MIG DEMERGER COST BASE SPLIT GUIDE
INVESTORS WHO DO NOT CHOOSE ROLL-OVER

For investors who choose not to obtain the CGT roll-over relief, the information below is provided to assist them to do the following:

(i) make the appropriate adjustments to their respective cost bases in MIG and SRG, and record the correct acquisition dates of their SRG stapled securities; and

(ii) work out any Australian capital gains that have to be taken into account for purposes of their Australian income tax returns.

This information does not constitute tax advice. It is most relevant for Australian resident Stapled Security holders. If Stapled Security Holders are in any doubt about their tax position they should consult a professional adviser. No liability or responsibility is accepted in respect of any statement concerning tax consequences or in respect of the taxation consequences themselves by MIG or any MIG entity or any of their respective officers.

On 1 August 2006 Macquarie Infrastructure Group (MIG) carried out a demerger of Sydney Roads Group (SRG).

The demerger occurred by way of an in-specie distribution by Macquarie Infrastructure Trust (I) ("MIT(I)") and Macquarie Infrastructure Trust (II) ("MIT(II)"). MIT(I) distributed one unit in Sydney Roads Trust (SRT) for every three units in MIT(I). MIT(II) distributed one share in Sydney Roads Limited (SRL) for every three units in MIT(II). The units in SRT and the shares in SRL were stapled together to form stapled securities in SRG.

The distributions by MIT(I) and MIT(II) could have given rise to assessable income and capital gains for MIG investors, but for the availability of the reliefs below.

The ATO has confirmed the availability of CGT roll-over relief in Class Ruling CR 2006/102, which is available on the MIG website (www.macquarie.com.au/mig). However, it is possible that some investors might decide to choose not to obtain the CGT roll-over relief that is available. In that case they would have to report any relevant capital gains in their income tax return for the year in which the demerger occurred (i.e. the 2006-2007 year for individuals).

MIG has prepared this 'MIG DEMERGER COST BASE SPLIT GUIDE – INVESTORS WHO DO NOT CHOOSE ROLL-OVER' to assist investors to work out their CGT positions in relation to the demerger where they choose not to obtain the CGT roll-over relief. (MIG is issuing a separate 'MIG DEMERGER COST BASE SPLIT GUIDE – INVESTORS WHO CHOOSE ROLL-OVER' to assist investors who choose to obtain the CGT roll-over relief).

This 'MIG DEMERGER COST BASE SPLIT GUIDE – INVESTORS WHO DO NOT CHOOSE ROLL-OVER' will assist any MIG investors who choose not to obtain the CGT roll-over relief to determine:

- *the appropriate adjustments to the CGT cost bases of their units in MIT(I) and MIT(II), and appropriate CGT cost bases for their units in SRT and their shares in SRL. (These adjustments and cost bases are the same as if roll-over relief had been claimed);*
- *the appropriate acquisition date for CGT purposes for SRT units and SRL shares acquired under the demerger, and*

- *any capital gains that arose from the in-specie distribution.*

Part A of this guide will assist MIG investors who choose not to obtain the CGT roll-over relief and who had only one parcel of MIG stapled securities at the time of the demerger. Part B of this guide will assist MIG investors who choose not to obtain the CGT roll-over relief and who had different parcels of MIG stapled securities (i.e. different securities obtained at different times or in different transactions including under the DRP) at the time of the demerger.

<u>If you choose not to obtain the CGT roll-over relief</u>, you should go to:

- *Part A of this guide if, at the demerger, you held only one parcel of MIG stapled securities (i.e. you acquired all your MIG securities at the same time under the same transaction);*

- *Part B of this guide if, at the demerger, you held more than one parcel of MIG stapled securities (i.e. different lots of MIG stapled securities, acquired by you at different times and/or under different transactions).*

If for any reason you decide that you wish to claim the CGT roll-over relief in relation to only some of your MIT(I) units and/or MIT(II) units, we suggest that you put your particular facts and intentions in front of your tax agent or other tax adviser and obtain assistance as to the extent to which you should use this guide and/or the 'MIG DEMERGER COST BASE SPLIT GUIDE – INVESTORS WHO CHOOSE ROLL-OVER' version.

<u>Important points to note</u>

There are a number of important points of which you should be aware:

1. *The precise manner in which capital gains should be computed (where the CGT roll-over relief is not chosen) is not wholly clear. This guide has been prepared on the basis of how MIG thinks the calculations should be performed, and reflects the methodology which MIG thinks would be the most appropriate. However, there may be scope for other approaches. Accordingly, it is essential that you satisfy yourself (with any assistance that you deem appropriate from your tax agent or other tax adviser) as to the appropriateness of the methodology before you proceed to use this guide.*

2. *In MIG's view, the CGT cost base adjustments that must be made for the MIT(I) and MIT(II) units, and the cost bases that must be worked out for the SRT units and the SRL shares, are the same whether or not the CGT roll-over relief is chosen. MIG has prepared both guides (the one reflecting roll-over relief and this one reflecting the absence of roll-over relief) on this basis. Thus it seems to MIG that the only consequences of choosing or not choosing roll-over relief may be that:*

    - *where the CGT roll-over relief is chosen, the SRT units and the SRL shares obtain an earlier date of acquisition solely for purposes of working out whether, on any disposal of them, access may be had to any CGT discount available to the particular type of taxpayer. Where the CGT roll-over relief is not chosen, the date of acquisition of the SRT units and the SRL shares for that purpose is 1 August 2006; and*

    - *where the CGT roll-over relief is chosen, no capital gains can arise in relation to the in-specie distribution. However, where the CGT roll-over relief is not chosen, capital gains can arise on which the relevant taxpayer will or may have to pay tax.*

PART A

<u>Adjustment to cost base for the in-specie distribution of stapled securities in Sydney Roads Group (SRG) – only one parcel of MIG stapled securities</u>
<u>Acquisition date of SRG stapled securities</u>
<u>Recognition of capital gains</u>

If you acquired your parcel[1] of MIG stapled securities under a transaction carried out on or before 23 July 2006, you received the in-specie distribution made by MIT(I) and MIT(II) on 1 August 2006. In that case, and since you are choosing not to obtain the CGT roll-over relief, you need to:

(i) adjust the cost bases of your units in MIT(I) and MIT(II) as a result of that in-specie distribution, and record CGT cost bases for your units in SRT and your shares in SRL;

(ii) record acquisition dates for CGT purposes for your units in SRT and your shares in SRL;

(iii) work out any capital gains that arose on the in-specie distribution.

MIT (I) made a distribution to its unitholders of one unit in SRT for every 3 units in MIT(I). MIT(II) made a distribution to its unit holders of one share in SRL for every 3 units in MIT(II).

Part A of this guide relates to MIG stapled security holders who are Australian residents for tax purposes, who hold their MIG stapled securities on capital account, who held only one parcel of MIG stapled securities at the time of the demerger, and who have not elected (and will not elect) for CGT roll-over relief. This choice, not to obtain the CGT roll-over relief, will be evidenced by the manner in which they complete their tax returns.

The following steps are required to adjust the cost bases of your units in MIT(I) and MIT(II), to calculate the cost bases of your units in SRT and shares in SRL, to establish the acquisition dates for CGT purposes of your units in SRT and your shares in SRL, and to work out any capital gains which arose on the in-specie distribution which will or may have to be included in your income tax return for the tax year in which the demerger occurred.

Step 1 – calculate the cost base of your original units in MIT(I) and MIT(II) just before the in-specie distribution

(a) Take your original acquisition cost of your MIG stapled security and split it into its components.[2] Set out the original acquisition cost of your unit in MIT(I) and the original acquisition cost of your unit in MIT(II).

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[1] A "parcel" of MIG stapled securities is used here to refer to a group of MIG stapled securities acquired by you on the same day in the same transaction.

[2] Appendices 1 to 5 of the 2006 MIG Tax Statement Guide contain guidance on how to perform this split.

The components were:

- if you acquired your MIG stapled security on or before 20 September 2000: a unit in MIT(I) and a unit in MIT(II);
- if you acquired your MIG stapled security in the period from 21 September 2000 to 12 January 2005: a unit in MIT(I), a unit in MIT(II), and a share in Macquarie European Infrastructure plc (MEI);
- if you acquired your MIG stapled security on or after 13 January 2005: a unit in MIT(I), a unit in MIT(II), and a share in Macquarie Infrastructure Bermuda Limited (MIBL) or Macquarie Infrastructure Group International Limited (MIGIL).

(b) Set out any incidental costs of acquisition you incurred (such as stamp duty or brokerage)[3], and any non-capital costs of ownership[4] you incurred, in relation to your unit in MIT(I) and/or your unit in MIT(II).

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[3] It would usually be reasonable to allocate incidental costs of acquisition between the unit in MIT(I) and the unit in MIT(II) in the same ratio as the original acquisition costs of those units.

[4] Such as any interest relating to your investment that was not deductible.

PART A

(c) Establish the tax-deferred distributions that you received on your unit in MIT(I) and on your unit in MIT(II) before the demerger.[5]

(d) Take the original acquisition cost of your unit in MIT(I) (from Step 1(a) above). Add to it any incidental costs of acquisition, and any non-capital costs of ownership, that you incurred in relation to that unit in MIT(I) (from Step 1(b) above). Deduct from your answer the tax-deferred distributions that you received on your unit in MIT(I) (from Step 1(c) above). If your answer is a negative amount, take it as nil instead.[6] The answer is the *cost base of the MIT(I) unit just before the demerger.*

(e) Take the original acquisition cost of your unit in MIT(II) (from Step 1(a) above). Add any incidental costs of acquisition, and any non-capital costs of ownership, that you incurred in relation to that unit in MIT(II) (from Step 1(b) above). Deduct from your answer the tax-deferred distributions that you received on your unit in MIT(II) (from Step 1(c) above). The answer is the *cost base of the MIT(II) unit just before the demerger.*

Step 2 – calculate the "reduction amount" for the MIT(I) unit

Take the *cost base of the MIT(I) unit just before the demerger* (from Step 1(d) above). Work out 14.08% of that cost base, and call that 14.08% amount the *MIT(I) reduction amount.*

Step 3 – calculate the "reduction amount" for the MIT(II) unit

Take the *cost base of the MIT(II) unit just before the demerger* (from Step 1(e) above). Work out 43.21% of that cost base, and call that 43.21% amount the *MIT(II) reduction amount.*

Step 4 – calculate the new (post-demerger) cost base and reduced cost base of the MIT(I) unit

Take the *cost base of the MIT(I) unit just before the demerger* (from Step 1(d) above). Deduct from it the *MIT(I) reduction amount* (from Step 2 above). The amount you are left with is the cost base, and also the reduced cost base, of the MIT(I) unit immediately after the demerger.[7]

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5 Appendix 4 of the 2006 MIG Tax Statement Guide contains the information you will need to establish the tax-deferred distributions you received on your unit in MIT(I) and on your unit in MIT(II).

6 If your answer is a negative amount, this means that your cost base of your units in MIT(I) had previously been reduced to nil by tax-deferred distributions received from MIT(I). In that event you may have had a capital gain which would have been required to have been taken into account for purposes of your 2005 or a prior tax return. Refer to your MIG Tax Statement Guide for 2005 or an earlier year if you need further information.

7 For purposes of a subsequent disposal of the MIT(I) unit, your relevant CGT acquisition time is the time of your original acquisition. Accordingly if that time was on or before 21 September 1999 and you are an individual, a trustee or a complying superannuation entity, you should be able to use either the indexation method or the discount method for purposes of computing a capital gain. The reduced cost base would be used for purposes of computing any capital loss on a subsequent disposal of the MIT(I) unit, regardless of when your acquisition occurred. The cost base and the reduced cost base of the MIT(I) unit immediately after the demerger (i) may be increased if subsequent amounts are incurred which qualify for inclusion in those cost bases, and (ii) will need to be reduced by any tax-deferred distributions received on the MIT(I) unit after the demerger.

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Step 5 - calculate the new (post-demerger) cost base and reduced cost base of the MIT(II) unit

Take the *cost base of the MIT(II) unit just before the demerger* (from Step 1(e) above). Deduct the *MIT(II) reduction amount* (from Step 3 above). The amount you are left with is the cost base, and also the reduced cost base, of the MIT(II) unit immediately after the demerger.[8]

Step 6 – calculate the cost base and reduced cost base of your units in SRT

Take the *MIT(I) reduction amount* from Step 2 above. Multiply it by 3. The answer is the cost base and reduced cost base, immediately after the demerger, of each unit in SRT that you received in respect of the parcel of MIG stapled securities for which you have carried out the above steps.[9]

Step 7 – calculate the cost base and reduced cost base of your shares in SRL

Take the *MIT(II) reduction amount* from Step 3 above. Multiply it by 3. The answer is the cost base and reduced cost base, immediately after the demerger, of each share in SRL that you received in respect of the parcel of MIG stapled securities for which you have carried out the above steps.[10]

Step 8 – calculate any capital gains that arose on the in-specie distribution by MIT(I)

Take the *cost base of the MIT(I) unit just before the demerger* (from Step 1(d) above). If the MIT(I) unit was acquired by you before 11.45am on 21 September 1999, also work out the *indexed cost base of that MIT(I) unit just before the demerger*. If relevant, decide whether you are going to use the *cost base of the MIT(I) unit just before the demerger* or the *indexed cost base of the MIT(I) unit just before the demerger* for purposes of working out any capital gain that arose under CGT event E4 on the in-specie distribution. Take whichever amount you are using (the cost base or the indexed cost base) and compare it with $0.016407.[11] If $0.016407 is greater than the cost base or indexed cost base, whichever you are using, the excess is a capital gain which needs to be taken into account for purposes of your income

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[8] For purposes of a subsequent disposal of the MIT(II) unit, your relevant CGT acquisition time is the time of your original acquisition. Accordingly if that time was on or before 21 September 1999 and you are an individual, a trustee or a complying superannuation entity, you should be able to use either the indexation method or the discount method for purposes of computing a capital gain. The reduced cost base would be used for purposes of computing any capital loss on a subsequent disposal of the MIT(II) unit, regardless of when your acquisition occurred. The cost base and the reduced cost base of the MIT(II) unit immediately after the demerger (i) may be increased if subsequent amounts are incurred which qualify for inclusion in those cost bases, and (ii) will need to be reduced by any tax-deferred distributions received on the MIT(II) unit after the demerger.

[9] The cost base and reduced cost base of the units in SRT immediately after the demerger (i) may be increased subsequently if amounts are incurred which qualify for inclusion in those cost bases, and (ii) will need to be reduced by any tax-deferred distributions received from SRT. For purposes of any subsequent disposal of those units in SRT, your time of acquisition is 1 August 2006

[10] The cost base and reduced cost base of the shares in SRL immediately after the demerger (i) may be increased subsequently if amounts are incurred which qualify for inclusion in those cost bases, and (ii) will need to be reduced by any tax-deferred distributions received from SRL. For purposes of any subsequent disposal of those shares in SRL, your time of acquisition is 1 August 2006.

[11] The market value of each SRT unit on the distribution by MIT(I) was $0.04922. One unit in SRT was distributed for every 3 units held in MIT(I). $0.016407 is one-third of $0.04922.

tax return. If you have used the cost base (rather than the indexed cost base) to work out the capital gain, you may be entitled to a CGT discount (depending on what type of taxpayer you are). If $0.016407 is less than or equal to the cost base or indexed cost base, as relevant, no capital gain arises.

Step 9 - calculate any capital gains that arose on the in-specie distribution by MIT(II)

Take the ***cost base of the MIT(II) unit just before the demerger*** (from Step 1(e) above). If the MIT(II) unit was acquired by you before 11.45am on 21 September 1999, also work out the ***indexed cost base of that MIT(II) unit just before the demerger***. If relevant, decide whether you are going to use the ***cost base of the MIT(II) unit just before the demerger*** or the ***indexed cost base of the MIT(II) unit just before the demerger*** for purposes of working out any capital gain that arose under CGT event G1 on the in-specie distribution. Take whichever amount you are using (the cost base or the indexed cost base) and compare it with $0.322.[12] If $0.322 is greater than the cost base or indexed cost base, whichever you are using, the excess is a capital gain which needs to be taken into account for purposes of your income tax return. If you have used the cost base (rather than the indexed cost base) to work out the capital gain, you may be entitled to a CGT discount (depending on what type of taxpayer you are). If $0.322 is less than or equal to the cost base or indexed cost base, as relevant, no capital gain arises.

Step 10 – add up any capital gains that emerged in Steps 8 and 9, and treat them as appropriate in your income tax return

Work out all of the capital gains that arose in Steps 8 and 9 on all of your units. These need to be taken into account for purposes of your income tax return.

Assuming you are an individual, or another taxpayer with a 30 June tax balance date, you will need to take any capital gains that emerged from Steps 8 and 9 into account in working out your overall CGT result to be reported in your 2006/2007 income tax return.

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Some examples follow which illustrate the above steps.

If you require further information in relation to the demerger, please refer to the MIG website www.macquarie.com.au/mig

[12] This is in accordance with the ATO's Class Ruling CR 2006/102. The distribution by MIT(II) was debited in its accounts as follows: approximately $0.322 per unit against contributed equity and approximately $0.043 per unit against retained earnings. Only the $0.322 per unit needs to be taken into account in Step 9. The $0.043 per unit does not need to be taken into account at Step 9 or at any other step.

PART A

Example 1

Facts - Felicity acquired her MIG stapled securities on 16 December 1996 by subscription on original allotment, and chooses not to obtain the roll-over relief.

Step 1 – calculate the cost base of the original units in MIT(I) and MIT(II) just before the in-specie distribution

(a) Take the original acquisition cost of the MIG stapled security and split it into its components. Set out the original acquisition cost of the unit in MIT(I) and the original acquisition cost of the unit in MIT(II).

Felicity acquired her investment when a MIG stapled security consisted of a unit in MIT(I) stapled to a unit in MIT(II).

As Felicity acquired her securities by subscription, Appendix 2 of the 2006 MIG Tax Statement Guide will help her to split her original acquisition cost between the unit in MIT(I) and the unit in MIT(II). That appendix sets out all the dates and prices at which MIG stapled securities have been issued, and it shows how much of the issue price of each stapled security related to the unit in MIT(I) and how much to the unit in MIT(II).

Date of Issue	Type of Issue	Issue Price per Stapled Security	Issue Price of Unit in MIT(I)	Issue Price of Unit in MIT(II)	Issue Price of Share in MEI*	Issue Price of Share in MIBL/MIGIL
		$	$	$	$	$
16 Dec 96	Original Allotment	1.000000	0.500000	0.500000		

Felicity's original acquisition cost of the unit in MIT(I) was $0.500000 and her original acquisition cost of the unit in MIT(II) was $0.500000.

(b) Set out any incidental costs of acquisition incurred (such as stamp duty or brokerage), and any non-capital costs of ownership incurred, in relation to the unit in MIT(I) and/or the unit in MIT(II).

In our example, we have assumed that Felicity did not incur any incidental costs of acquisition or any non-capital costs of ownership in relation to her unit in MIT(I) and/or her unit in MIT(II).

(c) Establish the tax-deferred distributions received on the unit in MIT(I) and on the unit in MIT(II) before the demerger.

Appendix 4 of the 2006 MIG Tax Statement Guide sets out the tax-deferred distributions per unit that have been made by MIT(I) and MIT(II), which will assist Felicity in this regard.

PART A

Tax-deferred distributions per unit made by MIT(I)

Date	Tax-deferred distribution made per unit
15 August 1997	5.5000 cents
16 February 1998	4.0000 cents
14 August 1998	3.7158 cents
16 February 1999	3.3527 cents
18 August 1999	5.0000 cents
18 February 2000	4.2081 cents
16 August 2000	3.3887 cents
14 February 2001	3.8272 cents
15 August 2001	2.5099 cents
13 February 2002	3.1400 cents
14 August 2002	3.6420 cents
10 February 2005	37.9863 cents

The total tax-deferred distributions received by Felicity on her MIT(I) unit before the demerger were $0.802707.

Tax-deferred distributions per unit made by MIT(II)

Date	Tax-deferred distribution made per unit
20 September 2000	37.3544 cents
14 February 2003	2.6904 cents

The total tax-deferred distributions received by Felicity on her MIT(II) unit before the demerger were $0.400448.

(d) Take the original acquisition cost of the unit in MIT(I) (from Step 1(a) above). This is $0.500000 for Felicity.

Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to the unit in MIT(I) (from Step 1(b) above). There are no such costs for Felicity, so the answer is $0.500000.

Deduct from that answer the tax-deferred distributions received on the unit in MIT(I) (from Step 1(c) above). These distributions are $0.802707 for Felicity.

If the answer is negative – which it is, for Felicity – take it as $nil instead.[13] Thus Felicity's answer – the cost base of the MIT(I) unit just before the demerger – is $nil.

[13] Felicity should have taken a capital gain into account in her tax return for the 2004-2005 year in consequence of her receipt of the 10 February 2005 distribution.

PART A

(e) Take the original acquisition cost of the unit in MIT(II) (from Step 1(a) above). This is $0.500000 for Felicity.

Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to the unit in MIT(II) (from Step 1(b) above). There are no such costs for Felicity, so the answer is $0.500000.

Deduct from that answer the tax-deferred distributions received on the unit in MIT(II) (from Step 1(c) above) These distributions are $0.400448 for Felicity, and so the answer – the cost base of the MIT(II) unit just before the demerger – is $0.099552.

Step 2 – calculate the "reduction amount" for the MIT(I) unit

Take the cost base of the MIT(I) unit just before the demerger (from Step 1(d) above). Work out 14.08% of that cost base, and call that 14.08% amount the MIT(I) reduction amount.

The MIT(I) reduction amount for Felicity is $nil, worked out as 14.08% of $nil.

Step 3 – calculate the "reduction amount" for the MIT(II) unit

Take the cost base of the MIT(II) unit just before the demerger (from Step 1(e) above). Work out 43.21% of that cost base, and call that 43.21% amount the MIT(II) reduction amount.

The MIT(II) reduction amount for Felicity is $0.043016, worked out as 43.21% of $0.099552.

Step 4 – calculate the new (post-demerger) cost base and reduced cost base of the MIT(I) unit

The new (post-demerger) cost base and reduced cost base of Felicity's MIT(I) unit is $nil immediately after the demerger. This is worked out as the cost base of the MIT(I) unit just before the demerger ($nil – see Step 1(d)) less the MIT(I) reduction amount ($nil – see Step 2).

For purposes of a subsequent disposal of the MIT(I) unit, Felicity's relevant CGT acquisition date is the time of her original acquisition, that is 16 December 1996.

Step 5 - calculate the new (post-demerger) cost base and reduced cost base of the MIT(II) unit

The new (post-demerger) cost base and reduced cost base of each unit Felicity holds in MIT(II) is $0.056536 immediately after the demerger. This is worked out as the cost base of the MIT(II) unit just before the demerger ($0.099552 – see Step 1(e)) less the MIT(II) reduction amount ($0.043016 – see Step 3).

For purposes of a subsequent disposal of the MIT(II) unit, Felicity's relevant CGT acquisition date is the time of her original acquisition, that is 16 December 1996. As this was on or before 21 September 1999, she should be able to use either the indexation method or the discount method for the purposes of computing a capital gain. The reduced cost base would be used for the purposes of computing any capital loss on a disposal of her MIT(II) unit.

PART A

Step 6 – calculate the cost base and reduced cost base of the units in SRT

The cost base and reduced cost base of each unit that Felicity holds in SRT is $nil immediately after the demerger. This is worked out as the MIT(I) reduction amount ($nil - see Step 2) multiplied by 3.

Felicity's new units in SRT are treated as acquired by her for CGT purposes on 1 August 2006.

Step 7 – calculate the cost base and reduced cost base of the shares in SRL

The cost base and reduced cost base of each share that Felicity holds in SRL is $0.129048 immediately after the demerger. This is worked out as the MIT(II) reduction amount ($0.043016 – see Step 3) multiplied by 3.

Felicity's new shares in SRL are treated as acquired by her for CGT purposes on 1 August 2006.

Step 8 – calculate any capital gains that arose on the in-specie distribution by MIT(I)

The MIT(I) unit was acquired by Felicity before 11.45am on 21 September 1999. Felicity takes the ***cost base of the MIT(I) unit just before the demerger*** (from Step 1(d) above) – this is $nil. Felicity also works out the ***indexed cost base of that MIT(I) unit just before the demerger*** – this is assumed to be $nil.[14] Felicity decides she is going to use the ***cost base of the MIT(I) unit just before the demerger*** ($nil) for purposes of working out any capital gain that arose under CGT event E4 on the in-specie distribution. Felicity takes the amount she is using (the cost base of $nil) and compares it with $0.016407.[15] Since $0.016407 is greater than the cost base of $nil, the whole $0.016407 per MIT(I) unit is a capital gain which needs to be taken into account for purposes of Felicity's income tax return. Since Felicity has used the cost base (rather than the indexed cost base) to work out the capital gain, she may be entitled to the 50% CGT discount.

Step 9 - calculate any capital gains that arose on the in-specie distribution by MIT(II)

The MIT(II) unit was acquired by Felicity before 11.45am on 21 September 1999. She takes the ***cost base of the MIT(II) unit just before the demerger*** (from Step 1(e) above) – this is $0.099552 per unit. Felicity also works out the ***indexed cost base of that MIT(II) unit just before the demerger***, which is 11.2552.[16] Felicity decides that she is going to use the ***cost base of the MIT(II) unit just before the demerger*** ($0.099552) for purposes of working out any capital gain that arose under CGT event G1 on the in-specie distribution. Felicity takes

[14] It is assumed that Felicity's calculations show that the indexed cost base of the MIT(I) unit prior to the demerger had been reduced to nil by tax-deferred distributions.

[15] The market value of each SRT unit on the distribution by MIT(I) was $0.04922. One unit in SRT was distributed for every 3 units held in MIT(I). $0.016407 is one-third of $0.04922.

[16] Assistance on performing indexation calculations is provided in the annual MIG Tax Statement Guide. In this case the indexation factor for the December 1996 quarter was 120.3, and indexation was frozen at the end of the September 1999 quarter when the factor was 123.4. The indexation factor is therefore 1.026 which, applied to the original acquisition cost of $0.50, gave an indexed cost base at 30 September 1999 of $0.513. This was subsequently reduced by the tax-deferred distributions received of $0.400448 per unit, giving a remaining indexed cost base of $0.112552 per unit.

the cost base of $0.099552 and compares it with $0.322.[17] Since $0.322 is greater, the excess of $0.222448 per unit is a capital gain which needs to be taken into account for purposes of Felicity's income tax return. Since Felicity has used the cost base (rather than the indexed cost base) to work out the capital gain, she may be entitled to the 50% CGT discount.

[17] This is in accordance with the ATO's Class Ruling CR 2006/102.

Step 10 – add up any capital gains that emerged in Steps 8 and 9, and treat them as appropriate in your income tax return

Felicity works out all of the capital gains that arose in Steps 8 and 9 on all of her MIT(I) and MIT(II) units. These need to be taken into account for purposes of her 2006-2007 income tax return.

PART A

Example 2

Facts - Kevin acquired his MIG stapled securities on 18 October 1999 by purchase on ASX at a market value of $1.50, and chooses not to obtain the roll-over relief.

Step 1 – calculate the cost base of the original units in MIT(I) and MIT(II) just before the in-specie distribution

(a) Take the original acquisition cost of the MIG stapled security and split it into its components. Set out the original acquisition cost of the unit in MIT(I) and the original acquisition cost of the unit in MIT(II).

Kevin acquired his investment when a MIG stapled security consisted of a unit in MIT(I) stapled to a unit in MIT(II).

As Kevin acquired his securities by purchase on ASX, he will need to decide how much of his purchase price for each security related to the unit in MIT(I) and how much to the unit in MIT(II).

Appendix 3 of the 2006 MIG Tax Statement Guide sets out a percentage split of the total net asset value of a MIG stapled security into the net asset backing of a unit in MIT(I) and the net asset backing of a unit in MIT(II). While it is for Kevin to decide how to split the purchase price of his MIG stapled security into the part referable to the unit in MIT(I) and the part referable to the unit in MIT(II), we have assumed for the purpose of this example that Kevin decided to use Appendix 3 as a guide in performing this allocation.

Breakdown of the value of a MIG stapled security

Percentage of value of a MIG stapled security which related to	a unit in MIT(I)	a unit in MIT(II)	a share in MEI	a share in MIBL/MIGIL
October 1999	49.82%	50.18%		

Kevin's original acquisition cost of the unit in MIT(I) was $0.747300, worked out as 49.82% of $1.50. His original acquisition cost of the unit in MIT(II) was $0.752700, worked out as 50.18% of $1.50.

(b) Set out any incidental costs of acquisition incurred (such as stamp duty or brokerage), and any non-capital costs of ownership incurred, in relation to the unit in MIT(I) and/or the unit in MIT(II).

In our example, we have assumed that Kevin incurred incidental costs of acquisition of $0.02, split as to
$0.009964 on the unit in MIT(I) and $0.010036 on the unit in MIT(II).[18]

[18] Kevin allocates his incidental costs of acquisition between the unit in MIT(I) and the unit in MIT(II) in the same ratio as the original acquisition costs of those units.

PART A

(c) Establish the tax-deferred distributions received on the unit in MIT(I) and on the unit in MIT(II) before the demerger.

Appendix 4 of the 2006 MIG Tax Statement Guide sets out the tax-deferred distributions per unit that have been made by MIT(I) and by MIT(II) which will assist Kevin in this regard.

Tax-deferred distributions per unit made by MIT(I)

Date	Tax-deferred distribution made per unit
18 February 2000	4.2081 cents
16 August 2000	3.3887 cents
14 February 2001	3.8272 cents
15 August 2001	2.5099 cents
13 February 2002	3.1400 cents
14 August 2002	3.6420 cents
10 February 2005	37.9863 cents

The total tax-deferred distributions received by Kevin on his MIT(I) unit before the demerger were
$0.587022.

Tax-deferred distributions per unit made by MIT(II)

Date	Tax-deferred distribution made per unit
20 September 2000	37.3544 cents
14 February 2003	2.6904 cents

The total tax-deferred distributions received by Kevin on his MIT(II) unit before the demerger were
$0.400448.

(d) Take the original acquisition cost of the unit in MIT(I) (from Step 1(a) above). This is $0.747300 for Kevin.

Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to the unit in MIT(I) (from Step 1(b) above). As Kevin incurred incidental costs of acquisition of $0.009964 on his MIT(I) unit, the answer is $0.757264.

Deduct from that answer the tax-deferred distributions received on the unit in MIT(I) (from Step 1(c) above). These distributions are $0.587022 for Kevin, and so the answer – the cost base of the MIT(I) unit just before the demerger – is $0.170242.

(e) Take the original acquisition cost of the unit in MIT(II) (from Step 1(a) above). This is $0.752700 for Kevin.

Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to the unit in MIT(II) (from Step 1(b) above). As Kevin incurred incidental costs of acquisition of $0.010036 on his MIT(II) unit, the answer is $0.762736.

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Deduct from that answer the tax-deferred distributions received on the unit in MIT(II) (from Step 1(c) above). These distributions are $0.400448 for Kevin, and so the answer – the cost base of the MIT(II) unit just before the demerger – is $0.362288.

Step 2 – calculate the “reduction amount” for the MIT(I) unit

Take the cost base of the MIT(I) unit just before the demerger (from Step 1(d) above). Work out 14.08% of that cost base, and call that 14.08% amount the MIT(I) reduction amount.

The MIT(I) reduction amount for Kevin is $0.023970, worked out as 14.08% of $0.170242.

Step 3 – calculate the “reduction amount” for the MIT(II) unit

Take the cost base of the MIT(II) unit just before the demerger (from Step 1(e) above). Work out 43.21% of that cost base, and call that 43.21% amount the MIT(II) reduction amount.

The MIT(II) reduction amount for Kevin is $0.156545, worked out as 43.21% of $0.362288.

Step 4 – calculate the new (post-demerger) cost base and reduced cost base of the MIT(I) unit

The new (post-demerger) cost base and reduced cost base of Kevin’s MIT(I) unit is $0.146272 immediately after the demerger. This is worked out as the cost base of the MIT(I) unit just before the demerger $0.170242 – see Step 1(d)) less the MIT(I) reduction amount ($0.023970 – see Step 2).

For purposes of a subsequent disposal of the MIT(I) unit, Kevin’s relevant CGT acquisition date is the time of his original acquisition, that is 18 October 1999. As this was after 21 September 1999, he is only able to use the discount method for the purposes of computing a capital gain. The reduced cost base would be used for the purposes of computing any capital loss on a subsequent disposal of his MIT(I) unit.

Step 5 - calculate the new (post-demerger) cost base and reduced cost base of the MIT(II) unit

The new (post-demerger) cost base and reduced cost base of each unit Kevin holds in MIT(II) is $0.205743 immediately after the demerger. This is worked out as the cost base of the MIT(II) unit just before the demerger ($0.362288 – see Step 1(e)) less the MIT(II) reduction amount ($0.156545 – see Step 3).

For purposes of a subsequent disposal of the MIT(II) unit, Kevin’s relevant CGT acquisition date is the time of his original acquisition, that is 18 October 1999. As this was after 21 September 1999, he is only able to use the discount method for the purposes of computing a capital gain. The reduced cost base would be used for the purposes of computing any capital loss on a subsequent disposal of his MIT(II) unit.

Step 6 – calculate the cost base and reduced cost base of the units in SRT

The cost base and reduced cost base of each unit that Kevin holds in SRT is $0.071910 immediately after the demerger. This is worked out as the MIT(I) reduction amount ($0.023970 – see Step 2) multiplied by 3.

Kevin's new units in SRT are treated as acquired by him for CGT purposes on 1 August 2006.

Step 7 – calculate the cost base and reduced cost base of the shares in SRL

The cost base and reduced cost base of each share that Kevin holds in SRL is $0.469635 immediately after the demerger. This is worked out as the MIT(II) reduction amount ($0.156545 – see Step 3) multiplied by 3.

Kevin's new shares in SRL are treated as acquired by him for CGT purposes on 1 August 2006.

Step 8 – calculate any capital gains that arose on the in-specie distribution by MIT(I)

Kevin takes the ***cost base of the MIT(I) unit just before the demerger*** (from Step 1(d) above) – this is \$0.170242. Kevin compares the cost base of \$0.170242 with \$0.016407.[19] Since the cost base amount of \$0.170242 is the higher, no capital gain arises and Kevin does not need to go any further.

Step 9 - calculate any capital gains that arose on the in-specie distribution by MIT(II)

Kevin takes the ***cost base of the MIT(II) unit just before the demerger*** (from Step 1(d) above) – this is \$0.362288. Kevin compares the cost base of \$0.362288 with \$0.322.[20] Since the cost base amount of \$0.362288 is higher, no capital gain arises and Kevin does not need to go any further.

Step 10 – add up any capital gains that emerged in Steps 8 and 9, and treat them as appropriate in your income tax return

No capital gains arose in Steps 8 and 9 on any of Kevin's units.

[19] The market value of each SRT unit on the distribution by MIT(I) was \$0.04922. One unit in SRT was distributed for every 3 units held in MIT(I). \$0.016407 is one-third of \$0.04922.

[20] This is in accordance with the ATO's Class Ruling CR 2006/102.

PART A

Example 3

Facts - Chris acquired his MIG stapled securities on 17 August 2002 by purchase on ASX at a market value of $2.74, and chooses not to obtain the roll-over relief.

Step 1 – calculate the cost base of the original units in MIT(I) and MIT(II) just before the in-specie distribution

(a) Take the original acquisition cost of the MIG stapled security and split it into its components. Set out the original acquisition cost of the unit in MIT(I) and the original acquisition cost of the unit in MIT(II).

Chris acquired his investment when a MIG stapled security consisted of a unit in MIT(I) stapled to a unit in MIT(II) and a share in MEI.

As Chris acquired his securities by purchase on ASX, he will need to decide how much of his purchase price for each security related to the unit in MIT(I), how much to the unit in MIT(II), and how much to the share in MEI.

Appendix 3 of the 2006 MIG Tax Statement Guide sets out a percentage split of the total net asset value of a MIG stapled security between the net asset backing of a unit in MIT(I), the net asset backing of a unit in MIT(II), and the net asset backing of a share in MEI. While it is for Chris to decide how to split the purchase price of his MIG stapled security into the part referable to the unit in MIT(I), the part referable to the unit in MIT(II), and the part referable to the share in MEI, we have assumed for the purpose of this example that Chris decided to use Appendix 3 as a guide in performing this allocation.

Breakdown of the value of a MIG stapled security

Percentage of value of a MIG stapled security which related to	a unit in MIT(I)	a unit in MIT(II)	a share in MEI	a share in MIBL/MIGIL
August 2002	19.70%	25.26%	55.04%	

Chris' original acquisition cost of the unit in MIT(I) was $0.539780, worked out as 19.70% of $2.74. His original acquisition cost of the unit in MIT(II) was $0.692124, worked out as 25.26% of $2.74.

(b) Set out any incidental costs of any acquisition incurred (such as stamp duty or brokerage), and any non-capital costs of ownership incurred, in relation to the unit in MIT(I) and/or the unit in MIT(II).

In our example, we have assumed that Chris did not incur any incidental costs of acquisition or any non-capital costs of ownership in relation to his unit in MIT(I) and/or his unit in MIT(II).

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(c) Establish the tax-deferred distributions received on the unit in MIT(I) and on the unit in MIT(II) before the demerger.

Appendix 4 of the 2006 MIG Tax Statement Guide sets out the tax-deferred distributions per unit that were made by MIT(I) and MIT(II) which will assist Chris in this regard.

Tax-deferred distributions per unit made by MIT(I)

Date	Tax-deferred distribution made per unit
10 February 2005	37.9863 cents

The total tax-deferred distributions received by Chris on his MIT(I) unit before the demerger were $0.379863.

Tax-deferred distributions per unit made by MIT(II)

Date	Tax-deferred distribution made per unit
14 February 2003	2.6904 cents

The total tax-deferred distributions received by Chris on his MIT(II) unit before the demerger were $0.026904.

(d) Take the original acquisition cost of the unit in MIT(I) (from Step 1(a) above). This is $0.539780.

Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to the unit in MIT(I) (from Step 1(b) above). There are no such costs for Chris, so the answer is $0.539780.

Deduct from that answer the tax-deferred distributions received on the unit in MIT(I) (from Step 1(c) above). These distributions are $0.379863 for Chris, and so the answer – the cost base of the MIT(I) unit just before the demerger – is $0.159917.

(e) Take the original acquisition cost of the unit in MIT(II) (from Step 1(a) above). This is $0.692124 for Chris.

Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to the unit in MIT(II) (from Step 1(b) above). There are no such costs for Chris, so the answer is $0.692124.

Deduct from that answer the tax-deferred distributions received on the unit in MIT(II) (from Step 1(c) above). These distributions are $0.026904 for Chris, and so the answer – the cost base of the MIT(II) unit just before the demerger – is $0.665220.

PART A

Step 2 – calculate the "reduction amount" for the MIT(I) unit

Take the cost base of the MIT(I) unit just before the demerger (from Step 1(d) above). Work out 14.08% of that cost base, and call that 14.08% amount the MIT(I) reduction amount.

The MIT(I) reduction amount for Chris is $0.022516, worked out as 14.08% of $0.159917.

Step 3 – calculate the "reduction amount" for the MIT(II) unit

Take the cost base of the MIT(II) unit just before the demerger (from Step 1(e) above). Work out 43.21% of that cost base, and call that 43.21% amount the MIT(II) reduction amount.

The MIT(II) reduction amount for Chris is $0.287442, worked out as 43.21% of $0.665220.

Step 4 – calculate the new (post-demerger) cost base and reduced cost base of the MIT(I) unit

The new (post-demerger) cost base and reduced cost base of Chris' MIT(I) unit is $0.137401 immediately after the demerger. This is worked out as the cost base of the MIT(I) unit just before the demerger ($0.159917 – see Step 1(d)) less the MIT(I) reduction amount ($0.022516 – see Step 2).

For purposes of a subsequent disposal of his MIT(I) unit, Chris' relevant CGT acquisition date is the time of his original acquisition, that is 13 August 2002. As this was after 21 September 1999, he is only able to use the discount method for the purposes of computing a capital gain. The reduced cost base would be used for the purposes of computing any capital loss on a subsequent disposal of his MIT(I) unit.

Step 5 - calculate the new (post-demerger) cost base and reduced cost base of the MIT(II) unit

The new (post-demerger) cost base and reduced cost base of each unit Chris holds in MIT(II) is $0.377778 immediately after the demerger. This is worked out as the cost base of the MIT(II) unit just before the demerger ($0.665220 – see Step 1(e)) less the MIT(II) reduction amount ($0.287442 – see Step 3).

For purposes of a subsequent disposal of his MIT(II) unit, Chris' relevant CGT acquisition date is the time of his original acquisition, that is 13 August 2002. As this was after 21 September 1999, he is only able to use the discount method for the purposes of computing a capital gain. The reduced cost base would be used for the purposes of computing any capital loss on a subsequent disposal of his MIT(II) unit.

Step 6 – calculate the cost base and reduced cost base of the units in SRT

The cost base and reduced cost base of each unit that Chris holds in SRT is $0.067548 immediately after the demerger. This is worked out as the MIT(I) reduction amount ($0.022516 – see Step 2) multiplied by 3.

Chris' new units in SRT are treated as acquired by him for CGT purposes on 1 August 2006.

Step 7 – calculate the cost base and reduced cost base of your shares in SRL

The cost base and reduced cost base of each share that Chris holds in SRL is $0.862326 immediately after the demerger. This is worked out as the MIT(II) reduction amount ($0.287442 – see Step 3) multiplied by 3.

Chris' new shares in SRL are treated as acquired by him for CGT purposes on 1 August 2006.

Step 8 – calculate any capital gains that arose on the in-specie distribution by MIT(I)

Chris takes the ***cost base of the MIT(I) unit just before the demerger*** (from Step 1(d) above) – this is $0.159917. Chris compares the cost base of $0.159917 with $0.016407.[21] Since the cost base amount of $0.159917 is the higher, no capital gain arises and Chris does not need to go any further.

Step 9 - calculate any capital gains that arose on the in-specie distribution by MIT(II)

Chris takes the ***cost base of the MIT(II) unit just before the demerger*** (from Step 1(e) above) – this is $0.66522. Chris compares the cost base of $0.66522 with $0.322.[22] Since the cost base amount of $0.66522 is the higher, no capital gain arises and Chris does not need to go any further.

Step 10 – add up any capital gains that emerged in Steps 8 and 9, and treat them as appropriate in your income tax return

No capital gains arose in Steps 8 and 9 on any of Chris's units.

[21] The market value of each SRT unit on the distribution by MIT(I) was $0.04922. One unit in SRT was distributed for every 3 units held in MIT(I). $0.016407 is one-third of $0.04922.

[22] This is in accordance with the ATO's Class Ruling CR 2006/102.

PART A

Example 4

Facts: Robyn acquired her MIG stapled securities by purchase on ASX on 13 May 2005 at a market value of $3.61 per security, and chooses not to obtain the roll-over relief.

Step 1 – calculate the cost base of the original units in MIT(I) and MIT(II) just before the in-specie distribution

(a) Take the original acquisition cost of the MIG stapled security and split it into its components. Set out the original acquisition cost of the unit in MIT(I) and the original acquisition cost of the unit in MIT(II).

Robyn acquired her investment when a MIG stapled security consisted of a unit in MIT(I) stapled to a unit in MIT(II) and a share in MIBL/MIGIL.

As Robyn acquired her securities by purchase on ASX, she will need to decide how much of her purchase price for each security related to the unit in MIT(I), how much to the unit in MIT(II), and how much to the share in MIBL/MIGIL.

Appendix 3 of the 2006 MIG Tax Statement Guide sets out a percentage split of the total net asset value of a MIG stapled security between the net asset backing of a unit in MIT(I), the net asset backing of a unit in MIT(II), and the net asset backing of a share in MIBL/MIGIL. While it is for Robyn to decide how to split the purchase price of her MIG stapled security into the part referable to the unit in MIT(I), the part referable to the unit in MIT(II), and the part referable to the share in MIGIL/MIBL, for the purposes of this example we have assumed she has decided to use Appendix 3 as a guide in performing this allocation.

Breakdown of the value of a MIG stapled security

Percentage of value of a MIG stapled security which related to	a unit in MIT(I)	a unit in MIT(II)	a share in MEI	a share in MIBL/MIGIL
May 2005	4.40%	26.76%		68.84%

Robyn's original acquisition cost of the unit in MIT(I) was $0.158840 worked out as 4.40% of $3.61 and her original acquisition cost of the unit in MIT(II) was $0.966036, worked out as 26.76% of $3.61.

(b) Set out any incidental costs of acquisition incurred (such as stamp duty or brokerage), and any non-capital costs of ownership incurred, in relation to the unit in MIT(I) and/or the unit in MIT(II).

In our example, we have assumed that Robyn did not incur any incidental costs of acquisition or any non-capital costs of ownership in relation to her unit in MIT(I) and/or her unit in MIT(II).

(c) Establish the tax-deferred distributions received on the unit in MIT(I) and on the unit in MIT(II) before the demerger.

Appendix 4 of the 2006 MIG Tax Statement Guide sets out the tax-deferred distributions per unit that were made by MIT(I) and MIT(II).

Robyn did not receive any tax-deferred distributions from MIT(I) or MIT(II) before the demerger.

PART A

(d) Take the original acquisition cost of the unit in MIT(I) (from Step 1(a) above). This is $0.158840 for Robyn.

Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to the unit in MIT(I) (from Step 1(b) above). There are no such costs for Robyn, so the answer is $0.158840.

Deduct from that answer the tax-deferred distributions received on the unit in MIT(I) (from Step 1(c) above). There were no such distributions for Robyn, and so the answer – the cost base of the MIT(I) unit just before the demerger – is $0.158840.

(e) Take the original acquisition cost of the unit in MIT(II) (from Step 1(a) above). This is $0.966036 for Robyn.

Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to the unit in MIT(II) (from Step 1(b) above). There are no such costs for Robyn, so the answer is $0.966036.

Deduct from that answer the tax-deferred distributions received on the unit in MIT(II) (from Step 1(c) above). There were no such distributions for Robyn, and so the answer – the cost base of the MIT(II) unit just before the demerger – is $0.966036.

Step 2 – calculate the "reduction amount" for the MIT(I) unit

Take the cost base of the MIT(I) unit just before the demerger (from Step 1(d) above). Work out 14.08% of that cost base, and call that 14.08% amount the MIT(I) reduction amount.

The MIT(I) reduction amount for Robyn is $0.022365, worked out as 14.08% of $0.158840.

Step 3 – calculate the "reduction amount" for the MIT(II) unit

Take the cost base of the MIT(II) unit just before the demerger (from Step 1(e) above). Work out 43.21% of that cost base, and call that 43.21% amount the MIT(II) reduction amount.

The MIT(II) reduction amount for Robyn is $0.417424, worked out as 43.21% of $0.966036.

Step 4 – calculate the new (post-demerger) cost base and reduced cost base of the MIT(I) unit

The new (post-demerger) cost base and reduced cost base of Robyn's MIT(I) unit is $0.136475 immediately after the demerger. This is worked out as the cost base of the MIT(I) unit just before the demerger ($0.158840 – see Step 1(d)) less the MIT(I) reduction amount ($0.022365 – see Step 2).

For purposes of a subsequent disposal of her MIT(I) unit, Robyn's relevant CGT acquisition date is the time of her original acquisition, that is 13 May 2005. The reduced cost base would be used for the purposes of computing any capital loss on a subsequent disposal of her MIT(I) unit.

PART A

Step 5 - calculate the new (post-demerger) cost base and reduced cost base of the MIT(II) unit

The new (post-demerger) cost base and reduced cost base of each unit Robyn holds in MIT(II) is $0.548612 immediately after the demerger. This is worked out as the cost base of the MIT(II) unit just before the demerger ($0.966036 – see Step 1(e)) less the MIT(II) reduction amount ($0.417424 – see Step 3).

For purposes of a subsequent disposal of her MIT(II) units, Robyn's relevant CGT acquisition date is the time of her original acquisition, that is 13 May 2005. The reduced cost base would be used for the purposes of computing any capital loss on a subsequent disposal of her MIT(II) unit.

Step 6 – calculate the cost base and reduced cost base of the units in SRT

The cost base and reduced cost base of each unit that Robyn holds in SRT is $0.067095 immediately after the demerger. This is worked out as the MIT(I) reduction amount ($0.022365 – see Step 2) multiplied by 3.

Robyn's new units in SRT are treated as acquired by her for CGT purposes on 1 August 2006.

Step 7 – calculate the cost base and reduced cost base of your shares in SRL

The cost base and reduced cost base of each share that Robyn holds in SRL is $1.252272 immediately after the demerger. This is worked out as the MIT(II) reduction amount ($0.417424 – see Step 3) multiplied by 3.

Robyn's new shares in SRL are treated as acquired by her for CGT purposes on 1 August 2006.

Step 8 – calculate any capital gains that arose on the in-specie distribution by MIT(I)

Robyn takes the *cost base of the MIT(I) unit just before the demerger* (from Step 1(d) above) – this is $0.15884. Robyn compares the cost base of $0.15884 with $0.016407.[23] Since the cost base amount of $0.15884 is the higher, no capital gain arises and Robyn does not need to go any further.

Step 9 - calculate any capital gains that arose on the in-specie distribution by MIT(II)

Robyn takes the *cost base of the MIT(II) unit just before the demerger* (from Step 1(e) above) – this is $0.966036. Robyn compares the cost base of $0.966036 with $0.322.[24] Since the cost base amount of $0.966036 is the higher, no capital gain arises and Robyn does not need to go any further.

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[23] The market value of each SRT unit on the distribution by MIT(I) was $0.04922. One unit in SRT was distributed for every 3 units held in MIT(I). $0.016407 is one-third of $0.04922.

[24] This is in accordance with the ATO's Class Ruling CR 2006/102.

Step 10 – add up any capital gains that emerged in Steps 8 and 9, and treat them as appropriate in your income tax return

No capital gains arose in Steps 8 and 9 on any of Robyn's units.

PART A

Example 5

Facts - Andrew acquired his MIG stapled securities on 26 July 2006 by purchase on ASX.

As Andrew acquired his MIG securities after 23 July 2006, he was not entitled to the SRG in-specie distribution. Therefore he does not have to adjust the cost bases of his units in MIT(I) and MIT(II) as a result of the in-specie distribution, and no capital gain arose for him.

PART B

Adjustment to cost base for the in-specie distribution of stapled securities in Sydney Roads Group (SRG) – more than one parcel of MIG stapled securities
Acquisition date of SRG stapled securities
Recognition of capital gains

If you acquired your MIG stapled securities under transactions carried out on or before 23 July 2006, you received the in-specie distribution made by MIT(I) and MIT(II) on 1 August 2006. In that case, and since you are choosing not to obtain the CGT roll-over relief, you need to:

(i) adjust the cost bases of your units in MIT(I) and MIT(II) as a result of that in-specie distribution, and record CGT cost bases for your units in SRT and your shares in SRL;

(ii) record acquisition dates for CGT purposes for your units in SRT and your shares in SRL;

(iii) work out any capital gains that arose on the in-specie distribution.

MIT(I) made a distribution to its unit holders of one unit in SRT for every 3 units in MIT(I). MIT(II) made a distribution to its unit holders of one share in SRL for every 3 units in MIT(II).

Part B of this guide relates to MIG stapled security holders who are Australian residents for tax purposes, who hold their MIG stapled securities on capital account, who held more than one parcel[25] of MIG stapled securities at the time of the demerger, and who have not elected (and will not elect) for CGT roll-over relief. This choice, not to obtain the CGT roll-over relief, will be evidenced by the manner in which they complete their tax returns.

The ATO has issued Class Ruling CR 2006/102 which confirms that:

- CGT roll-over relief is available to MIG investors who received the in-specie distribution. This means that, if the CGT roll-over relief is chosen by an investor, no capital gains would arise for that investor from the demerger and in-specie distribution; and

- it is necessary for MIG investors to make adjustments to the CGT cost bases of their units in MIT(I) and MIT(II), and to record CGT cost bases for their units in SRT and shares in SRL.

Class Ruling CR 2006/102 does not address the methodologies to be followed for making/recording these CGT cost base adjustments where an investor had more than one parcel of MIG stapled securities at the time of the demerger and in-specie distribution.

However, the ATO has issued a draft Taxation Determination (TD 2006/D19) which addresses in general terms the methodology to be applied on a demerger where an investor has more than one parcel of the original securities. The draft determination envisages that one particular method (which is followed in the steps below and in the subsequent examples) will always give the appropriate answer, and that in certain circumstances other methods may give appropriate answers.

[25] A "parcel" of MIG stapled securities is used here to refer to a group of MIG stapled securities acquired by you on the same day in the same transaction.

The draft determination may not be relied on; only the final ATO determination may be relied on. The 2007 MIG Annual Tax Guide will advise investors whether the draft determination has been issued in final form by then, and MIG investors should check on this point before lodging their 2006-2007 income tax returns. For purposes of the guidance below and examples which follow, MIG has assumed that the draft determination will be finalised in its current form.

The following steps are required to adjust the cost bases of your units in MIT(I) and MIT(II), to calculate the cost bases of your units in SRT and shares in SRL, to establish the acquisition dates for CGT purposes of your units in SRT and your shares in SRL, and to work out any capital gains which arose on the in-specie distribution which will or may have to be included in your income tax return for the tax year in which the demerger occurred.

Step 1 – for each parcel of MIG stapled securities acquired, calculate the cost base of your original units in MIT(I) and MIT(II) just before the in-specie distribution

(a) For each parcel, take your original acquisition cost of a MIG stapled security and split it into its components.[26] Set out the original acquisition cost of each unit in MIT(I) and the original acquisition cost of each unit in MIT(II).

(b) For each parcel, set out any incidental costs of acquisition you incurred (such as stamp duty or brokerage), and any non-capital costs of ownership[27] you incurred, in relation to each unit in MIT(I) and/or each unit in MIT(II).

(c) For each parcel, establish the tax-deferred distributions that you received on each unit in MIT(I) and on each unit in MIT(II) before the demerger.[28]

(d) For each parcel, take the original acquisition cost of each unit in MIT(I) (from Step 1(a) above). Add to it any incidental costs of acquisition, and any non-capital costs of ownership, that you incurred in relation to that unit in MIT(I) (from Step 1(b) above). Deduct from your answer the tax-deferred distributions that you received on each unit in MIT(I) (from Step 1(c) above). If your answer is a negative amount, take it as nil instead.[29] Multiply the answer by the number of units in the parcel. The answer is the ***cost base of this particular parcel of MIT(I) units just before the demerger.***

(e) For each parcel, take the original acquisition cost of each unit in MIT(II) (from Step 1(a) above). Add any incidental costs of acquisition, and any non-capital costs of ownership, that you incurred in relation to that unit in MIT(II) (from Step 1(b) above). Deduct from your answer the tax-deferred distributions that you received on each unit in MIT(II) (from

[26] Appendices 1 to 5 of the 2006 MIG Tax Statement Guide contain guidance on how to perform this split. The components were:
- if you acquired a MIG stapled security on or before 20 September 2000: a unit in MIT(I) and a unit in MIT(II);
- if you acquired a MIG stapled security in the period from 21 September 2000 to 12 January 2005: a unit in MIT(I), a unit in MIT(II), and a share in Macquarie European Infrastructure plc (MEI);
- if you acquired a MIG stapled security on or after 13 January 2005: a unit in MIT(I), a unit in MIT(II), and a share in Macquarie Infrastructure Bermuda Limited (MIBL) or Macquarie Infrastructure Group International Limited (MIGIL).

[27] Such as any interest relating to your investment that was not deductible.

[28] Appendix 4 of the 2006 MIG Tax Statement Guide contains the information you will need to establish the tax-deferred distributions you received on a unit in MIT(I) and on a unit in MIT(II).

[29] If your answer is a negative amount, this means that your cost base of your unit in MIT(I) had previously been reduced to nil by tax-deferred distributions received from MIT(I). In that event you may have had a capital gain which would have been required to have been taken into account for purposes of your 2005 or a prior tax return. Refer to your MIG Tax Statement Guide for 2005 or an earlier year if you need further information.

Step 1(c) above). Multiply the answer by the number of units in the parcel. The answer is the *cost base of this particular parcel of MIT(II) units just before the demerger*.

(f) Add up the number of units in all parcels of MIT(I) units and the cost bases of all the parcels of MIT(I) units just before demerger (from 1(d) above). The answers are the *total number of MIT(I) units* and *the total cost base of the MIT(I) units just before the demerger.*

(g) Add up the number of units in all parcels of MIT(II) units and the cost bases of all the parcels of MIT(II) units just before demerger (from 1(e) above). The answers are the *total number of MIT(II) units* and *the total cost base of the MIT(II) units just before the demerger.*

PART B

Step 2 – calculate the new (post-demerger) cost base and reduced cost base of the MIT(I) units

Take the *total cost base of the MIT(I) units just before the demerger* (from Step 1(f) above). Work out 85.92% of this total cost base. This 85.92% amount is the total cost base, and also the total reduced cost base, of the MIT(I) units immediately after the demerger.[30] Divide the amount by the total number of MIT(I) units to obtain the cost base and reduced cost base of each MIT(I) unit.[31]

Step 3 - calculate the new (post-demerger) cost base and reduced cost base of the MIT(II) units

Take the *total cost base of the MIT(II) units just before the demerger* (from Step 1(g) above). Work out 56.79% of this total cost base. This 56.79% amount is the total cost base, and also the total reduced cost base, of the MIT(II) units immediately after the demerger.[32] Divide the amount by the total number of MIT(II) units to obtain the cost base and reduced cost base of each MIT(II) unit.[33]

Step 4 – calculate the cost base and reduced cost base of your units in SRT

Take the *total cost base of the MIT(I) units just before the demerger* (from Step 1(f) above). Work out 14.08% of this total cost base. This 14.08% amount is the total cost base and total reduced cost base, immediately after the demerger, of all the units in SRT that you received on the demerger. Divide the amount by the number of units you obtained in SRT on the demerger to obtain the cost base and reduced cost base of each SRT unit.[34]

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[30] Each MIT(I) unit retains its original acquisition date. Thus, for purposes of a subsequent disposal of any MIT(I) unit, your relevant CGT acquisition time is the time of your original acquisition of that unit. Accordingly if that time was on or before 21 September 1999 and you are an individual, a trustee or a complying superannuation entity, you should be able to use either the indexation method or the discount method for purposes of computing a capital gain. The reduced cost base would be used for purposes of computing any capital loss on a subsequent disposal of a MIT(I) unit, regardless of when your acquisition occurred. The cost base and the reduced cost base of a MIT(I) unit immediately after the demerger (i) may be increased if subsequent amounts are incurred which qualify for inclusion in those cost bases, and (ii) will need to be reduced by any tax-deferred distributions received on the MIT(I) unit after the demerger.

[31] The result is that, immediately after the demerger, all of your MIT(I) units have the same cost base and reduced cost base, even though they may have been acquired in different parcels with different actual costs.

[32] Each MIT(II) unit retains its original acquisition date. Thus, for purposes of a subsequent disposal of any MIT(II) unit, your relevant CGT acquisition time is the time of your original acquisition. Accordingly if that time was on or before 21 September 1999 and you are an individual, a trustee or a complying superannuation entity, you should be able to use either the indexation method or the discount method for purposes of computing a capital gain. The reduced cost base would be used for purposes of computing any capital loss on a subsequent disposal of a MIT(II) unit, regardless of when your acquisition occurred. The cost base and the reduced cost base of a MIT(II) unit immediately after the demerger (i) may be increased if subsequent amounts are incurred which qualify for inclusion in those cost bases, and (ii) will need to be reduced by any tax-deferred distributions received on the MIT(II) unit after the demerger.

[33] The result is that, immediately after the demerger, all of your MIT(II) units have the same cost base and reduced cost base, even though they may have been acquired in different parcels with different actual costs.

[34] This means that all of your units in SRT have the same cost base and reduced cost base immediately after the demerger. The cost base and reduced cost base of the units in SRT immediately after the demerger (i) may be increased subsequently if amounts are incurred which qualify for inclusion in those cost bases, and (ii) will need to be reduced by any tax-deferred distributions received from SRT. For purposes of any subsequent disposal of those units in SRT, your time of acquisition is 1 August 2006.

PART B

Step 5 – calculate the cost base and reduced cost base of your shares in SRL

Take the *total cost base of the MIT(II) units just before the demerger* (from Step 1(g) above). Work out 43.21% of that total cost base. This 43.21% amount is the cost base and reduced cost base, immediately after the demerger, of the shares in SRL that you received on the demerger. Divide the amount by the number of shares you acquired in SRL on the demerger to obtain the cost base and reduced cost base of each SRL share.[35]

Step 6 – for each parcel of MIT(I) units, calculate any capital gains that arose on the in-specie distribution by MIT(I)

For a parcel of MIT(I) units, take the *cost base of this particular parcel of MIT(I) units just before the demerger* (from Step 1(d) above). If that parcel was acquired before 11.45am on 21 September 1999, work out the *indexed cost base of that particular parcel of MIT(I) units just before the demerger*. If relevant, decide whether you are going to use the *cost base of that particular parcel of MIT(I) units just before the demerger* or the *indexed cost base of that particular parcel of MIT(I) units just before the demerger* for purposes of working out any capital gain that arose under CGT event E4 on the in-specie distribution. Take whichever amount you are using (the cost base or the indexed cost base of the parcel) and compare it with ($0.016407 multiplied by the number of units in the parcel [36]). If $0.016407 multiplied by the number of units in the parcel is greater than the cost base or indexed cost base of the parcel, whichever you are using, the excess is a capital gain which needs to be taken into account for purposes of your income tax return. If you have used the cost base (rather than the indexed cost base) to work out the capital gain, you may be entitled to a CGT discount (depending on what type of taxpayer you are).

Repeat the above exercise for each other parcel in your holding of MIT(I) units.

Step 7 – for each parcel of MIT(II) units, calculate any capital gains that arose on the in-specie distribution by MIT(II)

For a parcel of MIT(II) units, take the *cost base of that particular parcel of MIT(II) units just before the demerger* (from Step 1(e) above). If that parcel was acquired before 11.45am on 21 September 1999, work out the *indexed cost base of that particular parcel of MIT(II) units just before the demerger*. If relevant, decide whether you are going to use the *cost base of that particular parcel of MIT(II) units just before the demerger* or the *indexed cost base of that particular parcel of MIT(II) units just before the demerger* for purposes of working out any capital gain that arose under CGT event G1 on the in-specie distribution. Take whichever amount you are using (the cost base or the indexed cost base of the parcel) and compare it with ($0.322 multiplied by the number of units in the parcel [37]). If $0.322 multiplied by the number of units in the parcel is greater than the cost base or indexed cost

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[35] This means that all of your shares in SRL have the same cost base and reduced cost base immediately after the demerger. The cost base and reduced cost base of the shares in SRL immediately after the demerger (i) may be increased subsequently if amounts are incurred which qualify for inclusion in those cost bases, and (ii) will need to be reduced by any tax-deferred distributions received from SRL. For purposes of any subsequent disposal of those shares in SRL, your time of acquisition is 1 August 2006.

[36] The market value of each SRT unit on the distribution by MIT(I) was $0.04922. One unit in SRT was distributed for every 3 units held in MIT(I). $0.016407 is one-third of $0.04922.

[37] This is in accordance with the ATO's Class Ruling CR 2006/102. The distribution by MIT(II) was debited in its accounts as follows: approximately $0.322 per unit against contributed equity and approximately $0.043 per unit against retained earnings. Only the $0.322 per unit needs to be taken into account in Step 7. The $0.043 per unit does not need to be taken into account at Step 7 or at any other step.

base of the parcel, whichever you are using, the excess is a capital gain which needs to be taken into account for purposes of your income tax return. If you have used the cost base (rather than the indexed cost base) to work out the capital gain, you may be entitled to a CGT discount (depending on what type of taxpayer you are).

Repeat the above steps for each other parcel in your holding of MIT(II) units.

Step 8 – add up any capital gains that emerged in Steps 6 and 7, and treat them as appropriate in your income tax return

Work out all of the capital gains that arose in Steps 6 and 7 on all of your parcels. These need to be taken into account for purposes of your income tax return.

Assuming you are an individual, or another taxpayer with a 30 June tax balance date, you will need to take any capital gains that emerged from Steps 6 and 7 into account in working out your overall CGT result to be reported in your 2006/2007 income tax return.

* * * * * * *

Two examples follow which illustrate the above steps.

If you require further information in relation to the demerger, please refer to the MIG website www.macquarie.com.au/mig

PART B

Example 1

Facts - Lucy acquired 900 MIG stapled securities on 16 December 1996 by subscription on original allotment and acquired 1,200 MIG stapled securities by purchase on ASX on 13 May 2005 at a market value of $3.61 per security, and chooses not to obtain the roll-over relief. Lucy obtained 700 SRG stapled securities on the demerger.

Step 1 – for each parcel of MIG stapled securities acquired, calculate the cost base of the original units in MIT(I) and MIT(II) just before the in-specie distribution

(a) For each parcel, take the original acquisition cost of a MIG stapled security and split it into its components. Set out the original acquisition cost of each unit in MIT(I) and the original acquisition cost of each unit in MIT(II).

Parcel acquired on 16 December 1996

Lucy acquired this parcel when a MIG stapled security consisted of a unit in MIT(I) stapled to a unit in MIT(II).

As Lucy acquired this parcel by subscription, Appendix 2 of the 2006 MIG Tax Statement Guide will help her to split her original acquisition cost between the unit in MIT(I) and the unit in MIT(II). That appendix sets out all the dates and prices at which MIG stapled securities have been issued, and it shows how much of the issue price of each stapled security related to the unit in MIT(I) and how much to the unit in MIT(II).

Date of Issue	Type of Issue	Issue Price per Stapled Security $	Issue Price of Unit in MIT(I) $	Issue Price of Unit in MIT(II) $	Issue Price of Share in MEI* $	Issue Price of Share in MIBL/MIGIL $
16 Dec 96	Original Allotment	1.000000	0.500000	0.500000		

Lucy's original acquisition cost of each unit in this MIT(I) parcel was $0.500000 and her original acquisition cost of each unit in this MIT(II) parcel was $0.500000.

Parcel acquired on 13 May 2005

Lucy acquired this parcel when a MIG stapled security consisted of a unit in MIT(I) stapled to a unit in MIT(II) and a share in MIBL/MIGIL.

As Lucy acquired this parcel by purchase on ASX, she will need to decide how much of her purchase price for each security related to the unit in MIT(I), how much to the unit in MIT(II), and how much to the share in MIBL/MIGIL.

Appendix 3 of the 2006 MIG Tax Statement Guide sets out a percentage split of the total net asset value of a MIG stapled security between the net asset backing of a unit in MIT(I), the net asset backing of a unit in MIT(II), and the net asset backing of a share in MIBL/MIGIL. While it is for Lucy to decide how to split the purchase price of her MIG stapled security into the part referable to the unit in MIT(I), the part referable to the unit in MIT(II), and the part referable to the share in MIGIL/MIBL, for the purposes of this example we have assumed she has decided to use Appendix 3 as a guide in performing this allocation.

PART B

Breakdown of the value of a MIG stapled security

Percentage of value of a MIG stapled security which related to	a unit in MIT(I)	a unit in MIT(II)	a share in MEI	a share in MIBL/MIGIL
May 2005	4.40%	26.76%		68.84%

Lucy's original acquisition cost of each unit in this MIT(I) parcel was $0.158840, worked out as 4.40% of $3.61, and her original acquisition cost of each unit in this MIT(II) parcel was $0.966036, worked out as 26.76% of $3.61.

(b) For each parcel, set out any incidental costs of acquisition that were incurred (such as stamp duty or brokerage), and any non-capital costs of ownership that were incurred, in relation to each unit in MIT(I) and/or each unit in MIT(II).

In our example, we have assumed that Lucy did not incur any incidental costs of acquisition or any non-capital costs of ownership in relation to her unit in MIT(I) and/or her unit in MIT(II) on either parcel of MIG stapled securities.

(c) For each parcel, establish the tax-deferred distributions that were received on each unit in MIT(I) and on each unit in MIT(II) before the demerger.

Appendix 4 of the 2006 MIG Tax Statement Guide sets out the tax-deferred distributions per unit that have been made by MIT(I) and MIT(II), which will assist Lucy in this regard.

<u>Parcel acquired on 16 December 1996</u>

Tax-deferred distributions per unit made by MIT(I)

Date	Tax-deferred distribution made per unit
15 August 1997	5.5000 cents
16 February 1998	4.0000 cents
14 August 1998	3.7158 cents
16 February 1999	3.3527 cents
18 August 1999	5.0000 cents
18 February 2000	4.2081 cents
16 August 2000	3.3887 cents
14 February 2001	3.8272 cents
15 August 2001	2.5099 cents
13 February 2002	3.1400 cents
14 August 2002	3.6420 cents
10 February 2005	37.9863 cents

The total tax-deferred distributions received by Lucy before the demerger on each MIT(I) unit in this parcel were $0.802707.

PART B

Tax-deferred distributions per unit made by MIT(II)

Date	Tax-deferred distribution made per unit
20 September 2000	37.3544 cents
14 February 2003	2.6904 cents

The total tax-deferred distributions received by Lucy before the demerger on each MIT(II) unit in this parcel were $0.400448.

Parcel acquired on 13 May 2005

Lucy did not receive any tax-deferred distributions before the demerger on any unit in this MIT(I) parcel or this MIT(II) parcel.

(d) For each parcel, take the original acquisition cost of each unit in MIT(I) (from Step 1(a) above).

Parcel acquired on 16 December 1996

This is $0.500000 for Lucy.

Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to that unit in MIT(I) (from Step 1(b) above). There are no such costs for Lucy, so the answer is $0.500000.

Deduct from that answer the tax-deferred distributions received on the unit in this MIT(I) parcel (from Step 1(c) above). These distributions are $0.802707 for Lucy.

If the answer is negative – which it is, for Lucy – take it as nil instead. Thus Lucy's answer is nil.

Multiply the answer by the number of units acquired, which is 900 for Lucy. The answer is $nil, which is the *cost base of this particular parcel of MIT(I) units just before the demerger.*

Parcel acquired on 13 May 2005

The original acquisition cost of each MIT(I) unit in this parcel is $0.158840 for Lucy.

Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to the unit in MIT(I) (from Step 1(b) above). There are no such costs for Lucy, so the answer is $0.158840.

Deduct from that answer the tax-deferred distributions received on the unit in this MIT(I) parcel (from Step 1(c) above). There were no such distributions for Lucy, and so the answer is $0.158840.

Multiply the answer by the number of units acquired, which is 1,200 for Lucy. The answer is $190.61, which is the *cost base of this particular parcel of MIT(I) units just before the demerger.*

PART B

(e) For each parcel, take the original acquisition cost of each unit in MIT(II) (from Step 1(a) above).

Parcel acquired on 16 December 1996

This is $0.500000 for Lucy.

Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to that unit in MIT(II) (from Step 1(b) above). There are no such costs for Lucy, so the answer is $0.500000.

Deduct from that answer the tax-deferred distributions received on the unit in this MIT(II) parcel (from Step 1(c) above) These distributions are $0.400448 for Lucy, so the answer is $0.099552.

Multiply this answer ($0.099552) by the number of units acquired, which is 900 for Lucy. The answer is $89.60, which is the *cost base of this particular parcel of MIT(II) units just before the demerger."*

Parcel acquired on 13 May 2005

The original acquisition cost of each MIT(II) unit in this parcel is $0.966036 for Lucy. Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to the unit in MIT(II) (from Step 1(b) above). There are no such costs for Lucy, so the answer is $0.966036.

Deduct from that answer the tax-deferred distributions received on the unit in this MIT(II) parcel (from Step 1(c) above). There were no such distributions for Lucy, and so the answer is $0.966036.

Multiply the answer ($0.966036) by the number of units acquired, which is 1,200 for Lucy. The answer is $1,159.24, which is the *cost base of this particular parcel of MIT(II) units just before the demerger.*

(f) Add up the number of units in all parcels of MIT(I) units and the cost bases of all the parcels of MIT(I) units just before demerger (from 1(d) above). The answers are the *total number of MIT(I) units* and *the total cost base of MIT(I) units just before the demerger* – 2,100 units and $190.61, for Lucy.

(g) Add up the number of units in all the parcels of MIT(II) units and the cost bases of all the parcels of MIT(II) units just before demerger (from 1(e) above). The answers are the *total number of MIT(II) units* and *the total cost base of MIT(II) units just before the demerger* – 2,100 units and $1,248.84, for Lucy.

Step 2 – calculate the new (post-demerger) cost base and reduced cost base of the MIT(I) units

Take the *total cost base of the MIT(I) units just before the demerger* (from Step 1(f) above). Work out 85.92% of this total cost base. This 85.92% amount is the total cost base, and also the total reduced cost base, of the MIT(I) units immediately after the demerger. The amount is $163.77 for Lucy.

Divide the amount by the number of units held in MIT(I) to obtain the cost base and reduced cost base per unit. Lucy held 2,100 units in MIT(I) at the time of the demerger. The cost base and reduced cost base of each MIT(I) unit is therefore $0.077986 per unit.

For purposes of subsequent disposals of MIT(I) units, Lucy's relevant CGT acquisition dates are the dates of her original acquisitions – that is, 900 units acquired on 16 December 1996 and 1,200 units acquired on 13 May 2005.

PART B

Step 3 - calculate the new (post-demerger) cost base and reduced cost base of the MIT(II) units

Take the *total cost base of the MIT(II) units just before the demerger* (from Step 1(g) above). Work out 56.79% of this total cost base. This 56.79% amount is the total cost base, and also the total reduced cost base, of the MIT(II) units immediately after the demerger. The amount is $709.22 for Lucy.

Divide the amount by the number of units held in MIT(II) to obtain the cost base and reduced cost base per unit. Lucy held 2,100 units in MIT(II) at the time of the demerger. The cost base and reduced cost base of each MIT(II) unit is therefore $0.337722.

For purposes of subsequent disposals of MIT(II) units, Lucy's relevant CGT acquisition dates are the dates of her original acquisitions – that is, 900 units acquired on 16 December 1996 and 1,200 units acquired on 13 May 2005.

Step 4 – calculate the cost base and reduced cost base of the units in SRT

Take the *total cost base of the MIT(I) units just before the demerger* (from Step 1(f) above). Work out 14.08% of this total cost base. That 14.08% amount is the total cost base and total reduced cost base, immediately after the demerger, of the units in SRT that Lucy received in respect of her MIG stapled securities for which she has carried out the above steps. The amount is $26.84 for Lucy.

Divide the amount by the number of units obtained in SRT on the demerger. Lucy obtained 700 units in SRT, and so the answer is $0.038340. Thus the cost base and reduced cost base of each SRT unit just after the demerger is $0.038340.

Lucy's new units in SRT are treated as acquired by her for CGT purposes on 1 August 2006.

Step 5 – calculate the cost base and reduced cost base of the shares in SRL

Take the *total cost base of the MIT(II) units just before the demerger* (from Step 1(g) above). Work out 43.21% of this total cost base. That 43.21% amount is the total cost base and total reduced cost base, immediately after the demerger, of the shares in SRL that Lucy received in respect of her MIG stapled securities for which she has carried out the above steps. The amount is $539.62 for Lucy.

Divide the amount by the number of shares obtained in SRL on the demerger. Lucy obtained 700 shares in SRL, and so the amount is $0.770886. Thus the cost base and reduced cost base is $0.770886 per SRL share.

Lucy's shares in SRL are treated as acquired by her for CGT purposes on 1 August 2006.

Step 6 – for each parcel of MIT(I) units, calculate any capital gains that arose on the in-specie distribution by MIT(I)

<u>Parcel acquired on 16 December 1996</u>

For the parcel of MIT(I) units that Lucy acquired on 16 December 1996, the ***cost base of this particular parcel of MIT(I) units just before the demerger*** (from Step 1(d) above) is $nil.

Assume that when Lucy does her calculations, she establishes that the ***indexed cost base of this particular parcel of MIT(I) units just before the demerger*** is also nil.[38] Lucy decides to use the ***cost base of this particular parcel of MIT(I) units just before the demerger***, being $nil, for purposes of working out any capital gain that arose under CGT event E4 on the in-specie distribution. Lucy takes the cost base of the parcel, being $nil, and compares it with $14.76 ($0.016407 multiplied by 900, being the number of units in the parcel).[39] Since $14.76 is greater than $nil, the $14.76 is a capital gain which needs to be taken into account for purposes of Lucy's income tax return. Since Lucy has used the cost base (rather than the indexed cost base) to work out the capital gain, she may be entitled to a CGT discount.

<u>Parcel acquired on 13 May 2005</u>

For the parcel of MIT(I) units that Lucy acquired on 13 May 2005, the ***cost base of this particular parcel of MIT(I) units just before the demerger*** (from Step 1(d) above) is $190.61. Lucy compares this $190.61 with $19.68, which is $0.016407 multiplied by 1,200, being the number of units in the parcel. Since $190.61 is the higher amount, no capital gain arises and Lucy does not need to do any further work in relation to this parcel.

Step 7 – for each parcel of MIT(II) units, calculate any capital gains that arose on the in-specie distribution by MIT(II)

<u>Parcel acquired on 16 December 1996</u>

For the parcel of MIT(II) units that Lucy acquired on 16 December 1996, the ***cost base of this particular parcel of MIT(II) units just before the demerger*** (from Step 1(e) above) is $89.60. Lucy also works out the ***indexed cost base of this particular parcel of MIT(II) units just before the demerger***, which is $101.29.[40] Lucy decides she is going to use the ***cost base of this particular parcel of MIT(II) units just before the demerger*** for purposes of working out any capital gain that arose under CGT event G1 on the in-specie distribution. Lucy compares $89.60 with $289.80 ($0.322 multiplied by 900, being the number of units in the parcel [41]). Since $289.80 is greater than $89.60, the excess of $200.20 is a capital gain which needs to be taken into account for purposes of Lucy's income tax return. Since Lucy has used the cost base (rather than the indexed cost base) to work out the capital gain, she may be entitled to a CGT discount.

<u>Parcel acquired on 13 May 2005</u>

For the parcel of MIT(II) units that Lucy acquired on 13 May 2005, the ***cost base of this particular parcel of MIT(II) units just before the demerger*** (from Step 1(e) above) is $1,159.24. Lucy compares this $1,159.24 with $386.40, which is $0.322 multiplied by 1,200, being the number of units in the parcel. Since $1,159.24 is the higher amount, no capital gain arises

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[38] Thus it is assumed that Lucy's calculations show that the tax-deferred distributions received prior to the demerger by Lucy on this parcel of MIT(I) units had reduced the indexed cost base to nil.

[39] The market value of each SRT unit on the distribution by MIT(I) was $0.04922. One unit in SRT was distributed for every 3 units held in MIT(I). $0.016407 is one-third of $0.04922.

[40] Assistance on performing indexation calculations is provided in the annual MIG Tax Statement Guide. The $101.29 is worked out as follows. The indexation factor for the December 1996 quarter was 120.3, and indexation was frozen at the end of the September 1999 quarter when the factor was 123.4. The indexation factor is therefore 1.026 which, applied to the original acquisition costs of $0.50 per unit, gave an indexed cost base per unit at 30 September 1999 at $0.513. This was subsequently reduced by the tax-deferred distributions received of $0.400448 per unit, giving a remaining indexed cost base of $0.112552 per unit. When this is multiplied by 900 (the number of units in the parcel), the indexed cost base of this particular parcel of MIT(II) units is $101.29.

[41] This is in accordance with the ATO's Class Ruling CR 2006/102.

and Lucy does not need to do any further work in relation to this parcel.

Step 8 – add up any capital gains that emerged in Steps 6 and 7, and treat them as appropriate in your income tax return

Lucy takes the capital gains that arose in Steps 6 and 7 into account for purposes of her 2006-2007 income tax return.

PART B

Example 2

Facts – Caroline subscribed for 10,000 MIG stapled securities at $2.85 each on 21 September 2001 under a public offer. In December 2003 Caroline elected to participate in the distribution reinvestment plan (DRP). Caroline's distribution of 3.75 cents on each of her 10,000 stapled securities on 13 February 2004 totalled $375.00, and was applied under the DRP on 13 February 2004 on her behalf to subscribe for 114 stapled securities at an issue price of $3.281483 each. This left a cash balance in her DRP of $0.91.

Caroline's distribution on 13 August 2004 on her then 10,114 MIG stapled securities was 3.75 cents per security, or a total of $379.27. Her brought-forward cash balance in her DRP account was added to this and $380.10 was applied on her behalf to subscribe for 112 MIG stapled securities under the DRP on 13 August 2004 at an issue price of $3.393785 each.

After the August 2004 reinvestment under the DRP, Caroline held 10,226 MIG stapled securities. She then discontinued her participation in the DRP and did not subsequently acquire or dispose of any MIG stapled securities prior to the demerger.

Caroline obtained 3,409 SRG stapled securities on the demerger, and she chooses not to obtain the
roll-over relief.

Step 1 – for each parcel of MIG stapled securities acquired, calculate the cost base of the original units in MIT(I) and MIT(II) just before the in-specie distribution

(a) For each parcel, take the original acquisition cost of a MIG stapled security and split it into its components. Set out the original acquisition cost of each unit in MIT(I) and the original acquisition cost of each unit in MIT(II).

Parcel acquired on 21 September 2001

Caroline acquired this parcel when a MIG stapled security consisted of a unit in MIT(I) stapled to a unit in MIT(II) and to a share in MEI.

As Caroline acquired this parcel by subscription, Appendix 2 of the 2006 MIG Tax Statement Guide will help her to work out how much of her original acquisition cost related to the unit in MIT(I), how much to the unit in MIT(II), and how much to the share in MEI. That appendix sets out all the dates and prices at which MIG stapled securities have been issued, and it shows how much of the issue price of each stapled security related to each element of MIG.

Date of Issue	Type of Issue	Issue Price per Stapled Security $	Issue Price of Unit in MIT(I) $	Issue Price of Unit in MIT(II) $	Issue Price of Share in MEI $	Issue Price of Share in MIBL/MIGIL $
21 September 2001	Placement and Priority Entitlement Offer	2.850000	0.638970	0.745275	1.465755	

Caroline's original acquisition cost of each unit in this MIT(I) parcel was $0.638970 and her original acquisition cost of each unit in this MIT(II) parcel was $0.745275.

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<u>Parcel acquired on 13 February 2004</u>

Caroline acquired this parcel when a MIG stapled security consisted of a unit in MIT(I) stapled to a unit in MIT(II) and to a share in MEI.

As Caroline acquired this parcel by subscription (under the DRP), Appendix 2 of the 2006 MIG Tax Statement Guide will help her to work out how much of her original acquisition cost related to the unit in MIT(I), how much to the unit in MIT(II), and how much to the share in MEI. That appendix sets out all the dates and prices at which MIG stapled securities have been issued, and it shows how much of the issue price of each stapled security related to each element of MIG .

Date of Issue	Type of Issue	Issue Price per Stapled Security $	Issue Price of Unit in MIT(I) $	Issue Price of Unit in MIT(II) $	Issue Price of Share in MEI $	Issue Price of Share in MIBL/MIGIL $
13 February 2004	DRP	3.281483	0.648421	0.799369	1.833693	

Caroline's original acquisition cost of each unit in this MIT(I) parcel was $0.648421 and her original acquisition cost of each unit in this MIT(II) parcel was $0.799369.

<u>Parcel acquired on 13 August 2004.</u>

Caroline acquired this parcel when a MIG stapled security consisted of a unit in MIT(I) stapled to a unit in MIT(II) and to a share in MEI.

As Caroline acquired this parcel by subscription (under the DRP), Appendix 2 of the 2006 MIG Tax Statement Guide will help her to work out how much of her original acquisition cost related to the unit in MIT(I), how much to the unit in MIT(II), and how much to the share in MEI. That appendix sets out all the dates and prices at which MIG stapled securities have been issued, and it shows how much of the issue price of each stapled security related to each element of MIG.

Date of Issue	Type of Issue	Issue Price per Stapled Security $	Issue Price of Unit in MIT(I) $	Issue Price of Unit in MIT(II) $	Issue Price of Share in MEI $	Issue Price of Share in MIBL/MIGIL $
13 August 2004	DRP	3.393785	0.718804	0.776158	1.898823	

Caroline's original acquisition cost of each unit in this MIT(I) parcel was $0.718804 and her original acquisition cost of each unit in this MIT(II) parcel was $0.776158.

(b) For each parcel, set out any incidental costs of acquisition that were incurred (such as stamp duty or brokerage), and any non-capital costs of ownership that were incurred, in relation to each unit in MIT(I) and/or each unit in MIT(II).

In our example, we have assumed that Caroline did not incur any incidental costs of acquisition or any non-capital costs of ownership in relation to any unit in MIT(I) and/or any unit in MIT(II) on any parcel of MIG stapled securities

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(c) For each parcel, establish the tax-deferred distributions that were received before the demerger on each unit in MIT(I) and on each unit in MIT(II).

Appendix 4 of the 2006 MIG Tax Statement Guide sets out the tax-deferred distributions per unit that have been made by MIT(I) and MIT(II), which will assist Caroline in this regard.

<u>Parcel acquired on 21 September 2001</u>

Tax-deferred distributions per unit made by MIT(I)

Date	Tax-deferred distribution made per unit
13 February 2002	3.1400 cents
14 August 2002	3.6420 cents
10 February 2005	37.9863 cents

The total tax-deferred distributions received by Caroline before the demerger on each MIT(I) unit in this
parcel were $0.447683.

Tax-deferred distributions per unit made by MIT(II)

Date	Tax-deferred distribution made per unit
14 February 2003	2.6904 cents

The total tax-deferred distributions received by Caroline before the demerger on each MIT(II) unit in this
parcel were $0.026904.

<u>Parcel acquired on 13 February 2004</u>

Tax-deferred distributions per unit made by MIT(I)

Date	Tax-deferred distribution made per unit
10 February 2005	37.9863 cents

The total tax-deferred distributions received by Caroline before the demerger on each MIT(I) unit in this
parcel were $0.379863.

Tax-deferred distributions per unit made by MIT(II)

No tax-deferred distributions were received by Caroline before the demerger on any MIT(II) unit in this
parcel.

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Parcel acquired on 13 August 2004

Tax-deferred distributions per unit made by MIT(I)

Date	Tax-deferred distribution made per unit
10 February 2005	37.9863 cents

The total tax-deferred distributions received by Caroline before the demerger on each MIT(I) unit in this parcel were $0.379863.

Tax-deferred distributions per unit made by MIT(II)

No tax-deferred distributions were received by Caroline before the demerger on any MIT(II) unit in this parcel.

(d) For each parcel, take the original acquisition cost of each unit in MIT(I) (from Step 1(a) above).

Parcel acquired on 21 September 2001

This is $0.638970 for Caroline.

Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to that unit in MIT(I) (from Step 1(b) above). There are no such costs for Caroline, so the answer is $0.638970.

Deduct from that answer the tax-deferred distributions received on the unit in this MIT(I) parcel (from Step 1(c) above). These distributions are $0.447683 for Caroline.

Caroline's answer is $0.191287.

Multiply the answer by the number of units acquired, which is 10,000 for Caroline. The answer is $1,912.87, which is the ***cost base of this particular parcel of MIT(I) units just before the demerger.***

Parcel acquired on 13 February 2004

The original acquisition cost of each MIT(I) unit in this parcel is $0.648421 for Caroline.

Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to the unit in MIT(I) (from Step 1(b) above). There are no such costs for Caroline, so the answer is $0.648421.

Deduct from that answer the tax-deferred distributions received on the unit in this MIT(I) parcel (from Step 1(c) above). Those distributions are $0.379863 for Caroline, and so the answer is $0.268558.

Multiply the answer by the number of units acquired, which is 114 for Caroline. The answer is $30.62, which is the ***cost base of this particular parcel of MIT(I) units just before the demerger.***

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Parcel acquired on 13 August 2004

The original acquisition cost of each MIT(I) unit in this parcel is $0.718804 for Caroline.

Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to the unit in MIT(I) (from Step 1(b) above). There are no such costs for Caroline, so the answer is $0.718804.

Deduct from that answer the tax-deferred distributions received on the unit in this MIT(I) parcel (from Step 1(c) above). Those distributions are $0.379836 for Caroline, and so the answer is $0.339841.

Multiply the answer by the number of units acquired, which is 112 for Caroline. The answer is $37.96, which is the cost base of this particular parcel of MIT(I) units just before the demerger.

(e) For each parcel, take the original acquisition cost of each unit in MIT(II) (from Step 1(a) above).

Parcel acquired on 21 September 2001

This is $0.745275 for Caroline.

Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to that unit in MIT(II) (from Step 1(b) above). There are no such costs for Caroline, so the answer is $0.745275.

Deduct from that answer the tax-deferred distributions received on the unit in this MIT(II) parcel (from Step 1(c) above). These distributions are $0.026904 for Caroline, so the answer is $0.718371.

Multiply this answer ($0.718371) by the number of units acquired, which is 10,000 for Caroline. The answer is $7,183.71, which is the *cost base of this particular parcel of MIT(II) units just before the demerger.*

Parcel acquired on 13 February 2004

The original acquisition cost of each MIT(II) unit in this parcel is $0.799369 for Caroline. Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to the unit in MIT(II) (from Step 1(b) above). There are no such costs for Caroline, so the answer is $0.799369.

Deduct from that answer the tax-deferred distributions received on the unit in this MIT(II) parcel (from Step 1(c) above). There were no such distributions for Caroline, and so the answer is $0.799369.

Multiply the answer ($0.799369) by the number of units acquired, which is 114 for Caroline. The answer is $91.13, which is the *cost base of this particular parcel of MIT(II) units just before the demerger.*

Parcel acquired on 13 August 2004

The original acquisition cost of each MIT(II) unit in this parcel is $0.776158 for Caroline.

Add to it any incidental costs of acquisition, and any non-capital costs of ownership, incurred in relation to the unit in MIT(II) (from Step 1(b) above). There are no such costs for Caroline, so the answer is $0.776158.

Deduct from that answer the tax-deferred distributions received on the unit in this MIT(II) parcel (from Step 1(c) above). There were no such distributions for Caroline, and so the answer is $0.776158.

Multiply the answer ($0.776158) by the number of units acquired, which is 112 for Caroline. The answer is $86.93, which is the *cost base of this particular parcel of MIT(II) units just before the demerger.*

(f) Add up the number of units in all parcels of MIT(I) units and the cost bases of all the parcels of MIT(I) units just before demerger (from 1(d) above). The answers are the *total number of MIT(I) units* and *the total cost base of MIT(I) units just before the demerger* – 10,226 units and $1,981.45, for Caroline.

(g) Add up the number of units in all the parcels of MIT(II) units and the cost bases of all the parcels of MIT(II) units just before demerger (from 1(e) above). The answers are the *total number of MIT(II) units* and *the total cost base of MIT(II) units just before the demerger* – 10,226 units and $7,361.77, for Caroline.

Step 2 – calculate the new (post-demerger) cost base and reduced cost base of the MIT(I) units

Take the *total cost base of the MIT(I) units just before the demerger* (from Step 1(f) above). Work out 85.92% of this total cost base. This 85.92% amount is the total cost base, and also the total reduced cost base, of the MIT(I) units immediately after the demerger – the amount is $1,702.46 for Caroline.

Divide the amount by the number of units held in MIT(I) to obtain the cost base and reduced cost base per unit. Caroline held 10,226 units in MIT(I) at the time of the demerger. The cost base and reduced cost base of each MIT(I) unit is therefore $0.166483.

For purposes of subsequent disposals of MIT(I) units, Caroline's relevant CGT acquisition dates are the dates of her original acquisitions – that is, 10,000 units acquired on 21 September 2001, 114 units acquired on 13 February 2004, and 112 units acquired on 13 August 2004.

Step 3 - calculate the new (post-demerger) cost base and reduced cost base of the MIT(II) units

Take the *total cost base of the MIT(II) units just before the demerger* (from Step 1(g) above). Work out 56.79% of this total cost base. This 56.79% amount is the total cost base, and also the total reduced cost base, of the MIT(II) units immediately after the demerger. The amount is $4,180.75 for Caroline.

Divide the amount by the number of units held in MIT(II) to obtain the cost base and reduced cost base per unit. Caroline held 10,226 units in MIT(II) at the time of the demerger. The cost base and reduced cost base of each MIT(II) unit is therefore $0.408835.

For purposes of subsequent disposals of MIT(II) units, Caroline's relevant CGT acquisition dates are the dates of her original acquisitions – that is, 10,000 units acquired on 21 September 2001, 114 units acquired on 13 February 2004, and 112 units acquired on 13 August 2004.

Step 4 – calculate the cost base and reduced cost base of the units in SRT

Take the *total cost base of the MIT(I) units just before the demerger* (from Step 1(f) above). Work out 14.08% of that total cost base. That 14.08% amount is the total cost base and total reduced cost base, immediately after the demerger, of the units in SRT that Caroline received in respect of her MIG stapled securities for which she has carried out the above steps. The amount is $278.99 for Caroline.

Divide the amount by the number of units obtained in SRT on the demerger. Caroline obtained 3,409 units in SRT, and so the answer is $0.081839. Thus the cost base and reduced cost base of each SRT unit just after the demerger is $0.081839.

Caroline's new units in SRT are treated as acquired by her for CGT purposes on 1 August 2006.

Step 5 – calculate the cost base and reduced cost base of the shares in SRL

Take the *total cost base of the MIT(II) units just before the demerger* (from Step 1(g) above). Work out 43.21% of that total cost base. That 43.21% amount is the total cost base and total reduced cost base, immediately after the demerger, of the shares in SRL that Caroline received in respect of her MIG stapled securities for which she has carried out the above steps. The amount is $3,181.02 for Caroline.

Divide the amount by the number of shares obtained in SRL on the demerger. Caroline obtained 3,409 shares in SRL, and so the amount is $0.933124. Thus the cost base and reduced cost base is $0.933124 per SRL share.

Caroline's shares in SRL are treated as acquired by her for CGT purposes on 1 August 2006.

Step 6 – for each parcel of MIT(I) units, calculate any capital gains that arose on the in-specie distribution by MIT(I)

<u>Parcel acquired on 21 September 2001</u>

For the parcel of MIT(I) units that Caroline acquired on 21 September 2001, Caroline takes the *cost base of this particular parcel of MIT(I) units just before the demerger* (from Step 1(d) above), which is $1,912.87. Caroline compares this $1,912.87 with $164.07 ($0.016407 multiplied by 10,000, being the number of units in the parcel).[42] Since $1,912.87 is greater than $164.07, there is no capital gain on this parcel.

<u>Parcel acquired on 13 February 2004</u>

For the parcel of MIT(I) units that Caroline acquired on 13 February 2004, Caroline takes the *cost base of this particular parcel of MIT(I) units just before the demerger* (from Step 1(d) above), which is $30.62. Caroline compares this $30.62 with $1.87 ($0.016407 multiplied by 114, being the number of units in the parcel). Since $30.62 is greater than $1.87, there is no capital gain on this parcel.

<u>Parcel acquired on 13 August 2004</u>

For the parcel of MIT(I) units that Caroline acquired on 13 August 2004, Caroline, takes the *cost base of this particular parcel of MIT(I) units just before the demerger* (from Step 1(d) above), which is $37.96. Caroline compares this $37.96 with $1.83 ($0.016407 multiplied

[42] The market value of each SRT unit on the distribution by MIT(I) was $0.04922. One unit in SRT was distributed for every 3 units held in MIT(I). $0.016407 is one-third of $0.04922.

by 112, being the number of units in the parcel). Since $30.62 is greater than $1.83, there is no capital gain on this parcel.

Step 7 – for each parcel of MIT(II) units, calculate any capital gains that arose on the in-specie distribution by MIT(II)

Parcel acquired on 21 September 2001

For the parcel of MIT(II) units that Caroline acquired on 21 September 2001, Caroline takes the ***cost base of this particular parcel of MIT(II) units just before the demerger*** (from Step 1(e) above), which is $7,183.71. Caroline compares this $7,183.71 with $3,220.00 ($0.322, in accordance with the ATO's Class Ruling CR 2006/102, multiplied by 10,000, being the number of units in the parcel). Since $7,183.71 is greater than $3,220.00, there is no capital gain on this parcel.

Parcel acquired on 13 February 2004

For the parcel of MIT(II) units that Caroline acquired on 13 February 2004, Caroline, takes the *cost base of this particular parcel of MIT(II) units just before the demerger* (from Step 1(e) above), which is $91.13. Caroline compares this $91.13 with $36.70 ($0.322 multiplied by 114, being the number of units in the parcel). Since $91.13 is greater than $36.70, there is no capital gain on this parcel.

Parcel acquired on 13 August 2004

For the parcel of MIT(II) units that Caroline acquired on 13 August 2004, Caroline, takes the *cost base of this particular parcel of MIT(II) units just before the demerger* (from Step 1(e) above), which is $86.93. Caroline compares this $86.93 with $36.06 ($0.322 multiplied by 112, being the number of units in the parcel). Since $86.93 is greater than $36.06, there is no capital gain on this parcel.

Step 8 – add up any capital gains that emerged in Steps 6 and 7, and treat them as appropriate in your income tax return

No capital gains arose in Steps 6 and 7 on any of Caroline's parcels.