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Tax Guide for the income year ended 30 June 2012

Australian Infrastructure Fund (AIX)

1: Introduction

Overview of Tax Guide

This Tax Guide should be read in conjunction with your Annual Tax Statement. Your Annual Tax Statement contains details of the income that has been distributed to you by AIX and other tax information. This Tax Guide explains each section of your Annual Tax Statement to assist you to complete your income tax return.

This Tax Guide will cover the following topics:

Overview of your investment	Section 2
Distributions made by AIX Explains the components of your distribution which may be included in your income tax return	Section 3
Disposal of your investment Including capital gains tax consequences	Section 4
Cost base of your investment	Section 5

Important information

Taxpayers covered by this guide

This guide assumes you:

- Are an individual taxpayer
- Are an Australian resident for tax purposes
- Hold your investments on capital account.

This guide should only be used for your investment in AIX.

If your circumstances are different to the above criteria, your Annual Tax Statement for AIX will still give you the information that you require to prepare your income tax return.

Complying superannuation funds

Although the commentary in this Tax Guide relates to an individual, many of the principles are also relevant for complying superannuation funds. Additional comments have been included for complying superannuation funds; however please note that all tax return illustrations in this guide are for an Individual Tax Return.

Other investments

If you have more than one investment, please aggregate the relevant amounts for all investments before disclosing the total amount in each of the appropriate labels of the income tax return.

Deductions

This guide does not consider deductions to which you may be entitled, in respect of any expenses or outgoings in relation to your investment in AIX (for example, financial adviser fees, borrowing costs, etc).

Seeking professional tax advice

When using this Tax Guide, please note:

- This guide does not attempt to cover all the information you may require to complete your income tax return.
- The information contained in this guide is of a general nature and is not intended to be a substitute for the Australian Taxation Office's instructions.
- This guide should not be regarded as tax advice, and has been prepared without taking account of your individual investment objectives, taxation and financial situation or particular circumstances.
- This guide is based on the law, regulations, Australian Taxation Office forms and other guidance in effect at 1 July 2012.
- As income tax laws are complex and subject to constant change and interpretation by the courts, we strongly recommend you seek professional taxation advice or consult with your financial adviser about your individual tax position.

Annual Income Tax Return

You may need the following documents to assist you to complete your annual income tax return:

- Your AIX Annual Tax Statement for the year ended 30 June 2012, any Annual Tax Statements for other Hastings funds in which you are invested and tax information for any other relevant investments.
- ATO publications, including:
  - A copy of the *Individual tax return instructions 2012*
  - A copy of the *Individual tax return instructions supplement 2012*
  - A copy of the '*You and your shares 2012*' booklet
  - A copy of the '*Guide to capital gains tax 2012*' booklet
  - A copy of the '*Guide to foreign income tax offset rules 2011–12*' booklet.

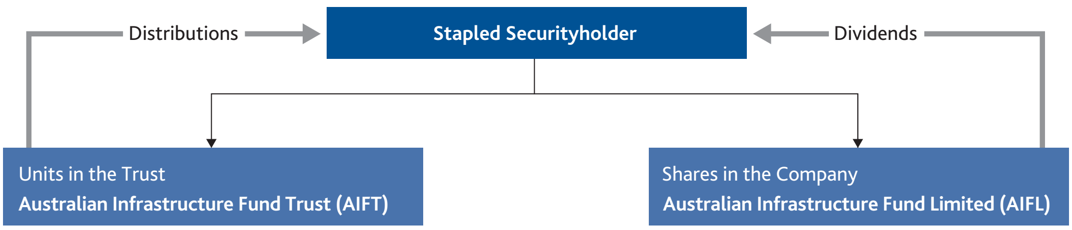
The ATO publications listed above can be downloaded from the ATO website at www.ato.gov.au or by calling the ATO Publications Distribution Service on 1300 720 092.

2: Overview of your investment

Your investment in AIX means you hold stapled securities that each consist of:

- A fully paid ordinary share in the Australian Infrastructure Fund Limited (the Company or AIFL).
- A unit in the Australian Infrastructure Fund Trust (the Trust or AIFT).

The share and unit are 'stapled' together. This means they cannot be traded separately and are listed on the Australian Securities Exchange (ASX) as a single quotation. The structure is shown in the diagram below:



The Trust is commonly referred to as a 'flow-through' trust because income derived by the Trust is generally not subject to income tax at the trust level but instead distributed to investors and subject to tax in the hands of the investor. The different types of income derived by the Trust (for example, interest, capital gains, foreign income etc) maintain their character when distributed to investors and are disclosed separately in your Annual Tax Statement.

The taxable amounts from your Annual Tax Statement that are to be included in your income tax return for the year ended 30 June 2012 are based on the amounts to which you are presently entitled. This may be different to the actual cash you received during the year from the Trust (e.g. your final distribution entitlement for the year ended 30 June 2012 may be paid by the Trust after the end of the year, but it is still included in your taxable income for the 30 June 2012 year).

The Company is taxed as a separate legal entity. Therefore, income derived by the Company is subject to tax at the company level and does not flow directly to investors (i.e. it is not a 'flow-through' entity). Dividends paid by the Company are required to be included in your income tax return for the year in which the dividends were actually paid.

Please refer to Section 3: 'Distributions made by AIX' for further information.

Although a stapled security must be traded as a whole, the share and the unit are treated separately for income taxation purposes. Broadly, this means:

- You must disclose dividends from the Company and trust distributions from the Trust separately in your income tax return (refer to Section 3: 'Distributions made by AIX').
- The share and unit are separate Capital Gains Tax (CGT) assets which means capital gains and losses are determined separately for each. This is important when you dispose of your investment (refer to Section 4: 'Disposal of your investment') or you receive a tax deferred amount or a return of capital (refer to 'Tax deferred amount and returns of capital' in Section 3).

3: Distributions made by AIX

Dividends – Items 11S and 11T of your income tax return

You are required to disclose dividends from AIFL at Item 11 of your tax return (refer to your Annual Tax Statement). Dividends paid by AIFL are to be included in your assessable income in the income year in which they are actually paid.

Dividends may be franked or unfranked. Franked dividends disclosed in your Annual Tax Statement should be disclosed at Item 11T in your income tax return and unfranked dividends should be disclosed at Item 11S.

If your Annual Tax Statement includes a Tax File Number (TFN)/Australian Business Number (ABN) amount withheld, this should be disclosed at Item 11V.

Note: Your Annual Tax Statement may also include dividends received as part of your trust distribution from AIFT (in the Australian taxable trust income section). This income is required to be disclosed in Item 13 of your income tax return, rather than Item 11 – see below.

Franking credits – Item 11U of your income tax return

Franking credits represent a credit for tax paid by a company on its taxable income. Franking credits are normally included in your assessable income, and may be available as a tax offset against your taxable income if specific holding period rules are satisfied. Broadly, to be eligible for the franking credit and tax offset, you must have held the shares 'at risk' for at least 45 days. This rule will not apply if you are an individual whose total tax offset entitlement does not exceed $5,000 for the income year. We recommend that you work through the '*You and your shares 2012*' booklet available on the ATO website to determine your eligibility to claim the benefit of any franking credits.

If you are entitled to claim franking credits, disclose the franking credit amount from your Annual Tax Statement at Item 11U of your income tax return.

TFN/ABN amounts withheld – Item 11V in your income tax return

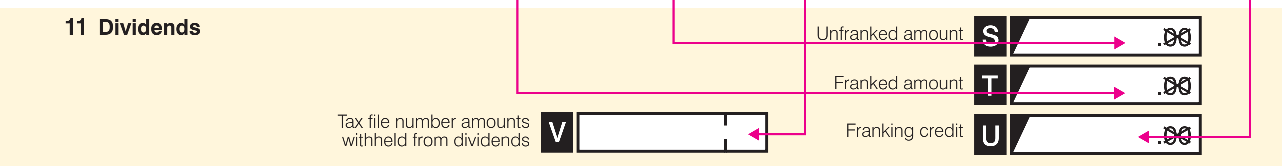
If your Annual Tax Statement discloses a TFN/ABN amount withheld, withholding tax has been deducted from your dividend. TFN/ABN withholding tax is withheld if notification of your TFN, ABN or relevant exemption is not received prior to the payment date. If you have not previously been refunded this amount, you may claim a credit or refund for it by including it in your income tax return at Item 11V.

Extracts from the AIX Annual Tax Statement and the 2012 Individual Tax Return form are shown below to assist you in completing your income tax return.

Extract from AIX Annual Tax Statement

Payment date	Franked amount	Unfranked amount	Amounts withheld	Net dividend	Franking credits
30 August 2011	xxx	xxx	xxx	xxx	xxx
27 February 2012	xxx	xxx	xxx	xxx	xxx
Total	**xxx**	**xxx**	**xxx**	**xxx**	**xxx**

Extract from Individual Tax Return form



The total amount disclosed in each Item on your income tax return should be the aggregate amount for all your investments.

Australian taxable trust income (also known as 'Non-primary production income') – Item 13U of your income tax return

You are required to disclose Australian taxable trust income from your Annual Tax Statement at Item 13U in your income tax return.

Australian taxable trust income includes your share of the following types of income distributed by AIX:

- Franked dividends
- Unfranked dividends
- Franking credits
- Australian interest
- Other Australian income.

Net capital gains, foreign income and foreign income tax offsets are not included in your Australian taxable trust income, but are included in other parts of your income tax return.

Franking credits – Item 13Q of your income tax return

Franking credits represent a credit for tax paid by a company and may be attached to dividends paid to AIX. Franking credits are normally included in your assessable income, and may be available as a tax offset against your taxable income if specific holding period rules are satisfied. Broadly, to be eligible for the franking credit and tax offset, you must have held the units in AIX 'at risk' for at least 45 days. This rule will not apply if you are an individual whose total tax offset entitlement does not exceed $5,000 for the income year. We recommend that you work through the '*You and your shares 2012*' booklet available on the ATO website to determine your eligibility to claim the benefit of any franking credits.

If you are entitled to claim franking credits, disclose the franking credit amount from your Annual Tax Statement at Item 13Q of your income tax return. Item 13Q should include franking credits in relation to your trust distribution. Do not include franking credits from direct share investments.

If you have exempt income, there may be circumstances where you are entitled to a refund of franking credits.

TFN/ABN amounts withheld – Item 13R in your income tax return

If your Annual Tax Statement discloses a TFN/ABN amount withheld, withholding tax has been deducted from your distribution. TFN/ABN withholding tax is withheld if notification of your TFN, ABN, or relevant exemption is not received prior to the payment date. If you have not previously been refunded this amount, you may claim a credit or refund for it by including it in your income tax return at Item 13R.

Extracts from the AIX Annual Tax Statement and the 2012 Individual Tax Return form are shown below to assist you in completing your income tax return.

Extract from AIX Annual Tax Statement

	Distribution	Franking Credits/ Foreign income tax offsets	Taxable amount
Australian income			
Dividends – franked	xxx	xxx	xxx
Dividends – unfranked	xxx		xxx
Interest	xxx		xxx
Other	xxx		xxx
Total	**xxx**	**xxx**	**xxx**
Other deductions from distribution			
TFN amounts withheld	xxx		
Non-resident withholding	xxx		

Extract from Individual Tax Return form

13 Partnerships and trusts

Primary production

Distribution from partnerships	N	.00	
Distribution from trusts	L	.00	
Landcare operations and deductions for decline in value of water facility	I	.00	
Other deductions relating to distribution	X	.00	TYPE
Net primary production distribution		.00	LOSS

Note: If you have a net loss from a partnership business activity, complete items P3 and P9 in the **Business and professional items** section of this tax return in addition to item **13**.

Non-primary production

Distribution from partnerships less foreign income	O	.00	
Distribution from trusts less net capital gains and foreign income	U	.00	
Franked distributions from trusts	C	.00	
Landcare operations expenses	J	.00	
Other deductions relating to distribution at O, U and C	Y	.00	TYPE
Net non-primary production distribution		.00	LOSS

Distributions of net capital gains (including net foreign capital gains) must be included at item **18** on page 8.
Distributions of foreign income must be included at item **19** or **20** on page 8.

Share of credits from income and tax offsets

Share of credit for tax withheld where Australian business number not quoted	P
Share of franking credit from franked dividends	Q
Share of credit for tax file number amounts withheld from interest, dividends and unit trust distributions	R
Credit for TFN amounts withheld from payments from closely held trusts	M
Share of credit for tax paid by trustee	S
Share of credit for amounts withheld from foreign resident withholding	A
Share of National rental affordability scheme tax offset	B

F

The total amount disclosed in each Item on your income tax return should be the aggregate amount for all your investments.

Capital gains – Item 18 of your income tax return

If your Annual Tax Statement includes a distribution of a capital gain from AIX, you should complete the 'YES' box at Item 18G of your income tax return. You will also be required to complete Item 18Q. Note that your AIX capital gain, if any, does not relate to a forestry managed investment scheme.

If you disposed of your investment in AIX during the income year, you will also need to include any capital gain or loss in this section assuming you hold your investment on capital account. Please refer to Section 4: 'Disposal of your investment' for further information.

Total current year capital gains – Item 18H of your income tax return

Item 18H requires you to add up all of your capital gains, including capital gains from other investments, for the income year (except the ones that are to be disregarded). Do not apply any CGT concessions or the CGT discount to this amount.

The table below provides a summary of the capital gains that may be distributed by AIX in an income year. If these are relevant in a given year they will be noted in your Annual Tax Statement.

Discounted capital gain	Discount capital gains are made by AIX from the disposal of investments where the CGT discount has been applied. Only 50 percent of the net capital gain made is included in the discounted capital gain component of the distribution. You will need to 'gross up' this amount by multiplying it by two and including the grossed up amount in your assessable income along with other net capital gains. You may then, depending upon your particular circumstances, apply the CGT discount to the 'grossed up' amount when determining your 'net capital gain' (see below). The CGT discount is 50 percent for individuals, or 33⅓ percent for complying superannuation funds.
CGT concession amount	CGT concession amount comprises both the non-assessable CGT discount amount paid to you and the amount of any capital losses applied by AIX to reduce capital gains made. The CGT concession amount is not assessable and does not need to be included in your income tax return. You are not required to adjust the cost base of your investment due to receipt of this amount.
Capital gain – indexation amount	Your distribution will only include an indexation amount if AIX has used the 'indexation method' to calculate a capital gain. The indexation method only applies to CGT assets acquired by AIX before 21 September 1999 and will only be used by the fund if it results in a lower capital gain than the discount capital gain method.
Capital gain – other amount	Other capital gains relate to assets that were held for less than 12 months by AIX. Neither the discount method nor indexation is applicable to these gains.

Net capital gains – Item 18A of your income tax return

The net capital gain you disclose in your income tax return at item 18A will depend on your individual circumstances.

Broadly, your net capital gain is the amount remaining after applying to your total current year capital gains whichever of the following items are relevant to you (in the following order):

- Capital losses from the current income year
- Unapplied net capital losses from earlier income years
- Any CGT discounts
- Any relevant small business exemptions.

It should be noted that capital losses should be applied against the capital gains before any CGT discounts are applied.

We recommend that you work through Section 18 (capital gains) of the *Individual tax return instructions supplement 2012* and the *Guide to capital gains tax 2012*, available on the ATO website, to ensure that you disclose your net capital gains (or losses) correctly.

Extracts from the AIX Annual Tax Statement and the 2012 Individual Tax Return form are shown below to assist you in completing your income tax return.

Extract from AIX Annual Tax Statement

	Distribution	Franking credits/ Foreign income tax offsets	Taxable amount
Capital gains			
Non-taxable Australian property			
Discounted capital gain	xxx	xxx	xxx
CGT concession amount	xxx		
Distributed capital gains	**xxx**		
Net capital gain			**xxx**

Extract from Individual Tax Return form

18 Capital gains

Did you have a capital gains tax event during the year? **G** Print **Y** for yes or **N** for no.

You must print **Y** at **G** if you received a distribution of a capital gain from a trust.

Did this CGI event relate to a forestry managed investment scheme interest that you held other than as an initial participant? **Q** Print **Y** for yes or **N** for no.

Net capital gain **A** .00

Total current year capital gains **H** Multiply by 2 .00

Net capital losses carried forward to later income years **V** .00

The total amount disclosed in each Item on your income tax return should be the aggregate amount for all your investments.

Foreign source income – Items 20E and 20M of your income tax return

You are required to disclose any foreign source income in your Annual Tax Statement at Item 20E.

Assessable foreign source income is your share of foreign dividends, foreign interest, any other foreign income and foreign income tax offsets. This amount does not include foreign capital gains.

Other net foreign source income from other investments should be disclosed at Item 20M and should be the same amount as item 20E of your income tax return provided you do not have any other foreign source income, foreign source tax losses or foreign assets or property from other investments.

We recommend that you work through Section 20 (foreign source income and foreign assets or property) of the *Individual tax return instructions supplement 2012* and the *Guide to foreign income tax offset rules 2011–12*, to ensure that you disclose your foreign source income correctly.

Foreign income tax offsets – Item 20O of your income tax return

Foreign income tax offsets represent foreign tax paid by AIX in respect of the foreign source income included in the distribution to you.

You may be entitled to a foreign income tax offset to the value disclosed in your Annual Tax Statement. Your actual foreign income tax offset entitlement depends on your individual circumstances, taking into account all of your foreign income and expenses.

Broadly:

1. If your total foreign income tax offset from all sources for the year is $1,000 or less, you can claim this amount in full.
2. If your total foreign income tax offset from all sources for the year is greater than $1,000, you can choose to claim $1,000 or you can work out your foreign income tax offset limit to determine your maximum entitlement. Broadly, your foreign income tax offset limit is the equivalent Australian tax payable on your overall net foreign income from all investments.
3. If in your circumstances you have incurred an overall foreign loss (after including all of your foreign income and expenses), foreign income tax offsets cannot be claimed and there is no ability to carry them forward to use against income in future years.

We recommend that you work through Part H of Section 20 (foreign source income and foreign assets or property) of the *Individual tax return instructions supplement 2012* and the *Guide to foreign income tax offset rules 2011–12*, available on the ATO website, to determine your entitlement to any foreign income tax offset, if relevant to you.

Extracts from the AIX Annual Tax Statement and the 2012 Individual Tax Return form are shown below to assist you in completing your income tax return.

Extract from AIX Annual Tax Statement

	Distribution	Franking Credits/ Foreign income tax offsets	Taxable amount
Foreign source income	xxx	xxx	xxx

Extract from Individual Tax Return form

20 Foreign source income and foreign assets or property

Assessable foreign source income **E** .00

Other net foreign employment income **T** .00 LOSS

Net foreign pension or annuity income WITHOUT an undeducted purchase price **L** .00 LOSS

Net foreign pension or annuity income WITH an undeducted purchase price **D** .00 LOSS

Net foreign rent **R** .00 LOSS

Other net foreign souce income **M** .00 LOSS

Also include at **F** Australian franking credits from a New Zealand company that you have received indirectly through a partnership or trust distribution.

Australian franking credits from a New Zealand company **F** .00

Net foreign employment income – payment summary **U** .00 LOSS

Exempt foreign employment income **N** .00

Foreign income tax offset **O**

During the year did you own, or have an interest in assets located outside Australia which had a total value of AUD$50,000 or more? **P** Print **Y** for yes or **N** for no.

F

The total amount disclosed in each Item on your income tax return should be the aggregate amount for all your investments.

Tax deferred amount and return of capital

Your Annual Tax Statement may include a tax deferred amount or a return of capital. You are not required to disclose these amounts in your income tax return.

Broadly, tax deferred amounts received, or capital returned, are not immediately included in assessable income. However, these amounts received in respect of your units should be applied to reduce the cost base or reduced cost base of those units. The reduction in cost base or reduced cost base will result in a larger capital gain, or smaller capital loss, when you sell the units (or another CGT event occurs).

If the aggregated tax deferred amounts received, or capital returned, in relation to a unit is sufficient to reduce your cost base or reduced cost base of that unit to zero, you should do the following:

- In relation to the particular tax deferred distribution or returns of capital that reduced the cost base to zero, treat any remaining part of the tax deferred distribution, or returned capital as a capital gain. You may be able to apply the CGT discount to this amount.
- In relation to any additional tax deferred distributions or returns of capital in respect of that unit, treat the tax deferred amount or capital returned as a capital gain. Again you may be able to apply the CGT discount to this amount.
- In relation to any subsequent disposal of your investment, work out any capital gain on the disposal of your investment on the basis that the cost base of your investment is equal to zero (except for any incidental cost that you incur on disposal). See Section 4: 'Disposal of your investment' for more information.

4: Disposal of your investment

If you disposed or redeemed any of your AIX stapled securities during the income year, you may have realised a capital gain or loss (provided you held your investment on capital account). The time of disposal is the date of the agreement to make the disposal, or the disposal date if there is no agreement.

You should complete the 'YES' box at Item 18G of your income tax return and also complete Item 18Q. Note that your capital gain from the disposal or redemption of securities in AIX does not relate to a forestry managed investment scheme.

For tax purposes, the share in AIFL and unit in AIFT are separate CGT assets which means capital gains and losses on disposal are determined separately for each.

Broadly, a capital gain is made if the proceeds that you receive for the disposal of each share/unit exceed your cost base for the share/unit and a capital loss is made if the proceeds are less than the reduced cost base of your share/unit. The cost base of stapled securities is discussed further in Section 5: 'Cost base of your investment'.

If you held your investment for more than 12 months, a capital gain resulting from the disposal of shares/units may be reduced by the 50 percent CGT discount for individuals, or 33⅓ percent for complying superannuation funds.

Alternatively, if you acquired your investment prior to 21 September 1999, you may be entitled to indexation of the cost base, frozen as at 30 September 1999. Your indexed cost base is used to calculate your capital gain (no discount is available).

If you realised a capital loss on disposal of your investment, that loss may be utilised against capital gains of the current year. Any excess capital loss may be carried forward to be utilised against capital gains of future years.

Any capital gain or capital loss will impact your net capital that you disclose in Item 18 of your income tax return. We recommend that you work through Section 18 (capital gains) of the *Individual tax return instructions supplement 2012* and the *Guide to capital gains tax 2012*, available on the ATO website, to ensure that you disclose your net capital gains (or losses) correctly.

5: Cost base of your investment

Apportionment of cost base

A stapled security must be traded as a single security. However, the unit and the share are treated separately for income tax purposes. This means that the unit and share are separate CGT assets and capital gains and losses are determined separately for each. It is therefore necessary to apportion the acquisition cost of your AIX security between the unit and the share and track events that affect their cost base separately.

	Cost base implications
1. Acquisition	You will need to apportion the acquisition cost of the AIX security between the unit and the share. You calculate the tax cost base of the unit or share by apportioning the overall cost base of the security on a 'reasonable' basis between the unit and the share. Investors will need to make their own decision regarding the 'reasonable' basis they will apply in their own particular circumstances. However, using the net asset value (NAV) of the unit and the share at the time you acquired your securities is generally accepted as reasonable. **Please refer to the Hastings Funds Management website (www.hfm.com.au) for relevant NAV information.**
2. Tax deferred distributions and returns of capital	Tax deferred distributions or returns of capital received from AIX should be applied to reduce the cost base, or reduced cost base, of the units in the Trust (AIFT). Please refer to 'Tax deferred amount and return of Capital' in Section 3 to determine the tax implications if aggregated tax deferred amounts, or returns of capital, in relation to a unit, reduce its cost base to nil. Tax deferred distributions do not alter the cost base, or reduced cost base, of shares in the Company (AIFL).
3. Other costs	Your cost base, or reduced cost base, of your units and shares should include incidental costs of acquisition and disposal (for example brokerage fees).
4. Disposal	You will need to apportion the sales proceeds from the disposal of an AIX security between the unit and the share. Sale proceeds should be apportioned on a 'reasonable' basis between the unit and the share. Investors will need to make their own decision regarding the 'reasonable' basis they will apply in their own particular circumstances. However, using the NAV of the unit and the share at the time you disposed of your securities is generally accepted as reasonable. **Please refer to the Hastings Funds Management website (www.hfm.com.au) for relevant NAV information.** Section 4: 'Disposal of your investment' contains more information regarding the tax considerations on the disposal of your securities.

We recommend that cost base records are maintained having regard to your individual circumstances.