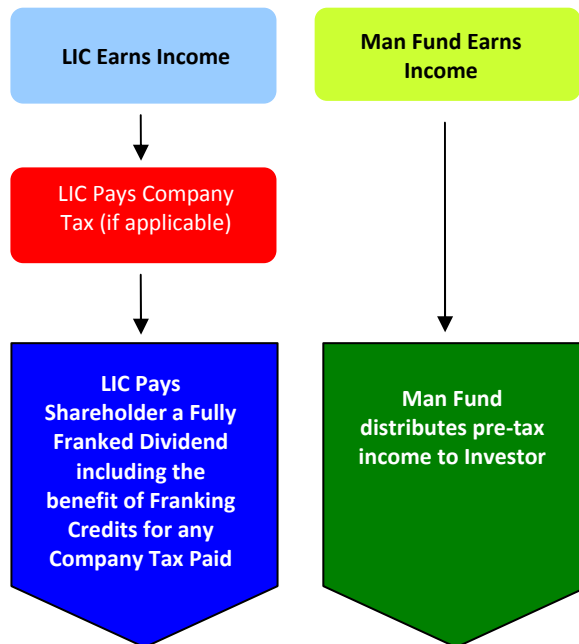


## Listed Investment Companies Provide Shareholders With After (Company) Tax Returns

### After Tax Returns

Investors in listed investment companies [LIC's] should appreciate that LIC's provide investors with after (company) tax returns. This is different to managed funds which provide investors with predominantly pre-tax returns.

While the methodology for the payment of tax is different, in many circumstances the ultimate impact on investors is similar. While an LIC pays company tax on certain types of income and gains, the LIC may in turn pay a franked dividend to its shareholders, which provides the investor with a tax credit for the company tax already paid by the LIC.



### Taxation of LIC Income vs Managed Fund Income

The following example illustrates the manner in which income and gains earned by both a listed investment company and a managed fund may be passed on to an investor. In this example, it can be seen that the after tax returns to both an LIC investor and a managed fund investor are the same.

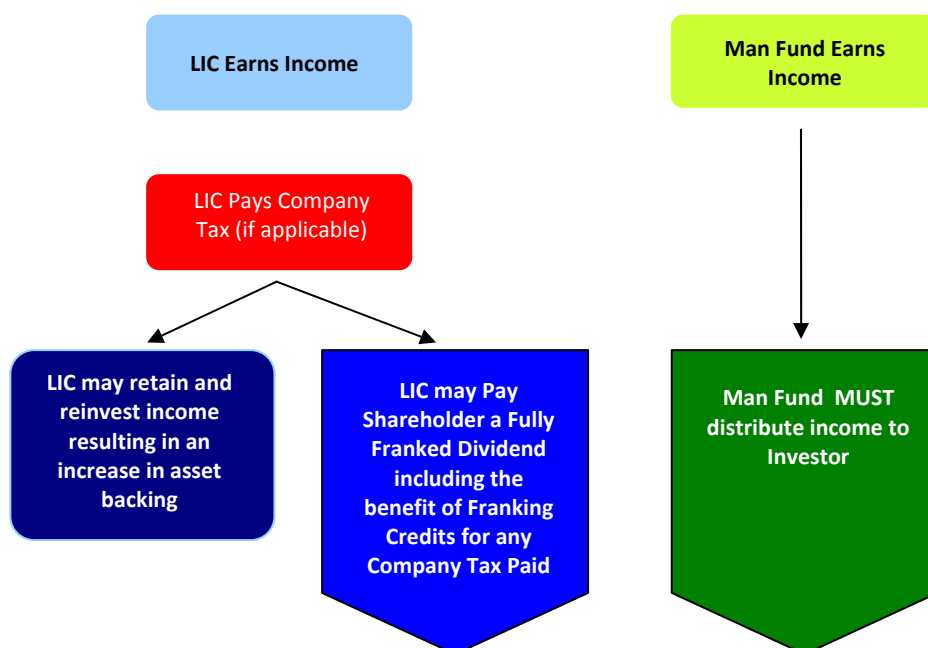
EXAMPLE OF AFTER TAX INCOME AND GAINS FOR AN INDIVIDUAL	Listed Investment Company (and its Shareholders)				Managed Fund (and its Investors)			
	Interest or Franked Dividend	Interest or other Unfranked Income	Interest or Non-Discount Capital Gain	Interest or Discount Capital Gain	Interest or Franked Dividend	Interest or other Unfranked Income	Interest or Non-Discount Capital Gain	Interest or Discount Capital Gain
Income or Gain Generated by LIC or MFund	70.00	100.00	100.00	100.00	70.00	100.00	100.00	100.00
Tax paid by LIC or MFund	0.00	(30.00)	(30.00)	(30.00)	0.00	0.00	0.00	0.00
Profit / Gain after Tax paid by LIC or MFund	70.00	70.00	70.00	70.00	70.00	100.00	100.00	100.00
<b>When Income or Gain is Distributed to Investors</b>	LIC Shareholder receives a fully franked dividend				MFund investor receives an income distribution			
Cash Received by Investor	70.00	70.00	70.00	70.00	70.00	100.00	100.00	100.00
Investor Taxable Income (applicable to income or gain)								
Dividend or Income Distribution Received	70.00	70.00	70.00	70.00	70.00	100.00	100.00	100.00
Gross Up for Franking Credit	30.00	30.00	30.00	30.00	30.00	0.00	0.00	0.00
Deduction for Capital Gains Discount				(50.00)				(50.00)
Investor Taxable Income	100.00	100.00	100.00	50.00	100.00	100.00	100.00	50.00
Calculation of Tax Payable by the Investor (on income or gain)								
Income Tax on Taxable Income	(45.00)	(45.00)	(45.00)	(22.50)	(45.00)	(45.00)	(45.00)	(22.50)
Adjust for benefit of franking credits	30.00	30.00	30.00	30.00	30.00	0.00	0.00	0.00
Net Tax Payable by Investor	(15.00)	(15.00)	(15.00)	7.50	(15.00)	(45.00)	(45.00)	(22.50)
<b>Investor income after payment of tax</b>	<b>55.00</b>	<b>55.00</b>	<b>55.00</b>	<b>77.50</b>	<b>55.00</b>	<b>55.00</b>	<b>55.00</b>	<b>77.50</b>

\*For illustrative purposes this example assumes that tax is payable at the top marginal tax rate by an individual investor in both a Listed Investment Company and a Managed Fund, that the LIC distributes income and gains by way of a fully franked dividend, and that the 50% CGT discount is available to the individual investor.



## Listed Investment Companies May Retain (Rather Than Distribute) Income

Listed investment companies, unlike managed funds, have the choice of distributing some or only part of their investment income. Where this occurs, the income or gains retained by the LIC are invested as part of the LIC's investment portfolio. As a consequence the LIC's asset backing per share will increase by the amount of the retained after tax income reinvested. In this way a shareholder receives the benefit of the income generated after tax, not through a franked dividend, but instead through the increase in the company's asset backing.



Some of the reasons listed investment companies may choose to retain income or realised capital gains include:

- To have cash available to take advantage of investment opportunities as they arise.
- To achieve an appropriate balance between income distributed and growth in capital.

In the circumstance where an LIC retains and reinvests income, and its asset backing increases accordingly, it should be recognised that should the investor sell their shares in the LIC, the individual may be subject to capital gains tax in the usual manner on any net capital gains arising from the sale of the shares. Some of the capital gain on those shares may have arisen as a result of the retention of income by the LIC and the associated increase in asset backing.

The specific taxation circumstances of every investor are different. In addition some investors may seek to hold their shares over the long term, and have no expectation of selling their shares in the near term. In some circumstances, and for some taxpayers, the total of tax paid at the company and investor levels may be higher if income or gains are retained rather than distributed by the LIC. In other circumstances or for other taxpayers, the total of tax paid at the company and investor levels may be lower if income and gains are retained rather than distributed by the LIC.

Investors may wish to seek guidance from their taxation or investment advisors on the manner in which their own taxation and financial circumstances will impact on the taxation of an investment in a listed investment company.

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This document should only be considered a general guide, and is not a complete summation of all performance measurement considerations nor the taxation of investment vehicles and their investors. Investors may wish to seek further guidance from their taxation or investment advisors to obtain a more detailed appreciation of these matters. This document represents general commentary only. It does not take into account the circumstances, objectives or investment needs of any individual. This document has been prepared by White Funds Management Pty Ltd ABN 76 074 709 210 AFSL 229843 GPO Box 473 Sydney NSW 2001 Australia, on behalf of Whitefield Ltd.

