Charter Hall Limited
ACN 113 531 150
Level 20, No.1 Martin Place
Sydney NSW 2000
GPO Box 2704 Sydney NSW 2001
T +61 2 8651 9000
F +61 2 9221 4655
www.charterhall.com.au

19 April 2017

Division Head
Corporate and International Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: stapledstructures@treasury.gov.au

Dear Sir or Madam

Subject: Stapled Structure Submission

Charter Hall welcomes the opportunity to make a submission in relation to the Government's review of Stapled Structures, particularly the targeting of corporate groups that inappropriately use stapled structures to re-characterise trading income as passive income. Charter Hall is supportive of initiatives targeted at preventing artificial re-characterisation of income but believes this requires a considered review and consultation.

About Charter Hall

Charter Hall is one of Australia's leading property groups with a total property portfolio of A$19 billion. Charter Hall manages and invests in over 300 commercial properties across Australia including office buildings, supermarket anchored retail centres, and a rapidly growing stable of industrial assets. Charter Hall manages these assets on behalf of institutional, wholesale and retail investors.

Charter Hall is a stapled group comprising Charter Hall Limited ("**CHL**") and Charter Hall Property Trust ("**CHPT**"). Together, shares in CHL and units in CHPT trade on the Australian Securities Exchange under the code CHC.

Key submission points

Charter Hall makes the following submission:

1 Stapled groups are not the problem

Stapling is merely a means of aggregating separate businesses into a single security that can be traded together, typically on the ASX. As such, stapling facilitates common ownership of separate operations. However, the stapled entities remain separate legal entities in accordance with the Corporations Act 2001 and under tax laws.

Stapling itself does not lead to inappropriate tax outcomes or raise any integrity concerns for Government or the community. For example, Charter Hall Long WALE REIT ("**CLW**") is a stapled security comprising seven stapled managed investment schemes that trade on the ASX as a single security under the code CLW. Each of the seven-stapled securities is a flow-through trust for taxation purposes. No tax distortions arise through the use of a stapled structure. CLW is just one of many examples available where the use of stapled structures does not result in tax distortions but provides a mechanism and flexibility that allows us to deliver returns for our investors, sustains investment in the industry, and through employment and sustainable earnings, deliver benefits to the Australian community.

Australia has an internationally competitive REIT regime that has developed over several decades and that has only recently faced significant reform of REIT taxation. We are concerned that imposing major changes on the taxation of stapled groups will have unintended consequences and do nothing more than raise questions in relation to sovereign risk and damage a mature AREIT industry.

The real problem is re-characterisation of trading income to passive income.

2 Re-characterisation of income

Re-characterisation of income results in otherwise taxable income of a corporate being allegedly treated as flow through income of a trust. Charter Hall is supportive of initiatives targeted at preventing re-characterisation of income. These initiatives may include:

- A review of Division 6C

Any review of Division 6C should include modernising the list of "eligible investment business". In particular, any passive use of property should be included in the list of eligible investment business.

Further, the consequences of non-compliance should be reviewed. Under current law, all income of the trust would be taxed as a corporate taxpayer for a particular year. This punishment is so draconian that it is virtually impossible for the ATO to administer.

- Specific anti-avoidance measures

It is not immediately clear what additional anti-avoidance measures could be implemented to target re-characterisation of income. Any proposed measures should involve thorough consultation with industry and stakeholders. We are open to considering measures and will work with government and industry to identify areas where progress can be made.

3 Considered review

Any review to eliminate re-characterisation of income should involve consultation with industry and stakeholders and be conducted in a considered manner. As such, any Federal Budget announcement should contain the following themes:

- An acknowledgement that stapled structures, per se, are not the problem, but have been effective in promoting a mature and successful AREIT industry.
- Artificially re-characterising trading income to passive income the issue that needs to be addressed and may be distorting the tax system. As this is a complex matter, consultation with stakeholders is important to ensure that the right investment signals are sent to both local and international stakeholders and that concerns of sovereign risk do not arise.

Yours faithfully

David Harrison

Managing Director and Group CEO

T 02 8651 9142
E david.harrison@charterhall.com.au