

Tax Roadshow

Instalments – Understanding the tax components
Sydney, 10th April 2008



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Agenda

Overview of warrants

What are they

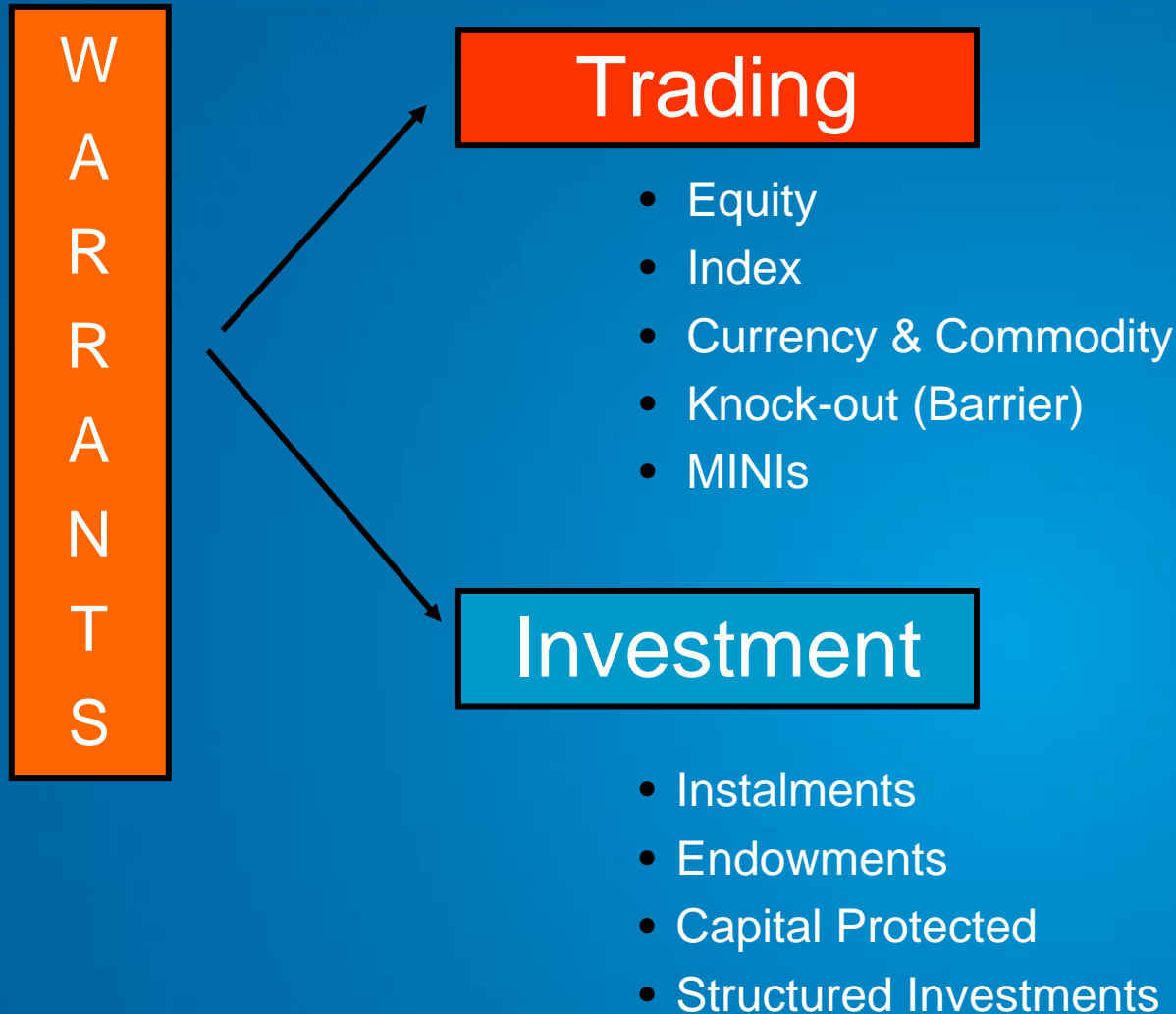
How are they priced

What has changed ?

Implication of these changes

More Information

ASX Quoted Warrants

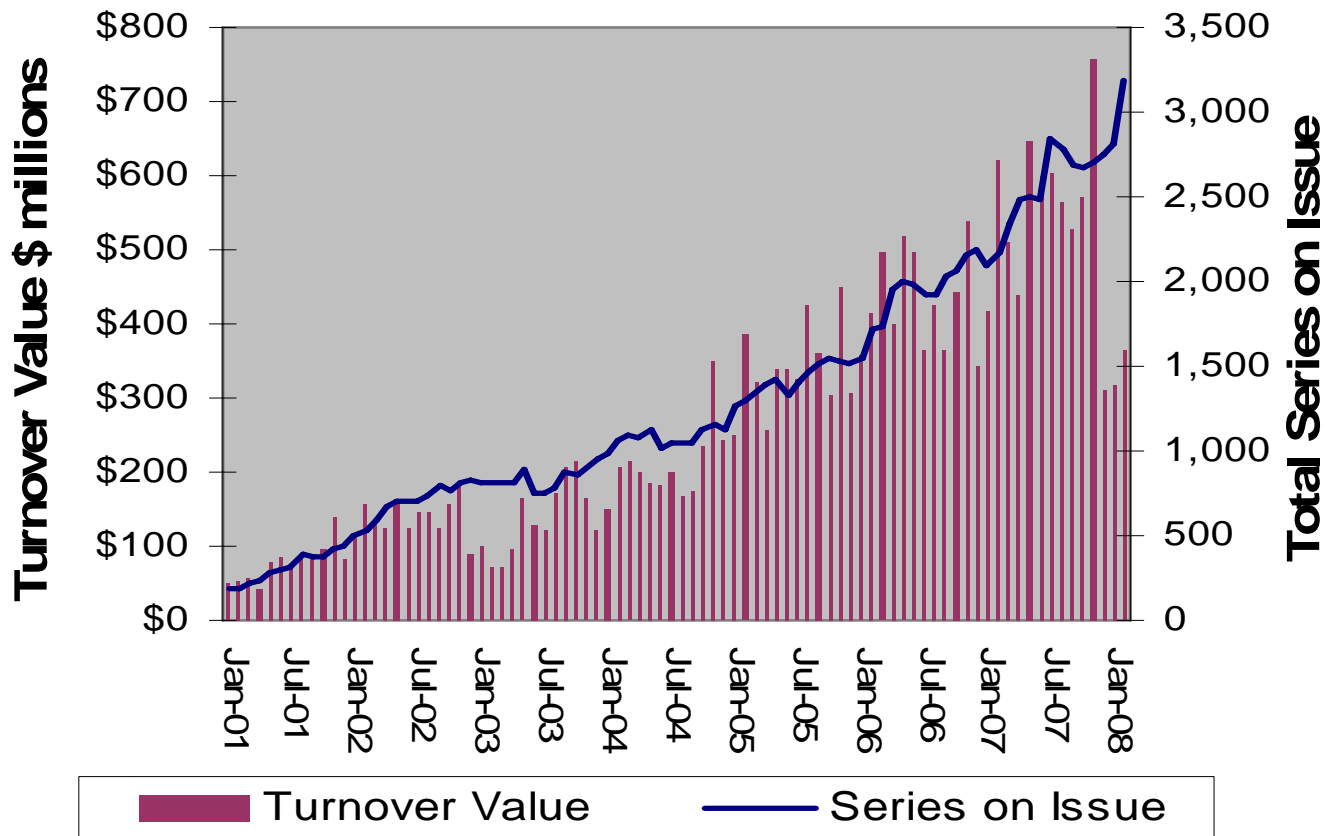


3100+ Instalment Series Quoted

February 2008



Instalments





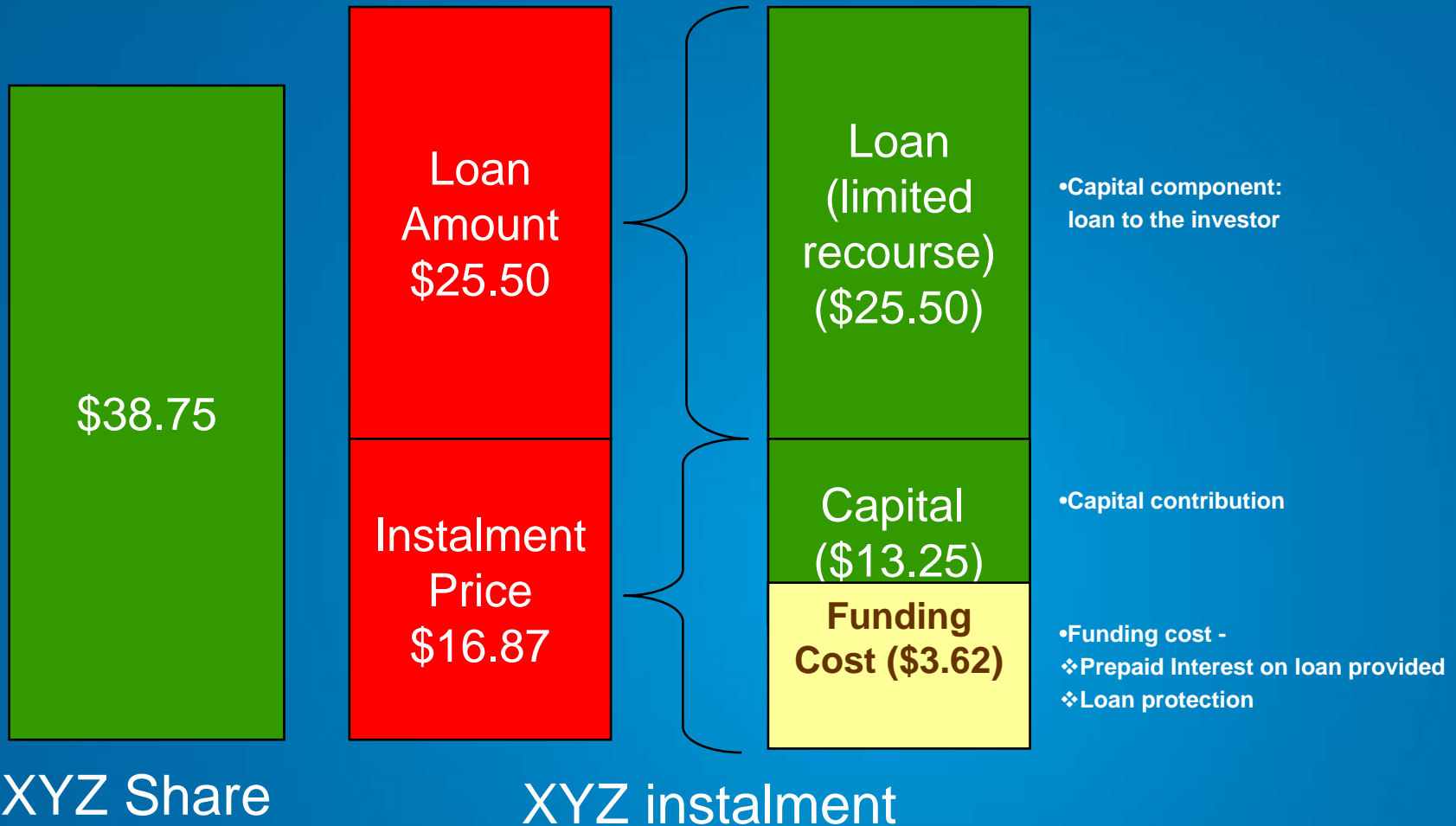
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What is a Quoted Instalment?

- Similar to Telstra Instalment receipts
- Instalments allow you to gain full exposure to a share with **part payment now** and an **optional final payment later**
- The holder of an instalment is entitled to all **dividends, distributions** and **franking credits** following first payment.
- Generally issued between 1 to 15 years by a financial institution
- Tradable on-market (ASX) through a broker
- Offered over 'blue chip/top100' ASX listed securities including individual shares, LICs, ETFs etc
- Eligible form of gearing for Self Managed Super Funds (SMSF)

Pricing a Quoted Instalment



Why invest in Quoted Instalments?



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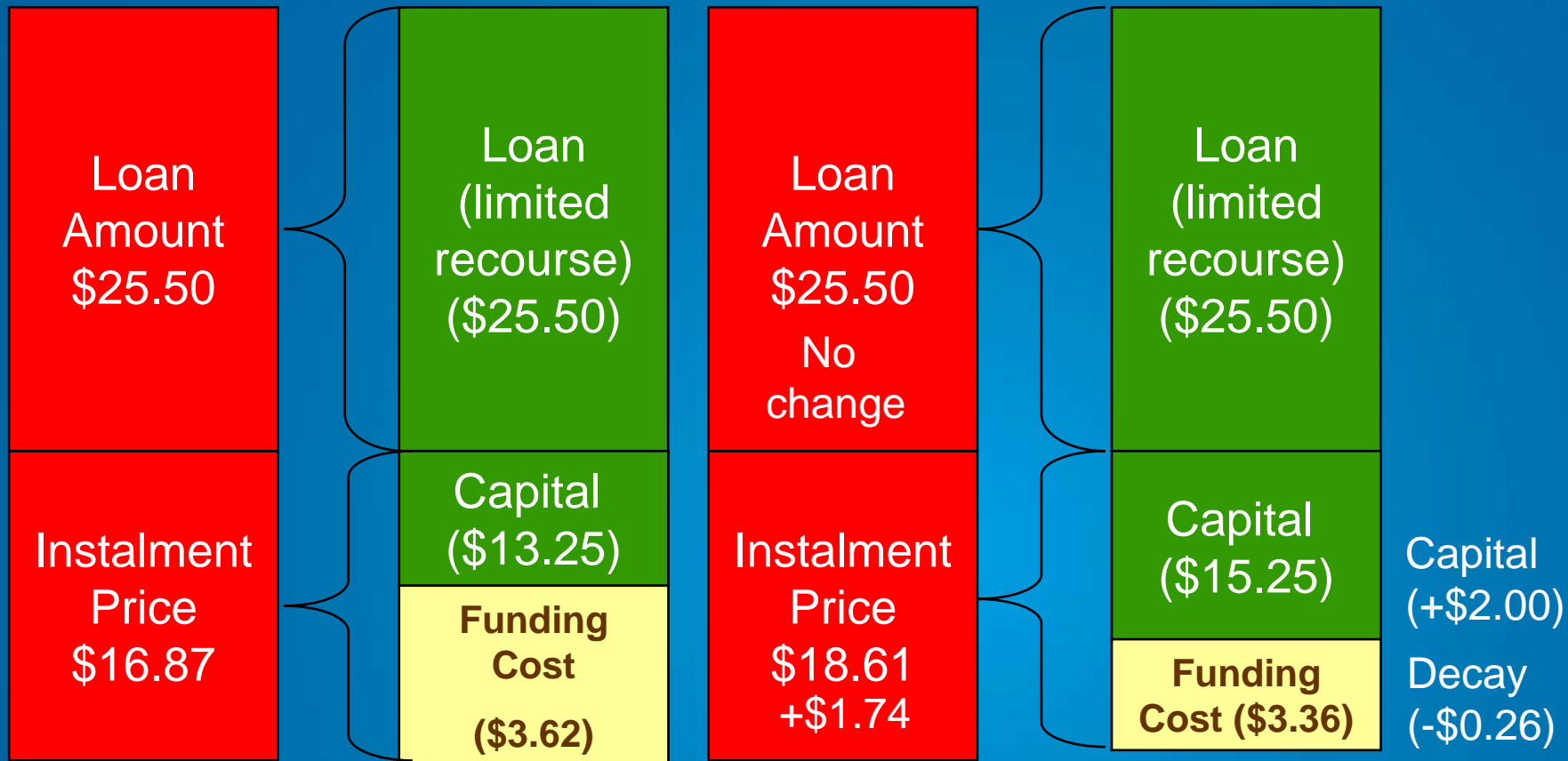
- Generate wealth with a limited capital base
- Receive a regular and reliable income stream
- Safer gearing solution

Known and limited downside risk – First Instalment

No margin calls

- Tax effective
- Eligible form of gearing for SMSFs

Price change over time



XYZ instalment
Share price \$38.75

XYZ instalment
Share price \$40.75 (+\$2.00)

Net
(+\$1.74)

What happens at Maturity?

- Pay Completion Amount
 - Receive underlying shares
- Rollover Application
 - Roll from expiring series to a new series.
- Sell On-market
 - Immediately before maturity sell on ASX
- Do Nothing
 - If Completion Payment greater than underlying share price then nothing happens
 - If Completion Payment less than underlying share price then receive Assessed Value Payment (VWAP less Completion Payment).



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What has changed?

- The new SIS legislation approving investment by super funds in Instalment warrants
- Introduction of limits on future contribution to super
- Recent tax legislation providing certainty in calculating deductibility of interest payments – loan protection



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Implications?

- Greater use of this form of leverage in Super funds
 - Invest \$50,000 to achieve approx \$100,000 exposure
- Super members seeking to maximise investment returns from salary sacrifice to SMSFs
- Greater tax effectiveness as a result of greater 'up front' deductible components - protection

Deductible Components

Funding Cost	<p>XX% deductible</p> <p>Loan Interest</p>	<p>Protection</p>	<p>Greater deductibility</p>	<p>Protection</p>
	<p>Loan Interest protection up to RBA unsecured PL rate</p>	<p>Loan Interest protection up to RBA unsecured PL rate</p>	<p>Loan Interest protection up to RBA unsecured PL rate</p>	<p>Loan Interest protection up to RBA unsecured PL rate</p>
	<p>pre 30.06.07 Deduct loan interest only</p>	<p>post 30.06.07 Deduct loan interest & protection up to RBA rate</p>	<p>post 30.06.07 Any amount over RBA rate add to cost base</p>	
	<p>\$\$ added to cost base</p>			



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