### Guidelines for Tax on Non-Distributed Proceeds

#### Overview

This section details Market practice principles regarding tax on non-distributed proceeds events. The document will describe general market practice principles for tax on non-distributed proceeds events as well as specific rules per usage of each ISO20022 Corporate Action message used in the tax on non-distributed proceeds full lifecycle flow.

Specifically Non- Distributed Proceeds refers to a situation where holders of securities are “Deemed” to have received income, resulting in a withholding tax obligation. Withholding Agents have requirements to withhold tax on the deemed distribution and may have the obligation to perform year-end tax reporting for the deemed distribution to holders.

For the background legal framework refer to:

US Regulation: Section 305(c) of the Internal Revenue Code (IRC)RC and Dividend Equivalent Payment (DEP) under Section 871(m) of the IRC

Australian Legislation: The Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016 establishes a new class of trust known as an attribution managed investment trust (AMIT)

The SR2018 approved changes related to Tax on non-distributed proceeds processing are also documented within this paper. Please note that this market practice is based upon the SR2018 standards implementation in November 2018.

##### ISO 20022 Corporate Action Messages within Tax on non-distributed proceeds Flow

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| --- | --- | --- |
| **ISO 20022 Message Type** | **ISO 15022 Message Type** | **Tax on non-distributed proceeds Lifecycle Stage** |
| CANO | MT564 | Tax on non-distributed proceeds Announcement |
| CANO–E | MT564 | Eligible Balance Prior to Tax on non-distributed proceeds |
| CAPA | MT564 | * Tax on non-distributed proceeds * Projection of Cash Debit Movement |
| CAPC | MT564 | * Tax on non-distributed proceeds Cancellation Advice or * Projection Cancellation Advice |
| CACO | MT566 | Cash Debit Movement Confirmation |
| CACN | MT564 | Tax on non-distributed proceeds Event Cancellation Notice |
|  |  |  |

#### General Market Practice Principles for Tax on non-distributed proceeds Events

* All accounts that are notified of eligibility in a tax on non-distributed proceeds event via the CANO-Eligible message, or the MT564 should be notified of the tax on non-distributed proceeds results via the CAPA tax on non-distributed proceeds results or MT564 regardless of whether their accounts were affected by the Tax on non-distributed proceeds.



* **Explanation of when you would be notified of the events in the US Market (305c, 871m)**
* Issuer provides the “timing date” (typically based on the ex-date of the underlying security).
* Payment Date (debit) is determined by the withholding agent which is based on some position capture date.
* **Limitation of uses –** While applicable for global events (e.g. Australia)Deemed Rate should not be used in the U.S. The applicable rate would appear on the MT564 / CANO (for example GRSS for cash dividends) .
* **Please note that for 871m events, corporate action messaging is not recommended for derivatives or options. The notice of the 871m event needs to be triggered by another corporate action event that has a DEP impact. For example an Exchange Traded Note linked to a Cash dividend on a common stock.**
* **Explanation of when you would be notified of the events in the AU Market (**Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016)

The attribution of income (assessable income, exempt income and non-assessable non-exempt income) and tax offsets are attributed to a member on the AMIT member’s annual statement (AMMA Statement) issued by the AMIT after the end of the AMIT’s income year. The deemed payment amount will be subject to withholding tax.

#### Message rules for Tax on non-distributed proceeds Flow

##### Corporate Action Announcement (CANO / MT564)

* The Corporate Action Notification (CANO) for tax on non-distributed proceeds events contain the following key fields:
  + Official Corporate Action Identifier (COAF)
  + Corporate Action Reference Number (CORP)
  + Corporate Action Event Processing (CAEP) - DISN
  + CUSIP/ISIN (underlying)
  + CAEV Code TNDP
  + Tax on Non Distributed Proceeds Indicator (SMPG data source scheme)
    - Identification: US01 (871m) or US02 (305c)
    - Issuer: SMPG

e.g. ::22F::TNDP/SMPG/US01 (871m)

::22F::TNDP/SMPG/US02 (305c)

* + Record Date

DEBIT Cash Movement – Please note that the cash movement should appear as a debit to signify the potential debit related to the tax withholding (based upon the Gross Amount and Withholding Rate).

* + Payment Date
  + Withholding Rate
  + Deemed Rate – Rate applied for the calculation of deemed proceeds which are not paid to security holders but on which withholding tax is applicable.
  + Linkages – Linkage should be provided to the Cash Dividend or applicable event with the COAF provided.

*For Australia market, rate type code is required within the Deemed Rate with one of the below qualifiers:*

* + Deemed Dividend Proceeds [DEDI]
  + Deemed Fund Proceeds [DEFP]
  + Deemed Interest Proceeds [DEIT]
  + Deemed Royalties Proceeds [DERY]

##### Corporate Action Notification Eligible Balance (CANO-E / MT564)

* The CANO-Eligible Balance Message is a subset of the CANO message with its sole purpose to provide the eligible balance per account before the tax on non-distributed proceeds has occurred. The following key balance fields will be present:
  + CAEV Code TNDP
  + Tax on Non Distributed Proceeds Indicator (SMPG data source scheme)
    - Identification: US01 (871m) or US02 (305c)
    - Issuer: SMPG Eligible Balance
  + Settlement Position Balance
  + Pending Receipt and/or Pending Delivery Balance. Please note the depository for the US market does not supply pending receipt or delivery balances.
* For ISO20022, the CANO-Eligible message should follow the CANO message in the tax on non-distributed proceeds flow.

##### Corporate Action Preliminary Advice (CAPA / MT564)

The Corporate Action Movement Preliminary Advice (CAPA, MT564) message will provide preliminary advice of cash debit based upon tax on non-distributed proceeds results.

The CAPA message will contain the following fields:

* CAEV Code TNDP
* Eligible Balance (ELIG)
* Deemed Amount – also known as “Gross Taxable Amount” is the amount of proceeds which is not actually paid to the security holder but on which withholding tax is applicable.
* Deemed Rate – Rate applied for the calculation of deemed proceeds which are not paid to security holders but on which withholding tax is applicable. For Australia market, rate type code is required
  + Deemed Dividend Proceeds [DEDI]
  + Deemed Fund Proceeds [DEFP]
  + Deemed Interest Proceeds [DEIT]
  + Deemed Royalties Proceeds [DERY]
* Posting Amount / Net Cash Amount – Amount of Tax Debit

##### Corporate Action Movement Preliminary Advice Cancellation (CAPC / MT564)

The Corporate Action Preliminary Advice Cancellation (CAPC) message is used within the tax on non-distributed proceeds flow whenever tax on non-distributed proceeds results have been published through a CAPA / MT564 and either a cancellation of the tax on non-distributed proceeds occurs before the tax on non-distributed proceeds has allocated. The following scenarios occur with the CAPC:

* The CAPC message will be used when a tax on non-distributed proceeds has been announced (CAPA) and then the event is cancelled before the tax on non-distributed proceeds allocates. The CAPC message will cancel the tax on non-distributed proceeds results and projected movements and a CACN event withdrawal message would also be sent withdrawing the event.
* A CAPC tax on non-distributed proceeds cancellation message should not be output unless there has been a CAPA tax on non-distributed proceeds results message which has been output.

##### Corporate Action Movement Confirmation (CACO / MT566)

The Corporate Action Movement Confirmation Advice (CACO / MT566) is utilized in the tax on non-distributed proceeds message flow to indicate the cash movements (debit) resulting from the tax on non-distributed proceeds.

* CAEV Code TNDP
* Eligible Balance (ELIG)
* Deemed Amount – also known as “Gross Taxable Amount” is the amount of proceeds which is not actually paid to the security holder but on which withholding tax is applicable.
* Deemed Rate – Rate applied for the calculation of deemed proceeds which are not paid to security holders but on which withholding tax is applicable. For Australia market, rate type code is required
  + Deemed Dividend Proceeds [DEDI]
  + Deemed Fund Proceeds [DEFP]
  + Deemed Interest Proceeds [DEIT]
  + Deemed Royalties Proceeds [DERY]
* Posting Amount / Net Cash Amount – Amount of Tax Debit

##### Corporate Action Cancellation Advice (CACN / MT564)

The Corporate Action Cancellation Advice is used within the tax on non-distributed proceeds workflow to indicate the cancellation of a tax on non-distributed proceeds event.

#### Tax on non-distributed proceeds Appendices

##### Tax on non-distributed proceeds Appendix A. Key Definitions

**Eligible Balance -** Total Eligible balance based on Publication Date -1

**Tax Event Type Indicator** –Data source scheme to indicate what type of taxable event is occurring (currently 305(c) and 871m).

If Qualifier is DEEM and Data Source Scheme is not present, Rate Type Code must contain one of the following codes:

|  |  |  |
| --- | --- | --- |
| DEIT | Deemed Interest Income Australian Sourced | *Definition The difference between the amount of Interest Income attributed to the unitholder by the AMIT for the income year and the amount of Interest Income previously notified to the unitholder in relation to cash distributions for the year.* |
| DEDI | Deemed Dividend | *Definition The difference between the amount of Unfranked Dividend Income (that is not conduit foreign income) attributed to the unitholder by the AMIT for the income year and the amount of Unfranked Dividend Income (that is not conduit foreign income) previously notified to the unitholder in relation to cash distributions for the year.* |
| DEFP | Deemed Fund payment | *Definition The difference between the amount of the income components comprising a Fund Payment attributed to the unitholder by the AMIT for the income year and the amount of the Fund Payment previously notified to the unitholder in relation to cash distributions for the year.* |
| DERY | Deemed Royalties | *The difference between the amount of Royalty Income attributed to the unitholder by the AMIT for the income year and the amount of Royalty Income previously notified to the unitholder in relation to cash distributions for the year.* |

* **Deemed Amount** - also known as “Gross Taxable Amount” is the amount of proceeds which is not actually paid to the security holder but on which withholding tax is applicable.

##### Tax on non-distributed proceeds Appendix C. Examples

CANO / MT564



CANO-E / MT564



CACO / MT566

