



# SIRIUS REAL ESTATE LIMITED

## Shareholder taxation sections

### *Important notice*

*This summary of tax consequences for shareholders is intended to provide only a general outline of the subjects covered, each of which is subject to change, possibly with retrospective effect. It should not be used in place of professional tax advice. If you are in any doubt as to your tax position, or you are subject to tax in a jurisdiction other than the United Kingdom (“UK”) then you should consult your own professional tax advisors.*

### *Real Estate Investment Trust (“REIT”) information*

Investing in property through a UK taxable corporate investment vehicle has the disadvantage that, in comparison to a direct investment in property assets, some categories of shareholders may effectively bear tax twice on the same income: first, indirectly, when the corporate investment vehicle pays corporation tax on its profits, and secondly, directly when the shareholder receives a dividend. UK non-tax paying entities, such as UK pension funds, could bear tax indirectly when investing through a taxable closed-ended corporate vehicle that is not a REIT, which they would not suffer if they were to invest directly in the property assets.

Subject to certain exceptions, a UK REIT is a listed company which (together with its subsidiaries) enjoys a special tax status in relation to UK property investment activities. Despite the name, a REIT is – and functions as – a normal company rather than a trust.

The REIT regime changes the UK direct tax treatment of (1) ongoing UK property rental income and (2) gains on disposal of properties within a UK REIT group. It does not affect the value-added tax or stamp taxes treatment of the property investment.

The key feature is that under the REIT regime UK property rental income should be exempt from corporation tax, but instead the nominated REIT company should be required to make Property Income Distributions (“PIDs”) which are subject to withholding tax (please refer to the distribution requirements section).

### *Distribution requirements*

A REIT must follow certain rules relating to the amount it distributes to shareholders, and how those distributions are taxed. There is a requirement for a UK REIT to distribute at least 90% of its exempt rental profits (being rental income after deducting finance costs, overheads and tax depreciation) as a Property Income Distribution (“PID”). There is no requirement to distribute

exempt gains. A UK REIT may also distribute taxed income from its other activities, though this is not a requirement of the REIT regime.

Under the REIT regime, UK property investment income, gains on UK property and gains on UK property rich entities are exempt from UK corporation tax. A REIT is still subject to UK corporation tax on any non-property rental business income (“**residual income**”). Residual income may include profits on trading activities (such as properties developed with a view to a sale), capital gains on UK property assets or companies sold within three years of completion of a development, and non-UK property assets.

The distribution requirement may be met using stock dividends (also known as scrip dividends), as well as cash dividends.

### *Tax on distributions*

Shareholders should note that the tax treatment of PID and non-PID dividends differs. PIDs are taxable as property rental income in the hands of shareholders and therefore shareholders are taxed on the PID according to their own tax status and which varies from shareholder to shareholder. This gives shareholders a similar tax outcome to owning property directly.

Profits distributed as PIDs are paid out of tax-exempt profits and therefore are potentially fully taxable in shareholders' hands as property rental income. Distributions out of exempt rental income and exempt gains (if distributed) by a UK REIT are generally subject to a withholding tax of 20%. There are certain categories of shareholders who are entitled to receive PIDs without suffering withholding tax. Examples of such classes are:

- UK corporates
- UK pension funds
- Charities
- Local authorities
- Managers of PEPs, ISAs and Child Trust Funds

Should you qualify to receive your PID without deduction of withholding tax, you should make the company registrar aware by completing either the intermediary form or the beneficial owner form that are set out on the Sirius website, below this document. Please send the completed form to Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL.

Most shareholders, including all individuals and all non-UK residents, do not qualify for gross payment. However, most UK double tax treaties provide for a reduced withholding tax rate for distributions to non-UK tax resident investors.

### *Filing obligations - UK resident shareholders*

For UK resident individuals who file UK tax returns, the PID from a UK REIT is included on the tax return as "Other Income" as follows (online returns):

- In the section "Other UK Income" tick the bottom box "Any other income".
- On the next page enter the total amount of the PID received (including tax) in "Other taxable income – before expenses and tax taken off".
- Enter the tax deducted in "Tax taken off" and in the box for description of other taxable income state who the PID was received from.

The non-PID element of any dividends received should be treated in exactly the same way as dividends received from other UK non-REIT companies.

#### *Filing obligations - non-UK resident shareholders*

Non-UK resident shareholders may, after payment of the PID element of the dividend, apply to HM Revenue & Customs for a refund of the difference between the 20% UK withholding tax and the reduced double taxation treaty rate.

#### *South African (“SA”) shareholders*

The following paragraphs are intended as a general guide only and constitute a high-level summary of the Sirius’ understanding of current South African tax law and practice based on published guidance to date, each of which is subject to change, possibly with retrospective effect.

These paragraphs only apply to shareholders who are resident in South Africa for South African tax purposes, who hold their Sirius ordinary shares as investments and who are the absolute beneficial owners of such ordinary shares. These paragraphs do not apply to certain classes of shareholders, such as share-dealers, collective investment schemes and persons who have acquired their ordinary shares by virtue of office or employment.

The following paragraphs are not advice and should not be relied upon as such. South African shareholders who are in any doubt about their tax position should consult their own professional tax advisor without delay, particularly concerning their tax liabilities on PIDs, whether they are entitled to claim any repayment of tax, and, if so, the procedure for doing so.

For a South African shareholder, the cash PID element of the dividend will be exempt from South African income tax but will constitute a dividend for South African dividend tax purposes, as it will be declared in respect of a share listed on the exchange operated by the JSE.

SA dividend tax is levied at a rate of 20% on any cash dividend paid by a foreign company in respect of a JSE-listed share. South African dividend tax will therefore be withheld from both the PID and non-PID element of the final dividend at a rate of 20%, unless a shareholder qualifies for an exemption and the prescribed requirements for effecting the exemption are in place by the requisite date. Certain SA shareholders may also qualify for a reduction to 5% (being the difference between the SA dividends tax rate of 20% and the effective UK withholding tax rate of 15% in terms of the UK/South African double taxation treaty) if the prescribed requirements for effecting the reduction are in place by the requisite date.

Where a cash dividend in respect of a JSE-listed share is paid to a non-resident, for SA tax purposes, no SA dividends tax will apply provided that the prescribed requirements for effecting the exemption are in place by the requisite date.

#### *Sale of REIT shares by UK and non-UK resident shareholders*

From 6 April 2019, the gain on sale of shares of a UK property rich company will generally be within the charge to UK tax for all shareholders, whether UK resident or non-UK resident, subject to possible tax treaty relief for non-UK residents or any exemption for tax exempt investors.

A company is considered to be UK property rich if 75% or more of its gross asset value is derived from UK land. Although there is generally a 25% ownership threshold for a disposal of such an indirect interest in UK land, this is disapplied in the case of certain Collective Investment Vehicles including REITs. For this reason, we advise shareholders to take professional tax advice in establishing whether a disposal of shares would be subject to these rules.

Gains realised by non-UK resident individuals must generally be reported to HM Revenue & Customs within 30 days of the disposal.

Gains realised by UK residents should be reported on the tax return in the usual way.

#### *SA Securities Transfer Tax*

Where there is a sale or transfer of the shares listed on the JSE, SA securities transfer tax may be applicable provided there is a change in beneficial ownership of the shares and none of the exemptions apply.

#### *Disclosure*

Shareholders who are in any doubt about their tax position, or who are subject to tax in a jurisdiction other than the UK, should consult their independent professional adviser, particularly concerning their tax liabilities on PIDs to determine whether they are entitled to claim any repayment of tax, and, if so, the procedure for so doing.

# FAQ Section

## 1. Who should I speak to concerning advice on the tax on my shares or dividends?

We are unable to provide any financial and/or tax advice, so these queries should be addressed to your financial advisor, accountant or professional tax advisor.

## 2. What are REITs?

Real Estate Investment Trusts (“**REITs**”) are property companies that own and manage income-producing property, either commercial or residential and are subject to beneficial corporation tax treatment.

## 3. What does REIT status mean in terms of dividends and tax

A REIT is required to follow certain rules relating to distributions to shareholders and the tax of such distributions.

There is a requirement for a UK REIT to distribute at least 90% of its exempt rental profits as a PID. There is no requirement to distribute exempt gains. A UK REIT may also distribute taxed income from its other activities (“**Non-PID**”), though this is not a requirement of the REIT regime.

Non-PID dividends are treated the same as normal dividends paid by companies not in the REIT regime and the tax free dividend allowance applies to these. The treatment of PIDs however is different. PIDs are paid to shareholders after the deduction of 20% withholding tax unless you have advised us that you may receive the PID without deduction of tax.

## 4. How do I find out how my dividends have been taxed?

If you receive dividend cheques, a tax voucher will be enclosed in respect of that dividend and if dividends are paid directly to your bank account, a tax voucher will be posted to your registered address.