

# Appendix 2 - Tax Report



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The Directors  
StateWest Credit Society Limited  
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5 May 2006

Dear Sirs

## **Independent taxation advice Merger Proposal**

This letter has been prepared at the request of StateWest Credit Society Limited (StateWest) and is to be included in the Scheme Booklet for the Merger Proposal between StateWest and Home Building Society Limited (Home).

You have requested a general summary of the Australian tax implications to StateWest Members upon the amendments to StateWest's Constitution, receipt of a Special Dividend and the exchange of their StateWest Share in return for Home Shares.

The terms used in this letter are as defined in this Scheme Booklet.

## **Disclaimers**

This letter has been prepared for inclusion in this Scheme Booklet to be provided to StateWest Members and should be read in conjunction with the remainder of this Scheme Booklet. In providing our views, we have relied upon facts as set out in this Scheme Booklet that have not been independently verified by KPMG.

Our advice is based on current Australian taxation laws applicable as at the date of this letter. StateWest Members should be aware that taxation laws are subject to change, both prospectively and occasionally retrospectively.

Our advice is limited to taxation implications to StateWest Members who are residents of Australia for taxation purposes, and who hold their StateWest Share on capital account. Having regard to the circumstances in which StateWest Members have acquired their StateWest Share, it is expected that it would only be in unusual circumstances that shareholdings would not be regarded as being held on capital account.

The advice is general in nature and does not take into account the specific circumstances of any particular StateWest Member. Accordingly, StateWest Members should seek their own professional advice as to the taxation implications applicable to their own circumstances.

KPMG Tax is not licensed to provide financial product advice under the Corporations Act and taxation is only one of the matters that must be considered when making a decision on a financial product. You should consider taking advice from an Australian Financial Services Licence holder before making any decision on a financial product.

## 1 Amendments to StateWest's Constitution - tax implications

The Merger Proposal will require a number of amendments to the StateWest Constitution to allow certain changes to the manner in which StateWest operates, to remove the current prohibition on the payment of dividends to StateWest Members and to provide StateWest with a lien over any dividend payable to a StateWest Member. These changes should not have any tax implications for StateWest Members.

The proposed change in dividend entitlements is merely a variation of the rights attaching to the StateWest Shares and does not result in a cancellation or redemption of the StateWest Shares. The Commissioner of Taxation has confirmed in Taxation Ruling TR 94/30 that a variation in share rights does not result in a disposal of an asset for capital gains tax (CGT) purposes unless there is a cancellation or redemption of the share.

## 2 Special Dividend - tax implications

The Special Dividend will be included in the StateWest Member's assessable income in the year in which it is received. Where the Special Dividend is franked, the StateWest Member will also be required to include in their assessable income an amount equal to the franking credit attached to the Special Dividend.

A tax offset equal to the amount of the franking credit should be available for offset against tax payable by the StateWest Member. For individual StateWest Members and superannuation funds, any excess tax offset should be refundable to the StateWest Member.

There are a number of anti-avoidance provisions that prevent a shareholder from receiving franking credits in certain circumstances. StateWest has obtained a Class Ruling from the Commissioner of Taxation that confirms these provisions will not apply to StateWest Members who receive the Special Dividend in the circumstances described in the Class Ruling. The Class Ruling (CR 2005/93) was issued on 2 November 2005 and an Addendum (CR 2005/93A - Addendum) was issued on 15 February 2006. The Addendum reflects changes to the Scheme since the original Class Ruling was obtained and does not affect the tax outcomes in the Class Ruling. Both the Class Ruling and Addendum are available on the Australian Taxation Office (ATO) website at [www.ato.gov.au](http://www.ato.gov.au).

## 3 Merger Proposal - tax implications

The Merger Proposal involves the transfer of all StateWest Shares that have been issued to StateWest Members to Home in exchange for the issue of Home Shares. The Australian tax implications of the Merger Proposal for StateWest Members will depend on a number of factors, including:

- whether the StateWest Members acquired their StateWest Share before or after the introduction of CGT on 19 September 1985 (referred to as "pre-CGT" or "post-CGT" Members); and
- the nature of the StateWest Members (ie, individual, company, trust, superannuation fund).

### 3.1 *Post-CGT Members*

For StateWest Members who acquired their StateWest Share on or after 20 September 1985, the taxation implications of the Merger Proposal will be as follows:

- StateWest Members may make a capital gain or loss on the exchange of their StateWest Share, although roll over relief may be available to defer any capital gain (see below). Any capital gain or loss will be calculated as the difference between the market value of Home Shares issued to the StateWest Member under the Merger Proposal less the CGT cost base of their StateWest Share. It is expected that most StateWest Members will have a CGT cost base of \$10, except for those StateWest Members whose StateWest Shares were not fully paid up. Where StateWest Shares were acquired prior to 21 September 1999, an indexation adjustment may be available in calculating any capital gain. Alternatively, certain StateWest Members may be eligible for a CGT discount (see below).

- StateWest Members who would otherwise make a taxable capital gain from the exchange of their StateWest Share for Home Shares will be eligible for CGT “scrip for scrip” rollover relief (refer section 4) upon the transfer of their StateWest Share to Home. In these circumstances, StateWest Members who elect for the scrip for scrip rollover to apply will not pay tax on the exchange of their StateWest Share. In addition, for the purposes of determining eligibility for the CGT discount (discussed below) on disposal of Home Shares, StateWest Members will be treated as if they had acquired their Home Shares at the time that they originally acquired their StateWest Share.

Where StateWest Members choose to claim scrip for scrip rollover relief, the cost base of the Home Shares will be determined by reasonably attributing to those shares the cost base of the original StateWest Share.

- StateWest Members who are individuals, complying superannuation funds or trusts and who do not elect for the scrip for scrip rollover provisions to apply may be eligible for either a 50% (for individuals) or 33.33% (superannuation funds) discount on any capital gain, provided their StateWest Share has been held for at least 12 months prior to the exchange for Home Shares.
- StateWest Members who would otherwise realise a capital loss as a result of the Merger Proposal will not be eligible for scrip for scrip rollover relief. In these situations, the StateWest Member will incur a capital loss at the time the StateWest Share is exchanged for Home Shares. It is considered unlikely that StateWest Members will incur a capital loss given that the value of Home Shares issued under the Merger Proposal is expected to exceed the cost base of the StateWest Share for most StateWest Members.
- StateWest Members who sell their Home Shares, including Members who participate in the Share Sale Facility, will make a capital gain if the proceeds on sale exceed the cost base of the Home Shares.

### 3.2 *Pre-CGT Members*

For StateWest Members who acquired their StateWest Share prior to 20 September 1985, the taxation implications of the Merger Proposal will be as follows:

- StateWest Members will not make a capital gain or loss on the exchange of their StateWest Share.
- CGT “scrip for scrip” rollover will not be available.
- For these StateWest Members, the CGT cost base of their Home Shares acquired on exchange of their StateWest Share will be the market value of the Home Shares at the time that the Home Shares are acquired.
- StateWest Members who sell their Home Shares, including Members who participate in the Share Sale Facility, will make a capital gain if the proceeds on sale exceed the cost base of the Home Shares.

## 4 Scrip for scrip rollover relief

### 4.1 *Conditions for rollover relief*

The following conditions must be satisfied for scrip for scrip rollover to be available to StateWest Members:

- 1 The StateWest Member exchanges a StateWest Share for Home Shares;
- 2 The exchange is in consequence of a single scheme of arrangement where:
  - all owners of voting shares in StateWest could participate;
  - participation is available on substantially the same terms for all owners of interests of a particular type (ie, ordinary shareholders) in StateWest; and
  - as a result of the scheme, Home becomes the owner of 80% or more of the StateWest Shares;
- 3 The StateWest Member acquired their StateWest Share on or after 20 September 1985;
- 4 Apart from the rollover, the StateWest Member would make a capital gain as a result of the exchange; and