

* * * *

[1] Jane's aggregate cost base in her retained HCL shares is calculated as follows:

$$(Aggregate\ cost\ base\ in\ HCL\ shares)\ x\ \frac{(Number\ of\ retained\ HCL\ shares)}{(Number\ of\ HCL\ shares\ originally\ acquired)}$$

$$= \$3{,}900 \text{ x } \frac{800}{1{,}000}$$

$$= \$3{,}120$$

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