Australian tax booklet for International (US-domiciled) iShares ETFs

1. Introduction

1.1 The Australian Tax Booklet for International iShares Funds ("Booklet") provides a general summary of the main Australian income tax implications of an investment by an Australian investor in iShares Exchange Traded Funds ("ETFs") that are domiciled in the United States ("US") and are cross listed for quotation on the Australian Securities Exchange ("ASX") ("International iShares").

1.2 The information in this Booklet is of a general nature only and does not address all of the taxation issues which may be relevant to a particular investor. Accordingly, this Booklet does not constitute legal, financial or tax advice and may not be relied upon as such.

1.3 Australian taxation laws are complex and may change over time. Accordingly, it is recommended that each investor obtains their own independent professional taxation advice applicable to their own individual facts and circumstances.

1.4 The Booklet also provides limited information in respect of estate and withholding tax obligations in the US. This information is very general and does not constitute advice. Investors must seek their own advice.

2. Assumptions

2.1 The comments outlined in this Booklet assume that the investor:

(a) is an Australian resident for income tax purposes with an income year ending on 30 June 2019;

(b) is an individual taxpayer or a complying superannuation fund;

(c) does not carry on a business of either trading or dealing in shares or otherwise hold investments on revenue account – any subsequent disposal of the investment in an iShares fund will therefore be subject to the capital gains tax regime; and

(d) returns dividend distributions from holding International iShares funds on a cash basis.

2.2 This Booklet is based on the Australian taxation laws in force and the administrative practices of the Australian Taxation Office generally accepted as at 30 June 2019. Taxation laws may change in the future without notice. Furthermore, legislation introduced to give effect to any announcements regarding tax may contain provisions which were not contemplated at the time of the announcements.

2.3 The Australian government is currently reviewing the Australian tax system and investors should seek their own advice and monitor the progress of announcements and any legislative changes.

2.4 This Booklet includes:

Appendix A: Information to assist you to complete your tax return

3. iShares ETFs – background

3.1 Your investment consists of a class of shares (a "Fund") issued by iShares, Inc. or iShares Trust ("collectively iShares") on the ASX. Each iShares company is a managed investment company incorporated in the US and registered with the US Securities & Exchange Commission under the Investment Company Act of 1940.

3.2 In Australia, both iShares companies are registered foreign investment companies (iShares, Inc. ARBN 125 632 279, iShares Trust ARBN 125 632 411). For Australian tax purposes, your investment is a share in a foreign company, being iShares, Inc. or iShares Trust. The term iShares is used in this document to refer to either iShares entity.

3.3 The buying and selling of International iShares ETFs on the ASX is settled by way of Chess Depositary Interests ("CDIs").

3.4 During the income year, the Fund converted from a US-domiciled entity to an Australian-domiciled managed fund, which is treated as an Attribution Managed Investment Trust ("AMIT") for Australian tax purposes. From the point in time after which your interest in the Fund converted to an AMIT, we recommend you consult the "Australian tax booklet for Australian-domiciled iShares ETFs" to assist with the completion of your tax return. Due to the conversion of the Fund during the year, you will receive two Computershare tax statements, one being referable to the income year where the Fund was US-domiciled, and one being referable to the income year where the Fund was Australian-domiciled.

3.5 Computershare Investor Services Pty Limited ("Computershare") is the registrar of the funds in Australia. Computershare is not responsible for any information contained in this Booklet.

3.6 On March 18, 2010 the United States Congress enacted The Foreign Account Tax Compliance Act ("FATCA") as a part of the Hiring Incentives to Restore Employment Act ("HIRE"). FATCA requires financial institutions and certain non-financial institutions to identify and disclose their US account holders. The goal of FATCA is to combat offshore tax evasion through increased tax transparency. Among other things, FATCA requires the US-domiciled iShares ETFs to request self-certifications from investors certifying certain tax attributes inclusive of the investors FATCA status. The self-certifications are made by investors on U.S. Internal Revenue Service form(s) W-9 and W-8. We may request a W-9/W-8 to ensure compliance with our FATCA obligations. Failure to provide a complete and accurate W-9 or W-8 may result in a higher rate of U.S. withholding taxes and reporting your account to the Australian Taxation Office.

Please consult your professional advisor should you wish to understand the implications of FATCA on your particular circumstances.

4. Tax overview

4.1 Australian residents are taxable on their worldwide income for Australian tax purposes. Australian residents may also be taxable in the US on any income derived from the US. A reduced rate of tax may apply in respect of US sourced income where the Australia/US Double Tax Agreement applies.

5. Distributions

5.1 Frequency and payment of dividend distributions

Distributions declared by each iShares ETF are usually paid quarterly, semi-annually, or annually depending on the iShares ETF's distributions calendar. You must be a registered CDI holder in a iShares ETF to which a distribution is payable as of the iShares ETF's record date to receive a distribution. Details of the distributions calendar for each iShares ETF are available on iShares.com.au ("Website"). There is no guarantee that any distributions will be declared in the future, or that if declared, the amount of any distributions will remain at current levels or increase at any time.

Distributions in Australia will typically be paid by Computershare, approximately 18 business days following the record date of the respective iShares ETF. These payments will be made to entitled shareholders in Australian dollars.

5.2 Assessability of dividend distributions

As a shareholder, you will be assessed on all dividend distributions from each iShares ETF in the financial year in which they are paid. For Australian tax purposes, the assessable amount should be the dividend distribution you receive gross of the US withholding tax deducted.

Since dividend distributions from an International iShares ETF represent foreign income, there are no franking credits attached.

5.3 Withholding tax

US withholding tax will generally be levied on dividend distributions paid to you as an Australian shareholder of a CDI. The US withholding tax rate is typically 30%, but is generally reduced to 15% under the Australia/US Double Tax Agreement. In order to take advantage of this reduced rate, you should complete a W-8 form (refer 5.4).

You should be entitled to a foreign income tax offset for the US withholding tax, up to the amount of any Australian tax payable on the dividend distribution of your CDIs. Please note, a foreign income tax offset may only be used to offset the Australian tax arising from your dividend distribution or your other foreign income. This may therefore result in unutilised foreign income tax offsets.

Your Dividend Payment Advice from Computershare will show the net amount in Australian dollars of any distribution of your CDIs. It will also show the rate of withholding tax, the withholding tax amount deducted from your dividend payment in US dollars and the exchange rate applied to convert the net dividend distribution from US dollars to Australian dollars.

5.4 Forms issued by the US tax authorities:

W-8 form

Computershare provide a pre-populated W-8BEN form for individuals and a pre-populated W-8BEN-E form for entities (such as a Self Managed Superannuation fund) for ease of completion.

Copies of these forms can be obtained from computershare or the iShares website (iShares.com.au).

The US tax authorities require you to complete a W-8 form to determine how much withholding tax to deduct from your dividend distributions.

Generally, if you do not complete this form, a higher withholding tax rate will apply to your distribution, typically 30%.

W-8 forms are valid for the year of lodgement and the following three years. Computershare will send you a new form to complete before the expiry of the current form. This will ensure that you can continue to receive the lowest possible withholding tax rate on your dividend payments.

Other US form – Form 1042

The US tax authorities require Computershare to issue a statement called a Form 1042 each year to every Australian CDI holder, after the end of each calendar year. This contains information which is relevant for US tax obligations but it is not relevant for Australian tax obligations. You should consult your taxation adviser concerning tax obligations outside Australia.

5.5 Return of capital

From time to time, a iShares ETF may return capital to their investors. A return of capital is a return of part of the cost which you outlaid in making your original investment in the iShares ETF.

As soon as practical, following 30 June each year, the Website will disclose the breakdown between "dividend" and "return of capital" for any distributions paid during the financial year.

Please note that the Dividend Payment Advice you will receive from Computershare will disclose each distribution payment only as a dividend. To check that none of this payment is a return of capital, please refer to the Website before you complete your annual income tax return. You should do this because dividends are treated differently to returns of capital, for Australian tax purposes (see Appendix A for more details).

5.6 Foreign exchange gains and losses

On the assumption that income is assessed to you on a cash basis, you will calculate your dividend or return of capital in Australian dollars, in accordance with the exchange rate shown on your Computershare-issued Dividend Payment Advice. Accordingly, for Australian tax purposes, you should not disclose any foreign exchange gains or losses in relation to your distributions of CDIs.

6. Capital gains/losses

6.1 General

The sale or other disposal of your CDIs will constitute a capital gains tax ("CGT") event for Australian tax purposes. You will make a capital gain if the capital proceeds you receive as a result of the CGT event are greater than the cost base of the CDIs. Subject to the comments at 6.2 below, the cost base (or reduced cost base) of your CDIs is generally the amount that you paid for the investment and any incidental costs you incur on its acquisition and disposal (e.g. broker's fees).

If you are eligible for the discount capital gains concession, you may reduce the realised nominal capital gain by 50% if you are an individual or by 33 1/3% if you are a complying superannuation fund. This concession will apply if you have held the CDIs for at least 12 months prior to the CGT event.

If the capital proceeds you receive on the disposal of your CDIs are less than their reduced cost base, the difference is treated as a capital loss. Such losses can be offset against capital gains arising in the current or future income years, but cannot be used to reduce the tax payable on your ordinary income (such as dividends).

6.2 Return of capital

For the purposes of calculating a capital gain/loss, you should reduce the cost base of your CDIs by any amount you received which was a return of capital. You can obtain the return of capital component from the Website. Please note that this is not available from Computershare (refer 5.5). If you sell your CDIs many years after you receive a return of capital, you must ensure you keep appropriate records so you can reduce your cost base in the year you sold your CDIs.

Where the total returns of capital exceed the cost base of your CDIs – i.e. the cost base has been reduced to zero, the excess is assessable as a capital gain, even if you have not sold your CDIs.

7. Accruals taxation – FIF and CFC provisions

7.1 FIF provisions

Foreign Investment Fund ("FIF") accrual provisions do not apply to your CDIs as the FIF accrual provisions have been repealed for the 2010/2011 income year and later income years.

7.2 CFC provisions

The Controlled Foreign Companies ("CFC") rules are unlikely to apply to your CDIs on the basis that each international iShares ETF is a large US listed company and the requisite investor control tests should not be satisfied. However, if an investor has reason to believe that these provisions may be relevant, they should seek independent tax advice.

8. Pay As You Go (PAYG)

8.1 You may be required to pay tax instalments on your dividend distribution under Australia's PAYG system. If this applies, you should include your iShares dividend distribution in your personalised Business Activity Statement ("BAS") or Instalment Activity Statement ("IAS") which is lodged on a monthly, quarterly or annual basis (depending on your circumstances).

Your tax adviser can assist you with your PAYG obligations.

8.2 If you are liable to PAYG instalments, the Dividend Payment Advice sent with each distribution payment will show you the amount of your iShares distribution to include in your BAS or IAS.

9. Other item – US estate tax

An investor (who is not a US citizen and is not domiciled in the US) may be subject to US estate tax if at the time of their death, they beneficially own CDIs.

The amount of the estate tax is determined by reference to the value of iShares (CDIs) held at death. However the amount of any such tax may be reduced pursuant to an Australian/US estate tax treaty. The reduction can include a credit of US$13,000 for the first USD$60,000 of US situated assets (including iShares ETFs). Depending on the structure/vehicle that owns the US situated assets, estate tax may not apply.

In addition to the estate tax, an investor can also be subject to US generation-skipping transfer tax where they transfer CDIs to a grandchild or a more remote descendant at death.

The estate and generation-skipping taxes are levied on a self assessment basis such that the estate is responsible for making the appropriate tax filings and paying the taxes. Investors must obtain their own advice about the impact of these taxes to their specific circumstances.

Appendix A

INFORMATION TO ASSIST YOU TO COMPLETE YOUR 2019 INCOME TAX RETURN

The information in this appendix will assist an Australian resident individual or an Australian resident complying superannuation fund which has invested in international iShares ETFs, to complete their Australian tax return for the financial year ending 30 June 2019. An Australian resident superannuation fund which is a self-managed superannuation fund, must complete the 2019 Self-managed superannuation fund annual return ('SMSF annual return'). All other superannuation funds must complete the Form F tax return. Form F relates to the Fund income tax return. All references made are to the individual tax return instructions supplementary guide 2019, the Form F tax return and the SMSF annual return are to the 2019 paper versions of each form.

It assumes that the shares (or CDIs) in International iShares ETFs are held on capital account and subject to the capital gains tax regime when they are sold. If the CDIs are held on revenue account or as trading stock, please consult your tax adviser.

It also assumes that the investor returns dividend distributions from holding the CDIs on a cash basis.

The information in this appendix should be read in conjunction with the general information which comprises the "Australian tax booklet for international (US-domiciled) iShares ETFs".

The information in this appendix is of a general nature only and does not address all of the taxation issues which may be relevant to a particular investor. Accordingly, it does not constitute legal, financial or tax advice and may not be relied upon as such. Australian taxation laws are complex and may change over time.

It is recommended that each investor obtains their own independent professional taxation advice applicable to their own individual facts and circumstances.

DIVIDENDS

You should show dividends paid by iShares ETFs in your tax return at:

for individuals

- item 20, labels M and E of the tax return for individuals (supplementary section).

for superannuation funds

- item 10, labels D1 and D of the form F tax return and item 11, labels D1 and D of the SMSF annual return.
- item 17, label D of the form F tax return as "Y" or "No". This question is not relevant for SMSF investors.

FOREIGN TAX OFFSET

You should disclose the withholding tax you can claim as an income tax offset in your tax return at:

for individuals

- item 20, label O of the tax return for individuals (supplementary section).

for superannuation funds

- item 12, label C1 of the form F tax return and item 13, label C1 of the SMSF annual return.

CAPITAL GAINS TAX

Capital gains from disposing of your iShares ETFs (CDIs) are disclosed at:

for individuals

- item 18 in the tax return for individuals (supplementary section).

Total current year capital gains (18H of your income tax return) capital gains calculated under the Discount Method without applying the 50% discount. This amount will also include any foreign capital gains.

Net capital gains (18A of your income tax return)

This amount includes the same capital gain amounts that are included in Item 18H, except that the capital gains calculated under the Discount Method are included after applying the 50% discount.

If you have derived capital gains or losses from other investments, the amounts disclosed in 18A as net capital gains need to be adjusted to take additional gains/losses into account. If you are a taxpayer who is eligible for discounted capital gains (i.e.. the 50% CGT discount) you are required to offset capital losses against gross (i.e.. undiscounted) capital gains prior to calculating the discounted capital gains amount.

for superannuation funds

- item 10, labels G, M and A of the form F tax return and item 11, labels G, M and A of the SMSF annual return.

You may also have to complete a Capital Gains Tax Schedule.

RETURN OF CAPITAL

A return of capital is not disclosed in your income tax return, however if you dispose of your CDIs, it is included as part of your capital gains calculation, via a cost base reduction. If the return of capital exceeds your cost base (or reduced cost base), you should calculate a capital gain even if you have not sold your CDIs.

SUMMARY OF USEFUL AUSTRALIAN TAX OFFICE (ATO) BOOKLETS

The following booklets may be useful to you and are available at ato.gov.au.

The versions available at the time of printing this Booklet are in respect of the 30 June 2019 year.

- Foreign income return form guide 2018-2019
- Guide to foreign income tax offset rules 2018-2019
- You and your shares 2019
- Introduction to Pay As You Go (PAYG) instalments

Want to know more?

blackrock.com/au/ishares

iShares.Australia@blackrock.com

1300 474 273

BLACKROCK®

iSH–6435–22.07.19