

13 October 2014

Dear Investor,

**Update Regarding your NRAS Tax Offset Certificate for 2013 – 2014:
Independent Accountancy Advice Regarding Lodgement of 2013-2014 Tax Return**

On 12 September 2014, I sent you a letter regarding the Commonwealth Government's delay in issuing the 2013-2014 NRAS Tax Offset Certificates. In that letter, I advised that NAHC was working through our Peak Body, NRAS Providers Ltd, to obtain independent accountancy advice that evaluated options for lodging your 2013-2014 tax returns under these circumstances. I informed you that I would circulate this advice to investors once it had been prepared.

NRAS Providers Ltd ('NPL') commissioned Ernst & Young to undertake the work and it has now been completed. Included with this letter, please find a copy of Ernst & Young's advice letter, which outlines options to investors for lodging tax returns for the 2013 – 2014 year. Note: neither NAHC nor NPL are licenced to give financial advice and the Ernst & Young letter should not be construed as such. The Ernst & Young advice has been provided to you *for your information only* and for you to provide to your tax professional who will assist you in determining the best lodgement option based on your unique financial situation.

Since I wrote to you in mid-September, I have received no further update from the Commonwealth regarding when it expects the 2013-2014 NRAS Tax Offset Certificates to be issued. In my previous communication with you, I indicated that there would be at least a 6 week delay, but indicated that it could take longer. NAHC will continue to liaise with Government in an attempt to resolve the issues as quickly as possible.

Many of you have also enquired as to the impact of the Commonwealth's delay on the State Governments' Non-Taxable Cash Payment. Unfortunately, the States are unable to process the cash payments until they receive advice from the Commonwealth regarding the Tax Offset Certificates. Due to the Commonwealth's delay in issuing the 2013-2014 Tax Offset Certificates, it is expected that the cash incentives from the States will be delayed for at least the same period of time and likely longer.

I am committed to having open and regular communication with you and will continue to provide updates as they become available. The Department of Social Services (the Commonwealth department responsible for administering NRAS) is also providing updates on its website at www.dss.gov.au/nras.

Yours faithfully,

Trish Dutton
Risk and Compliance Manager

OPTIONS FOR DEALING WITH LATE ISSUE OF CERTIFICATES

National Rental Affordability Refundable Taxation Offset (**Offset**) certificates (**Certificates**) are required by you to claim your Offset entitlement and complete your income tax return for the year ended 30 June 2014 (**Return**). Unfortunately, the Certificates are unlikely to be available before the due date for lodgement of Returns for certain Members (see the attached press release). Set out at below is a summary of the options available to you.

This information is general in nature. Different options could be available to you depending on your circumstances. If you use a tax agent please talk to them about the best way to proceed. If you do not use a tax agent and need advice on what to do we recommend that you call the Australian Taxation Office (**ATO**) on 13 28 66.

1. Requesting an extension of time to lodge your Return

Members could apply to the ATO for an extension of time to lodge their Returns because the Certificate has not been received. Members with registered tax agents may submit a request through the Tax Agent Portal. Members without registered tax agents may call the ATO on 13 28 66 to request an extension.

There is no guarantee that an extension will be granted. If the request is granted there should be no penalty for late lodgement of the Return. If not granted and the Return has not been lodged by the due date there could be a penalty for late lodgement and, if tax is payable on the Return, interest on the payable amount. Therefore if you decide to proceed on this basis we recommend that you apply as soon as possible.

2. Lodging Return and subsequently claiming the NRAS offset

Members could lodge their Returns by the due dates without claiming the Offset. Members could then lodge an amendment request claiming the Offset once the Certificate is received. Members who choose this option may be entitled to a credit if the Offset reduces the overall tax payable. If this is the case, a Member should also be entitled to interest for overpaid tax. Amendment requests may take between 14 – 50 days to process. Depending on the type of taxpayer that you are, amendment requests must be made within 2 – 4 years of the notice of assessment.

3. Lodging Return with estimate of NRAS offset claimed

Members could lodge their Returns by the due dates and include a claim for the Offset based on their own estimations of their entitlement. If necessary, Members could then lodge an amendment request once the Certificate is received. If the amendment results in less tax than what would otherwise have been payable, there would be a risk of penalties and interest being imposed by the ATO. Depending on the circumstances, this may result in penalties of 25% or more of the underpaid tax. If less tax is payable and the Member is entitled to a refund, the Member should also be entitled to interest for overpaid tax.

MAKING A VARIATION TO YOUR PAY-AS-YOU-GO WITHHOLDING RATES

We understand the ATO has allowed some Members to vary their Pay-As-You-Go (**PAYG**) withholding rates to reflect having negatively geared the Offset in year 1 whilst other Members have only been allowed to vary their rates from year 2. We have summarised below our understanding of the requirements that need to be satisfied for variation of PAYG withholding rates in any given year.

Individual Members may apply to vary their PAYG withholding rate to reflect the impact of the Offset. Applications to vary PAYG are assessed on a case by case basis and the ATO will only process applications if the Member has:

- ▶ Lodged all required tax returns and activity statements, or notified the ATO in writing if they were not required to lodge tax returns in prior years;
- ▶ Not received a debit assessment on their last tax assessment (if they also had an approved withholding variation for that year);
- ▶ No outstanding tax debt owing to the Australian government; and
- ▶ No outstanding debts under any other Acts administered by the ATO.

Therefore, individual Members seeking to vary their PAYG should be aware that the outcome of their request will depend on individual circumstances which may account for the difference in treatment between Members by the ATO.

Members who make PAYG Instalments will be able to make variations to their instalment rate to reflect the Offset as soon as the investment begins (Year 1). Members who are new instalment payers will have to use a rate calculated by the ATO for the first year before making a variation to take advantage of the Offset (Year 2).

For Members who make PAYG instalments and file their tax return without claiming the Offset may be exposed to the general interest charge if the tax payable is more than 15% greater than the estimate on which the variation of PAYG was based. However, when the amendment assessment is raised to reflect the Offset entitlement this general interest exposure should be reversed.