

REITs - Tax Consequences for Shareholders

New Frontier Properties Ltd (“New Frontier”) converted to a UK Real Estate Investment Trust (“UK REIT”) on 21 October 2015

A UK REIT is a UK company or group that invests in property and enjoys a measure of protection from corporation tax in return for an obligation to distribute a significant amount of the UK REIT’s cash flows to shareholders.

As a UK REIT, New Frontier does not pay UK direct taxes on the income and capital gains from its qualifying UK property rental business (the “Tax Exempt Business”).

Distributions

A UK REIT is required to distribute at least 90% of its taxable profits from its Tax Exempt Business to shareholders, in the form of a Property Income Distribution (“**PID**”), each accounting period. A UK REIT may elect to designate any additional dividend above the 90% minimum PID as either a PID or an ordinary dividend (“**Non-PID**”).

Following its conversion to UK REIT status, New Frontier currently expects that future dividend payments may comprise either a mixture of both PID and Non-PID or solely a PID, depending on the circumstances at the time. The amount of PID and any Non-PID elements of each dividend will be shown on the associated tax vouchers that will be provided to shareholders within 14 days from the dividend payment date.

Shareholders should note that the tax treatment of PID and Non-PID dividends differs. Profits distributed as a PID have not been taxed in the Company and therefore are potentially fully taxable (for UK tax purposes) in shareholders’ hands as property letting income. A PID is subject to the deduction of a UK withholding tax, as detailed below. Any Non-PID dividends will be treated in the same way as dividends paid by non-UK REIT companies.

The tax treatment for the various categories of shareholders have been summarised below.

UK TAX RESIDENT SHAREHOLDERS

UK tax treatment of PIDs

UK resident shareholders are taxed on PIDs as property letting income separate from any other property letting business. The gross amount of the PID is subject to tax with a credit for withholding tax deducted from the payment (see further below).

Her Majesty’s Revenue & Customs (HMRC) tax returns contain a separate box and explanatory notes to enable individual tax payers to declare amounts received in the form of PIDs.

Withholding tax on PIDs

Subject to limited exceptions, New Frontier is required to withhold tax at source from its PIDs at the UK basic rate of income tax, currently 20%.

Because of the withholding tax, a UK resident individual taxable at the basic rate will have no further tax to pay. By contrast, a UK resident individual taxable at the higher rate of 40% (or the additional rate of 45%) will have a further 20% (25% if an additional rate tax payer) to pay. An individual, who does not pay tax, perhaps because of personal allowances, may reclaim the tax withheld in their tax return.

Gross payment of PIDs for certain categories of shareholder

Under the UK REIT rules, certain categories of shareholder are entitled to receive PIDs without withholding. Shareholders qualifying for gross payment are principally:

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- UK resident companies
- UK public bodies
- UK charities
- UK pension funds
- Managers of ISAs, PEPs and Child Trust Funds.

FOREIGN SHAREHOLDERS

Where a Shareholder who is resident for tax purposes outside the UK receives a PID, the PID will generally be chargeable to UK income tax as profit of a UK property business and this tax will generally be collected by way of a withholding. (The tax treatment of South African tax resident shareholders is dealt with in further detail below.)

Non-resident shareholders in countries with double tax treaties with the UK, which provide for withholding tax on dividends at a rate lower than 20%, may be able to make claims for repayment of the difference from HMRC.

Claim forms for non-resident individuals and companies may be obtained from the HMRC website at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/373949/uk-reit-dt-individual.pdf and https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/373948/uk-reit-dt-company.pdf or by contacting HM Revenue & Customs, Trusts & Estates, Ferrers House, Castle Meadow Road, Nottingham, England NG2 1BB

Non-PID Dividends

Non-PID Dividends paid by New Frontier will be taxed in the same way as normal corporate dividends paid by a UK company, whether in the hands of individual or corporate Shareholders.

SOUTH AFRICAN TAX RESIDENT SHAREHOLDERS

UK Withholding tax

As referred to above, under UK law the Company is required to withhold UK income tax at source at the basic rate (currently 20%) from its PIDs.

The South African-UK double tax treaty provides for a withholding tax rate of 15% on dividends. Subject to a successful claim being made to HMRC, South African tax resident shareholders will be able to obtain repayment of 5% of the UK tax withheld on the PID.

No UK withholding tax is charged on non-PID distributions.

Treatment of PIDs

The taxation of a PID for South African tax purposes will depend on whether the PID is a "foreign dividend" as defined by section 1 of the Income Taxes Act, No. 59 of 1962 ("the Act"). The analysis below assumes this will be the case.

South African shareholders who are individuals

No South African income tax will be payable on the PID, although individual shareholders will be subject to South African dividend withholding tax at a rate of 15 per cent (see below). The dividend withholding tax may be reduced by the foreign withholding tax suffered on the dividend, subject to certain administrative requirements being met. A credit of the UK withholding tax may therefore be available, such that no additional South African dividend withholding tax should arise in respect of UK PIDs.

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South African corporate shareholders

Corporate South African shareholders in the Company will be exempt from South African income tax on PID income and South African dividend withholding tax provided that the South African companies are the beneficial owners of the dividends, and the Company is (by the date determined by the Company or its regulated intermediary, or where no such date is determined the date of payment of the dividend) in possession of declaration and undertaking forms relating to the beneficial ownership of the dividends.

On the basis of the above, no additional South African income tax or dividends tax should arise on the PID. The only incidence of tax will be the 15% net withholding tax once a successful claim has been made to and processed by the UK authorities under the UK-South African double tax treaty.

South African exempt shareholders

No South African income tax is payable by income tax exempt entities such as retirement funds and public benefit organisations on receipts from PID distributions. In addition, such bodies are exempt from South African dividend withholding tax provided the Company or its regulated intermediary is, (by the date determined, see above) in possession of declaration and undertaking forms relating to the beneficial ownership of the dividends.

There is generally no provision to enable the PID to be paid gross to such bodies and therefore the UK withholding tax will be withheld on distributions to such bodies, currently at a rate of 20%. Assuming the shareholder is able to make a successful claim to HMRC under the UK-South African double tax treaty the net tax suffered will be 15%.

Treatments of non PIDs

South African shareholders who are individuals

Non PID distributions will not be subject to UK withholding taxes. Such distributions should be treated as foreign dividends in South Africa and will not be chargeable to South African income tax but will be subject to South African dividends withholding tax at a rate of 15%. However, no credit will be available to South African resident shareholder on the underlying UK or overseas corporate income taxes charged on the income and gains from which the dividends are paid.

South African corporate shareholders

Corporate South African shareholders in the Company will be exempt from South African income tax on non-PID income and South African dividend withholding tax provided that the South African companies are the beneficial owners of the dividends, and the Company is (by the date determined by the Company or its regulated intermediary, or where no such date is determined the date of payment of the dividend) in possession of declaration and undertaking forms relating to the beneficial ownership of the dividends.

On the basis of the above, no income tax or dividend withholding tax charge should arise in South Africa and the only incidence of tax will be the underlying UK or overseas corporate income tax.

South African exempt shareholders

No South African income tax will be payable by income tax exempt entities or entities such as retirement funds and public benefit organisations on receipts from non-PID distributions. In addition, such entities are exempt from South African dividend withholding tax provided the Company paying the distribution is in possession of declaration of undertaking forms relating to the beneficial ownership of the dividends.

South African dividend withholding tax

South African dividend withholding tax applies to dividends paid by New Frontier to certain South African residents because New Frontier is a non-South African tax resident company which is listed on the JSE.

New Frontier is obligated to withhold the South African dividend tax on dividend payments to South African

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residents and pay the tax which has been withheld over to the South African Revenue Service unless an exemption applies (for example if the beneficial owner is an SA retirement fund or SA resident company).

New Frontier will also be obliged to submit a dividend tax declaration form to the South African Revenue Service in respect of these dividends.

Important note

This summary of tax consequences for shareholders is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional tax advice. New Frontier Properties Ltd accepts no responsibility for any loss arising from any action taken or not taken by any person using this material. If you are in any doubt as to your tax position or if you may be subject to tax in a jurisdiction other than the UK or South Africa, you should consult your own professional advisers.