Inland Revenue
Te Tari Taake

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PORTFOLIO INVESTMENT ENTITY

A guide for PIEs

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Contents

Introduction

Since 1 October 2007, eligible entities can become portfolio investment entities (PIEs), which aren't taxed on gains on shares in New Zealand and certain Australian companies.

Their aim is to encourage savings by lower and middle income earners who have been reluctant to save through collective investment vehicles (such as a managed fund).

PIEs generally pay tax on investment income based on the tax rates of their investors, rather than at a flat rate.

Most PIEs fall into the multi-rate PIE (MRP) category. Unless otherwise specified, this guide is designed to primarily target the MRPs. The rules for foreign investment PIEs are covered in Part 8.

Benefits

The tax rules for PIEs address some long-standing problems with the taxation of collective investment vehicles such as the difference in tax treatment when people invest directly in New Zealand shares and when they invest in a New Zealand collective investment vehicle.

Generally, before 1 October 2007, when a person invested directly in New Zealand shares held on capital account, tax was payable on dividends received and any capital gains were tax free. However, if the same investment was made through a collective investment vehicle, tax could have been payable on both dividends and any realised gains (because the collective investment vehicle would generally be in the business of share trading). The PIE rules mean that investments in New Zealand-resident (and certain Australian) companies through collective investment vehicles that elect to become PIEs will be treated similarly to direct investments.

Note

Not all companies listed on the New Zealand stock exchange are resident in New Zealand and qualify for this treatment, eg, an entity could be resident in Singapore but also be listed on the New Zealand stock exchange.

The PIE rules also address the situation where low income earners investing in collective investment vehicles had their investment taxed at a higher rate than their marginal tax rate. For example, income from superannuation funds had been taxed at 33%, although a number of investors may have had the lower marginal tax rate of 12.5% (now 10.5%). This created a significant disincentive for these investors to save through managed funds.

Under the PIE rules, an investor with a marginal tax rate of 10.5% investing in a superannuation fund that becomes a PIE will have their investment income taxed at their prescribed investor rate (PIR) of 10.5%, provided the investor has given their PIR and IRD number to the PIE. An MRP is a type of PIE that pays tax on investment income based on the investor's rate of 0%, 10.5%, 17.5% or 28%.

Note

The rates quoted and examples given relate to the 2012 income year unless otherwise specified.

All references in this guide refer to the Income Tax Act 2007 unless otherwise stated.

How to use this guide

The general content targets MRPs. For the specific rules for foreign investment PIEs see Part 8.

Part 1 - Becoming a PIE

Explains how to register and become a PIE, including information about the different types of PIE, the options for filing returns and payment, the eligibility requirements and transitional issues.

Part 2 - Cessations

This part goes through the various ways an entity can cease being a PIE.

Part 3 - Attribution and calculation periods

Attribution and calculation periods determine the periods over which PIE income is calculated and attributed. This part covers the options the entity can choose from.

Part 4 - Tax calculation

The requirements to calculate tax vary depending on the type of PIE. This part goes through the different options and requirements.

Part 5 - Tax credits and losses

Different types of PIEs can use tax credits to reduce their tax. This part covers the requirement, including information about losses and investor return adjustments.

Part 6 - Investors

This part covers all the information needed by and for investors. It determines what an investor is under the PIE rules as well as information about prescribed investor rates, income attributed by the PIE and specific issues relating to investors.

Part 7 - Returns

This part covers all the return filing requirements for the different types of PIEs.

Part 8 - Foreign investment PIE

This part covers the requirements specific to foreign investment PIEs. The general rules that apply to MRPs also apply to foreign investment PIEs unless stated otherwise in this part.

Part 9 - PIR change transitional process

This part provides information about the options for implementing changes to the PIRs part-way through a tax year.

Part 10 - General information

This part provides information about distributions to shareholders, reporting requirements for PIEs, KiwiSaver, key terms and our services (including contact information).

The information in this guide is based on current tax laws at the time of printing.

Part 1 - Becoming a PIE

Registration and becoming a portfolio investment entity (PIE)

An entity that meets the eligibility requirements needs to register online. The online service is available at **ird.govt.nz** under "Get it done online" and registration only takes a few minutes.

Sections HM 71, 72, 72B and section 31B of the Tax Administration Act 1994

Once you have completed and submitted the online registration a letter of acknowledgment is issued within 10 working days. However, if there is a problem with the information sent the registration process may take longer.

Registration as a PIE takes effect from the later of:

- 1 October 2007
- the date of formation of the registering entity
- the date nominated in the registration as the start date
- the date 30 days before the day we receive the registration
- 29 August 2011 for a zero-rate PIE
- 1 April 2012 for a variable-rate PIE.

Example

Trust A is established on 1 December 2009. A registration is received on 1 February 2010 requesting a start date of 1 December 2009.

The election takes effect from 2 January 2010, 30 days before the date of receipt - this being later than the date of formation of Trust A and the start date nominated in the notice (both of which are 1 December 2009).

Sections HM 72 and 72B

Balance date

PIEs that elect or default to be a quarterly return filer or elect to file returns when investors exit the entity, are required to have a 31 March balance date. A PIE that elects to use the provisional tax option or files income tax returns may have a non-standard balance date, subject to our consent. Foreign investment PIEs have a 31 March balance date.

Section HM 74

Changing PIE type

Once you have registered as a PIE other than a PIE investor proxy (PIP) any change of PIE type needs to be communicated via normal channels such as phone, letter or secure mail. A change should normally occur before the start of a tax year.

Sections HM 42, 43 and 44

Acknowledgment letter

On registering as a PIE, an acknowledgment letter is issued within 10 working days confirming the PIE's:

- start date - as noted earlier on this page
- type - refer to the table on page 7
- filing option - refer to "Return filing and payment options" on page 7
- income attribution period - refer to "Attribution and calculation periods" on page 26
- fair dividend rate unit valuation period - PIEs need to update the market value of their investments to calculate their foreign investment fund income. You can choose to do this on any regular basis, eg, daily, weekly, monthly, quarterly or annually
- bank account number.

The letter may also include:

- advice that your balance date may change if you have registered as an MRP with a quarterly or exit filing option (see "Return filing and payment options" on page 7)
- notification that the PIE qualifies for an exemption from having RWT (resident withholding tax) deducted from its investment income*
- where to send details if additional tax needs to be paid as a result of having to carry out a deemed disposal and reacquisition of New Zealand and certain Australian shares arising from the PIE transitional process, refer to "Transitional issues" on page 18.

Sections HM 72 to 74, and section 32E(2)(eb) of the Tax Administration Act 1994

Registering to file PIE returns

The two electronic options available to PIEs for filing PIE periodic returns, annual reconciliations and investor certificates are business to business (B2B) and file transfer.

* This exemption doesn't apply to a PIP. To apply for an exemption, you'll need to complete and submit an *Application for exemption from resident withholding tax (RWT) on interest and dividends (IR451).*

Registering for business to business (B2B)

B2B allows the direct transfer of PIE periodic returns, annual reconciliations and investor certificates from the PIE to us.

Provider agreement

To access and use B2B, PIEs must enter into an agreement they will conform to the standard terms and conditions applying to the use of our website and online services.

Any PIE unable to implement their B2B environment and meet our exit test criteria must use file transfer.

Registering for file transfer

File transfer enables a PIE to upload PIE periodic returns, annual reconciliation returns and investor certificates to us through the website.

To use file transfer, PIEs need to register for an online services account. When they register they need to select the "file PIE returns and certificates" option.

PIEs with existing online services accounts can add the "file PIE returns and certificates" option. The next time they enter file transfer, this option will be available to them.

> **Note**
>
> Registration to become a PIE doesn't automatically mean registration for an online services account. These are two separate and independent registration processes.

When a PIE has successfully registered for file transfer a letter is issued within 10 working days confirming a password. A PIE can't use file transfer until this password is received. Once the password is received, they can log in to secure online services and authenticate their user-id and password.

> **Note**
>
> Once a PIE is registered to file a return, they can send numerous returns for different PIEs through file transfer.

Service level agreement

If you have any queries regarding the file transfer process or want a copy of the build pack and specifications for B2B and file transfer please contact the:

Team Leader, Customer Services
Large Enterprises
Inland Revenue
PO Box 2198
Wellington 6140

Phone: 0800 443 773

Further details of the online services registration process can be found at **ird.govt.nz/myIR**

Sections 36AB and 57B of the Tax Administration Act 1994

PIE types

The entity types currently able to elect to become a PIE under the PIE rules are New Zealand residents that are:

- managed funds (such as a unit trust or superannuation fund)
- companies
- defined benefit funds
- group investment funds
- life funds.

There are four different types of PIEs that these entities may qualify to become:

- multi-rate PIE (including foreign investment PIEs)
- listed PIE
- benefit fund PIE
- life fund PIE.

Multi-rate PIE (MRP)

An MRP uses its investors' prescribed investor rate (PIR) to calculate the tax on the investment income it derives from the investors' contributions.

An MRP is a company, superannuation fund or group investment fund that:

- is eligible and has become an MRP and hasn't ceased to be an MRP due to cancellation of registration or a breach of one or more eligibility requirements
- can be a company listed on a recognised exchange in New Zealand, which isn't a listed PIE
- isn't a benefit fund PIE
- isn't a life fund PIE
- includes a foreign investment PIE.

Most PIEs are of the MRP type.

Sections HM 29 and 71, and YA 1

MRPs must attribute income, losses and tax credits to investors, and calculate and pay tax based on the PIRs provided by their investors.

The MRP may pay tax under one of these methods:

- calculate tax quarterly and may zero-rate investors who exit the MRP during a quarter
- calculate income/deductions and tax credits daily and file monthly PIE periodic returns for investors who exit the MRP during the month, and annually for the remainder of investors. These MRPs don't zero-rate the exiting investors.
- calculate income tax based on the investors' PIR, and pay provisional tax and file income tax returns as usual.

Once an entity has registered as an MRP and elected a calculation method, a change in method must be communicated with us before the start of the income year.

Sections HM 35 to 37, 42 to 44 and 47

MRPs also file an annual reconciliation after the end of the income year.

Listed PIEs, benefit fund PIEs and certain life fund PIEs are different as they don't attribute income to their investors and the investors in these entities don't provide PIRs.

Listed PIE

A listed PIE is a company listed on a recognised exchange in New Zealand, which hasn't chosen to be an MRP. In addition, a company that isn't currently listed on a recognised exchange in New Zealand may elect to become a listed PIE if:

- it has 100 shareholders
- has resolved to become a company listed on a recognised exchange in New Zealand
- has applied to the Securities Commission for an exemption to disclose in a prospectus that it intends to become a listed company
- has satisfied us that it would apply to become a listed company if it obtained the required consents.

A company that makes such an election then has two years from the effective date of the election to become listed on a recognised exchange in New Zealand. If it fails to do so, it will cease to be a listed PIE from the last day of the two-year period. The Commissioner can extend the time if it is reasonable in the circumstances.

A "company" includes a unit trust.

Listed PIEs don't file PIE periodic returns or annual reconciliations and are required to continue to file income tax returns. Listed PIEs don't pass losses out to investors and may pay dividends. Dividends paid by a listed PIE that is not a life fund PIE are required to be fully credited to the extent permitted by the imputation credits available.

A listed PIE loses PIE status if it fails to fully credit dividends paid to the extent permitted by the imputation credits available.

A listed PIE can retain its PIE status for up to two years after it ceases to be listed on a recognised exchange if this cessation is part of a wind-up process. This is done by making an election, prior to delisting, that it will cease to be a PIE on a date that is up to two years from the date of delisting. The Commissioner can extend the time if it is reasonable in the circumstances.

By making an election, PIE status will be lost at the earlier of:

- two years (or longer if the Commissioner considers it reasonable in the circumstances) from the date the listed PIE is delisted;
- the date specified in the election; or
- when the number of shareholders reduces below 100.

If no election is made prior to delisting, PIE status is lost at the time a listed PIE ceases to be listed on a recognised exchange.

Sections HM 2, 18, 19, 28, 29 and YA 1

Note

A "**recognised exchange**" is an exchange market where:

- buyers and sellers of shares/options are brought together
- prices at which persons are willing to buy or sell shares or options are listed, and
- the market provides a medium for determination of arm's length prices likely to prove fair and reasonable.

Benefit fund PIE

A benefit fund PIE is a registered superannuation scheme under the Superannuation Schemes Act 1989, which must comply with section 15(1)(a) of that Act.

A benefit fund PIE is a fund that:

- doesn't attribute income to investors
- is eligible and has become a benefit fund PIE and hasn't ceased to be a benefit fund PIE due to cancellation of registration or a breach of one or more eligibility requirements.

As these types of PIE don't attribute income to investors, benefit fund PIEs can't calculate their tax liability using the investors' PIRs. Benefit fund PIEs must become annual income tax filers.

Tax for benefit fund PIEs is calculated at the basic rate of tax applying to the fund.

A defined contribution fund can be an MRP. However, where the fund is a hybrid, ie, both a defined benefit fund and a defined contribution fund, the entity can become an MRP with the benefit fund and contribution fund being treated as different investor classes. The income of the defined benefit fund as a separate investor class is treated as income retained by the PIE and taxed at 28%. The defined contribution class may be treated as an MRP.

Section YA 1

Life fund PIE

A life fund PIE is a separate identifiable fund, forming part of a life insurer that:

- holds investments subject to life insurance policies under which benefits are directly linked to the value of the investments
- is eligible and has become a life fund PIE and hasn't ceased to be a life fund PIE due to cancellation of registration or a breach of one or more eligibility requirements.

Life fund PIEs are generally annual income tax filers.

Section YA 1

The following table further outlines the types of entities that may become PIEs and may assist in determining the attribution/calculation and return filing basis at the time of PIE registration.

Type	Description
Custodian (PIP)	A custodian is an intermediary, nominee or agent. Investors can invest through the custodian into a PIE. The custodian takes on the PIE obligations on its investors' share of the income from various PIEs. A custodian is also known as a PIE investor proxy (PIP) or a wrap account.
Land	The land type applies to a PIE with more than 50% of the value of one of its classes of investments in land or shares in a land investment company. This type of PIE must apply the loss offset rule. The losses from the land class can only be offset against income from that same land class.
Wholesale	A wholesale PIE has investors that are themselves PIEs. The wholesale PIE attributes all its income to other PIEs, resulting in no PIE tax to pay for the wholesale PIE.
Benefit fund	This type of PIE doesn't attribute income to investors. Therefore the benefit fund PIE can't calculate its tax liability using the PIRs. Tax for a benefit fund PIE is at the income tax rate currently applying to the fund. Where a fund is both a defined benefit and defined contribution fund (known as a hybrid fund), the entity needs to separate its fund and contribution businesses and create two investor classes or choose one of the other types of PIE.
Listed	This type of PIE is a company listed on a recognised exchange, and is required to continue to file income tax returns. An entity that is in the process of becoming a listed company may also register as a listed PIE.
Superannuation fund	A superannuation fund PIE attracts investment savings for retirement purposes. This type of PIE covers general retirement schemes.
Life fund	This is a type of PIE that has a separate identifiable fund, forming part of a life insurer that holds investments subject to life insurance policies under which benefits are directly linked to the value of the investments.
Retail	This is a general type of PIE that meets the standard requirements and isn't covered by any of the above-mentioned types.
Zero-rate	This is a type of foreign investment PIE that basically only has offshore-sourced income and a small amount of New Zealand-based funds.
Variable-rate	This is a type of foreign investment PIE that can have both offshore-sourced investments and New Zealand-based investments. The PIE applies set tax rates to the various income sources and types.

Return filing and payment options

There are four return filing options that PIEs can choose, although not all PIEs can choose all options. The first three options noted below apply to MRPs. They apply for the whole tax year and can generally only be changed before the start of a tax year by notifying us by phone, letter or secure mail.

1. Quarterly filing option (quarterly MRP)

This is the default option for an MRP. Any MRP that doesn't choose to file returns annually, and monthly for exiting investors (exit option MRP), or use the provisional tax option must file PIE periodic returns quarterly. This option applies to MRPs that establish their income at the end of the quarter and attribute the income back across the quarter.

Quarterly MRPs are required to calculate the tax to pay, or tax credit due where there are excess tax credits or attributed losses for the quarter. PIE tax returns are due, along with payment of any PIE tax, within one month from the end of the quarter.

The losses or excess tax credits relating to the calculation period that are able to be refunded, would be dealt with quarterly after the MRP has filed its return for the period.

Quarterly MRPs must adopt a 31 March balance date and file a *PIE periodic return* (IR852) quarterly. No income tax returns are required.

The required returns and payments for MRPs that elect this option are as follows.

Returns and periods	Payment and return filing due dates
IR852 PIE return for quarter ending 30 June	31 July
IR852 PIE return for quarter ending 30 September	31 October
IR852 PIE return for quarter ending 31 December	31 January
IR852 PIE return for quarter ending 31 March	30 April
An IR853 annual reconciliation return and IR854 investor certificates. The reconciliation will always be for the 12 months ending 31 March	31 May, 30 June, or the third month after the month in which the MRP ceases to be an MRP. Refer to note over page.

Sections HM 43, 47, 50 to 55 and 74, and section 57B of the Tax Administration Act 1994

Note

MRPs that aren't a retirement scheme or superannuaton fund, eg, KiwiSaver, have the filing date of 31 May.

When an investor leaves the MRP during the quarter, the quarterly MRP may not know the amount of attributed income and so can't calculate and deduct the tax from the exiting investor's interest prior to their exit. The MRP is allowed to treat that investor as zero-rated for the attributed income in that quarter, ie, the MRP would pay tax on the exiting investor's share of the income earned during the period at zero percent. This is referred to as a zero-rated exiting investor.

Example

Investor A invests in a quarterly MRP. Investor A then withdraws his funds from the MRP part-way through a quarter. At the end of the quarter, Investor A's tax for the period equals (or exceeds) his interest in the MRP, triggering an exit period. The MRP therefore zero-rates Investor A's income.

By zero-rating the income, Investor A is then required to include this income in his income tax return for the period in which the withdrawal occurs.

Sections HM 61 to 63, and section 57B of the Tax Administration Act 1994

If at the end of the quarter there is any residual value for the investor's interest, payment of the residual value must be made to us, within one month of the end of the quarter in which the exit period falls. An investor will be entitled to a tax credit equal to the residual interest paid.

Section HM 43(4)

Quarterly MRPs may make voluntary payments of tax when an investor fully or partially exits an investor class or when an investor switches from one investor class to another within the same MRP. The MRP would still have the option to zero-rate the investor, in which case it would be the responsibility of the investor to pay the resulting tax.

Section HM 45

The MRP needs to adjust each investor's investor interest, make a distribution or adjust the payment required from the investor to cover the tax, to reflect the investor's share of the PIE's tax liability or tax credit. For a quarterly MRP, this adjustment must occur within two months of the end of the relevant quarter. On application, the Commissioner can extend this time if it's reasonable in the circumstances.

Section HM 48

2. Exit filer option (exit MRPs)

Exit MRPs may only have an attribution period of one day. A calculation period can be one or more attribution periods, an exit period or an income year. To be an exit MRP, an entity must give notice electronically to us when the entity selects its attribution and calculation periods. Like quarterly MRPs, they can't be provisional taxpayers.

Exit MRPs must adopt a 31 March balance date and file a *PIE periodic return (IR852)*. The PIE periodic return for the March period will include any investors that exit the PIE in March and the remainder of investors who haven't exited the PIE in the tax year. PIE periodic returns are also required for each month in the tax year during which an investor exited the PIE. Consequently an exit MRP could file up to 12 PIE periodic returns in the tax year. If no investors exited the MRP during the tax year it would file a PIE periodic return for the March period covering tax calculated for the tax year. It would also file an annual reconciliation return and investor certificates. The PIE periodic returns are due along with payment of any PIE tax by the end of the month following the end of the period. No income tax returns are filed.

Section HM 42

The required returns and payments for MRPs that elect this option are as follows.

Returns and periods	Payment and return filing due dates
IR852 PIE returns for investors who have exited the MRP during the month	The end of the month following the end of the period 15 January for the November period
An IR852 PIE return for the year ended 31 March for investors who remain in the PIE. The return will also include investors that have exited in the month ended 31 March	30 April
An IR853 annual reconciliation return and IR854 investor certificates. The reconciliation will always be for the 12 months ending 31 March	31 May, 30 June, or the end of the third month after the month in which the entity ceases to be an MRP. **Note**: MRPs that aren't a retirement scheme or superannuaton fund, eg, KiwiSaver, have the filing date of 31 May.

Unlike a quarterly MRP, investors who exit an exit MRP won't be zero-rated. For every "investor exit period" for an investor in a class, the exit MRP must make a payment of tax equal to the tax of the investor for the exit period. This payment must be made within one month from the end of the month in which the exit period ends.

An exit MRP may make voluntary payments of tax when an investor partially exits an investor class or when an investor switches from one investor class to another within the same MRP, where an exit period may not be triggered. The optional payment gives rise to a tax liability of the MRP. The MRP would need to adjust each investor's investor interest, make a distribution or adjust the payment required from the investor.

Sections HM 42 and 45, and section 57B of the Tax Administration Act 1994

3. Provisional tax with the PIE tax calculated using the investors' PIRs

MRPs that choose a calculation period of an income year file income tax returns and pay provisional tax under the provisional tax rules. Income may be returned according to an approved balance date. MRPs under this option have their tax on their investment income calculated based on the investors' PIR although the usual provisional tax and income tax due dates apply. They won't file a *PIE periodic return (IR852)*. Any provisional tax paid is available as a credit against the PIE's tax calculated at the end of the year.

The election to use the provisional tax option must be made electronically (ie, the PIE registration form) at the time of election of an attribution and calculation period. A change from an existing option to the provisional tax option needs to be made prior to the start of the income year by phone letter or secure mail.

If an election to use the provisional tax option is made, income attributed to exiting investors can't be zero-rated.

Under the provisional tax option MRPs file an annual reconciliation return and investor certificates by the following 31 May or 30 June if they have a standard or early balance date, or within two months of the PIE's balance date if they have a late balance date.

Note

MRPs that aren't a retirement scheme or superannuaton fund, eg, KiwiSaver, have the filing date of 31 May.

A foreign investment PIE can't use this filing option.

Section HM 44, and section 57B of the Tax Administration Act 1994

4. Annual income tax filers

Entities that are annual income tax filers can't be MRPs.

Annual income tax filers are listed PIEs, benefit fund PIEs and life fund PIEs where they haven't chosen to be MRPs. These entities don't calculate their tax based on the PIRs provided by the investors in the entity and don't attribute income to their investors. They may have an approved non-standard balance date.

They are exempt from filing PIE periodic returns and payments and must adhere to current rules for filing income tax returns and payments of income tax.

Annual reconciliation return (IR853) and *Investor certificate (IR854)* aren't required.

Return filing summary

The following table summarises which types of PIE will file income tax returns and which will file PIE periodic returns.

	Return filing options and payment of tax			
PIE type	**Quarterly MRP**	**Exit MRP**	**Provisional tax taxpayer**	**Annual income tax filer**
Custodian (PIP)	Income tax return PIE periodic return	Income tax return PIE periodic return	Income tax return	N/A
Land	PIE periodic return	PIE periodic return	Income tax return	Income tax return
Wholesale	PIE periodic return	PIE periodic return	Income tax return	Income tax return
Benefit fund	N/A	N/A	N/A	Income tax return
Listed	N/A	N/A	N/A	Income tax return
Super fund	PIE periodic return	PIE periodic return	Income tax return	Income tax return
Life fund	N/A	N/A	N/A	Income tax return
Retail	PIE periodic return	PIE periodic return	Income tax return	Income tax return
Zero-rate	PIE periodic return	PIE periodic return	N/A	N/A
Variable-rate	PIE periodic return	PIE periodic return	N/A	N/A

Other PIE types

Foreign PIE equivalent (previously foreign investment vehicle (FIV))

Under the PIE rules a foreign PIE equivalent is an entity that isn't resident in New Zealand, but if it was a New Zealand tax resident, would be eligible to be a PIE, ie, it is a widely-held vehicle that holds portfolio investments in underlying companies and satisfies the eligibility requirements.

A PIE can hold up to 100% of a foreign PIE equivalent without breaching the entity shareholding investment requirement. Similarly, a foreign PIE equivalent can hold up to 100% of a PIE without breaching the maximum investor interest requirement.

Section HM 3

Land PIE

A PIE with more than 50% of the value of one of its class investments in land or shares in a land investment company has certain restrictions on the use of losses. The losses from the land class can only be offset against income from that same land class. Unused class land loss is "ring-fenced" and can only be carried forward to reduce the amount of class taxable income of that particular class for a later attribution period. The class land loss can't be used to offset class taxable income of another investor class.

Section HM 65

A land investment company is one that has assets with a market value of $100,000 or more, on 80% or more of the days in the corresponding income year. The assets need to:

- consist of interest in land, or shares in a land investment company* which in turn doesn't own shares in a land investment company, and
- have a market value of 90% or more of the market value of all the company's assets.

An investor class in a PIE may own shares in a land investment company. However, a land investment company isn't a PIE.

Section YA 1

Land PIEs can choose any of the four filing options.

Note

Where there are two or more companies and one of them is an MRP, provided the MRP owns 100% of the other companies and the other companies fall within the definition of "land investment company" the companies can be treated as a group of companies.

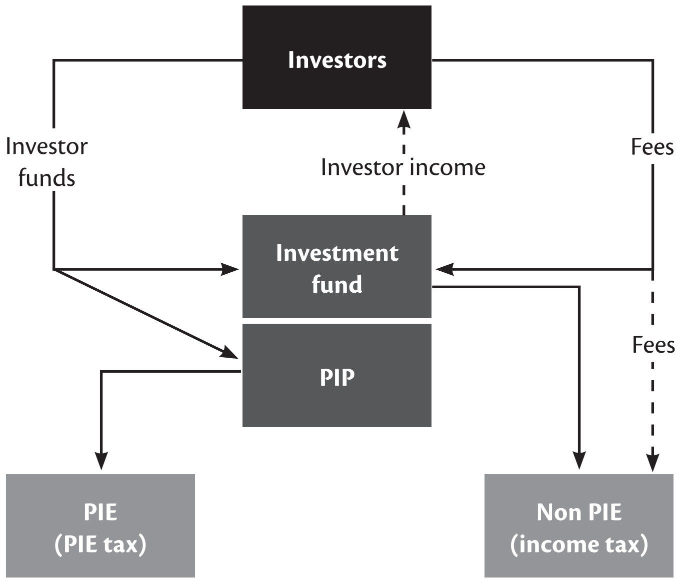
PIE investor proxy (PIP)

PIPs are also known as custodians, nominees or wrap accounts.

PIPs are not PIEs. They are intermediaries, nominees or agents through which investors can invest into a PIE. PIPs may perform the PIE's obligations where the PIE is an MRP and may take on the MRP's obligations on its investors' share of the income from various PIEs. We record custodians as PIEs in order to accommodate their PIE obligations.

PIPs can generally adopt either the quarterly or exit options for filing returns as an MRP. A PIP can't apply the annual income tax option in respect of its PIE income.

Generally, PIPs file both income tax and PIE periodic returns. The income tax returns filed will account for the non-PIE income of the custodian.



* If this land investment company is non-resident, the investor class of the land investment company has to have a voting interest of more than 20%.

An entity must satisfy three requirements to become a PIP:

1. It can't become a PIE for an investor's investment in a listed PIE. An investment in a listed PIE can be a part of the custodian's other investment activities.
2. It must hold the investor interest in the PIE for a particular investor.
3. It must give notice to the PIE that it is holding the investor interest as a proxy.

A PIP also has several responsibilities that it must adhere to. It must:

- attribute to the investor, the income/loss for the attribution period
- distribute to the investor, distributions and credits for the attribution period
- pay income tax on investor attributed income for the attribution period
- adjust the investor interest, distributions or payments required from the investor to reflect the effect of the investor's PIR on the amount of distributions and payment of tax
- provide us with returns relating to attributions, distributions, credits and payments
- provide us with any other information required
- provide relevant information to the PIE if the investors it represents may cause the PIE to breach any of its eligibility criteria.

The PIE into which the PIP invests only holds one investor record for the custodian as a zero-rated investor.

Section HM 33

Eligibility

The following information covers the eligibility requirements for entities that may elect to become PIEs.

An entity may become one of the following PIEs.

- a multi-rate PIE (MRP) (including foreign investment PIEs)
- a listed PIE (PLC)
- a benefit fund PIE (BF)
- a life fund PIE (LF).

Different eligibility criteria apply to the different types of PIEs.

Eligibility requirements

Each PIE type must satisfy the general eligibility requirements and certain entity-specific eligibility requirements:

- A multi-rate PIE must be either a company (including a body corporate, unit trust, incorporated society), a superannuation fund, or a group investment fund.
- A listed PIE must be a company listed on a recognised exchange in New Zealand.

  Under the PIE rules, an unlisted company may become a listed PIE where it intends to become, and has undertaken certain actions to become, a listed company. It will cease to be a listed PIE if it doesn't become listed on a recognised exchange in New Zealand within a two-year period from the date on which the election to become a PIE takes effect. The Commissioner may extend the period if it's reasonable in the circumstances.
- A benefit fund PIE must be a defined benefit fund (ie, a superannuation scheme registered under the Superannuation Schemes Act 1989 and complying with section 15(1)(a) of that Act) that doesn't attribute income to investors.
- A life fund PIE must be a separate identifiable fund as part of a life insurer that holds investments subject to life insurance policies under which benefits are directly linked to the value of the investments held in the fund.

Sections HM 7, YA 1

The following table indicates which of the eligibility criteria under the PIE rules are required to be satisfied for each PIE type.

Requirement	Section	MRP	PLC	BF	LF
Collective scheme	HM 9	✓	✓	✓	
Residence	HM 8	✓	✓	✓	✓
Re-entry after five years	HM 20	✓	✓	✓	✓
Same rights to income	HM 17	✓	✓	✓	
Minimum number of investors	HM 14	✓	✓	✓	✓
Adjustment to investor interest	HM 48	✓			
Listed PIE full imputation credit	HM 19		✓		
Maximum investor interest	HM 15	✓	✓	✓	✓
Investment type	HM 11	✓	✓	✓	✓
Income type	HM 12	✓	✓	✓	✓
Shareholding investment	HM 13	✓	✓	✓	✓
Class shareholding investment	HM 13	✓	✓	✓	✓

General requirements

Collective scheme

At least 90% of the entity's income must be passive income, such as dividends, interest and rent. Generally, an entity may carry on any business activity so long as it satisfies the PIE eligibility requirements. For instance a PIE may own and lease land and buildings. As long as the entity isn't in active business, it may become a PIE, subject to eligibility. Examples of non-active businesses are listed property trusts that own commercial property.

Example

A company may run a supermarket. If its interest in the supermarket business equals or exceeds 10% (the investment type and income type requirements) of the total income of the company, it can't become a PIE.

The entity must not carry on a business of life insurance. However, a separate identifiable fund, forming part of a life insurer that holds investments subject to life insurance policies under which benefits are directly linked to the value of the investments, may become a PIE.

Section HM 9

Residence requirement

The entity must be:

- resident in New Zealand
- not treated under a double tax agreement as not being resident in New Zealand.

Example

Blue Limited is a company that was incorporated in New Zealand. However, it moved its head office to Sydney, Australia and now maintains an agency in New Zealand.

Under the double tax agreement between Australia and New Zealand, Blue Limited is deemed to be resident in Australia.

Even if Blue Limited satisfied all other requirements, it would not be eligible to become a PIE because it failed to satisfy the residence requirement.

Section HM 8

Re-entry after five years requirement

An entity must not have previously ceased to be a PIE within a five-year period before the date on which its election to become a PIE is effective. An entity that has previously ceased to be a PIE may become a PIE again after the expiry of the five-year period.

Example

PIE A registers as a PIE on 1 October 2007 and ceases to be a PIE on 10 December 2015 due to an eligibility breach. It won't be eligible to re-register as a PIE until 11 December 2020.

Section HM 20

Entity specific requirements

Same rights to income

This requirement applies to multi-rate PIEs, listed PIEs and benefit fund PIEs. Under this requirement, all investor interests in the entity must give the same rights in relation to the proceeds from the investments of the entity (other than category B income). Note that benefit fund PIEs don't attribute income to any investors so by default meet this requirement.

> **Category B income**
>
> In very general terms, category B income is income from a group investment fund's traditional activities of investing in authorised trustee investments, ie, mortgages, government stock and certain debentures.

Section HM 17

Minimum number of investors requirement

The minimum number of investors requirement applies differently to listed PIEs and entities other than listed PIEs. There is also an exemption from this requirement for an investor class that meets the definition of certain superannuation funds and entities similar to unit trusts.

Section HM 14

Minimum number of investors requirement for an entity other than a listed PIE

Generally, for an entity to be eligible to elect to become a PIE, other than a listed PIE, each investor class of the entity must have at least 20 persons, treating interests held by "associated persons" as being held by one person where the investor and the associated person each hold at least a 5% interest in the investment.

Section HM 14

Under the PIE rules, associated persons are only deemed to be associated for the purposes of the investor membership requirement for an entity other than a listed PIE if:

- both the investor and the associated person have investor interests of 5% or more
- the investor and associated person are not any of the following:
  - a PIE
  - a foreign PIE equivalent
  - an entity that could be a PIE but has chosen not to be a PIE
  - a life insurer
  - the New Zealand Superannuation Fund
  - the Accident Compensation Corporation or a Crown entity subsidiary of the Accident Compensation Corporation
  - the Earthquake Commission
  - a local authority
  - a company in which a local authority holds a voting interest of 100% (and if a market value circumstance exists for the company, a market value interest of 100%)
  - a community trust
  - a charitable trust.

Sections HM 14, 16 and 21, schedule 29

Associated persons

The guidelines for associated persons are briefly summarised as follows:

Individuals

- Two persons are associated persons if they are:
  - within the second degree of blood relationship to each other, treating adopted children as natural children
  - within the second degree of blood relationship to the spouse, civil union partner or the de facto partner of the other person
  - married, in a de facto relationship or in a civil union.

Companies

- Two companies are associated persons if a group of persons exists whose total common voting interests in each company are 50% or greater, or the group of persons controls both companies by any other means.
- A company and a person other than a company are associated persons if the person has a common voting interest in the company of 25% or more, or if the person is associated with another person who is associated with the company.

Trusts

- The trustees of two separate trusts are associated persons if the two trusts have one or more settlors in common.
- The trustee and the settlor of a trust are associated persons.
- The trustee of a trust and a person are associated persons if any of the beneficiaries under the trust is a relative of that person (ie, within the second degree of blood relationship with that person, or that person's spouse, partner or de facto partner) or an associated person of that relative.
- The trustee and beneficiary of a trust are associated persons.
- The settlor and beneficiary of a trust are associated persons.
- The trustee and person with power to appoint or remove a trustee are associated persons.

Partnerships

- A partnership and a partner are associated persons.
- A limited partner holding 25% voting interest comes within the companies test above.
- The partners in a partnership are not associated under this test.

Tripartite test

- Two persons are associated if they are each associated with the same third person under different tests.

Sections YB 1 to 14

Example

Bill, Ted and Fred are brothers. They have shares in a company of 10%, 6% and 4% respectively.

Bill and Ted are treated as one investor (being associated persons due to blood relationship within the second degree and each holding greater than 5% interest), while Fred is treated as a separate investor for determining the 20 investors requirement. The three brothers are treated as two investors.

There are exceptions to the minimum number of investors requirement for an entity other than a listed PIE (boutique investor class)

An investor class can have less than 20 persons if:

- the entity has one or more other investor classes that have at least 20 persons, and
- no investor in the class, other than the entity's manager or trustee, can control the investment decisions relating to that class, and
- no investors in the class have investor interests of more than 10% of the total value of investor interests in the entity.

The minimum number of investors requirement for an entity other than a listed company is also satisfied where the following entities invest in the PIE:

- a PIE
- a foreign PIE equivalent
- an entity that could be a PIE but has chosen not to be a PIE
- a life insurer
- the New Zealand Superannuation Fund
- the Accident Compensation Corporation or a Crown entity subsidiary of the Accident Compensation Corporation
- the Earthquake Commission
- a local authority
- a company in which a local authority holds a voting interest of 100% (and if a market value circumstance exists for the company, a market value interest of 100%)
- a community trust
- a charitable trust.

Example

PIE A (being an MRP) has 15 investors, one of which is also a PIE. The investor membership requirement is satisfied.

Investor membership requirements for a listed PIE

The requirements are as follows:

- each investor must be a member of the investor class
- each investor interest in the company must be a share traded on a recognised exchange.

Section HM 14

Exceptions to the minimum number of investors requirement

There is no minimum number of investors for an investor class if:

- the investor class, if treated as a unit trust, would meet certain requirements of being a public unit trust*
- it is a superannuation fund established under the proposal for the restructuring of the National Provident Fund required by the National Provident Fund Restructuring Act 1990
- it is the Government Superannuation Fund
- it is a superannuation fund that existed before 17 May 2006 and subsequently, if treated as a unit trust would meet certain requirements of being a public unit trust, where only the fund manager or trustee can exercise control of the investment decisions of the investor class.

Sections HM 21 and 22

* Generally a **public unit trust** is:

- a unit trust that has 100 or more unit holders (treating all associated persons as one person) and that offers securities to the public under the Securities Act 1978, or
- a unit trust that has less than 100 unit holders where:
  - it could reasonably be regarded as a widely-held investment vehicle for direct investment by members of the public
  - because of unusual or temporary circumstances, it would otherwise meet the requirements
  - it could reasonably be regarded as a vehicle mainly for investment by widely-held vehicles for direct investment that are one or more of the following: unit trusts, group investment funds, life insurance companies or superannuation funds.

Adjustment to investor interest requirement

This requirement applies to MRPs.

The entity must make an adjustment to reflect the effect of a notified investor rate of an investor, as a member of an investor class on:

- the amount of the MRP's tax for the investor class
- the amount of a tax credit attributed to the investor as a member of the investor class.

The adjustment must be made to:

- the investor interest of each investor (an "investor interest" is an interest in a PIE that gives the holder an entitlement to a distribution of proceeds from the entity's investments), or
- the amount of each distribution to each investor, or
- the amount of any payment required by the investor.

For more information refer to page 41.

Section HM 48

Listed PIEs' full imputation credit requirement

The imputation credit requirement only applies to listed PIEs.

All distributions to members of an investor class must be fully imputed for the purpose of establishing the available subscribed capital amount. The extent that imputation credits are available is determined by the directors of the entity.

Section HM 19

Maximum investor interest requirement

Generally, an investor (or the combined interest of the investor and associated person) in an investor class may not hold more than 20% of the total investor interests of investors in the class.

Section HM 15

Exceptions to the maximum investor interest requirement

1. There is no maximum investor interest requirement for an investor class if:
   - the investor class, if treated as a unit trust, would meet certain requirements of being a public unit trust
   - it is a superannuation fund established under the proposal for the restructuring of the National Provident Fund required by the National Provident Fund Restructuring Act 1990
   - it is the Government Superannuation Fund
   - it is a superannuation fund that existed before 17 May 2006 and subsequently, if treated as a unit trust would meet certain requirements of being a public unit trust where only the fund manager or trustee can exercise control of the investment decisions of the investor class.

2. For an entity an investor that is:
   - a PIE
   - a foreign PIE equivalent
   - an entity that could be a PIE but has chosen not to be a PIE
   - a life insurer
   - the New Zealand Superannuation Fund
   - the Accident Compensation Corporation or a Crown entity subsidiary of the Accident Compensation Corporation
   - the Earthquake Commission
   - a local authority
   - a company in which a local authority holds a voting interest of 100% (and if a market value circumstance exists for the company, a market value interest of 100%)
   - a community trust
   - a public unit trust
   - a charitable trust

may hold more than 20% of the total investor interests of investors in a class.

3. An investor, who isn't an entity listed above who invests in a listed PIE can on a date after 30 September 2007 hold an investor interest of more than 20%, but not more than 40%, in an investor class of the company, as long as the investor has held the interest on each day since 17 May 2006. Where the investor falls below the 20% threshold on a day in the period, the exception can no longer apply and the investor (or the combined interest of the investor and associated person) in an investor class may not hold more than 20% of the total investor interests of investors in the class.

Example

An investor holds 22% of the total interests of investors in an investor class of a listed PIE as at 17 May 2006. Late in 2008 the interest drops to 18%. If the investor's interest then goes above the 20% threshold a breach of the maximum investor requirement will occur.

Note

Where two investors are treated as one investor, as a result of the associated persons' treatment, their total investor interest in an entity may exceed 20% (and potentially breach the maximum investor interest requirement for eligibility). This eligibility requirement won't be breached, however, if the interests are in a listed PIE and the combined maximum investor interest exceeds 20% but doesn't exceed 40% of the total interest in an investor class on each day of a period that commences on 17 May 2006 and ends on a date after 30 September 2007.

Example

Bill, Ted and Fred have shares in a listed PIE of 10%, 11% and 4% respectively that they have owned since 1 January 2006.

In this case Bill and Ted are treated as one investor (being associated persons due to blood relationship within the second degree and each holding greater than 5% interest), and their combined interest in the company exceeds 20%. This combined interest would have breached the maximum investor interest requirement, but because of the exception to this requirement, a breach would not arise.

(Refer also to the exceptions to the interest size eligibility requirement on page 15.)

Sections HM 14, 15, 21 and 22

Investment type requirement

At least 90% or more by value of the entity's assets must be:

- an interest in land
- a financial arrangement
- an excepted financial arrangement
- a right or option concerning the above types of property.

Section HM 11

Income type requirement

At least 90% of the entity's income must:

- be derived from property listed under the investment type requirement above
- consist of the following:
  - dividends
  - replacement payments (under a share-lending arrangement)
  - income treated under the financial arrangements rules as being derived by the entity
  - income under a lease of land (excluding income from associated entities)
  - insurance, indemnity, or compensation amounts replacing income under a lease of land described in the above point
  - proceeds from the disposal of property listed under the investment type requirement above
  - foreign investment fund (FIF) income
  - investor attributed income
  - distributions from superannuation funds
  - an annuity under a life insurance policy offered or entered into in New Zealand by a life insurer, or an annuity under a life insurance policy offered or entered into outside New Zealand by a life insurer resident in New Zealand
  - an amount that a superannuation fund derives from an investment in a life insurance policy offered or entered into in New Zealand
  - a rebate on a management fee.

Example

A company may run a supermarket. If its income from the supermarket business is less than 10% of the total income of the company it may become a PIE, provided the balance of its income satisfies the income and investment type requirements.

Section HM 12

Entity shareholding investment requirement

Generally a PIE should not:

- hold more than 20% of the voting interests or market value interests in a company (this does not apply to a unit trust), or
- have a market value of no more than 20% of the total market value of all shares in the company if the company is a unit trust.

The 20% limit can be exceeded where the total of such interests doesn't exceed 10% of the total market value of all the entity's investments.

Specifically excluded from this requirement are investments that include shares in:

- a PIE or an entity that is eligible to be a PIE
- a foreign PIE equivalent
- a land investment company.

Section HM 13

Class shareholding investment requirement

The class shareholding investment requirement is the same as the entity shareholding investment requirement, except that it is applied for each investor class, rather than for the PIE as a whole.

Section HM 13

Failure to satisfy eligibility requirements

A PIE ceases to be eligible to be a PIE if it fails any of the permanent eligibility criteria at any time. These include the following requirements:

- collective scheme
- residence
- same rights to income
- re-entry after five years
- investor return adjustment (for MRPs), and
- imputation credit distribution (for listed PIEs).

A PIE ceases to be eligible to be a PIE if it fails any of the temporary eligibility criteria and hasn't corrected them within set timeframes. For an investor class these include the requirements for the:

- minimum number of investors, and maximum investor interest.

For a PIE these include the requirements for the:

- investment type
- income type
- entity shareholding investment, and
- class shareholding investment eligibility.

Refer to "Cessations" on page 22 for more information.

Sections HM 24 to 28 and 30

Consolidated groups

There are special rules regarding a member of a consolidated group becoming a PIE.

MRPs

Where there are two or more companies and one of them is an MRP, provided the MRP owns 100% of the other companies and the other companies fall within the definition of land investment company, the companies are treated as being a group of companies.

Example

A Co owns 100% of B Co (being an MRP), which owns 100% of C Co (a land investmenta company). Only B Co and C Co are treated as a group of companies.

PIE returns must be filed under the PIE rules which will include income of non-PIE members of the consolidated group. The consolidated group must satisfy the investment and income type eligibility requirements, ie, the non-PIE members have a less than 10% interest in the assets and income of the consolidated group. We'll record the PIE registration under the consolidated group IRD number as the filing member.

Section IC 3

PIEs other than MRPs

A group of companies may include a PIE other than an MRP.

If the intention is for the whole group to be a PIE, then each company, provided they satisfy the eligibility requirements, should register and become a PIE. The consolidated group tax return, IR4 or IR44, would be completed using the PIE rules, ie, income tax returns must be filed under the annual income tax basis. We'll also record the PIE registration under the consolidated group IRD number.

Where one or more companies within a group but not the whole group elect to become PIEs, the business activities of the companies in the group that don't become PIEs must not breach the income type requirement for the group as a whole. Income tax returns must be filed under the annual income tax basis. We'll also record the PIE registration under the consolidated group IRD number.

While losses within a group can be transferred between the members of the group the losses can't be passed out to the shareholders.

Transitional issues

The PIE rules have transitional provisions that may create an increased tax liability. This part explains the transitional provisions and the relief available.

Deemed disposal and reacquisition of shares

An entity that elects to be a PIE is deemed to dispose of and reacquire at market value any shares held in New Zealand and certain Australian-resident listed companies.

The deemed disposal and reacquisition for transitional purposes, occurs on the day before the day on which the election to become a PIE is effective. As a result, a PIE may pay extra income tax. Payment of the tax can be spread over the three tax years beginning with the tax year in which the entity becomes a PIE.

The deferral of tax relates to the amount arising from a deemed disposal less any tax losses the entity may already have.

Section HM 75

Provisional tax

When an entity becomes a PIE and has an increased liability of provisional tax for the income year, it's not subject to penalties and interest arising from:

- an inaccurate estimate of provisional tax made before electing to become a PIE, or
- its payment of provisional tax due within two months from the date of becoming a PIE

if the inaccuracy arises from the deemed disposal and reacquisition.

Due dates

An entity that becomes a PIE and is liable to pay income tax because of the deemed disposal and reacquisition of shares may make payments of at least:

(a) one third of the tax amount, in the tax year in which the entity becomes a PIE

(b) one half of the balance of the tax amount remaining owing after the payments made in (a) above, in the tax year following the tax year in which the entity becomes a PIE

(c) the balance of the tax amount remaining owing after the payments made under (a) and (b) above, in the second tax year following the tax year in which the entity becomes a PIE.

As the payments are required in the tax year, the due dates for each payment will be 31 March of each tax year.

The number of payments isn't fixed. A PIE may choose to pay the full amount by the end of the first tax year. Alternatively, a PIE may make more than three payments to pay the tax in full providing the minimum requirements are met.

Example

Standard balance date

An entity becomes a PIE on 1 October 2010.

The deemed disposal and reacquisition occurs as at 30 September 2010, resulting in an increased liability of $210,000 for the year ending 31 March 2011 (the year of disposal). Payment may be spread as follows:

- payment of $70,000 due on 31 March 2011
- payment of $70,000 due on 31 March 2012
- payment of $70,000 due on 31 March 2013.

Non-standard balance date (December)

An entity becomes a PIE on 1 January 2011.

The deemed disposal and reacquisition as at 31 December 2010, results in an increased liability of $210,000 in the entity's 2011 income year ending 31 December 2010 (the year of disposal). Payment may be spread as follows:

- payment of $70,000 due on 31 March 2011
- payment of $70,000 due on 31 March 2012
- payment of $70,000 due on 31 March 2013.

Note

Payment is due in the tax year (31 March), regardless of the entity's income year.

Although payment of the increased liability can be spread over three tax years, the residual income tax (RIT) in the year of the deemed disposal will include the full amount of the increased tax liability, affecting the use of money interest (UOMI) calculations as at each provisional tax instalment date. The UOMI relating to the increased liability will be manually reversed.

Section HM 73

Entities subject to foreign investment fund (FIF) rules

A PIE with investments, which become subject for the first time to the FIF rules, enters the rules with effect from the income years starting on or after 1 April 2007. The rules require certain offshore investments held on revenue account to be subject to a deemed disposal and reacquisition.

An entity is treated as having:

- disposed of the interest to an unrelated entity on the day immediately before the day the FIF rules first apply to the entity
- reacquired the interest at the start of the day the FIF rules first apply to the entity
- received for the disposal and paid for the reacquisition an amount equal to the market value of the interest at the time of the disposal.

An entity may as a result incur an increased liability, payment of which can be spread over the following three income years. The increased provisional tax for the income year isn't subject to penalties and interest arising from an inaccurate estimate or a shortfall in the payment of provisional tax.

An entity may make minimum payments by the due dates as follows:

- in the income year following the income year in which the disposal was deemed to have occurred - at least one third of the liability
- in the second income year following the income year in which the disposal was deemed to have occurred - at least 50% of the balance of the liability
- in the third income year following the income year in which the disposal was deemed to have occurred - the remaining balance of the liability.

Example

Standard balance date

If the deemed disposal occurs as at 31 March 2010 then the deemed reacquisition occurs as at 1 April 2010.

The resulting increased liability of $210,000 arises in the 2010 tax year (the year of disposal). Payment may be spread as follows:

- payment of $70,000 due on 31 March 2011
- payment of $70,000 due on 31 March 2012
- payment of $70,000 due on 31 March 2013.

Non-standard balance date (December)

If the deemed disposal occurs as at 31 December 2010 then the deemed reacquisition occurs as at 1 January 2011.

The resulting increased liability of $210,000 arises in the entity's 2011 income year (the year of disposal). Payment may be spread as follows:

- payment of $70,000 due on 31 December 2011
- payment of $70,000 due on 31 December 2012
- payment of $70,000 due on 31 December 2013.

Note

The first payment is due in the **income year** following the income year in which the disposal is treated as occurring. The remaining two payments are due in the following income years. This is different from the treatment of the spread under the PIE rules in which the payments are due in the tax year, regardless of the entity's income year.

Although payment of the increased liability can be spread, the RIT in the respective income year will include the full amount of the increased liability, affecting the UOMI calculations as at each provisional tax instalment date. The UOMI relating to the increased liability will be manually reversed.

Note

It's important to advise us of the increased liability arising from the transitional provisions so that any UOMI calculations can be corrected and correct due dates set. Please send these details before filing the income tax return to the:

Team Leader, Customer Services
Large Enterprises
Inland Revenue
PO Box 2198
Wellington 6140

Section EX 67

Penalties and interest

Entities that incur an increased liability under the transitional process are not subject to penalties and interest arising from an inaccurate estimate or a shortfall in their payment of provisional tax, if the inaccuracy arises from the deemed disposal and reacquisition.

Note

Increased tax arising from a balance date change can't be spread.

Section HM 73

ICA (imputation credit account)

An MRP can't maintain an ICA. Credits in the ICA on the date a company becomes an MRP are lost. Where there is a debit in the ICA on the date a company becomes an MRP, the company has until the end of the imputation year to clear the debit. This is designed to allow the company to attach imputation credits to dividends made just before becoming an MRP in relation to the tax resulting from the transitional process.

Listed PIEs will continue to pay tax and file income tax returns as a company and must maintain an ICA. Any distributions made by these PIEs must carry imputation credits to the extent permitted by imputation credits available as determined by the directors of the PIE.

Distributions or dividends from listed PIEs to shareholders

Distributions or dividends to New Zealand resident natural persons and New Zealand resident trustees that are shareholders in a listed PIE are excluded income unless the shareholder includes the dividend in their tax return. If the shareholder elects to do so, the imputation credits can be used to offset any tax on the distribution. Investors on a marginal tax rate lower than 28% may choose to treat the distribution or dividend as assessable income and use any excess imputation credits against other tax to pay. The amount of any distribution or dividend that isn't fully imputed is also considered excluded income of the shareholder.

These dividends aren't liable for RWT or NRWT.

Sections CX 56C, HM 19 and RE 2(5)(bb)

Balance dates

PIEs that elect to be a quarterly or exit MRP must have a standard balance date, ie, they must operate on a tax year basis. This standard balance date requirement doesn't apply to:

- MRPs that elect to pay tax using the provisional tax option
- listed PIEs
- benefit fund PIEs
- life fund PIEs.

HM 74

Final pre-PIE tax return

A quarterly or an exit MRP doesn't have to make any changes to its standard balance date. It can file its final tax return under the current rules.

If it enters the PIE rules partway through a year, its final return can also be filed under the current rules. However, income included in the return will be for the period up to the effective date of its registration to become a PIE.

Example

Pre-PIE standard balance date

If the effective date of the PIE registration is 1 October 2011, its 2012 income tax return will include income for the period 1 April 2011 to 30 September 2011.

Note

This isn't a balance date issue. The return will still be for the tax year ended 31 March, only the income will be limited to the period prior to becoming a PIE.

Quarterly or exit MRPs

Based on the example, if the MRP defaults to be a quarterly MRP or elects to become an exit MRP, the PIE periodic return(s) will include income from 1 October 2011.

Provisional tax taxpayer

Based on the example, if the MRP elects to pay provisional tax, its provisional tax payments could be based on estimated income, taking into account the:

- standard income returned to 30 September 2011
- transitional process
- change in income calculation that applies under the PIE rules.

If the MRP has a non-standard balance date and it chooses or defaults to be a quarterly or exit MRP then:

- the day before its election to become a PIE is deemed to be the balance date, and
- the following 31 March is deemed to be its new balance date.

Based on a 1 October 2011 commencement date the period covered by the final pre-PIE income tax return will end on 30 September 2011. Unless the balance date is 30 September the MRP will file the final income tax return for a period other than 12 months.

Example

Pre-PIE December balance date

2010 income tax return was filed (for the period 1 January 2009 to 31 December 2009).

Decision was made to become a PIE effective 1 October 2011.

The final pre-PIE return covers the period 1 January 2010 to 30 September 2011. A 21-month return is required.

The following table outlines examples of transitional returns required for entities electing to be quarterly and exit MRPs from 1 April 2011.

Balance date	PIE commencement date											
	1 Apr 2011	**1 May 2011**	**1 Jun 2011**	**1 Jul 2011**	**1 Aug 2011**	**1 Sep 2011**	**1 Oct 2011**	**1 Nov 2011**	**1 Dec 2011**	**1 Jan 2012**	**1 Feb 2012**	**1 Mar 2012**
	2011 income year						**2012 income year**					
Apr	**11 months** 1/5/10 to 31/3/11	**12 months** 1/5/10 to 30/4/11	**13 months** 1/5/10 to 31/5/11	**14 months** 1/5/10 to 30/6/11	**15 months** 1/5/10 to 31/7/11	**16 months** 1/5/10 to 31/8/11	**17 months** 1/5/10 to 30/9/11	**6 months** 1/5/11 to 31/10/11	**7 months** 1/5/11 to 30/11/11	**8 months** 1/5/11 to 31/12/11	**9 months** 1/5/11 to 31/1/12	**10 months** 1/5/11 to 29/2/12
May	**10 months** 1/6/10 to 31/3/11	**11 months** 1/6/10 to 30/4/11	**12 months** 1/6/10 to 31/5/11	**13 months** 1/6/10 to 30/6/11	**14 months** 1/6/10 to 31/7/11	**15 months** 1/6/10 to 31/8/11	**16 months** 1/6/10 to 30/9/11	**5 months** 1/6/11 to 31/10/11	**6 months** 1/6/11 to 30/11/11	**7 months** 1/6/11 to 31/12/11	**8 months** 1/6/11 to 31/1/12	**9 months** 1/6/11 to 29/2/12
Jun	**9 months** 1/7/10 to 31/3/11	**10 months** 1/7/10 to 30/4/11	**11 months** 1/7/10 to 31/5/11	**12 months** 1/7/10 to 30/6/11	**13 months** 1/7/10 to 31/7/11	**14 months** 1/7/10 to 31/8/11	**15 months** 1/7/10 to 30/9/11	**4 months** 1/7/11 to 31/10/11	**5 months** 1/7/11 to 30/11/11	**6 months** 1/7/11 to 31/12/11	**7 months** 1/7/11 to 31/1/12	**8 months** 1/7/11 to 29/2/12
Jul	**8 months** 1/8/10 to 31/3/11	**9 months** 1/8/10 to 30/4/11	**10 months** 1/8/10 to 31/5/11	**11 months** 1/8/10 to 30/6/11	**12 months** 1/8/10 to 31/7/11	**13 months** 1/8/10 to 31/8/11	**14 months** 1/8/10 to 30/9/11	**3 months** 1/8/11 to 31/10/11	**4 months** 1/8/11 to 30/11/11	**5 months** 1/8/11 to 31/12/11	**6 months** 1/8/11 to 31/1/12	**7 months** 1/8/11 to 29/2/12
Aug	**7 months** 1/9/10 to 31/3/11	**8 months** 1/9/10 to 30/4/11	**9 months** 1/9/10 to 31/5/11	**10 months** 1/9/10 to 30/6/11	**11 months** 1/9/10 to 31/7/11	**12 months** 1/9/10 to 31/8/11	**13 months** 1/9/10 to 30/9/11	**2 months** 1/9/11 to 31/10/11	**3 months** 1/9/11 to 30/11/11	**4 months** 1/9/11 to 31/12/11	**5 months** 1/9/11 to 31/1/12	**6 months** 1/9/11 to 29/2/12
Sep	**6 months** 1/10/10 to 31/3/11	**7 months** 1/10/10 to 30/4/11	**8 months** 1/10/10 to 31/5/11	**9 months** 1/10/10 to 30/6/11	**10 months** 1/10/10 to 31/7/11	**11 months** 1/10/10 to 31/8/11	**12 months** 1/10/10 to 30/9/11	**1 month** 1/10/11 to 31/10/11	**2 months** 1/10/11 to 30/11/11	**3 months** 1/10/11 to 31/12/11	**4 months** 1/10/11 to 31/1/12	**5 months** 1/10/11 to 29/2/12
Oct	**17 months** 1/11/09 to 31/3/11	**18 months** 1/11/09 to 30/4/11	**19 months** 1/11/09 to 31/5/11	**20 months** 1/11/09 to 30/6/11	**21 months** 1/11/09 to 31/7/11	**22 months** 1/11/09 to 31/8/11	**23 months** 1/11/09 to 30/9/11	**12 months** 1/11/10 to 31/10/11	**13 months** 1/11/10 to 30/11/11	**14 months** 1/11/10 to 31/12/11	**15 months** 1/11/10 to 31/1/12	**16 months** 1/11/10 to 29/2/12
Nov	**16 months** 1/12/09 to 31/3/11	**17 months** 1/12/09 to 30/4/11	**18 months** 1/12/09 to 31/5/11	**19 months** 1/12/09 to 30/6/11	**20 months** 1/12/09 to 31/7/11	**21 months** 1/12/09 to 31/8/11	**22 months** 1/12/09 to 30/9/11	**11 months** 1/12/10 to 31/10/11	**12 months** 1/12/10 to 30/11/11	**13 months** 1/12/10 to 31/12/11	**14 months** 1/12/10 to 31/1/12	**15 months** 1/12/10 to 29/2/12
Dec	**15 months** 1/1/10 to 31/3/11	**16 months** 1/1/10 to 30/4/11	**17 months** 1/1/10 to 31/5/11	**18 months** 1/1/10 to 30/6/11	**19 months** 1/1/10 to 31/7/11	**20 months** 1/1/10 to 31/8/11	**21 months** 1/1/10 to 30/9/11	**10 months** 1/1/11 to 31/10/11	**11 months** 1/1/11 to 30/11/11	**12 months** 1/1/11 to 31/12/11	**13 months** 1/1/11 to 31/1/12	**14 months** 1/1/11 to 29/2/12
Jan	**14 months** 1/2/10 to 31/3/11	**15 months** 1/2/10 to 30/4/11	**16 months** 1/2/10 to 31/5/11	**17 months** 1/2/10 to 30/6/11	**18 months** 1/2/10 to 31/7/11	**19 months** 1/2/10 to 31/8/11	**20 months** 1/2/10 to 30/9/11	**9 months** 1/2/11 to 31/10/11	**10 months** 1/2/11 to 30/11/11	**11 months** 1/2/11 to 31/12/11	**12 months** 1/2/11 to 31/1/12	**13 months** 1/2/11 to 29/2/12
Feb	**13 months** 1/3/10 to 31/3/11	**14 months** 1/3/10 to 30/4/11	**15 months** 1/3/10 to 31/5/11	**16 months** 1/3/10 to 30/6/11	**17 months** 1/3/10 to 31/7/11	**18 months** 1/3/10 to 31/8/11	**19 months** 1/3/10 to 30/9/11	**8 months** 1/3/11 to 31/10/11	**9 months** 1/3/11 to 30/11/11	**10 months** 1/3/11 to 31/12/11	**11 months** 1/3/11 to 31/1/12	**12 months** 1/3/11 to 29/2/12

Note: There is no change to entities with a March balance date. These entities will file their returns in the usual manner.

Section HM 74

Part 2 - Cessations

An entity will cease being a PIE for one of the following reasons:

- a breach of the PIE eligibility rules has occurred
- the PIE is winding up
- the PIE is opting out or de-registering
- a PIP changes to a full PIE.

The PIE cessation notice can only be done online. The cessation form is available at **ird.govt.nz/myIR**.

Sections HM 24 to 29, and section 31B of the Tax Administration Act 1994

Breaches

Permanent breaches

A PIE must comply with certain eligibility criteria at all times during the year. If these eligibility requirements are breached it will result in the automatic cessation of the PIE.

If a PIE breaches the following eligibility criteria, at any time during a year, it fails to be eligible to be a PIE:

- collective scheme requirement *Section HM 9*
- residence requirement *Section HM 8*
- re-entry after five years requirement *Section HM 20*
- same rights to income requirement *Section HM 17*
- adjustment to investors interest requirement (for MRPs only) unless the Commissioner extends the period *Section HM 48*
- full imputation credit requirement (listed PIEs only) *Sections HM 19 and 28*
- starts a life insurance business *Sections HM 10 and 26.*

If any of these breaches occurs the PIE should complete the online cessation form. The effective date of the PIE's cessation will be the last day of the quarter in which the breach occurs. If the permanent breach occurs in the first 12 months after what would have been the effective date of the PIE's election to become a PIE, then the PIE will be treated as if it never became a PIE.

Section HM 72, and section 31B of the Tax Administration Act 1994

Temporary breaches

Some temporary breaches of the eligibility criteria may not result in the cessation of the PIE, as long as the breaches are corrected within set timeframes.

If a breach occurs that is both significant and within the control of the PIE of a requirement at:

- an investor class
  - a minimum number of investors *Section HM 14*
  - a maximum investor interest *Section HM 15*
- the PIE level
  - an investment type *Section HM 11*
  - an income type *Section HM 12*
  - an entity shareholding investment *Section HM 13*
  - a class shareholding investment *Section HM 13*

then the entity will have until the end of the quarter following the quarter in which the breach occurs to correct the breach or the PIE will cease to be effective from the last day of the second quarter.

During the first six months from the effective date of the entity's election to become a PIE, it won't cease for a temporary breach. If there is a temporary breach on the last day of a quarter that begins after the end of the six months, the PIE will have until the last day of the next quarter to remedy the breach. If it fails to do so, the entity will cease to be a PIE on the last day of the second quarter. If the cessation date occurs within 12 months of the PIE's start, then the entity will be treated as if it never became a PIE.

If during the second measurement quarter the PIE announces that it intends to cease or cease the investor class within 12 months from the end of the quarter, the breach won't cause the loss of PIE status.

The PIE doesn't have to advise us of a temporary breach, provided the breach is corrected within the set timeframe.

Section HM 25

Example 1

PIE A commences on 1 October 2010.

A temporary breach of an eligibility requirement occurs on 20 May 2011 (ie, PIE A has existed for more than seven months but less than 12 months).

If the breach hasn't been corrected as at the end of the quarter (30 June 2011) and has still not been corrected by the end of the following quarter (30 September 2011) then the PIE will be treated as if it never became a PIE.

In this case the PIE has four months and 11 days to correct the breach.

Example 2

PIE B commences on 1 October 2009.

A temporary breach of an eligibility requirement occurs on 1 October 2011 (ie, PIE B has existed for two years).

If the breach hasn't been corrected as at the end of the quarter (31 December 2011) and has still not been corrected by the end of the following quarter (31 March 2012) then the PIE will cease as at 31 March 2012.

In this case the PIE has six months to correct the breach.

Example 3

PIE C commences on 1 October 2010.

A temporary breach of an eligibility requirement occurs on 20 March 2011 (ie, PIE C has existed for less than six months).

If the breach remains uncorrected as at 30 June 2011 (the last day of the quarter beginning six months after the start) and has still not been corrected by the end of the following quarter (30 September 2011) then the PIE will be treated as if it never became a PIE.

In this case the PIE has 6 months and 11 days to correct the breach.

If a breach is either insignificant or occurred due to an event or circumstance outside the control of the PIE, the breach won't cause the entity to cease to be eligible to be a PIE.

PIPs don't need to meet PIE eligibility criteria and will therefore not have a breach. It is likely that proxies that cease have opted out or have elected to become a full PIE.

Cancellations

An entity may choose at any time to cease being a PIE by giving notice to us using the online form. An election to cease being a PIE is effective from the later of the date:

- on which the entity became a PIE
- nominated in the notice
- we receive the notice.

Section HM 72, and section 31B of the Tax Administration Act 1994

Wind-ups

The entity will cease to be a PIE if:

(a) a temporary breach arises after the first six months of the start of the PIE

(b) by the end of the second quarter the entity has announced that it is to wind up or the class is to wind up within 12 months from the end of the second quarter

(c) the temporary breach is repeated:

- (i) on the last day of the quarter following the quarter in which the initial breach arises
- (ii) ending within three months before the entity announces to its investors that the entity is winding up within 12 months.

Where the temporary breach is significant and has occurred due to an event or circumstance within the control of the entity, and the above requirements (a) and (b) are satisfied, the entity will cease to be a PIE. This is notwithstanding that the temporary breach may not have been repeated within the set timeframe in (c).

The entity will cease to be a PIE on the last day of the second quarter following the quarter when the entity fails to meet the eligibility requirements of being a PIE, or the date of the wind-up.

Section HM 25

Date on which a PIE ceases

The cessation of a PIE by election is effective from the elected date, provided the election is made more than 12 months after the PIE commences. If the election to cease is effective from a date that is less than 12 months after the PIE started, then the entity is treated as if it never became a PIE.

If the PIE commits a permanent breach of an eligibility requirement at any time, or doesn't remedy a temporary breach of an eligibility requirement, the PIE will cease on the last day of the quarter in which the entity fails to be eligible. If the cessation effective date is less than 12 months after the PIE commenced, then the entity is treated as if it never became a PIE.

Section HM 72

The following table notes the effective cessation dates (provided the cessation isn't within the first 12 months after a PIE commences):

Permanent breach	The cessation date will be the last day of the quarter in which the permanent breach occurred.
Temporary breach	The cessation date will be the last day of the second quarter.
Wind-up	The cessation date will be the later of the date the entity became a PIE, the date nominated in the notice or the date we receive the notice.
Opt-out	The cessation date will be the later of the date the entity became a PIE, the date nominated in the notice or the date we receive the notice.
PIP changes to a full PIE	The cessation date will be the last day as a custodian. **Note:** Where a PIP changes to a full PIE it is more correctly a registration rather than a cessation, as in this instance the entity will be required to register as a PIE. For our purposes this will be a change to the entity's PIE status.

Example

An entity that commenced on 1 October 2009 but was no longer eligible to be a PIE, due to a permanent breach of an eligibility requirement on 27 May 2011, would cease to be a PIE on 30 June 2011 (ie, the last day of the quarter).

At the time of sending the cessation notification the entity needs to separately advise us if they require other tax types to be ceased or, if an agent is linked for the PIE tax type, whether they want to stay linked or be de-linked.

PIE cessation within 12 months

A PIE that ceases within 12 months of its start date is treated as if it never became a PIE. All returns, payments, refunds or credits, statements, reconciliations or any other documents or transactions that arose after the PIE start date are required to be undone. This may be a complicated process completed over a lengthy period. Some of the factors to consider in such cessations are as follows:

- PIE income may be required to be included in the income tax return that covers the periods for which PIE returns were previously filed. This will require adjustments to the income and tax calculation which we won't be able to complete. This will have to be done by the entity or tax agent and may require requests for amendment to the income tax return filed from the date of it becoming a PIE to its cessation, using the disputes process..
- Payments made by the entity will have to be transferred or refunded as instructed. Where no instruction is received PIE payments made will be transferred to current income tax.
- Refunds previously issued that are required to be repaid will accrue interest until the repayment has been made.
- Tax revenues that may have been ceased at the entity's request as a consequence of becoming a PIE may have to be reinstated, and PIE income may be required to be taxed under those revenue types. Likely revenues affected include:
  - NRWT (non-resident withholding tax)
  - approved issuer levy
  - FDP (foreign dividend payment)
  - RWT (resident withholding tax).
- Distributions paid by the PIE and treated under the PIE rules as excluded income may now be treated as taxable income.
- Investor statements issued to investors will be incorrect and may affect their tax positions.
- Any deemed disposal and reacquisition of shares at market value at the time of becoming a PIE needs to be reversed, including any spreading of an increased tax liability.
- Certain PIEs are required to cancel any ICA credit balances by 31 March following the PIE's start date. Credit imputation memorandum account balances reduced to nil as a consequence of becoming a PIE need to be reinstated.

Issues to consider when ceasing a PIE other than cessations within 12 months

- Other revenue types such as NRWT, that may have been ceased as a consequence of becoming a PIE may now be reinstated.
- Certain PIEs are required to cancel any ICA credit balances by 31 March following the PIE's start date. On cessation the credit won't be reinstated.
- Depending on the type of PIE, the entity's balance date may require changing which may require a separate application.
- If the PIE was granted an exemption from RWT, that exemption will cease, unless the exemption was pre-existing.
- Where transitional adjustments resulting from the deemed disposal of shares at start have been spread forward, the spread will continue.
- Where a PIP is ceasing it must notify the PIE it invests in that it is no longer acting as a PIP. It must also advise the investors that they now need to advise the PIE of their PIRs and IRD numbers.

Section HM 72

Deemed disposal and reacquisition of shares

On the date the entity ceases to be a PIE it is deemed to have disposed of and reacquired all shares in New Zealand and certain Australian-resident listed companies, at their market value.
This provision ensures that shares previously subject to the Australasian share exemption re-enter the tax base at their market value. Any subsequent sales of shares will be subject to the usual capital/revenue distinction.

Section HM 75

As a PIP doesn't make a transitional adjustment, no further adjustment to any returns arising from cessation of the PIP needs to be made.

Cessation notification

On receipt of the PIE cessation notification we'll issue an acknowledgment letter. The letter doesn't confirm cessation.

The cessation process may be complex and lengthy, particularly where the PIE has ceased within 12 months of start. A final letter confirming cessation of the PIE tax type will only be issued once all actions, including return reviews or adjustments, have been completed.

Annual reconciliation

All MRPs that cease, except for those ceasing within 12 months of start, will be required to file an annual reconciliation within three months of cessation. This includes PIPs.

Section 57B(7)(c) of the Tax Administration Act 1994

Part 3 - Attribution and calculation periods

Attribution and calculation periods determine the periods over which income (and expenses, losses and tax credits) are calculated and attributed. An entity will have an attribution period of a day and a calculation period of a quarter, unless the entity chooses a different attribution period and/or calculation period. The entity's choice depends on the type of MRP the entity elects to become.

Attribution period

The attribution period is the period over which an MRP attributes its class net income or class net loss.

An MRP may choose an attribution period by giving a notice to us before the start of the relevant tax year or when the entity first chooses to become an MRP. The default attribution period for an MRP is a day. The type of MRP an entity chooses to become will limit the attribution periods it may adopt as shown in the following table.

Attribution periods	
PIE type	**Attribution period**
Quarterly MRP	Day, month or quarter
Exit MRP	Day
Provisional tax taxpayer	Day, month, quarter or year
Annual income tax	Not applicable

An MRP will apply the notified investor rate to an attribution period. Where the notified investor rate (see page 28) is changed as a result of an investor changing their PIR at any time during the tax year, the new notified investor rate will apply to any amount for which the tax hasn't already been assessed.

Sections HM 34 and 60, and section 31B of the Tax Administration Act 1994

Income and deductions

Income and deductions of MRPs are attributed to the same periods. The MRP attributes these amounts for the purpose of setting a unit price or the amounts are attributed according to the MRP's financial statements. The expenditure must still be deductible under the tax rules.

Break fees are considered part of the ongoing maintenance of the account and can be claimed in the tax calculation for an investor.

Section HM 35

Timing rule clarification

An amendment to the PIE rules confirms that an MRP can claim deductions for expenses and pay tax for income when these are reflected in the MRP's valuation of investor interest (unit price) or in its financial statements.

The purpose of this timing rule is to maintain investor equity over time by ensuring that investors exiting the MRP are attributed their correct share of the PIE's tax.

Any future change in an expense or income that has already been deducted or taxed will also be picked up for tax purposes at the point where the change is reflected in an MRP's unit price or financial accounts.

MRPs are able to claim deductions for credit impairment provisions when they're reflected in an MRP's unit price or its financial statements. Credit impairment provisions are created to reflect the decline in a financial asset's value because of past events.

A PIE can only claim deductions for credit impairment provisions if the criteria set out in NZ IAS 39 are met.

The amendments apply retrospectively from 1 October 2007. However, transitional measures have been included to confirm the tax positions already taken by MRPs on the timing of income and expenses, as well as credit impairment provisions. These transitional measures prevent MRPs from making retrospective adjustments to their tax returns.

Section HM 35B

Conditional entitlements/vesting periods

Where no investor holds an investor interest in the income or the entitlement is conditional, eg, where income is attributed to unvested interests in an employee superannuation scheme, the MRP is treated as the sole investor in the investor class. The income is taxed at 28%.

When the vesting period is beyond five years, the income from these funds after the five years can be attributed to the investor.

Section HM 37

Superannuation funds may attribute an investor interest to an investor where:

- an employer-based superannuation scheme existed on or before 17 May 2006 and there has been no increase in the length of the vesting period after that date
- an employer-based superannuation scheme came into existence after 17 May 2006 and the investor interest is transferred from a scheme that existed on or before 17 May 2006 to the new scheme without change in substance to the benefits a member will receive from unvested contributions.

Section HM 38

Investor attributed income/loss

Investor attributed income or loss is the total income or loss calculated for that investor for:

- each attribution period in a tax year the investor was present in the entity
- each day of the attribution period
- each investor class to which the investor belongs.

An investor's investor attributed income or loss mirrors the investor's share of the income on which the tax is calculated.

An MRP attributes taxable income or taxable loss to investors, calculated for each day in each attribution period, and for each investor class that an investor belongs to on that day using the formula:

$$\frac{\text{investor percentage} \times (\text{income} - \text{loss})}{\text{days in attribution period}} - (\text{expenses} - \text{credits for fees})$$

Section HM 36

Investor attributed income is treated as derived by the investor in an MRP in the income year which includes the end of the MRP's income year. For an attributed loss the same rule applies.

Section HM 36

Investor attributed income is treated as excluded income of the investor if:

- the prescribed investor rate for the investor for the calculation period is more than 0%, and
- the investor's notified investor rate isn't less than the prescribed investor rate for the income year, and/or
- a quarterly MRP or an exit MRP calculates its optional payment as a final payment of the tax on the investor income on exit from the PIE, and/or
- the income isn't attributed to a period that includes part of an investor exit period, in the case of an exiting investor from a quarterly MRP.

Section CX 56

The investor attributed loss for an MRP that elects to use the provisional tax option will be nil as MRPs that elect to pay provisional tax don't attribute losses to investors.

Where an exiting investor in a quarterly MRP, that has had the zero rate applied, has an attributed loss for the exit period, the investor can claim the loss as a deduction in their income tax return.

Sections DB 53, HM 40, HM 43(3) and 47(4)

Calculation periods

The calculation period consists of one or more attribution periods and represents the period over which the tax liability is calculated. This generally aligns with when the PIE tax returns are required to be filed. An MRP can't elect an attribution period greater than its calculation period.

The calculation period consists of:

- one or more attribution periods, and/or
- a quarter - for the quarterly option, and/or
- an income year - for the exit or provisional tax options, and/or
- an exit period - for the exit option where an exit period occurs.

The exit MRP may make calculations on a daily basis to identify investors that have an exit period to ensure there are sufficient investor funds to meet the tax liability on investors' attributed income.

The three types of MRPs may make calculations during the year that they consider to be a final tax calculation at that point. They won't recalculate the tax liability for the period when a PIE periodic return is required to be filed. The tax calculation for the investors will be the sum of each calculation made for the year.

Sections CX 56 and YA 1

Changing PIE filing periods

Generally, PIEs wanting to change their filing periods can only do so before the start of the tax year.

Where there is a transition to new PIRs an exit MRP can treat each part of the income year as if it is a separate income year. Part 9 contains further information.

Sections HM 42, 42B and 44

Losses

Formation losses

Subject to the 5% threshold, entity formation losses are attributed to an attribution period for an investor class. Further information on formation losses is available on page 38.

Sections HM 35, 68 and 70

Land losses

A class land loss arises when an investor class has investments that are predominantly (by value) interests in land or shares in land investment companies - refer to page 10. Where this investor class has a net loss for an attribution period, this loss can be carried forward as a class land loss for offsetting against net income of the class in future attribution periods.

Sections HM 64(1) and 65

Current losses

An investor class of an MRP has a taxable loss if the class has a net loss. An investor class has a net loss in an attribution period if total deductions for the class exceed assessable income for the class.

Sections HM 35, 36 and 64

Losses for investors

Current losses for zero-rated investors flow through to the investors' tax returns. The losses are then subject to the usual loss offset rules.

Where a loss is attributed to an exiting investor in a quarterly MRP, the investor is allowed a deduction in their income tax return.

Losses for investors, with a PIR of 10.5%, 17.5% or 28%, in a quarterly or an exit MRP generate credits for the MRP.

Sections DB 53, HM 40, 55 and 64

Notified investor rate

An MRP calculates its tax liability using each investor's notified investor rate. The rate can be:

- 0% for investors exiting a quarterly MRP
- the 28% default rate
- the investor's prescribed investor rate (0%, 10.5%, 17.5% or 28%) where that investor has also provided their IRD number
- the rate notified by the Commissioner as the appropriate rate.

Section HM 60

Prescribed investor rate (PIR)

Most investors in an MRP have a PIR which they qualify to use. The PIR is:

- 0% in the case of a resident entity that is a registered charity (ie, an organisation or trust that has exempt income because it is registered with the Charities Commission under the Charities Act 2005), a company, a superannuation fund, a trustee (other than a trustee that elects 17.5%, 28% and in certain cases 10.5%), a PIE, or a PIE investor proxy. These investors are defined as "zero-rated investors"
- 10.5% in the case of a New Zealand resident individual who, in either of the previous two income years, had taxable income of $14,000 or less (including non-excluded investor attributed income/loss) and a total amount of $48,000 or less in taxable income plus investor attributed income/loss (not already included)
- 17.5% in the case of a New Zealand resident individual who, in either of the previous two income years, had taxable income of $48,000 or less (including non-excluded investor attributed income/loss) and a total amount of $70,000 or less in taxable income plus investor attributed income/loss (not already included) and doesn't qualify for 10.5%
- 28% in all other cases and for a resident trustee that elects this rate.

Resident trustees are the only investors that can choose a PIR. This choice is to best suit the situation of the beneficiaries of the trust or super fund. Each choice has varying consequences that the trustees need to consider. Refer to page 55.

Sections HM 56 to 58 and 60, Schedule 6 table 1

It's important that an individual investor provides the actual PIR. If they incorrectly notify 28% or they have the default rate applied, that will be treated as the correct rate. They would not be able to get a refund if they could have used 10.5% or 17.5%.

Notified foreign investors in foreign investment PIEs have different rates that apply. Part 8 refers.

Section CX 56

If a company has had the default rate applied it's still treated as a zero-rated investor and the attributed income/loss must be included in the company's income tax return.

Sections CP 1, CX 56, DB 53, HM 36, 40, 51 to 54 and 64, LS 3 and YA 1

MRP's responsibilities

A new investor in a MRP who doesn't provide their IRD number within 6 weeks of becoming an investor in the MRP must be treated as an investor who is exited the MRP.

The MRP will close the account, calculate any tax and refund any funds owing to the investor.

Each year the MRP should request an investor's PIR and, if not already provided, their IRD number, tell the investor how to provide them and when the MRP needs them by. The investor has 6 weeks from the date of the request to provide their IRD number.

The MRP is required to use the PIR advised by the investor. However, if an investor fails to provide the MRP with their PIR or with their IRD number, then it will apply the default rate of 28%.

Where the Commissioner considers the notified investor rate is incorrect he can require the MRP to disregard the rate and notify the rate he considers appropriate.

Section HM 60, and section 31B of the Tax Administration Act 1994

Investor's responsibilities

An investor is required to tell the MRP of the PIR to be applied to their investment along with their IRD number. If an investor does not provide their IRD number within 6 weeks of becoming an investor in the MRP they will have their account closed with any funds returned to them. If an investor doesn't advise the MRP, the MRP will calculate tax on the attributed income from the investment at the default rate of 28%, which may be higher than the investor's actual rate.

After the original notification of their PIR and IRD number, the investor should review their PIR annually. However, an investor only needs to inform the MRP if their rate changes. If a change is required, the investor should advise the MRP of the PIR change before the start of its income year.

Section 28B of the Tax Administration Act 1994

Information to help an investor decide their correct PIR can be found at **ird.govt.nz/toii/pir/workout**

Note

All investors are required to provide their IRD number to the MRP. If an investor doesn't supply their IRD number when providing their PIR, they have breached a taxpayer's tax obligation and may have committed a criminal offence punishable by a significant fine.

MRP's ability to apply an investor's PIR retrospectively or prospectively

If an investor's PIR changes, the MRP must be notified. Provided the investor tells the MRP of the PIR change before the MRP completes the tax calculation for the calculation period, the change can take effect straightaway. This may mean for the whole quarter or the whole income year depending on how the PIE operates. Otherwise the change will apply from the next calculation period.

Sections CX 56, HM 45, 47 and 60

Scenarios

An investor notifies the MRP of a PIR of 10.5% prior to the beginning of the MRP's income year (1 April 2011) and then notifies the MRP of a corrected PIR of 28% on 1 August 2011.

Quarterly MRP

As the MRP has completed its tax calculation and filed its PIE periodic return for the quarter ended 30 June, the investor's corrected rate can't be applied to the first quarter. Also, as the investor has advised the MRP of a rate lower than their actual rate, the investor attributed income for the first quarter won't be excluded income of the investor and will be required to be included in the investor's income tax return. A credit for the 10.5% tax liability already satisfied by the MRP will be allowed.

The investor has advised the correct rate part-way through the second quarter. The MRP may not have calculated its final tax for the quarter. If so, the MRP may apply the correct PIR from the first day of that quarter.

Exit MRP

The MRP has a daily calculation period. However, it may not complete its final daily tax calculations until the return for the tax year is filed. The MRP may be required to file PIE returns for months in which investors exit or where the MRP has made a voluntary payment due to a switch of investor classes or partial withdrawal. Despite filing these returns, the MRP may be able to apply the corrected PIR to the daily calculation periods from the start of the tax year. Whether the corrected PIR can be applied from the start of the tax year or from the date of notification is at the MRP's discretion.

For any periods where the MRP has already completed a final tax calculation for a return filing period, the investor will have had a lower rate applied. The income won't be excluded income of the investor and will be required to be included in the investor's income tax return. A credit for the 10.5% tax liability already satisfied by the MRP will be allowed.

Provisional tax option

The MRP completes its income tax return to its approved balance date. As it has a calculation period of a year, the MRP may be able to apply the changed PIR from the start of the income year.

The investor's PIR will be correct for the entire calculation period.

In each of the scenarios the MRP may also complete daily tax calculations. It may also re-calculate for the corrected rate. This is at the MRP's discretion.

Consequences if the notified investor rate is lower than the PIR

If an investor incorrectly advises a PIR that is lower than the actual rate, the investor attributed income isn't excluded income. Instead, the income that has had the lower rate applied should be included in the investor's tax return for the year that includes the end of the MRP's income year.

Sections CX 56, HM 56 and 60

The taxpayer is allowed a credit for any tax liability satisfied by the MRP in relation to any investor attributed income no longer considered excluded income.

Section LS 2(1)(c)

Part 4 - Tax calculation

The requirements to calculate tax vary depending on the type of MRP. Attribution and calculation periods determine the periods over which income (and deductions, losses and tax credits) are attributed and tax is calculated. An entity chooses an attribution and a calculation period at the time it elects to become an MRP or the start of the tax year.

Foreign investment PIEs also refer to Part 8.

Assessable and taxable income

For an MRP the class net income or loss for an attribution period is calculated using the formula:

class assessable income - class deductions

where:

class assessable income = the MRP's total assessable income attributed to an investor class and the attribution period

class deductions = the MRP's total allowable expenditure or loss incurred by the MRP in deriving assessable income attributed to the investor class and to the attribution period.

An investor class has class net income in an attribution period if the assessable income that is attributed to the class and the attribution period exceeds the deductible expenditure attributed to the class and the attribution period.

An investor class has a class net loss in an attribution period if the deductible expenditure attributed to the class and the attribution period exceeds the assessable income that is attributed to the class and the attribution period.

This calculation would be done at the end of a calculation period for each attribution period that falls within that calculation period.

Once the class net income or loss for an attribution period has been determined, the MRP will establish its class taxable income or loss for an attribution period. This is arrived at using the formula:

class net income – class net loss – other loss used

"Other loss used" for the investor class is the lesser of:

(a) the total of:

- (i) formation losses attributed to the attribution period and the class, and/or
- (ii) any class land loss that is available but hasn't been used in any previous attribution period to reduce class net income

or

(b) the class net income.

The amount of formation loss and class land loss which can be used in an attribution period is limited to the amount of class net income calculated for the class and the period.

For any investor class on a day, there can't be both a class net income and a class net loss.

Section HM 35

Calculating the tax

Calculating an MRP's tax for a calculation period is carried out on a daily basis.

The formula must be applied for:

- the calculation period
- each investor class
- each investor in the investor class
- each attribution period in the calculation period
- each day in the attribution period.

The formula for calculating the tax is:

rate x amount

where:

rate = the notified investor rate or 28% if the PIE is treated as the only investor in the class

amount = the investor entitlement to PIE attributed income or loss for each day, ie, the income that tax is calculated on.

This is calculated by using the formula:

$$\frac{\text{percentage} \times (\text{income} - \text{loss})}{\text{days in period}} - (\text{expenses} - \text{credit for fees})$$

where:

percentage = the investor's investor interest in the class

income = the investor's taxable income for the period

loss = the investor's taxable loss for the period

expenses = the total amount for the day in the attribution period of:

(a) fees for ongoing management and ongoing administration services paid from or charged to the account of the investor as a member of the investor class, and/or

(b) expenditure of the investor that is specifically allowed to be transferred to the MRP (this can't be greater than the income)

credit for fees = the amount paid or credited by the MRP to the account of the investor as a member of the investor class on the day in the attribution period. As the credit is included in the PIE attributed income it is treated as excluded income to the investor

days in period = the number of days in the period.

For paragraph (a) under expenses on page 31, in calculating the tax relating to the investor, a deduction is allowed for expenses charged to an investor's account. The deductible expenses are those charged to the investor for ongoing management and ongoing administration services, including switching expenses, in relation to their investor interest. These expenses should be spread over each attribution period the investor is present in an investor class.

For paragraph (b) under expenses on page 31, the allowance of investor's expenses in the calculation of their attributed income removes the need for investors to have to file a tax return to get a deduction separately.

Sections CX 57, DB 54, HM 35 and 36

Tax calculation example

An MRP has five investors in a class, each holding 20% investor interest percentage. Investors A, B and C elect a PIR of 17.5%. Investors D and E have a PIR of 28%. (Assume the investor membership eligibility requirement is satisfied.)

The MRP has class net income of $17,000 on day one and a class net loss of $7,000 on day two. It is assumed the attribution period is one day and no expenses or credits for fees applied to this attribution period.

The tax is the sum of the taxes for each individual investor for each attribution period in the relevant calculation period (assume the MRP's calculation period only encompasses day one and day two).

Day one
Three investors on 17.5%

$$\frac{0.2 \times \$17{,}000}{1} - 0 = \$3{,}400 \times 0.175 = \$595$$

Two investors on 28%

$$\frac{0.2 \times \$17{,}000}{1} - 0 = \$3{,}400 \times 0.28 = \$952$$

Day two
Three investors on 17.5%

$$\frac{0.2 \times (-\$7{,}000)}{1} - 0 = -\$1{,}400 \times 0.175 = -\$245$$

Two investors on 28%

$$\frac{0.2 \times (-\$7{,}000)}{1} - 0 = -\$1{,}400 \times 0.28 = -\$392$$

Tax liability:

($595 × 3 + $952 × 2) + (−$245 × 3 + −$392 x 2) = $2,170

Tax to pay = $2,170

Section HM 47

Attributed losses

Where an investor taxed at 10.5%, 17.5% or 28% in a quarterly or exit MRP has an investor attributed loss, the MRP has a tax credit. The MRP then attributes the credit to the investor by adjusting the investor's interest, or making a distribution.

Sections HM 47(5), 48 and 55, LS 1

The investor attributed income or loss for an investor taxed at a zero rate in a quarterly or exit MRP is included in the investor's tax return and tax is calculated at their marginal rate, in the income year that includes the end of the MRP's income year.

Sections DB 53, HM 36(5)

Exitors

Investors may fully or partially sell or withdraw their investments in an MRP or change investment classes. In these instances an investor exit period may arise.

Investor exit period

An investor in a quarterly MRP has an investor exit period if the amount of the tax for the investor (calculated as if the investor did not have an exit period) were to equal or exceed the value of the investor's investor interest, in all classes, at the end of the exit period.

An investor in an exit MRP has an investor exit period if the amount of the tax for the investor (reduced by any tax credits attributed to the investor) is more than the value of the investor's investor interest on a day in the tax year.

If an investor partially exits or withdraws their investment, but an investor exit period doesn't arise, the MRP may calculate tax on the investor's attributed income.

Zero rating on exit

Investors who exit a quarterly MRP part-way through a calculation period may have tax calculated by the MRP, on the exiting investor's share of the income earned during the period, at the zero rate. Alternatively, the quarterly MRP may voluntarily pay tax on the attributed income for the exit period. MRPs should apply consistent treatment, in line with their normal business practice, in how they calculate tax in periods where an investor exits.

Sections HM 45 and 61 to 63

Zero-rated investors and investors taxed at a zero rate

A **zero-rated investor** is an investor in an MRP that qualifies for a PIR of 0%, for example, companies or trusts where the trustee doesn't elect another rate. Where a company hasn't supplied a PIR to the MRP and has had the default rate of 28% applied, it's still a zero-rated investor.

An **investor taxed at a zero rate** is an investor who has a PIR greater than zero (ie, 10.5%, 17.5% or 28%) but has had their income attributed from the MRP taxed at a zero rate at the time of withdrawal from the MRP. For example, natural person investors must have a PIR greater than 0% so they could never be a zero-rated investor. However, the quarterly MRP could tax that investor's income at a zero rate on exiting the MRP.

Sections HM 54, 60, 62 and 63, YA 1

Investor exit period for a quarterly MRP

For a quarterly MRP, an investor exit period is:

- a period that starts at the beginning of a calculation period and ends with the fifth working day after the end of the calculation period
- a period where the amount of the tax for the investor (calculated as if the period were not an investor exit period for the investor), across all classes would equal or exceed the value of the investor's investor interest in all classes at the end of the period

and the amount of the tax liability isn't met by an optional payment of tax by the MRP.

The five-day grace period after the end of a calculation period is to accommodate investors who leave a quarterly MRP just after the end of a calculation period but before the tax is calculated.

Example

PIE C is a quarterly MRP.

Investor A reduces his interest in PIE C by $10,000 part-way through a calculation period. His residual interest in PIE C is $1,000.

At the end of the quarter, investor A's share of the tax for the calculation period is $1,050. Because investor A's share of the tax for the period is equal to or greater than his residual interest, there is an investor exit period. Consequently, PIE C can apply a 0% tax rate for investor A.

By zero rating the income the investor is liable for the tax.

Section CX 56, HM 61 to 63

Sections HM 43 and 63

If the MRP doesn't tax the attributed income at a zero rate for the exiting investors, these investors won't include the attributed income in their tax returns. If a voluntary payment is made by the MRP an exit period doesn't arise and the income is treated as excluded income of the investor.

Section HM 63

Payment of residual interest

Where an investor exit period has been triggered and the MRP has zero rated the investor's income in the period of withdrawal, a residual interest in the MRP may accrue to the investor due to subsequent income attribution in the period. This residual investor interest must be cancelled and paid to us by the payment due date for the calculation period. This payment gives rise to a refundable tax credit for the investor which the investor can use to satisfy some of the investor's tax liability.

Where a voluntary payment covering the tax is made there is no exit period. The amount of the MRP voluntary payment must represent an amount of its tax for the investor and the investor's investor interest for the tax year.

Sections HM 43(4), LS 4(2)

Investor exit period for exit MRP

For an exit MRP, an investor exit period:

- begins with the later of:
  - the beginning of the tax year
  - the day on which the investor last became an investor in the investor class
- ends on a day in the tax year on which the PIE's tax for the investor, after allowing credits across all classes for the period, equals or exceeds the value of the investor's investor interest in the MRP.

Section HM 63

An exit period triggers a requirement for exit MRPs to file a tax return showing the amount of the tax for the exit period. The return and payment are due by the end of the month following the period in which an investor exits unless the exit period ends in November, in which case the due date is 15 January.

Section HM 42(4)

Unlike a quarterly MRP, investors who exit an exit MRP won't be taxed at a zero rate. Instead, the MRP would need to pay the investor's share of the tax relating to an investor exit period.

Consequently, investors who exit an exit MRP during a tax year wouldn't need to include their investor attributed income for an investor exit period in a tax return.

Provisional tax MRPs

An MRP that elects to pay provisional tax would not be able to apply a zero rate to the income attributed to investors that exit the fund during the year. It would pay tax on all the income it earned during the year. It would deduct the tax based on the investor's PIR from investor's attributed income when the investor exits. Under this option, payment to us will be made at the normal provisional tax/income tax due dates. However, they may pay out a flat interest rate for investors that exit.

Section HM 44

Switches and partial withdrawals

Quarterly or exit MRPs may make voluntary payments of tax when an investor fully or partially exits an investor class or when an investor switches from one investor class to another within the same MRP.

Switches between investor classes or partial withdrawals from an investor class may not trigger an investor exit period. A reduction in an investor's interest in the MRP may not result, if for example, a reduction of the interest relating to one class is offset by an increase in the interest relating to another class. Also, a partial withdrawal may not be significant enough to give rise to an investor exit period. However, the MRP may choose to make a voluntary payment of tax on a switch between classes or on partial withdrawal.

Voluntary payments

If an investor in an investor class of a quarterly MRP withdraws their interest in the class or the MRP in a quarter, the MRP has the option of paying the tax relating to the quarter in which the exit occurs, rather than zero rating the withdrawal. If the MRP does so, then an investor exit period won't arise and the income relating to the period of the withdrawal will remain excluded income of the investor, ie, the investor doesn't include any income relating to the quarter in which the withdrawal was made in their tax return.

For exit MRPs, tax must be calculated where an investor exit period is triggered. The voluntary payment may be made in the case of partial withdrawals or switches.

As the optional payment gives rise to a tax liability, an investor return adjustment to reflect the tax is required - refer to page 41.

Section HM 45

Part 5 - Tax credits and losses

Quarterly and exit MRPs can use tax credits to reduce their tax for investors other than investors that have had the zero rate applied, and to get a refund of income tax to the extent of the unused New Zealand tax credits. Investors can't get a refund of foreign tax credits.

MRPs that elect to pay provisional tax and other PIEs that can't attribute tax credits are subject to normal income tax rules in relation to the use of any tax credits in their tax returns.

Attribution of tax credits

Both foreign and New Zealand tax credits are attributed to investors as a member of an investor class and are able to be used by quarterly and exit MRPs to reduce the tax in relation to the investor.

The type of tax credit and PIR of an investor determine the treatment of these credits. There are also different treatments depending on whether the tax credits are foreign tax credits or New Zealand tax credits.

In most cases the attribution of tax credits to investors occurs daily. When the credit arises, an MRP needs to establish the investor's share out of all investors' investments in one investor class. Then the MRP has to establish the investor's share in that class out of all investor classes. It does this under the formula:

$$\frac{\text{credit} \times \text{class percentage x investor percentage}}{\text{number of days in period}}$$

MRPs attribute tax credits to the attribution period of the income year to which the credit relates. Foreign tax credits are applied against tax before New Zealand tax credits.

Sections HM 49 and 50, LB 3, LS 1

Foreign tax credits

Foreign tax credits are amounts that, if paid, would satisfy a person's obligations in a foreign country that has the same nature as New Zealand income tax. Foreign tax credits can only be claimed to the extent of the New Zealand tax payable.

For quarterly and exit MRPs, foreign tax credits are used to reduce the MRP's tax for each investor with a PIR greater than zero and are attributed to each attribution period and to each investor as a member of that investor class. However, if the MRP chooses, it can use the foreign tax credits to reduce the tax of the investor for another investor class.

Generally, the amount of foreign tax credits available to be used in a calculation period to reduce an investor's tax as a member of the investor class is the lesser of:

- available attributed foreign tax credits (excluding credits used in previous calculation periods)
- the amount of the investor's tax for the current and earlier calculation periods (excluding credits used in previous calculation periods).

However, for investors that have been zero-rated, excluding PIEs and PIPs, foreign tax credits can't exceed the attributed income tax for the tax year. For investors with PIRs greater than zero, foreign tax credits can't exceed the attributed income tax for the calculation period. Unused foreign tax credits may be offset in other calculation periods in certain instances. Any unused foreign tax credits at the end of the tax year would then be forfeited.

Exit MRPs can use foreign tax credits to reduce an investor's tax in the calculation period in which the credit is attributed and earlier or later calculation periods in the same tax year. This allows foreign tax credits attributed to an investor to be carried back, as well as forward, to attribution periods within the tax year.

For quarterly MRPs, foreign tax credits can only be used within the quarter or be carried forward to later quarters within the tax year. The MRP can't apply foreign tax credits to a prior quarter. Any foreign tax credits still unable to be used at the end of the tax year would be forfeited.

For further information on foreign tax credits in a transitional year refer to Part 9.

The following examples demonstrate application of the foreign tax credits against the investor's tax in a calculation period. Assume for the purposes of the following examples we are dealing with a quarterly MRP and the MRP has only two quarters in the tax year.

Example 1

Unused credit partially applied in the following quarter.

Quarter 1	Quarter 2
PIR 17.5%	PIR 17.5%
Income $100 Foreign tax credit $30	Income $100 Foreign tax credit $15
Tax on $100 is $17.50 $17.50 of the foreign tax credit is applied and tax is nil.	Tax on $100 is $17.50 The $15 foreign tax credit is applied against the tax leaving a balance of $2.50.
The unused foreign tax credit of $12.50 is available for use in a later calculation period in the tax year.	$2.50 of the unused tax credit from the previous quarter is also applied, reducing the tax for the quarter to nil. The unused foreign tax credit of $10 is forfeited at the end of the tax year.
The investor certificate will record income of $200 for the tax year and tax credits of $35.	

Example 2

Unused credits lost.

Quarter 1	Quarter 2
PIR 17.5%	PIR 17.5%
Income $100 Foreign tax credit $30	Loss* $200 Foreign tax credit $15
Tax on $100 is $17.50 Foreign tax credit of $17.50 is applied and tax is nil.	Tax payable is nil ($35 is credited to the PIE - based on the loss of $200 x 17.5%).
The unused foreign tax credit of $12.50 is available for use in a later calculation period in the tax year.	Foreign tax credit of $27.50 ($15 plus $12.50 from quarter 1) is forfeited at the end of the tax year.
The investor certificate will record a loss of $100 for the tax year, tax credits of $17.50 and credits of $35.	

Example 3

The investor applied two rates in the tax year, ie, advised an incorrect rate in the first calculation period. (Note also in this example the investor also receives a greater tax credit than tax payable for the tax year.)

Quarter 1	Quarter 2
PIR 17.5%	PIR 28%
Income $100 Foreign tax credit $25	Loss* $200 Foreign tax credit $15
Tax on $100 is $17.50 Foreign tax credit of $17.50 is applied and tax is nil.	Tax payable is nil ($56 is credited to the PIE based on the loss of $200 x 28%).
The unused foreign tax credit of $7.50 is available for use in a later calculation period in the tax year.	Foreign tax credit of $22.50 ($15 plus $7.50 from quarter 1) is forfeited at the end of the tax year.

The investor certificate will record a loss of $100 for the tax year, tax credits of $17.50 and tax credited/refunded of $56. The lower rate panel "Part C" in the investor certificate will record $100 income, attributed credits of $25 and tax paid of nil.

A PIR of 28% should have applied in quarter 1. However, the quarterly MRP won't be able to recalculate tax in that quarter. The income will be non-excluded income of the investor. The investor is required to include the income in their income tax return and be taxed at their basic tax rate. A credit will be allowed for the tax liability satisfied by the MRP. The previously forfeited foreign tax credits can be claimed up to the investor's tax liability.

An exit MRP may have been able to recalculate the tax on the income attributed by the MRP for the tax year. If so the income would be excluded income of the investor.

Sections HM 51, LS 1 to 4

* For more information about losses refer to page 38.

Foreign tax credits attributed to investors taxed at a zero rate

If the zero-rated investor is itself an MRP or a PIP the foreign tax credits attributed flow through to the investor and can be used without restriction. The MRP or PIP attributes foreign tax credits (and New Zealand tax credits) to its investors and limitations apply at that level.

Section LS 3

If the investor is an investor (not being a zero-rated investor) with an investor exit period in a quarterly MRP the foreign tax credits are limited to the lesser of the amount:

- of the attributed credit
- calculated by multiplying their investor attributed income for the tax year by the investor's investor rate that applied for the attribution period ending before the investor exit period.

Sections HM 54, LS 4

The credits attributed to the zero-rated period flow through to the investor's tax return. Foreign tax credit limitations also apply in the investor's tax return.

If the investor is a zero-rated investor in a quarterly or exit MRP the foreign tax credits are limited to the lesser of the amount:

- of the attributed credit
- calculated by multiplying their investor attributed income for the tax year by the investor's basic tax rate.

The credits attributed to the zero-rated period flow through to the investor's tax return.

Foreign tax credit limitations also apply in the investor's tax return.

Sections HM 54, LS 3

Foreign tax credits attributed to investors with PIRs greater than zero

Foreign tax credits attributed to investors with PIRs greater than zero (10.5%, 17.5% or 28%) are limited to the amount of tax calculated on the income attributed to the investor. The foreign tax credits can be used to reduce tax payable in earlier or later calculation periods provided they are within the same tax year or quarter. Quarterly MRPs only carry forward credits to the next quarter/s in the tax year.

Section HM 51

New Zealand tax credits

New Zealand tax credits are imputation credits, RWT credits, FDP credits and Māori authority credits.

These credits must be used to reduce an MRP's tax for an investor with a PIR greater than zero in an investor class after allowing any foreign tax credits. Any New Zealand tax credit excess is available to be refunded to the MRP except in the case of investors where a zero rate has been applied to the attributed income.

Section HM 53(2)

Formation losses attributed can't be used to reduce the class net income of an investor class if sufficient New Zealand tax credits are available in an attribution period to offset the tax that would otherwise arise, ie, the New Zealand tax credits are offset before any formation loss is taken into account.

Section HM 70

New Zealand tax credits attributed to investors taxed at a zero rate

If the zero-rated investor is itself an MRP or PIP, the New Zealand tax credits attributed flow through to the investor and can be used without restriction.

New Zealand tax credits attributed to zero-rated investors and investors with an investor exit period in a quarterly MRP flow through to the investor's tax return. The usual tax credit limitations in the investor's tax return apply.

Sections HM 54, LS 3 and 4

New Zealand tax credits attributed to investors with PIRs greater than zero (10.5%, 17.5% or 28%)

The full amount of the attributed tax credit is available as a credit. First, to cover the tax liability in respect of the investor. Second, any excess can be credited to the MRP, which then adjusts the investor interest for each investor or makes a distribution or adjusts the tax payment required by the investor.

Example

Investor B owns 15,000 $1 units and has a PIR of 17.5%.

The MRP derives $1,000 income, with an imputation credit of $280 attached, and attributes this to Investor B (17.5% × $1,000 = PIE tax of $175).

There is an excess credit of $105 ($280 imputation credit less $175 tax), which we credit to the MRP.

The MRP then adjusts Investor B's investor interest to 15,105 units.

Sections HM 48 and 53

Tax credit for investor with exit period residual interest

Where, after an exit period, the MRP pays to us the investor's residual interest in the MRP, the investor is entitled to a refundable tax credit of that payment in their tax return for the corresponding income year.

Sections HM 43(4), LS 4

PIE investor proxies (PIPs)

Tax credits attributed to PIPs that hold investments in PIEs flow through to the PIP without restriction. The PIP then exercises the PIE's obligation in respect of the various attributed tax credits and attributes the credits to the relevant investors. The PIP carries out the tax calculations for their investors including the attributed tax credits.

Sections HM 33 and 52(4)

Losses

Investor attributed loss

An investor attributed loss is the amount less than zero that may be calculated for each investor in an investor class and each day in an attribution period in a quarterly or exit MRP. An investor class has a class net loss in an attribution period if total deductions for the class exceed assessable income for the class.

Sections HM 35, 36 and 64

The investor attributed loss for MRPs that elect to pay provisional tax is zero as they won't attribute losses to investors. The losses can be carried forward.

Sections HM 36(4) and 44(3)

Treatment of investor attributed loss for zero-rated investors

The investor attributed loss for an investor taxed at a zero rate in a quarterly or exit MRP can be claimed by the investor in their tax return in the income year that includes the end of the MRP's income year.

Sections DB 53, HM 40

Treatment of investor attributed loss for positive rate investors

Where an investor taxed at 10.5%, 17.5% or 28% in a quarterly or exit MRP has an investor attributed loss, the MRP has a tax credit based on the investor's PIR. The MRP then attributes the credit to the investor by adjusting the investor's interest, or by making a distribution.

Example

Investor B owns 2,000 $1 units and has a PIR of 28%.

The MRP incurs a loss of $100.

We'll credit/refund the MRP $28 ($100 × 28%).

The MRP can then adjust investor B's investor interest to 2,028 units or make a distribution or adjust the tax payment required by the investor.

Sections HM 47, 48 and 58

Formation losses

A formation loss is the net loss arising before the entity becomes a PIE that can be carried forward and offset against a PIE's taxable income.

These losses can be made up of three components:

1. Losses brought forward (from the year before the transition to a PIE)
2. Current period loss (loss arising from the trading year in which the entity becomes a PIE and before the commencement of the PIE)
3. Transitional loss (arising from deemed disposal and reacquisition).

These losses are ring-fenced at the PIE level and can't flow through to investors, either directly or indirectly.

Formation loss less than 5%

Where the MRP's formation loss is less than 5% of the total market value of its investments at the time of becoming an MRP, the loss can be attributed to an investor class (provided it hasn't been attributed to an earlier attribution period) for an amount that is the lesser of the:

- available formation loss
- class net income reduced by the available New Zealand tax credits divided by the basic tax rate.

The formation loss restriction doesn't apply to non-MRPs as the loss can't flow through to investors.

Formation loss 5% or more

Where the MRP's formation loss is 5% or more than the total market value of its investments at the time of becoming an MRP, the loss can be attributed to an investor class (provided it hasn't been attributed to an earlier attribution period) and offset against class net income at the rate of 1/1,095 for each day (spreading the loss over a minimum of three years).

Any formation loss that can't be offset against class net income on a day is carried forward to the next day. Once 1,095 days have passed, any remaining formation loss can be offset to the extent of class net income reduced by the available New Zealand tax credits (eg, imputation credits) divided by the basic tax rate. The loss still can't flow through to investors.

Sections HM 66 to 70

New Zealand tax credit protected income

Formation losses can't be offset against income associated with New Zealand tax credits. This prevents refunds of these tax credits being generated. This protected income is identified by grossing up the tax credit by the company tax rate.

Example

G Gold Ltd has income and tax credits for a day of:

- New Zealand interest income of $100 with RWT of $28
- New Zealand dividend income of $150 with imputation credits of $42
- foreign investment fund income of $400 and no foreign tax credits.

The total net income after deductions for the day is $650.

G Gold Ltd has a formation loss qualifying for the 1,095 days spread of $547,500, ie, a formation loss available for the day of $500.

Calculation

Total New Zealand tax credits		$70 ($28 RWT plus $42 ICA credits)
Income associated with tax credits	$250	($70/0.28)

The maximum formation loss able to be claimed for the day is:

Total net income	$650
Less New Zealand tax credit protected income	$250
Income available to be offset by formation loss	$400
less available formation loss	$500
balance after allowing formation loss	$ 0
This balance is then added to the New Zealand tax credit protected income	$250
Total income to attribute	$250

The unused formation loss of $100 is available to carry forward to the next day.

Total attributed income for the day after allowing formation loss	**$250**
New Zealand tax credits	**$ 70**

Section HM 70

The following table shows how a formation loss may be attributed for each day:

This is an exit MRP and this example only covers the first six days as a PIE.
The formation loss exceeds 5% of the total market value of the MRP's investments. For simplicity the formation loss is $1,095,000.

	Day 1	Day 2	Day 3	Day 4	Day 5
Formation loss	$1,095,000				
Imputation credit	$510	$210	$100	$410	$240
RWT	$50	$70	$5	$10	$40
Income prior to formation loss	$1,700	$2,200	$2,200	$3,000	$1,500

Step 1: Establish protected income

New Zealand tax credits must be used before any formation loss.
The amount available for offset is the total income less the protected income. Protected income calculated as: $\frac{\text{tax credit}}{0.28}$

			Day 1	Day 2	Day 3	Day 4	Day 5
New Zealand tax credits			$560	$280	$105	$420	$280
Protected income ÷ 0.28		**(A)**	$2,000	$1,000	$375	$1,500	$1,000
Income prior to formation loss		**(B)**	$1,700	$2,200	$2,200	$3,000	$1,500
Income for formation loss offset	If (A < B) then B – A =	**(C)**	$0	$1,200	$1,825	$1,500	$500

Note: In day 1 all the income is protected and there is no formation loss to offset. The remaining $300 protected income won't be carried forward to day 2 for the purpose of determining whether the MRP can apply the formation loss on day 2.

Step 2: Offset formation loss against available income

Unused formation loss on each day is available for carry forward to the next day. The total formation loss is then offset against the income available for offsetting.

		Day 1	Day 2	Day 3	Day 4	Day 5	Day 6
Formation loss		$1,095,000					
Days	1,095						
Daily formation loss maximum	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
Formation loss brought forward		$0	$1,000	$800	$0	$0	$500
Combined available formation loss	**(D)**	$1,000	$2,000	$1,800	$1,000	$1,000	$1,500
Formation loss used	Lesser of C and D	$0	$1,200	$1,800	$1,000	$500	
Unused formation loss to carry forward to next day		$1,000	$800	$0	$0	$500	

Investor return adjustments

An MRP must make adjustments to reflect the effect of a notified investor rate of an investor, as a member of an investor class, on the amount of:

- the PIE's tax for the investor class
- a tax credit attributed to the investor as a member of the investor class.

MRPs (not MRPs that pay provisional tax) can get tax credits in certain circumstances, for investors with PIRs above 0% and investors in quarterly MRPs that don't have an investor exit period. Instead of these investors receiving a benefit for any losses or excess credits directly, the MRP receives the tax credits. The MRP must make an investor return adjustment to reflect these tax credits.

The adjustments will differ from investor to investor due to the different PIRs and levels of expenses applied to each investor.

The adjustment must be made to:

- the investor interest of each investor, or
- the amount of each distribution to each investor, or
- the amount of the payment required.

An investor's investor interest is an interest in a PIE that gives the holder an entitlement to a distribution of proceeds from the PIE's investments.

The investor return adjustment requirement doesn't apply if an entity elects to become a listed PIE, a benefit fund PIE or a life fund PIE. This is because, unlike MRPs, these PIEs don't calculate their tax based on the investors' PIRs.

Section HM 48

Adjustment methods

An MRP can choose between three methods for making the adjustment:

1. Units increased/reduced

Where an MRP has a tax liability, the MRP can reduce the investor's investor interest (cancel units) in any of the investor classes held by the investor.

Example 1

Investor A has a PIR of 28% and holds 10,000 $1 units in an MRP.

The MRP attributes $500 income to Investor A.

The MRP's tax liability on this income is $140.

If the MRP chooses to adjust Investor A's investor interest, it would cancel 140 of Investor A's units, leaving Investor A with 9,860 units.

Where the MRP has a tax credit it can increase the investor interest in any of the investor classes held by the investor.

Example 2

Investor B has a PIR of 17.5% and holds 10,000 $1 units in an MRP.

The MRP attributes $1,000 income to Investor B, with imputation credits of $280.

The MRP's tax liability on this income is $175 (17.5% × $1,000).

Because the investor has a greater New Zealand tax credit ($280) than its tax ($175), there will be a tax credit of $105 ($280 less $175), which we'll credit to the MRP.

If the MRP chooses to adjust Investor B's investor interest, it would issue 105 additional units to Investor B (10,105 units).

2. Distributions

The MRP can adjust any distributions made to the investor as a member of the investor class or another investor class.

Example

Investor A has a PIR of 28% and holds 10,000 $1 units in an MRP.

The MRP attributes $500 income to Investor A.

The MRP's tax liability on this income is $140.

If the MRP chooses to distribute the income, the tax at 28% will be deducted and only the net amount of $360 ($500 less $140) will be given to Investor A.

3. Payment

The MRP can require the investor to make a payment to satisfy the PIE's tax liability.

Date investor's investor interest adjustments required

The investor return adjustments are required to be made before the end of the:

- second month after the end of the quarter for quarterly MRPs
- third month after the end of the income year for MRPs that elect to use the provisional tax option
- second month after the end of the tax year for exit MRPs.

Failure to make the adjustments within the timeframes would be a permanent breach of the eligibility requirements. On application the Commissioner can extend the time limit if it is reasonable in the circumstances. This will cater for situations such as where the MRP makes a voluntary disclosure amending the tax liability.

Responsibilities of PIPs

For amounts attributed to it from a PIE, a PIP takes on the same responsibilities as a PIE to make an investor return adjustment.

The PIP may make the required adjustment by:

- adjusting the investor interest of the investors it represents, or
- adjusting the distribution to the investor, or
- requiring the investor to make a payment

to reflect the effect of the investor's notified investor rate on the amount of distributions and credits and payments of income tax on investor attributed income for the attribution period.

However, some PIPs may choose to pay the tax on behalf of investors by directly accessing the cash accounts investors hold with the PIP.

Switches

If an investor withdraws from an investor class (either completely or partially) and reinvests the funds in another investor class of the same MRP, then the MRP can elect to pay the tax on the withdrawal.

As this payment results in a tax liability an adjustment to reflect the tax is required. The MRP can adjust the investor's investor interest in the relevant class, or their interest in another class to reflect the tax paid.

Sections HM 33, 45 and 48

Part 6 - Investors

This part provides information about investors, particularly in relation to PIR.

What is an investor?

For the purposes of the PIE rules, an investor in an entity that is a PIE or a foreign PIE equivalent is:

- a person who is a shareholder in a company
- if the entity isn't a company, treated as a shareholder as if the entity was a company and is generally entitled under the rules of the entity, to a proportion of the funds available for distribution. In an MRP, the investor is sometimes described as a unit holder
- where the entity is a life fund PIE, the person whose benefits under the relevant life insurance policy are directly linked to the value of the investments in the fund
- where the investor's interest is held through a PIE investor proxy (PIP), the PIP.

A tax liability is calculated for an attribution period, an investor class and each investor in the investor class.

Section HM 4

An **investor class** is a group of one or more investors in a PIE where each investor is entitled to a distribution of the proceeds of the PIE in the same proportion according to their investment interest, generally within a tolerance of 2.5% of the average value of the investment proportion, for the investors in the group and the PIE's investments.

Section HM 5

Prescribed investor rate (PIR)

MRPs calculate their tax based on each investor's PIR. This means the tax investors pay on their investment income can be reduced to 10.5% or 17.5% for investors that qualify for the lower rate instead of the fund's basic tax rate.

A PIR is:

- the tax rate the MRP uses to calculate the tax on the income it derives from investing contributions
- for resident individual investors, based on taxable income, eg, income from salary, wages and any additional sources of income they would include in their income tax return. From the 2009 income year the PIE attributed income that is excluded income or a loss that isn't an allowable deduction is also taken into account. The rate is: 10.5%, 17.5% or 28%. New residents, see page 55. Transitional residents, see page 74.
- for trustees who can choose: 0%, 17.5% or 28%
- for trustees of a testamentary trust: 0%, 10.5%, 17.5% or 28%
- for all non-residents: 28%
- for other entities: 0%.

Notified foreign investors in foreign investment PIEs have different PIRs, see Part 8.

Sections HM 47 and 56 to 61, Schedule 6 table 1

Investors are required to give their PIR and IRD number to the MRP they invest in. The MRP should ask the investor for it before the start of the income year and should advise the date they need the PIR and IRD number by and how to send it.

Sections 28B, 31C of the Tax Administration Act 1994

If the PIE the investor invests in is a:

- listed PIE
- benefit fund PIE
- life fund PIE

that doesn't attribute income it earns to investors, the investor won't be required to provide their PIR. These PIEs calculate tax at their entity tax rate and don't calculate tax based on the PIR advised by their investors.

After the first time the investor gives their PIR and IRD number to the MRP, they should review their PIR annually before the beginning of the MRP's income year, which generally will be 1 April. If the PIR has changed they should notify the MRP before the start of the MRP's income year.

IRD numbers

New Zealand resident investors in an MRP, including zero-rated investors and non-resident investors who have IRD numbers, must provide their IRD number within 6 weeks of a request from the MRP. Where the investor hasn't provided their IRD number to the MRP, the default rate of 28% will be applied to the investor attributed income, which may be higher than the actual PIR for the investor.

After 6 weeks the MRP is required to close the investor's account and return any funds to them.

In addition, if an investor doesn't supply their IRD number when providing their PIR, they have breached a taxpayer's tax obligation and may have committed an offence punishable by a significant fine.

If a foreign investor becomes a resident investor they have 6 weeks from becoming a resident investor to provide their IRD number.

The default rate

If the default rate of 28% has been applied by the MRP to the attributed income, but the investor should have had a PIR of 10.5% or 17.5%, they can't include the attributed income in their income tax return to get a refund of the balance.

If the default rate of 28% has been applied by the MRP, but the investor should have had a PIR of 0%, then they are correctly a zero-rated investor and their attributed income must be included in their tax return.

Note however, that even though a trustee has had the default rate of 28% applied they are still treated as a zero-rated investor and the income will be included in the tax return. Had the trustee chosen a PIR of 28% this would be a final tax and would not be included in the tax return. If the trustee chooses one of the other rates they will be required to include the income in the trust return.

For a zero-rated investor who has had the 28% default rate applied a credit will be allowed in the tax return for the tax deducted.

Furthermore, a zero-rated investor doesn't have an entitlement to be credited for excess tax credits or losses at the MRP level where the MRP is using the default rate of 28%.

Sections HM 40, 52, 54 and 56 to 60, YA 1

Changes of PIR

If an investor has provided an incorrect PIR to the MRP, or the default rate has been applied before the investor advises their actual PIR, then they need to give the MRP their new PIR, along with their IRD number, if not already advised, as soon as possible.

If the investor gives their corrected PIR to the MRP before they have calculated tax on the investor's attributed income in a period, and before the end of their calculation period, then the change may take effect from the period in which the investor gave them the new rate. Otherwise, the change may apply from the next calculation period.

Where, for example, the PIR applied in earlier periods in the income year was 28% and the investor's new PIR is 10.5% or 17.5%, they won't be able to get a refund of tax calculated at the higher rate. If the PIR applied in earlier periods was less than the new PIR of 28%, then the investor must include the income in their tax return and pay any balance of tax. The investor will be given a credit for the tax paid by the MRP.

If the investor's income changes during the current year their PIR isn't affected as it is determined by the income derived in either of the previous two income years.

If the investor's income changes in either of the previous two income years, due to an adjustment made to their income, they need to tell the MRP of any change to their PIR.

For changes of PIR involving changes of country of residence for foreign investment PIEs, see Part 8.

PIE balance dates

Most, but not all MRPs, have a 31 March balance date. If an investor has a different balance date from the MRP it may affect the income years they take into account in working out their PIR.

Sections HM 36(5), 44 and 74

The MRP's balance date will be on the investor statement that the MRP sends. Otherwise the investor may need to ask the MRP.

PIRs for different types of investor

Each type of investor has a different PIR.

Tax charities/charitable trusts

Tax charities must have a PIR of 0%.

If the tax charity doesn't give its PIR and IRD number to the MRP it invests in, the default rate of 28% applies. Because a tax charity is treated as a "zero-rated investor", regardless of the default rate being applied, the income attributed by the MRP isn't treated as excluded income. However, because tax charities are unlikely to file income tax returns, the tax credit can't be claimed.

The tax charity isn't entitled to be credited for excess tax credits or attributed loss at the MRP level.

Companies and incorporated societies

Companies and incorporated societies have a PIR of 0%.

If the company doesn't give its PIR and IRD number to the MRP it invests in, the default rate of 28% applies. Because a company is treated as a "zero-rated investor", regardless of the default rate being applied, the income attributed by the MRP must be included in the company's tax return. A zero-rated investor isn't entitled to be credited for excess tax credits or attributed loss at the MRP level.

Individuals

Resident individual investors , who have also provided their IRD number, will qualify for one of the three PIRs (10.5%, 17.5% and 28%) based on the income received in the two previous income years.

Example 1 - Investor with 31 March income year

For the MRP's income period 1 April 2011 to 31 March 2012 the investor will use their 2010 and/or 2011 income year details and notify the MRP before 1 April 2011, or such futher time as the MRP allows.

Example 2 - Investor with 30 June income year

For the MRP's income period 1 April 2011 to 31 March 2012 the investor will use their 2009 and/or 2010 income year details and notify the MRP before 1 April 2011 or such further time as the MRP may allow.

See page 45 for further examples.

Individuals can't elect a rate or use a "blended" rate.

The 0% rate will only apply in a calculation period where a resident individual who has a PIR of 10.5%, 17.5% or 28% exits a quarterly MRP. An individual can't select a PIR of 0%.

Individuals must notify the rate that applies to them. If an incorrect rate is applied to their investments they will be taxed incorrectly, which may result in further tax to pay and penalties being considered.

If the investor's taxable income in **either** of the last two income years was $14,000 or less, and when combined with their PIE attributed income less PIE attributed loss (not already included in the taxable income) in that year was $48,000 or less, the PIR would be 10.5%.

If the investor's taxable income in **either** of the last two income years was more than $14,000 and less than $48,001, and when combined with the PIE attributed income less PIE attributed loss (not already included in the taxable income) was $70,000 or less and they didn't qualify for 10.5%, the PIR would be 17.5%.

Otherwise the PIR would be 28%.

New residents, see page 55. Transitional residents, see page 74.

As noted previously, the balance date that either the resident individual or the MRP have may affect both the income years taken into account when calculating the PIR and the years in which PIE income is attributed to the investor. The following examples illustrate:

A New Zealand resident individual with a standard balance date

Example 1 - 2009-2010 and 2010-2011 income years

For the income year ended 31 March 2010 the investor's total taxable income was $35,000 and no PIE income.

For the income year ended 31 March 2011 the investor's total taxable income was $37,000, and income from investments in a PIE totalled $35,000.

Total income was $72,000 ($37,000 + $35,000).

The **PIR for the 2012 year would be 17.5%** as taxable and total income was $48,000 or less and combined with PIE income was $70,000 or less in one of the two previous income years (2009-2010 income year).

Example 2 - 2009-2010 and 2010-2011 income years

For the income year ended 31 March 2010 the investor's total taxable income was $13,100 and no PIE income.

For the income year ended 31 March 2011 the investor's total taxable income was $59,000, and income from investments in a PIE totalled $15,000.

Total income was $74,000 ($59,000 + $15,000).

The **PIR for the 2012 year would be 10.5%** as taxable and total income was $14,000 or less in the 31 March 2010 income year.

Example 3 - 2009-2010 and 2010-2011 income years

For the income year ended 31 March 2010 the investor's total taxable income was $0 and no PIE income.

For the income year ended 31 March 2011 the investor's total taxable income was $0, and no PIE income

The PIR for the 2012 year would be 10.5% as taxable and total income was $14,000 or less in either of the two previous income years.

Example 3 covers people such as students and people returning to the workforce.

Example 4 - 2009-2010 and 2010-2011 income years

In the 2012 income year the investor has been made redundant and total taxable income will be less than $48,000.

For the income year ended 31 March 2010 the investor's total taxable income was $49,000 and no PIE income.

For the income year ended 31 March 2011 the investor's total taxable income was $52,000 and no PIE income.

The **PIR for the 2012 year would be 28%** because the investor's taxable and total income was more than $48,000 in both of the two previous income years. Income derived in the current year isn't taken into consideration when determining the investor's current PIR.

A New Zealand resident with a non-standard balance date

Example 1 - 2009 (1 July 2008-30 June 2009) and 2010 (1 July 2009-30 June 2010) income years

The investor has a 30 June balance date and the PIE they invest in has a 31 March balance date.

For the income year ended 30 June 2009 the investor's total taxable income was $35,000 and no PIE income.

For the income year ended 30 June 2010 the investor's total taxable income was $59,000 and no PIE income.

The **PIR for the 2012 year would be 17.5%** as taxable and total income in one of the two previous income years was $48,000 or less.

Note: The investor can't use their taxable income information for the income year 1 July 2010 to 30 June 2011 because that year ends after the PIE's income year commenced (ie, 1 April 2011).

Example 2 - 2010 (1 January 2009-31 December 2009) and 2011 (1 January 2010-31 December 2010) income years

The investor has a 31 December balance date and the PIE they invest in has a 31 March balance date.

For the income year ended 31 December 2009 the investor's total taxable income was $50,000 and no PIE income.

For the income year ended 31 December 2010 the investor's total taxable income was $35,000, and income from investment in a PIE totalled $36,000.

Total income was $71,000 ($35,000 + $36,000).

The **PIR for the 2012 year would be 28%** as taxable and total income was greater than $48,000 in the first income year and greater than $70,000 when combined with their PIE-attributed income in the second income year.

Note: The investor's information about their total taxable income is for the two years before the PIE's income year commenced (ie, 1 April 2011).

Limited partnerships

Limited partnerships are not treated as separate entities for general income tax purposes. Refer to the comments under "Partnerships, look-through companies and joint ventures" below.

Non-residents

Non-residents (both individual and non-individual) have a PIR of 28%. Non-residents can't elect a rate. Non-residents investing in foreign investment PIEs may qualify to be treated as notified foreign investors and have different PIRs applied, see Part 8.

Partnerships, look-through companies and joint ventures

These entities should split the investment and advise the MRP the PIR and IRD number for each partner/holder. The partners' PIRs would be calculated according to their individual circumstances, ie, zero-rated investors would apply the 0% PIR while resident individuals would advise one of the the 10.5%, 17.5% or 28% rates.

PIE

PIEs that have also provided their IRD number have a PIR of 0%.

PIP

PIPs that have also provided their IRD number have a PIR of 0%.

Superannuation funds

Superannuation fund trustees, who have also provided the trust's IRD number, refer to the treatment under trusts.

Trusts (excluding charitable trusts)

Resident trustees investing in an MRP and who have also provided the trust's IRD number can choose:

- 28% as a final tax, or
- 17.5% and include the income and tax in the trust return, or
- 10.5% for trustees of a testamentary trust and include the income and tax in the trust return, or
- 0% and have the income included as trustee/beneficiary income.

Choosing a PIR of 0% allows the tax credits as well as the attributed income to flow through to the trust return. If the tax credits are not sufficient to cover the tax liability on the trust income, either as trustee or beneficiary income, the trust will need to pay the extra tax.

If the trustees **choose either 10.5% or 17.5%**, only attributed income and the associated tax liability the PIE has satisfied in relation to the income goes into the trust's return. Any attributed PIE loss and tax doesn't go into the trust return.

The PIE has already provided the credit for the loss and no further claim is available.

Sections DB 53, HM 40 and 55

If a trustee **chooses a 28%** PIR the MRP income is excluded income and isn't included in either the trust or beneficiaries' taxable income in their tax returns.

If the trustee doesn't give the trust's PIR and IRD number to the MRP then the default rate of 28% applies. However, in this situation, the resident trustee is treated as a zero-rated investor because they did not choose the PIR of 28%. The attributed income must be included in the trust return.

If the beneficiaries have different marginal rates then the resident trustees can collectively choose 0%, 10.5%, 17.5% or 28% to best suit the beneficiaries of the trust. Multiple PIRs or a blended rate can't be applied to the investment, although the trustees can change the PIR during the year.

If all the trustees are non-resident trustees of a trust, a PIR of 28% must be notified unless they invest in a foreign investment PIE. Only a resident trustee can choose one of the other PIRs.

The following example illustrates the different results for the two trustee PIR options:

Example - PIE tax treatment for each rate

	28%	0%
Income received from PIE is	$10,000	$10,000
Tax credits attached to income	$500	$500
Tax paid by the PIE is	$2,300	$0
Total tax attached	**$2,800**	**$500**

The trustee chooses a 28% PIR and MRP income is not treated as taxable

If the beneficiary's personal tax rate is …	then the tax payable isn't included in the return and the net tax payable is …	so the net result for beneficiaries is …
33%	nil	$500
30%	nil	$200
17.5%	nil	−$1,050
10.5%	nil	−$1,750

The trustee chooses a 0% PIR and attributed the MRP income to the beneficiaries

If the beneficiary's personal tax rate is …	then the net tax to pay is …	Attributed tax credit …	so the total tax payable is …
33%	$2,800	$500	$3,300
30%	$2,500	$500	$3,000
17.5%	$1,250	$500	$1,750
10.5%	$550	$500	$1,050

In this case the trust would end up with a RIT liability on which provisional tax would be based for the 33% and 30% personal tax rates.

PIR for investors leaving or arriving in New Zealand

A New Zealand-resident individual who has invested in an MRP and who then ceases to be resident, should have a PIR of 28% from the date they leave New Zealand. They should tell the MRP of the change as soon as possible.

Other investors that either become resident or cease to be resident in New Zealand should notify the PIR applicable.

For further information see "Investor changes residence", page 72.

Sections HM 36 and 56 to 61, Schedule 6

Investor statements

MRPs are required to issue investor statements to investors. Investor statements provide the investors in the MRP with information regarding their interest in the MRP, their income derived from their investment in the income year and the tax calculated by the MRP on their investment.

When an investor exits a quarterly MRP and is zero rated, an investor statement must be issued to the investor by the end of the month following the quarter in which they exit the MRP.

In other cases, an investor statement is required to be issued for each tax year by:

- 31 May or 30 June after the end of the MRP's tax year
- the end of the second month following the month in which the MRP's income year ends, if the corresponding income year ends after the tax year.

Note

MRPs that aren't a retirement scheme or superannuation fund, eg, KiwiSaver, have the filing date of 31 May.

This information will also be needed by exiting or zero-rated investors to comply with their tax obligations for any income or loss attributed to them by an MRP.

It will also be required by investors in determining their PIR in subsequent years.

Sections 31C, 57B of the Tax Administration Act 1994

Listed PIEs may send a dividend statement to their investors.

Dividends from listed PIEs are not liable for RWT.

The investor statement includes information we consider relevant as shown in the following table.

Information	Description
Investor's name	The full name of the investor.
Investor's IRD number	The IRD number of the investor.
MRP's balance date	The MRP's balance date so that the investor can determine the income year the attributed income falls within.
PIR as at year-end	The latest notified investor rate used by the MRP for the income year.
If you operated a PIR lower than your correct rate, you will need to include this in your income tax return	If there has been a rate change, the information for each rate needs to be identified so that any tax shortfall relating to that income can be assessed. If there was no change then this field can be omitted, on an investor basis.
Taxable income/loss	This is the total attributed income or loss for the investor, covering all PIR 0%, low, mid, top and default rates. Note: This is after deducting "Investor expenses less credits for fees". For investors that only have the 0% applied, provide the tax credit information shown under zero-rate panels later on this statement.
Investor expenses less credits for fees	The investor level expenses less any credit for fees for the investor. This is the gross deduction not the converted tax amount (expenses less credit for fees). It's required to enable the investor to know what, if any, further claim they may be entitled to.
Gross tax paid/credit	For investors that had a rate greater than 0% applied, this is the combination of each tax calculation during the year. Note that if the total income has to be included in your return you claim a tax credit for this amount.
Tax credits used	For investors that had a rate greater than 0% applied, this is the combination of each tax credit attributed and used in a tax calculation during the year. It excludes any foreign tax credits that were not used to offset tax payable or credit given.
Net tax paid/credited	For investors that had a rate greater than 0% applied, this is the combination of each tax calculation during the year, being the results of "Gross tax paid/credit" less "Tax credits used".

The net tax adjustment has been made by: • issuing/cancellation of units, or • payment included in/deducted from dividend(s), or • adjustment of the investor's cash account, or • other type - please provide details.	This point will advise the investor how the investor return adjustment has been made. This will be the combination of each adjustment made for the year. This includes adjustments that are made within the two-month timeframe allowed after the actual tax calculation. Where the adjustment relates to say 31 March, the timeframe allows until 31 May for that adjustment. For MRPs that pay provisional tax the period is three months after the end of the income year. The actual wording for this field should clearly identify to the investor how the tax adjustment has been achieved.
The details for the lower rate or rates (where low, mid and top used) are set out below. The details are for lower rate, mid or low, not 0%.	The following information is only required if more than one PIR was applied in a final tax calculation during the year for the investor. Where both the low and mid rates have been used in addition to the top rate you will need to repeat these fields identifying the details for each of the lower rates. The details for the top rate can be calculated. Note: If the investor's rate change is for an investor exit period that has zero-rated income, those details should be shown under the zero-rated segment of this statement.
Taxable income/loss	This is the combined taxable income or loss for the periods when the lower rate or rates were used in a final tax calculation. Note: This is after deducting "Investor expenses less credits for fees".
Gross tax paid/credited	This is the combination of each tax calculation using the lower rate or rates during the year for the investor. Note that if this income has to be included in the investor's return they can claim the gross tax paid as a tax credit.
Investor expenses less credits for fees	The investor level expenses less any credit for fees for the investor. This is the gross deduction not the converted tax amount (expenses less credit for fees) required to enable the investor to know what, if any, further claim they may be entitled to.
Zero-rated exitor payment	If an exited investor, in a quarterly return filing MRP, has any units/interest left at the end of the exit period, the MRP will pay the value of the units/interest as tax. The investor is then allowed a credit in their income tax return for this payment made by the MRP.
The next part covers income and tax credit details for investors that have had the zero rate applied. This includes zero-rated exited investor details.	
Taxable income/loss	This is the total income or loss for all attribution periods during the year or exit period. Note: This is after deducting "Investor expenses less credits for fees".
Total zero-rated attributed FTC	The total of the foreign tax credits (FTC) attributed to the investor for the year or exit period.
Total zero-rated attributed FDP/MAC	The total of the FDP and Māori authority credits (MAC) attributed to the investor for the year or exit period.
Total zero-rated attributed IC	The total of the imputation credits (IC) attributed to the investor for the year or exit period.
Total zero-rated attributed RWT credits	The total of the RWT credits attributed to the investor for the year or exit period.

You may also provide the details for each rate instead of using the above format.

Example

Quarterly filing option:

- quarterly details
  - $1,000 income
  - $100 tax credits
- investor expenses in last quarter - $100
- tax adjustment made by cancelling $1 units
- investor exits at the end of third quarter
- PIRs used during the year
  - 10.5%
  - 17.5%
- PIE zero rates investors on exit.

The details at the 17.5% rate are not separately shown but can be calculated.

Example - Investor statement version 1

Investor's name	An investor
Investor's IRD number	123456789
MRP's balance date	31 March 2012
PIR as at year-end	17.5%

If a rate lower than your correct rate has been applied to your income, you will need to include the lower rate details in your income tax return.

Total details for the year	
Taxable income (net of expenses)	$2,900
Gross PIE tax	$280
Tax credits used	$200
Net tax paid	$80

The adjustment for net tax paid has been made by cancelling 80 units.

Details at 10.5%	
Taxable income	$1,000
Tax	$105
Details at zero rate	
Taxable income (net of expenses)	$900
Investor expenses	$100
Total attributed FTCs	$10
Total attributed ICs	$80
Total attributed RWT credits	$10

Example - Investor statement version 2

Investor's name	An investor
Investor's IRD number	123456789
MRP's balance date	31 March 2012
PIR as at year-end	17.5%

If a rate lower than your correct rate has been applied to your income, you will need to include the lower rate details in your income tax return.

The adjustment for net tax paid has been made by cancelling 80 units.

Details at 10.5%	
Taxable income	$1,000
Tax	$105
Details at 17.5%	
Taxable income	$1,000
Tax	$175
Details at zero rate	
Taxable income (net of expenses)	$900
Investor expenses	$100
Total attributed FTCs	$10
Total attributed ICs	$80
Total attributed RWT credits	$10

Income attributed by the MRP

Excluded/non-excluded income

Excluded income is income attributed by the MRP that can't be included in an investor's tax return. For an investor, excluded income in a calculation period is income of:

- a resident individual that has been taxed at the actual PIR of either 10.5%, 17.5% or 28%, and the investor hasn't had a zero rate applied in a quarter on exit from a quarterly MRP
- a resident trustee who has notified a PIR of 28%
- a non-resident investor that has been taxed at their actual PIR of 28%.

Non-excluded income is income attributed by the MRP that must be included in an investor's tax return.

For an investor, non-excluded income in a year is income of:

- a resident individual who has applied a PIR that is lower than their actual PIR in a final tax calculation in the year, or
- an investor with a PIR of 10.5%, 17.5% or 28% that has had a zero rate applied in a quarter on exit from a quarterly MRP
- a zero-rated investor
- a trustee that doesn't notify a PIR of 28% (ie, notified a PIR of 0%, 10.5% or 17.5% or had the default rate of 28% applied).

Where the income attributed by the MRP is treated as non-excluded income and is required to be included in the tax return it will be subject to tax at the investor's marginal tax rate. This means that for an individual the income could be taxed at the top rate of 33%. Including the income in the tax return may also affect student loan repayment and child support payment obligations.

The investor will have an entitlement to claim a tax credit equal to the amount of the tax liability satisfied by the PIE in relation to the investors attributed income.

A deduction is allowed for a zero-rated investor or an investor that has had their loss zero-rated when exiting from a quarterly MRP for the amount of the attributed loss for the year.

Where the total income of an investor including non-excluded income attributed by the MRP doesn't exceed $200, no tax return is required to be filed.

Example

Investors A and B are trustees of the C Family Trust and have chosen a PIR of 28%. They are, in their trustee capacity, investors in a quarterly MRP.

They withdrew their investment during a quarter which becomes an investor exit period for them, and the MRP zero rates exiting investors.

The investment made an attributed loss of $5,000 for this exit period. This amount is allowed as a deduction to the trustees.

Sections CX 56, DB 53, HM 40 and 44, LS 2 to 4, and section 33A of the Tax Administration Act 1994

When PIE income is treated as being received

PIE income is treated as being received in the investor's income year when this includes the end of the PIE's income year. If both the investor and the PIE have standard 31 March balance dates, the year in which the PIE attributes, and the investor receives the investor attributed income will be the same. Note that MRPs other than provisional tax payers are required to have 31 March balance dates.

If an investor has a balance date other than 31 March then the year in which the income is received may be different from the year in which the PIE attributes the income. The following table illustrates this.

If the investor has a …	and …	then …
30 June 2012 balance date, which is the investor's 2012 income year	the MRP has a 31 March 2012 balance date	as the end of the MRP's 2012 income year falls within the investor's 2012 income year, its 2012 income is also the investor's 2012 attributed income.
31 December 2011 balance date, which is the investor's 2012 income year	the MRP has a 31 March 2012 balance date	as the end of the MRP's 2012 income year falls after the end of the investor's 2012 income year, its 2012 income falls into the investor's 2013 income year.

If the PIE has a balance date other than 31 March the following applies.

If the investor has a …	and …	then …
31 March 2012 balance date, which is the investor's 2012 income year	the MRP has a 31 December 2011 balance date, which is the MRP's 2012 income year	as the end of the MRP's 2012 income year falls within the investor's 2012 income year, its 2012 income is also the investor's 2012 attributed income.
31 March 2012 balance date, which is the investor's 2012 income year	the MRP has a 30 June 2012 balance date, which is the MRP's 2012 income year	as the end of the MRP's 2012 income year falls after the end of the investor's 2012 income year, its 2012 income falls into the investor's 2013 income year.

Section HM 36(5)

What information on the investor statement goes into the income tax return?

Non-excluded income/loss must be included in the investor's income tax return. The investor statement issued by the MRP will provide details of the income and tax credits, or net tax paid, to include in the tax return.

Individual investors whose income attributed by the MRP was taxed at 17.5% throughout the income year and should have been taxed at 28% will be entitled to claim the tax liability satisfied by the MRP on their attributed income as a credit. For example, for PIE attributed income of $1,000 taxed at 17.5% = $175, the investor shows $175 as a credit in the overseas tax portion of the tax return. Where the investor has applied more than one rate during the year, the investor statement will record the total income attributed for the year and the tax calculated. It will also record the income, tax credits and tax paid by the MRP and tax credits attributed in the period with the lower rate or rates. These figures make up the amounts the investor will include in the tax return.

The following indicates the amounts shown on the investor statement that an individual investor, who has applied two rates (17.5% and 28%) during the year, records in their income tax return.

Investor statement		
Taxable income/loss	$300	Total income attributed by the MRP.
Gross tax paid/credit	$73.50	This is the total of the gross tax calculations for the year.
Net tax payable/tax credit	$23.50	Total PIE tax and total attributed tax credits on income attributed by the MRP ($73.50).
Tax credits	$50	
Income @ 17.5%	$100	Income attributed by the MRP (included in $300 above) that was incorrectly taxed at the lower rate. To be included in the tax return.
Tax credits @ 17.5%	$10	This is the total of the tax credits attributed to the income that was taxed at the lower rate.
Net tax paid @ 17.5%	$7.50	This is the tax the PIE has paid.

The income tax return will include PIE attributed income of $100 with a PIE tax credit of $17.50 under the overseas income/tax panels of the return.

Zero-rated investors and investors with exit periods in quarterly MRPs

The following diagram indicates the details where an investor has been taxed at a zero rate. The PIE won't have paid tax on the income attributed to the investor. The PIE will attribute the income and any associated tax credits.

Investor statement		
Taxable income/loss	$300	Total income attributed by the MRP to be included in the tax return. There is no tax paid by the MRP.
Total FTC	$5	The foreign tax credits attributed to the investor for the year or exit period to be included in the tax return.
Total IC credits	$10	The imputation credits attributed to the investor for the year or exit period to be included in the tax return.
Total RWT credits	$10	The RWT credits attributed to the investor for the year or exit period to be included in the tax return.

The income tax return will include $300 income and each of the various tax credits in the appropriate panels.

Sections HM 51 and 53

Residual interest

Any residual value for the investor's interest at the end of the quarter in which an investor exits a quarterly MRP and paid to us by the MRP will also be recorded on the investor statement. The investor will be entitled to a refundable tax credit of this amount, regardless of MRP income to be included in the tax return. This credit can be included in the RWT question on the tax return.

Section HM 43

Where does MRP income go in the income tax return?

Generally the non-excluded income/loss attributed by the MRP should be included in the "Overseas income" question in the tax return. Any specified tax credits (eg, RWT) that are shown on the investor statement should be included in the appropriate question on the return. Where tax credits are not specified separately they should be included in the foreign tax credit box on the return.

Working for Families Tax Credits paid by us

Before 1 April 2011 whether the investor attributed income was excluded or not excluded, it didn't affect entitlements to Working for Families Tax Credits (WfFTC).

From 1 April 2011 if the PIE is a retirement savings scheme or superannuation funds where the funds are locked in, such as KiwiSaver, the PIE income will not affect WfFTC. Otherwise the PIE income must be included in family scheme income and will need to be included on the WfFTC income adjustment form.

An individual investor claiming WfFTC who has to declare PIE income on their return should complete an *Adjusting your income for Working for Families Tax Credits (IR215)* form. This will ensure the PIE income isn't included when working out WfFTC entitlements.

Dividends from a listed PIE must be included in family scheme income regardless of whether the dividend is included in the investor's tax return.

Section MB 1(5)

Student loan repayments and child support payments

If the attributed income from a PIE isn't required to be included in the investor's income tax return then it isn't taken into account when determining student loan repayments or child support payments.

If the investor is required to include the income attributed by the PIE in their income tax return then it will be taken into account in determining student loan repayments or child support payments.

Income-tested benefits

All investments are cash assets for benefit purposes. Any income received from an investment is charged as income for benefit purposes. Capital gains from managed funds are not income.

Income earned via a PIE won't affect entitlements to family tax credits. However it may affect assistance provided by Work and Income such as the accommodation supplement and childcare assistance.

Returns on funds in KiwiSaver and other superannuation schemes are not treated as chargeable income or cash assets for benefit purposes while these funds are locked into the scheme.

For further information regarding income-tested benefits, please contact Work and Income.

Dividends or distributions

Dividends or distributions received from a listed PIE will be treated as excluded income of an individual investor or trustee, who is a New Zealand resident, unless they choose to include the dividend in a tax return to claim imputation credits. These dividends are not liable for RWT.

Dividends or distributions received from a listed PIE by zero-rated investors are taxable income and must be included in the investor's tax return. However, the dividends or distributions by listed PIEs will also be treated as excluded income of investors, other than individuals or resident trustees, to the extent that the amount of a distribution exceeds:

- the fully imputed amount, and/or
- the amount that is fully credited for foreign dividend payments.

Where a PIE makes a tax-free distribution to an investor that is a company, and the company investor then forwards the distribution on to its shareholders as a dividend, the tax-free status of the distribution from the PIE doesn't carry through to the dividend paid by the company investor. The dividend derived by the company's shareholders will be assessable income.

A listed PIE may continue to pay dividends to non-residents that will be subject to NRWT.

Dividends or distributions to investors by an MRP are treated as excluded income and are not required to be included in the investor's income tax return.

Section CX 56

MRP income and foreign tax credits

Zero-rated investors and investors with PIRs of 10.5%, 17.5% or 28% who are taxed at a zero rate on exit from a quarterly MRP

Where the investor is a PIE or a PIP, foreign tax credits flow directly to the investor.

Where the investor is a company or a trustee that notifies a PIR of 0% then the foreign tax credits that may be used are generally the lesser of the amount:

- of the attributed credits
- calculated by multiplying the attributed income by the basic tax rate for the investor.

Where the investor with a PIR of 10.5%, 17.5% or 28% is taxed at a zero rate on exit from a quarterly MRP, then the foreign tax credits that may be used are generally the lesser of the amount:

- of the attributed credits
- calculated by multiplying the attributed income by the investor's last notified investor rate for the attribution period that ends before the investor exit period.

Section HM 52

Investors with a PIR of 10.5%, 17.5% or 28% who have not exited an MRP

Where the investor has a PIR of 10.5%, 17.5% or 28% then the foreign tax credits that may be used are generally the lesser of the amount:

- of the attributed credits
- calculated by multiplying the attributed income by the investor's last notified investor rate for the period.

If the investor's tax liability on the attributed income is less than the foreign tax credits, the credit can't be fully offset. Depending on the type of MRP, the credits may be used to reduce tax payable in earlier or later periods provided they are within the same tax year. For a quarterly MRP, foreign tax credits that are not used in a quarter can be carried forward for use in a later quarter within the same tax year. Unused foreign tax credits are forfeited.

MRP income and New Zealand tax credits

Zero-rated investors and investors with PIRs of 10.5%, 17.5% or 28% who are taxed at a zero rate on exit from a quarterly MRP

Where the investor is a PIE or a PIP, New Zealand tax credits flow directly to the investor.

Where the investor is a company or a trustee that notifies a PIR of 0%, or an investor with a PIR of 10.5%, 17.5% or 28% is taxed at a zero rate on exit from a quarterly MRP, then the amount of attributed New Zealand tax credits flow directly to the investor's tax return.

The credits are subject to the usual limitations in the investor's tax return, eg, some credits are limited to the tax liability.

Section HM 54

Investors with a PIR of 10.5%, 17.5% or 28% who have not exited an MRP

The MRP uses the full amount of the New Zealand tax credits either to satisfy the tax liability in respect of the investors' attributed income, or where the New Zealand tax credits exceed the tax liability, the MRP provides the investor with a credit value of the amount of the excess.

New Zealand tax credits are used to cover the tax liability on the attributed income after foreign tax credits are used.

Sections HM 48 and 53

Treatment of excess tax credits and losses

Investors with a PIR of 10.5%, 17.5% or 28%

Where the investor has a PIR of 10.5%, 17.5% or 28%, excess New Zealand tax credits or credits from losses are credited to the MRP. The MRP then attributes them to the investor by adjusting the investor's investor interest, or making a distribution, or by adjusting (reducing) the amount of payment required from the investor to satisfy payment of PIE tax.

Example

Investor A owns 20,000 $1 units and has a PIR of 17.5%.

The MRP derives income of $1,000, with an imputation credit of $280 attached, and attributes this to Investor A. The PIE tax is $175 (17.5% × $1,000).

There is an excess credit of $105 ($280 imputation credit less $175 tax), which we credit to the MRP.

The MRP then adjusts Investor A's investor interest to 20,105 units (or it may make a distribution of $105 to the investor).

Sections HM 48, LS 1

Withdrawing all of the investment

Investors who exit a quarterly MRP part-way through a calculation period may have tax calculated by the MRP on the exiting investor's share of the income earned during the period at the zero rate. The zero-rated income must be included in the investor's tax return that includes the end of the MRP's income year in which the withdrawal occurred. Alternatively, the quarterly MRP may voluntarily pay tax on the attributed income for the exit period.

Investors who exit an exit MRP won't be taxed at a zero rate. Instead, the entity would need to pay the investor's share of the tax liability relating to the investor exit period. Consequently, investors who exit an exit MRP during a tax year would not need to include their investor attributed income for an investor exit period in a tax return.

Sections CX 56, HM 43(3), 45 and 61 to 63

Withdrawing part of the investment and switches

A partial withdrawal may not be significant enough to give rise to an investor exit period. Quarterly or exit MRPs may make voluntary payments of tax when an investor fully or partially exits an investor class or when an investor switches from one investor class to another within the same entity. If the tax calculation has been made at the correct PIR and is sufficient to meet the tax liability, the income doesn't have to be included in the investor's tax return.

Sections CX 56, HM 45

Gifting the investments

If an investor gifts all or part of their investment, the disposition of the property will be considered a withdrawal. The MRP may zero rate the income in the period to the date of the gift, in which case the investor must include the zero-rated MRP income to the date of the gift in their income tax return.

If the MRP can calculate tax on the income to the date of the gift at the correct PIR (greater than zero) the investor doesn't have to include the income in their income tax return.

Ceasing to be represented by a PIP

If the investor is represented by a PIP and then ceases to be represented by that PIP, the PIP's obligations will pass directly to the MRP that holds the investor's investment. The investor should give the MRP their PIR and IRD number.

MRP investment in foreign investment funds

If the investments of an MRP are in overseas markets, the investor won't be required to separately disclose interests in a foreign investment fund (FIF) or make income calculations under the FIF rules. Any income calculations under the FIF rules will be made by the MRP.

Gains on selling shares in a PIE

All distributions from an MRP are excluded income of the investor. This means that even where shares are held as part of a share-trading business, the gains received on sale of the shares in an MRP won't be taxable. However, where shares in a listed PIE are held as part of a share-trading business, any gains received on sale of the shares will be taxable, to an investor who isn't a PIE.

Investor expenses

Generally investor fees charged by the MRP in relation to an investor's interest in the MRP will be taken into account when it calculates the tax liability for the investor. The investor won't be able to claim the fees in their tax return.

Sections CX 57, DB 54, DV 2 to 7, HM 36

Specific issues

Companies

What income goes in the company's tax return if it has income attributed by the MRP?

As a company is a zero-rated investor, all attributed income from the PIE must be included in the company's tax return and will be assessed along with any other income the company receives.

If the PIE is a listed PIE or an unlisted company that intends to be listed on the New Zealand stock exchange then it may continue to pay dividends. Only the amounts that exceed the fully imputed distribution will be excluded income,
ie, the fully imputed amount is included in the tax return.

If the company is an unlisted company that doesn't intend to be listed on the New Zealand stock exchange or is an MRP, distributions received are treated as excluded income.

PIE income and provisional tax

As a zero-rated investor, the company's exposure to a provisional tax liability may change.

Previously, distributions from a collective investment vehicle (CIV) may have attached credits that could be used against the company's income tax. Under the PIE rules those credits may be reduced or no longer available.

2007 (pre-PIE)		2012 (under PIE rules)	
Income received from CIV	$10,000	Income received from MRP	$10,000
Credits attached	$1,500	Credits attached	$1,500
Tax paid by CIV	$1,800	Tax paid by MRP (zero rated)	$0
Company tax due	$3,300	Company tax due	$2,800
Less credits	$3,300	Less credits	$1,500
Balance due	$0	Balance due	$1,300

Trustees

PIRs available for trustees to elect

Resident trustees can choose a PIR of 0%, 17.5% or 28% and trustees of a testamentary trust may also choose 10.5%. The trustees are able to choose a rate that best suits the beneficiaries' circumstances. Each rate has differing tax treatments that need to be considered when selecting a rate, such as excluded/non-excluded income, provisional tax obligations, flow-on to WfFTC, child support and student loan obligations, and PIE attributed losses not able to be claimed.

Multiple MRPs

Resident trustees can choose a different rate for different MRPs to best suit the beneficiaries.

Sections CX 56, HM 57, Schedule 6

What is included in the tax return if the trust has income attributed by the MRP?

If the trustee has notified a PIR of 28%, the attributed income from the MRP won't be included in the trust's tax return.

There are six situations where attributed income from the MRP must be included in the trust's tax return:

1. If the resident trustee has notified a PIR of 0%, 10.5% or 17.5% the attributed income from the MRP is taxed either as trustee or beneficiaries' income.
2. If the resident trustee has notified a PIR of 0% and is attributed a loss, the loss and associated tax credits are included in the return. Losses attributed where the 10.5% or 17.5% PIR have been used, are included in the tax calculation by the MRP with any tax credit for the loss being applied to the benefit of the trustee and no further claim is available.
3. If the trust withdraws its investment from an MRP that zero rates the income for a quarter, the trust pays tax based on the trustee's or beneficiaries' basic tax rates.
4. If the PIE is a listed PIE the resident trustee can choose to include the dividends in the trust's tax return.
5. If the default rate of 28% applies, the trust will be treated as a zero-rated investor. The income or loss is included in the return. A credit is available equal to the amount of the tax liability satisfied by the MRP in relation to the attributed income. Note that if the trust has received a tax credit for the loss a note explaining this should be included with the investor's tax return.
6. If the investor fails to notify a change in country of residence until the year after the change and the PIE has calculated tax based on an incorrect PIR that is lower than their correct PIR.

Sections CX 56, DB 53, HM 40 and 55, LS 1

Treating the PIE income as beneficiary income

For trustees investing in a PIE, the usual income attribution rules apply.

If a resident trustee notifies a PIR of 28% the attributed income from the MRP is excluded income and doesn't need to be included in either the trust or beneficiaries' taxable income in their tax returns.

If a resident trustee notifies one of the other rates then where it is vested or paid to the beneficiary as beneficiary income, it must be included in the beneficiary's income tax return. The trustee must pay tax on behalf of the beneficiary for income attributed to that beneficiary.

PIE income and provisional tax

If the trustee investor notifies a PIR of 28% the attributed income from the MRP is excluded income. There may be a reduction in provisional tax depending on the provisional tax method chosen by the trustee.

If the trustee investor notifies one of the other rates and has tax to pay more than $5,000($2,500 for 2019/20 and earlier years), the trustees should also consider the impacts on their provisional tax if any. If the trustee treats the income as beneficiary income, then the tax is calculated at the beneficiaries' tax rate. However, it may be difficult to treat this income as beneficiary income if there is no cash distribution made by the MRP. Generally, the level of tax credits associated with the income will be lower than when the income was a dividend from an investment fund.

This may place the trust in the position of having residual income tax greater than $5,000 and make it:

- liable to provisional tax
- potentially liable to use-of-money interest and penalties.

2007 (pre-PIE)		2012 (under PIE rules)	
Income received from CIV	$100,000	Income received from MRP	$100,000
Credits attached	$15,000	Credits attached	$15,000
Tax paid by CIV	$18,000	Tax paid by MRP (zero rated)	$0
Trustee tax due	$33,000	Trustee tax due	$33,000
Less credits	$33,000	Less credits	$15,000
Balance due	$0	Balance due	$18,000

Individuals

Investments held at the time of death

Investments held at the time of death will pass to the estate. The transfer to the estate is considered to be an exit and a quarterly MRP may zero rate the income in the period to the date of death. The zero-rated attributed income from the MRP will have to be included in the tax return to the date of death. Investors in an exit MRP won't be taxed at a zero rate. Instead, the MRP would pay the investor's share of the tax relating to the investor exit period. The income in the period to the date of death would not need to be included in the tax return.

If the investments are not distributed to the beneficiaries but continue to be held in the estate, the resident executor can choose whether to advise the MRP of 0%, 10.5%, 17.5% or 28% as the PIR.

PIE income and provisional tax

If the investor's PIR is greater than zero and the income attributed by the MRP is excluded income there may be a reduction in provisional tax.

If the investor's income attributed by the MRP is taxed at a zero rate and is non-excluded income, exposure to a provisional tax liability may be increased. Previously distributions from a CIV may have attached credits that could be used against tax payable. Under the PIE rules the amount of those credits may be reduced or no longer available.

Individuals - joint investments

The separate individuals should split the investment and advise the MRP of the IRD number and PIR that applies for each holder/investor, ie, individuals would advise the 10.5%, 17.5% or 28% rates as appropriate.

If the holders/investors don't provide the MRP with their PIR and IRD number, the MRP will deduct PIE tax at the default rate of 28% which may be higher than the actual rate.

Refund of overpaid PIE tax if the investment is in joint names

Tax calculated by the MRP at a PIR that isn't lower than the investors' PIR, such as 28%, is a final tax and a refund can't be issued even if the actual PIR for one holder/investor would be 10.5% if they were to invest on their own.

Declaring the dividend from a listed PIE

Each New Zealand resident holder of the joint investment can choose to declare their share of the dividend in their tax return.

Transferring investments

Income from investments held in one investor's name can't be transferred to another person, eg, a spouse on a lower income. However, investments can be sold or gifted. There are rules regarding gifts made or the valuation of property sold to associated persons.

Non-residents

The PIR for all non-residents is 28% and the attributed income is treated for New Zealand tax as excluded income unless the investor exits a quarterly MRP that zero rates the income for the exit period. Non-residents who invest in foreign investment PIEs can qualify for different PIRs, see Part 8.

New residents

Currently only their New Zealand sourced income from either the last year or the previous two years is taken into account. From 1 April 2012, new residents will need to include all their income from around the world when determining the PIR they should use. There is an exception to this change in specific circumstances.

PIE tax and NRWT

Generally, the NRWT rules don't apply to PIE investments, other than foreign investment PIEs that choose to apply the rules.

If an investor is a resident of a country with which New Zealand operates a double taxation agreement (DTA), then under the NRWT rules the tax deducted on interest, dividends and royalties would have been limited to prescribed tax rates (usually 10% or 15%).

As the tax on income from an investment in the MRP is actually paid by the MRP the:

- limitation under the DTA won't apply
- tax on the investment will be calculated at 28%
- investor may not be able to claim the tax paid by the MRP as a credit in their country of residence.

A listed PIE may continue to pay dividends subject to NRWT.

Zero-rated income

A non-resident investor can't elect to be taxed at a zero rate. However, they may be taxed at a zero rate when exiting a quarterly MRP during a quarter. If so, the income attributed for the quarter needs to be included in a New Zealand income tax return. The non-resident investor must include the attributed income from the MRP with any income from other sources in New Zealand.

PIE income and imputation credits

Non-residents can't claim imputation credits.

Section YA 1, Schedule 6 table 1

Part 7 - Returns

The following information covers the return filing requirements for entities that may elect to become PIEs.

PIE periodic returns

For return details for foreign investment PIEs, see Part 8.

Entities that have elected to become quarterly or exit MRPs or PIE investor proxies (PIPs) are required to file a return in either of two electronic formats. PIEs that continue to file income tax returns don't complete IR852 returns. The exception is PIPs which may file both PIE periodic returns and income tax returns.

Due dates for filing PIE periodic returns and paying tax

A quarterly MRP must file a PIE periodic return and pay any tax due by the end of the month following the end of the quarter as shown in the following table:

Return periods for quarterly MRP	Payment and return filing due date
IR852 PIE return for 30 June	31 July
IR852 PIE return 30 September	31 October
IR852 PIE return 31 December	31 January
IR852 PIE return 31 March	30 April

An exit MRP must file a PIE periodic return and pay tax by the end of the month following the end of the exit period, except the November period. It also files a PIE periodic return and pays tax for the remaining investors within one month of the end of the tax year.

Return periods for exit MRP	Payment and return filing due date
IR852 returns for each month (April to February) for investors who have exited the MRP during the month.	By the end of the month following the end of the period. Payments and returns for the November period will be due by 15 January.
An IR852 return for the year ended 31 March for investors who remain in the MRP. The return will also include investors who have exited in the month ended 31 March.	By 30 April

Optional or voluntary payments made by both quarterly and exit MRPs are also required to be included with the appropriate monthly or quarterly return.

Section HM 45, and section 57B(6) of the Tax Administration Act 1994.

Any tax credit for a return period will be due at the same time and interest will be payable.

The following table sets out the return requirements for quarterly and exit return filers.

Return identification and version number

There are two additional data fields that aren't part of the return but are used to identify the type of message.

- The return type = IR852. For file transfer this is the first field. For B2B this is the root element.
- The return version, eg, 0003. This is the second field for file transfer (CSV). For B2B this will be the first field.

Element	Description
PIE name	Name of the MRP.
IRD number	IRD number of the MRP.
Period end date	**Monthly** - end of each month for periods that have exited investors or optional payments.
	Annually - 31 March for all remaining investors and March exitors.
	Quarterly - 30 June, 30 September, 31 December and 31 March.
Total value of investment assets	Once a year - total value of the investment assets an MRP has at the end of the return period or from the statement of financial position.
Gross income	The gross income or loss of the MRP for the return period. Exclude any income or loss from a land class investment.
Deductible expenses	Expenditure incurred by the MRP during the return period, or allowable annual expenditure attributed to the period. Enter as a positive amount. Negative may be entered to cover adjustments.
Net income/loss	Net income or loss after deducting expenses.
Net land class income/loss	If the MRP has an investment class that qualifies as a land class, the net income or loss should be recorded here. A land class loss can only be offset against land class income.
Combined income/loss	The combined income or loss amount for the different investment classes (if more than one) during the return period. **Note**: You can't offset land class loss against income from other classes. It can be zero (0.00).
Formation loss used	The amount of the formation loss used.
Land class loss brought forward	The land class loss carried forward to this return period.
Land class loss amount to carry forward	The land class loss amount to be carried forward to the next return period. Resultant amount of "Net land class income/loss" and "Land class loss brought forward" less "Land class loss claimed".
Land class loss claimed	Where there is residual land income after deduction of any formation loss then land losses brought forward may be claimed. This is limited to the extent of any land income.
Taxable income	Total taxable income of MRP for all classes for the return period. **Note**: This is the MRP's taxable income before adjusting for "Investor expenses less credits for fees". This field covers investors' income for the return period.
Taxable loss	Total taxable loss of the MRP for all classes for the return period. **Note**: This is the MRP's taxable loss before adjusting for "Investor expenses less credits for fees". This field covers investors' loss for the return period.
Income/loss retained at top PIR	This is the income or loss the MRP attributes to itself, such as non-vested income or loss, reserves or hybrid benefit fund PIEs. Where you have created a separate investor for employer non-vested income you may report that as a 28% rate investor instead of entering the amount here.
Income/loss of exited zero-rated	For quarterly MRPs, this is the income or loss attributed for an exit period to an investor(s). **Note**: This is the "Taxable income" or "Taxable loss" before adjusting for "Investor expenses less credits for fees".
Investor expenses less credits for fees	This is the adjustment for expenses less credits charged at the investor level. This could be a debit or credit. Show expenses as positive and credits as negative. If credits exceed expenses charged then enter amount as a negative. Include member superannuation fund expenses passed up to the master fund.
Total income to attribute	Income to attribute across the four PIRs. "Taxable income" less "Investor fees less credits for fees".
Total loss to attribute	Loss to attribute across the four PIRs. "Taxable income" less "Investor fees less credits for fees".

Summary of attributed investor income

Income attributed to 0% PIR	The amount is a component of the "Total income to attribute".
Loss attributed to 0% PIR	The amount is a component of the "Total loss to attribute".
Income attributed to low PIR	The amount is a component of the "Total income to attribute".
Loss attributed to low PIR	The amount is a component of the "Total loss to attribute".
Income attributed to mid PIR	The amount is a component of the "Total income to attribute".
Loss attributed to mid PIR	The amount is a component of the "Total loss to attribute".
Income attributed to top PIR	The amount is a component of the "Total income to attribute".
Loss attributed to top PIR	The amount is a component of the "Total loss to attribute".

Total payable/credit due details

Element	Description
Tax payable or credit due	Accumulation of all tax calculations for each investor for each investor class, including tax on income or loss retained. Don't include details for investors who have had the zero rate applied. This is net of credits used and detailed below. Show tax payable as positive and credit due as negative.
Zero-rated exited investor's tax payment for exit period	If an exited investor, in a quarterly MRP, has any units/interests left at the end of the exit period, the MRP will pay the value of the units/interests as tax. The investor is then allowed a credit in their income tax return for this payment made by the MRP.
Net tax payable or credit due	"Tax payable or credit due" plus "Zero-rated exited investor's tax payment for exit period". Show tax payable as positive and credit due as negative.

Tax credit details utilised

Element	Description
Foreign tax credit	Totals used for non-zero-rated investor as part of arriving at "Tax payable or credit due". Don't include credits attributed to investors whose income or loss has had the zero rate applied. Show credits as positive and adjustments as negative.
FDP (foreign dividend payment)	Totals used for non-zero-rated investor as part of arriving at "Tax payable or credit due". Include Māori authority credits. Don't include credits attributed to investors whose income or loss has had the zero rate applied. Show credits as positive and adjustments as negative.
ICA	Totals used for non-zero-rated investor as part of arriving at "Tax payable or credit due". Don't include credits attributed to investors whose income or loss has had the zero rate applied. Show credits as positive and adjustments as negative.
RWT	Totals used for non-zero-rated investor as part of arriving at "Tax payable or credit due". Don't include credits attributed to investors whose income or loss has had the zero rate applied. Show credits as positive and adjustments as negative.

File transfer and business to business (B2B)

PIEs have two electronic options for filing PIE periodic returns, annual reconciliations and investor certificates - file transfer and business to business (B2B).

Sections 36AB, 57B of the Tax Administration Act 1994

File transfer

File transfer lets an MRP filer upload PIE periodic returns, annual reconciliation returns and investor certificates to us through our Secure online service at **ird.govt.nz**

The following table shows the elements and layout of the PIE periodic return for MRPs who use file transfer. Full details are available in the file transfer specification.

Position	Element	Field type	Field size	Sign	Value	Validation
1	PIE return type	String	5	N/A	IR852	Required
2	Version number	String	4	5	0001 (before 31 March 2008) 0002 (1 April 2008 to 31 March 2010) 0003 (from 1 April 2010)	Required
3	PIE name	String	74	N/A	Any name with no embedded commas or special characters	Required
4	IRD number	Integer	8 to 9	None	Any set of eight or nine integers except all zeros.	Required, must be greater than zero Modulus 11 check digit
5	Period end date	Date	8	None	Any valid period end date	Required. YYYYMMDD Format
6	Total investment asset value	Decimal	14/2	None	0.00 to 99999999999.99	Required
7	Gross income	Decimal	15/2	Negative or None	-99999999999.99 to 99999999999.99	Required
8	Deductible expenses	Decimal	15/2	Negative or None	-99999999999.99 to 99999999999.99	Required
9	Net income/loss	Decimal	15/2	Negative or None	-99999999999.99 to 99999999999.99	Required
10	Net land class income/loss	Decimal	15/2	Negative or None	-99999999999.99 to 99999999999.99	Required
11	Combined income/loss	Decimal	15/2	Negative or None	-99999999999.99 to 99999999999.99	Required
12	Formation loss used	Decimal	14/2	None	0.00 to 99999999999.99	Required
13	Land class loss brought forward	Decimal	14/2	None	0.00 to 99999999999.99	Required
14	Land class loss amount to carry forward	Decimal	14/2	None	0.00 to 99999999999.99	Required
15	Land class loss claimed	Decimal	14/2	None	0.00 to 99999999999.99	Required
16	Taxable income	Decimal	14/2	None	0.00 to 99999999999.99	Required
17	Taxable loss	Decimal	14/2	None	0.00 to 99999999999.99	Required
18	Income/loss retained taxed at top	Decimal	15/2	Negative or None	-99999999999.99 to 99999999999.99	Required
19	Income/loss of exited zero-rate investors	Decimal	15/2	Negative or None	-99999999999.99 to 99999999999.99	Required
20	Investor expenses less credits for fees	Decimal	15/2	Negative or None	-99999999999.99 to 99999999999.99	Required
21	Total income to attribute	Decimal	14/2	None	0.00 to 99999999999.99	Required
22	Total loss to attribute	Decimal	14/2	None	0.00 to 99999999999.99	Required

23	Income attributed to 0% PIR	Decimal	14/2	None	0.00 to 99999999999.99	Required
24	Loss attributed to 0% PIR	Decimal	14/2	None	0.00 to 99999999999.99	Required
25	Income attributed to low PIR	Decimal	14/2	None	0.00 to 99999999999.99	Required
26	Loss attributed to low PIR	Decimal	14/2	None	0.00 to 99999999999.99	Required
27	Income attributed to mid PIR	Decimal	14/2	None	0.00 to 99999999999.99	Required
28	Loss attributed to mid PIR	Decimal	14/2	None	0.00 to 99999999999.99	Required
29	Income attributed to top PIR	Decimal	14/2	None	0.00 to 99999999999.99	Required
30	Loss attributed to top PIR	Decimal	14/2	None	0.00 to 99999999999.99	Required
31	Tax payable/credit due	Decimal	15/2	Negative or None	-99999999999.99 to 99999999999.99	Required
32	Zero-rated exited investor's tax payment for exit period	Decimal	14/2	None	0.00 to 99999999999.99	Required
33	Net tax payable/ credit due	Decimal	15/2	Negative or None	-99999999999.99 to 99999999999.99	Required
34	Foreign tax credit	Decimal	15/2	Negative or None	-99999999999.99 to 99999999999.99	Required
35	FDP	Decimal	15/2	Negative or None	-99999999999.99 to 99999999999.99	Required
36	IC	Decimal	15/2	Negative or None	-99999999999.99 to 99999999999.99	Required
37	RWT	Decimal	15/2	Negative or None	-99999999999.99 to 99999999999.99	Required

File transfer file format

Based on the previous file details an MRP will file their periodic PIE returns using ASCII comma delimited format or comma separated values. Each record (line) is a separate PIE periodic return.

Example 1 - One file, single return

File name: PIEReturns-20120331-0003.csv

IR852,0001,PIE A,010000289,20120331,15000000.00,40300.00,12040.00,28260.00,0.00,28260.00,0.00,0.00,0.00,0.00,29250.00,990.00,0.00,0.00,29250.00,990.00,7000.00,250.00,3000.00,200.00,10000.00,300.00,9250.00,240.00,2285.20,0.00,2285.20,150.00,750.00,1000.00,150.00

Example 2 - One file, multiple PIEs

File name: PIEReturns-20120331-0003.csv

IR852,0003,PIE A,010000289,20120331,1.99,-2.99,0.00,-2.99,0.00,2.99,1.99,0.00,1.99,1.99,0.00,1.99,1.99,2.99,-2.99,1.99,0.00,0.00,0.00,1.99,0.00,1.99,0.00,0.00,0.00,-2.99,1.99,2.99,0.00,1.99,1.99,0.00

IR852,0003,PIE B,010000793,20120331,1.99,0.00,0.00,-2.99,0.00,2.99,1.99,0.00,0.00,0.00,1.99,1.99,1.99,0.00,2.99,0.00,0.00,0.00,0.00,0.00,0.00,0.00,0.00,1.99,1.99,-2.99,1.99,2.99,1.99,0.00,1.99,1.99

IR852,0003,PIE C,010000769,20120331,1.99,-2.99,0.00,-2.99,0.00,2.99,1.99,0.00,0.00,1.99,0.00,1.99,1.99,-2.99,0.00,1.99,1.99,1.99,1.99,0.00,0.00,1.99,1.99,1.99,0.00,-2.99,1.99,2.99,0.00,1.99,1.99,0.00

IR852,0003,PIE D,010000661,20120331,1.99,-2.99,1.99,-2.99,0.00,2.99,1.99,1.99,1.99,1.99,1.99,1.99,1.99,-2.99,-2.99,1.99,1.99,1.99,1.99,0.00,0.00,1.99,1.99,1.99,1.99,2.99,1.99,2.99,1.99,1.99,1.99,1.99

Business to business (B2B)

B2B allows the direct transfer of PIE periodic returns, annual reconciliation returns and investor certificates from the MRP to us.

The elements and layout of the PIE periodic return for B2B are the same as shown in the file transfer method on pages 60 to 62.

Any MRP filer unable to implement their B2B environment and meet our exit test criteria must use file transfer.

Electronic filing penalties

All PIE periodic returns must be filed electronically. Failure to do so will incur a penalty of $250.

Late filing and late payment penalties

PIE returns and PIE tax will be subject to late filing and late payment penalties the same as any other tax type.

Section 139AA of the Tax Administration Act 1994

Use of money interest

Interest will be imposed or credited on debit and credit balances in the usual manner. However, where a deemed sale and reacquisition of investments takes place at commencement, an MRP will generally not be liable to any penalty or interest arising from an inaccuracy or shortfall in the estimate or payment of provisional tax arising from an increased liability because of the deemed sale and reacquisition - refer to page 18.

No extension of time for filing PIE periodic returns

Although PIEs that continue to file income tax returns can continue to request extensions of time to file these, there is no provision for an extension of time to be granted for filing PIE periodic returns. Failure to file PIE periodic returns may also prompt prosecution action.

Sections 33(1), 33(1C), 57B of the Tax Administration Act 1994

Returns for different PIE types

The following chart indicates the types of returns required to be filed by the different PIE types:

Filing options	Income attribution period	Tax rate to apply	Tax returns	PIE annual reconciliation and certificates	File monthly (for exiting investors)
Quarterly MRP Land, wholesale, super, retail	Daily, monthly or quarterly	PIR	PIE periodic return Income tax returns exempted	Yes	No (zero rate exiting investors)
Exit MRP Land, wholesale, super, retail	Daily	PIR	PIE periodic return Income tax returns exempted	Yes	Yes (deduct and file returns monthly for exitors)
Provisional tax Land, wholesale, super, retail	Daily, monthly, quarterly or annually	PIR	Income tax return (IR4, IR44) PIE returns exempted	Yes	No (deduct and offsets against RIT)
Annual income tax filer Land, benefit fund PIE, listed PIE, life fund PIE	None (doesn't attribute its income across its investors)	Company/ trust rate	Income tax return (IR4, IR44) PIE returns exempted	No (reported as dividends)	No (not applicable)

Cessations - what return to file

Where a PIE ceases within 12 months

A PIE that ceases within 12 months of its start date is deemed never to have been a PIE. All PIE periodic returns filed must be undone as if they were never filed and there are no further PIE periodic returns, or reconciliations to file. However, the entity may be required to submit an income tax return for the period for which PIE periodic returns had been filed. In addition, the income tax assessment to the start date as a PIE may have to be amended to remove any transitional adjustments and realign the income to the correct balance date that applied before starting as a PIE. Tax revenues ceased as a consequence of becoming a PIE may be reinstated and PIE income may be required to be taxed under those revenue types (eg, NRWT). Any tax shortfall will need to be considered under the shortfall penalty provisions.

Sections HM 72 and 75

Where a PIE ceases after 12 months

An MRP will be required to file a final PIE periodic return to the date of cessation. After that, income tax returns will be required until the entity chooses to become a PIE again (after a five-year period from the date of cessation). An MRP will also be required to file a final annual reconciliation.

Voluntary disclosures and requests for reassessments

Voluntary disclosures and requests for reassessments can be made in the usual manner and sent to Inland Revenue Large Enterprises. Shortfall penalties may also be considered as appropriate. However, on cessation within 12 months of starting, the return filed before the PIE start date may need adjustment to:

- include PIE income previously included in PIE periodic returns
- reverse balance date change adjustments
- reverse transitional arrangements.

In these instances the entity or tax agent will have to provide new income details. We'll consider amending the entity's income tax assessments on the basis of the income details. Shortfall penalties will also need to be considered.

Adjustments noted at the end of the year on completion of the annual reconciliation must be made in the period in which the error arises.

Provisional tax option

MRPs that elect to pay provisional tax don't file PIE periodic returns. Instead they file their usual income tax returns to their approved balance date by the usual filing due date. Unless an extension of time to file a tax return has been granted, returns need to be filed by:

- 7th of the fourth month after balance date for taxpayers with late balance dates (ie, 1 April to 30 September)
- 7 July following the end of the tax year for other taxpayers.

The tax calculated is based on the PIR of its investors. MRP's using the provisional tax option can't pass losses down to the investors. Losses are subject to the usual income tax treatment and carry forward provisions. The tax credits are also used by the MRP and don't pass out to investors.

Annual income tax return filers

PIEs that file annual income tax returns (listed PIEs, benefit fund PIEs and life fund PIEs) continue to file returns to their approved balance date by the usual filing due date.

These PIEs are not MRPs that calculate tax based on their investors' PIR, so don't file PIE periodic returns or an annual reconciliation.

Annual reconciliation return (IR853)

An *Annual reconciliation return (IR853)* providing the details for all investors in the MRP needs to be filed electronically by all entities that have elected to become MRPs (quarterly, exit and provisional tax taxpayers), or PIPs, and that calculate tax based on their investors' PIR. Investor certificates for each investor are required to be sent to us along with the reconciliation. Annual reconciliations are also required to be filed by MRPs that cease (except those that cease within 12 months).

There will be no assessment issued or payments required for the annual reconciliation.

> ***Note***
>
> When completing the annual reconciliation it is critical the MRP's IRD number is correctly stated on the investor certificates and especially on the IR854. If the MRP's IRD number is omitted or not correct on the investor certificates they won't be attached to the reconciliation and the MRP will be requested to correct and re-submit the certificates.

Due dates for filing the annual reconciliation return

The dates by which the annual reconciliation and investor certificates are required to be sent to us are:

- for MRPs or PIPs that have a 31 March or earlier balance date, by 31 May or 30 June following the tax year*
- for MRPs or PIPS that have balance dates later than 31 March, by the end of the second month after the balance date
- for MRPs or PIPS that cease to be MRPs, by the end of the third month following the month of cessation.

There is no provision for an extension of time to file an annual reconciliation.

Section 57B of the Tax Administration Act 1994

Return elements

There are four parts to the annual reconciliation:

- Part A covers return and PIE level identification data.
- Part B covers the full income or loss details for all investors.
- Part C is only completed where an investor has had tax calculated at two or all three of the rates greater than zero. It identifies the details where the lower rate or rates (if all three rates were used) were applied in a final tax calculation.
- Part D covers zero-rated income or loss details for all investors or just investors with a PIR greater than zero (this is at the MRP's option), for the details that were subject to the zero rate. The tax credits cover all zero-rated investor details.

* MRPs that aren't a retirement scheme or superannuation fund, eg, KiwiSaver, have the filing date of 31 May.

The following table sets out the return detail requirements for the annual reconciliation:

Return identification and version number

There are two additional data fields that are not part of the return but are used to identify the type of message.

- The return type = IR853. For file transfer this is the first field. For B2B this is the root element.
- The return version, eg, 0003. This is the second field for file transfer (CSV). For B2B this will be the first field.

Element	Description
Part A	
PIE name	Name of the MRP or PIE investor proxy (PIP).
IRD number	IRD number of the MRP or PIP.
Period end date	Annual return 31 March YYYY. This is always to the year ended 31 March regardless of balance date or cease date.
Total number of certificates	The number of certificates associated with the return.
Part B	
Taxable income/loss	The taxable income or loss for all investors. Include zero-rated investors. **Note**: This is after deducting "Investor expenses less credits for fees".
Total tax credits used for investors on low, mid and top PIR	Total of all various tax credits (FTC, IC, MAC, FDP and RWT) for all investors who had a low, mid and/or top PIR used in a final tax calculation. **Note**: Exclude excess FTCs that are forfeited, eg, if the taxable result for each day for a natural person investor is a loss, then all FTCs attributed to that investor are forfeited. As tax credits can be positive or negative it may also be a positive or negative result. Default is positive.
PIE tax paid/credited on investor's income for low, mid and/or top PIR	Total of net tax position for all investors with a low, mid and/or top PIR after deducting tax credits (FTC, IC, MAC, FDP and RWT).
Part C	
Taxable income/loss taxed at low and/or mid PIR(s)	Taxable income or loss for investors who had tax calculated during the year at two or more of the PIR(s) greater than zero. • The income or loss details are only applicable to the amount where the low or lower rates were applied in a final tax calculation. • Income attributed to a period where tax calculated at a rate lower than the investor's actual rate is no longer excluded income. **Note**: This is after deducting "Investor expenses less credits for fees" on this income.
PIE tax paid/credited on investor's income at the low and/or mid PIR(s)	PIE tax paid or credited for investors who had tax calculated during the year at two or more of the PIR(s) greater than zero. This is after deducting tax credits (FTC, IC, MAC, FDP and RWT). • The tax paid or credited details are only applicable to the amount where one or more of the lower rates were applied. • Income attributed to a period where tax calculated at a rate lower than the investor's actual rate is no longer excluded income.
Total tax credits for investors on the low and/or mid PIR(s)	Total tax credits for investors who had tax calculated during the year at two or more of the PIR(s) greater than zero. Total of the various tax credits (FTC, IC, MAC, FDP and RWT) attributed to the attribution period in which the low and/or mid PIR(s) were used. **Note**: If an investor is required to file a return because their PIR is higher than that given to the MRP and the investor attributed income isn't excluded income, the investor may be entitled to some FTCs, which were not available to offset the tax payable at the MRP level. As tax credits can be positive or negative it may also be a positive or negative result. Default is positive.

Element	Description
Part D	
Taxable income/loss for investors that used zero and any other rate	Taxable income or loss for investors who have had zero and any other rate applied during the year. You don't need to include the details for companies except for trustees. Usually applies to quarterly filers that zero rate exiting investors to identify the zero-rated component. For some MRPs it may be easier to include all zero-rated details here. **Note**: This is after deducting "Investor expenses less credits for fees".
Total zero-rated attributed FTC	Total FTCs attributed to investors who had the 0% PIR applied. Includes investors in quarterly MRPs with income or loss that is zero rated for an exit period. As tax credits can be positive or negative it may also be a positive or negative result. Default is positive.
Total zero-rated attributed FDP/MAC	Total of all FDP tax credits and Māori authority credits (MAC) attributed to investors who had the 0% PIR applied. Includes investors in quarterly MRPs with income or loss that is zero rated for an exit period. As tax credits can be positive or negative it may also be a positive or negative result. Default is positive.
Total zero-rated attributed IC	Total of all imputation credits (IC) attached to dividends attributed to investors who had the 0% PIR applied. Includes investors in quarterly MRPs with income or loss that is zero rated for an exit period. As tax credits can be positive or negative it may also be a positive or negative result. Default is positive.
Total zero-rated attributed RWT credits	Total of all RWT credits attributed to investors who had the 0% PIR applied. Includes investors in quarterly MRPs with income or loss that is zero rated for an exit period. As tax credits can be positive or negative it may also be a positive or negative result. Default is positive.
Zero-rated exited investor's tax payment for exit period	If an exited investor, in a quarterly MRP, has any units/interests left at the end of the exit period, the MRP will pay the value of the units/interests as tax. The investor is then allowed a credit in their income tax return for the payment made by the MRP.

Investor certificate (IR854)

Investor certificates for each investor in the MRP, are attached to the *Annual reconciliation return (IR853)* and filed electronically by all entities that have elected to become MRPs, or PIPs and that calculate tax based on their investors' PIR.

The investor certificates include a unique identifier to show the certificate isn't a duplicate or amendment. This may be a sequential number or other unique identifier, particularly relevant if more than one certificate is being filed for any single investor.

> ***Note***
>
> It's critical the investor certificates record the MRP's correct IRD number. If the MRP's IRD number is omitted or not correct on the investor certificates they won't be attached to the reconciliation return and the MRP will be requested to correct and re-submit the certificates.

The following table sets out details of the return requirements for the investor certificates.

Return identification and version number

There are additional data fields that are not part of the return but are used to identify the type of message.

- The return type = IR854. For file transfer this is the first field. For B2B this is the root element.
- The return version 0003. This is the second field for file transfer (CSV). For B2B this will be the first field.

Element	Description
Part A	
PIE name	Name of the MRP or PIP.
PIE IRD number	IRD number of the MRP or PIP.
Period end date	Annual return 31 March YYYY. This is always to the year ended 31 March regardless of balance date or cease date.
Investor's name	The full name of the investor. Don't include commas.
Investor's IRD number	IRD number of the investor. If this number isn't provided by the investor, default 00000000. **Note**: The field requirement is 8 to 9 characters.
Certificate ID (investor certificate ID)	An ID assigned by the MRP to uniquely identify the certificate. This may be a sequential number or other unique identifier, particularly relevant if more than one certificate is being filed for any single investor. The certificate number will show that it isn't a duplicate or amendment.
PIR as at year-end	The latest PIR used in a tax calculation requiring a tax payment or credit for the tax year.
PIR changed during the year	Indicates whether the investor's PIR changed during the tax year, where used in a final tax calculation. If the MRP recalculated the tax for the full year with the latest rate then they have not operated two rates for the year.
Part B	
Taxable income/loss	The taxable income or loss for the investors. Include a zero-rated investor. Note: This is after deducting "Investor expenses less credits for fees".
Total tax credits for an investor on low, mid and/or top PIR	Total of all various tax credits (FTC, IC, MAC, FDP and RWT) for an investor who had a low, mid and/or top PIR used in a final tax calculation. **Note**: Exclude excess FTCs that are forfeited, eg, if the taxable result for each day for a natural person investor is a loss, then all FTCs attributed to that investor are forfeited. As tax credits can be positive or negative it may also be a positive or negative result. Default is positive.
PIE tax paid/credited for an investor on low, mid and/or top PIR	Total of net tax position for the investor with a PIR greater than zero.

Part C	
Taxable income/loss taxed at low and/or mid PIR(s)	Taxable income or loss for an investor who had tax calculated during the year at two or more of the rates greater than zero: • The income or loss details are only applicable to the amount where the low and/or mid PIR(s) were applied in a final tax calculation. • Income attributed to a period where tax calculated at a rate lower than the investor's actual rate is no longer excluded income. **Note**: This is after deducting "Investor expenses less credits for fees" on this income.
PIE tax paid/credited on investor's income/loss at low and/or mid PIR(s)	PIE tax paid or credited for the investor who had tax calculated during the year at two or more of the rates greater than zero. This is after deducting tax credits (FTC, IC, MAC, FDP and RWT). • The tax paid or credited details are only applicable to the amount where the low and/or mid PIR(s) were applied. • Income attributed to a period where tax calculated at a rate lower than the investor's actual rate is no longer excluded income.
Total tax credits for an investor on low and/or mid PIR(s)	Total tax credits for the investor who had tax calculated during the year at two or more of the rates greater than zero. Total of the various tax credits (FTC, IC, MAC, FDP and RWT) attributed to the attribution period in which the low and/or mid PIR(s) were used in a final tax calculation. **Note**: If an investor is required to file a return because their PIR is higher than that given to the MRP and the investor attributed income isn't excluded income, the investor may be entitled to some FTCs, which were not available to offset the tax payable at the MRP level. As tax credits can be positive or negative it may also be a positive or negative result. Default is positive.
Part D	
Taxable income/loss for investors that used zero and any other rate	Taxable income or loss for investors that have had zero and any other rate applied during the year. You don't need to include the details for companies except for trustees. Usually applies to quarterly filers that zero rate exiting investors to identify the zero-rated component. For some MRPs it may be easier to include all zero-rated details here. **Note**: This is after deducting "Investor expenses less credits for fees".
Total zero-rated attributed FTC	Total FTCs attributed to the investor who had the 0% PIR applied. Includes investors in quarterly MRPs with income or loss that is zero rated for an exit period. As tax credits can be positive or negative it may also be a positive or negative result. Default is positive.
Total zero-rated attributed FDP/MAC	Total of all FDP tax credits and Māori authority credits (MAC) attributed to the investor who had the 0% PIR applied. Includes investors in quarterly MRPs with income or loss that is zero rated for an exit period. As tax credits can be positive or negative it may also be a positive or negative result. Default is positive.
Total zero-rated attributed IC	Total of all imputation credits (IC) attached to dividends attributed to the investor who had the 0% PIR applied. Includes investors in quarterly MRPs with income or loss that is zero rated for an exit period. As tax credits can be positive or negative it may also be a positive or negative result. Default is positive.
Total zero-rated attributed RWT credits	Total of all RWT credits attributed to the investor who had the 0% PIR applied. Include investors in quarterly MRPs with income or loss that is zero rated for an exit period. As tax credits can be positive or negative it may also be a positive or negative result. Default is positive.
Zero-rated exited investor's tax payment for exit period	If an exited investor, in a quarterly MRP, has any units/interests left at the end of the exit period, the MRP will pay the value of the units/interests as tax. The investor is then allowed a credit in their income tax return for the payment made by the MRP.

Investor statements

MRPs are required to issue investor statements to their investors including information as required by us. The requirements for investor statements are noted on pages 47 and 48.

Part 8 - Foreign investment PIE rules

Introduction

When the PIE rules were introduced, non-residents who invested in a PIE had the top prescribed investor rate (PIR) applied to all income from the PIE. This meant they were over-taxed compared with the tax they would have paid if they had invested directly in the same assets as the PIE. In particular, in the case of a non-resident's direct investment in non-New Zealand based assets, the income isn't subject to New Zealand tax. This is because of the general principle underlying the tax system that non-residents should only be subject to tax on their New Zealand sourced income.

To correct the potential over-taxation, two new types of PIE have been introduced:

- foreign investment zero-rate PIE (zero-rate PIE)
- foreign investment variable-rate PIE (variable-rate PIE).

These allow qualifying non-resident investors to have tax rates applied to their attributed PIE income similar to those that would apply if they invested directly.

Entities can become zero-rate PIEs from 29 August 2011 and variable-rate PIEs from 1 April 2012.

New residents who choose to apply the existing transitional resident rule and invest in a zero-rate PIE qualify for the 0% PIR.

Overview

The two foreign investment PIE types are a subset of an MRP that must use the quarterly or exit filing options. There is also a new class of investor, a notified foreign investor.

The zero-rate PIE has an investment portfolio based in non-New Zealand assets, holding only a minimal amount of funds in New Zealand. It will be able to treat all income as if it were derived from a non-New Zealand source and apply the 0% PIR on the attributed PIE income of its notified foreign investors.

The variable-rate PIE caters for notified foreign investors who wish to invest in New Zealand and non-New Zealand based assets. The PIE must identify each source (country) and for New Zealand based assets, the type (interest, dividends, etc) of income.

The variable-rate PIE then applies the appropriate PIR as follows:

All non-New Zealand sourced income, fully imputed dividends, income from New Zealand based financial arrangements excluding interest covered below	0%
New Zealand interest income being a net of tax-based approved issue levy (AIL): 2% less (2% × 28%) .56% = 1.44%	1.44%
New Zealand dividend income is taxed based on whether the notified foreign investor is resident in a country with which we hold a double tax agreement (DTA) or not (non-DTA)	15% (DTA); 30% (non-DTA)
Other New Zealand sourced income (if any)	28%

New Zealand residents continue to be taxed under the existing PIE rules using their PIRs. Any non-resident who doesn't notify their status to their foreign investment PIE will continue to be taxed at a flat rate of 28%. Non-resident investors in other PIEs will continue to have the 28% PIR applied. There are special transitional provisions to cater for changes in residency.

Under certain circumstances, a variable-rate PIE can treat New Zealand dividends as being liable for NRWT. This could allow some notified foreign investors to claim a tax credit in their country of residence. This income isn't treated as PIE income.

In order for a foreign investment PIE (retail PIE) that invests in another PIE (a wholesale PIE) to be able to identify the source and type of income and the expenses that relate to notified foreign investors, the foreign investment PIE will be allowed to treat the wholesale PIE as a look-through entity. Effectively, the foreign investment retail PIE is treated as deriving the income, expenses and tax credits of the wholesale PIE. This treatment ensures the reduced tax rates are applied to the notified foreign investor's attributed PIE income.

Existing PIEs that wish to become a foreign investment PIE will need to contact us via the normal channels to notify their change.

To ensure PIEs that don't want or need to use the new foreign investment PIE rules aren't affected, new versions of the reporting requirements will be used by the new PIEs. For consistency new versions of each return have been created, however depending on the type of foreign investment PIE they may only use the new IR854 (for zero-rate PIEs) or the IR852 and IR854 (for variable-rate PIEs).

Eligibility

Entities wishing to become a foreign investment PIE must first meet the eligibility requirements to be an MRP. PIEs that pay their income tax by paying provisional tax can't become a foreign investment PIE.

A zero-rate PIE can derive New Zealand sourced income but within set thresholds. Income can be sourced from New Zealand based debt investment of up to 5% and New Zealand based equity investment up to 1% of the total value of the PIE's investments, excluding derivative instruments such as hedges on the non-New Zealand assets.

Variable-rate PIEs can't have a direct interest, including a right or option, in relation to New Zealand land or derive income from New Zealand land, including from the disposal of the land. An investment in a company that owns New Zealand land is allowed, as expenditure or loss can't be passed to the PIE from that investment.

For notified foreign investors, the variable-rate PIE must identify the income source, investment type for New Zealand based income and apply the appropriate PIR for each amount.

There is a new requirement that applies where a foreign investment PIE has an investment in a land investment company resident in New Zealand or in an entity that qualifies for PIE status. The investment must carry a voting or market interest of no more than 20% in either the company or the entity. A unit trust may hold a market value of all interests in the entity of no more than 20%. For a zero-rate PIE, the 20% holding must also fall within the 1% threshold for New Zealand based equity investments.

A zero-rate PIE that is a unit trust to which the Unit Trust Act 1960 applies, and has a resident trustee, will be resident in New Zealand for the purposes of residence as required by the Act.

Sections HM 2(3), 7, 8, 11, 12, 13(5), 19B, 19C, 31, 44(1B), 55 and 77

Registration

Entities choosing to become a zero-rate or variable-rate PIE that are not already registered as a PIE must complete the online registration process and select the appropriate foreign investment PIE type. The online service is available at **ird.govt.nz/myir** Registration only takes a few minutes.

Entities that are already PIEs need to contact our Large Enterprises Unit and advise the PIE's IRD number, the new PIE type and the effective date of the change.

Entities can become a zero-rate PIE from 29 August 2011 and a variable-rate PIE from 1 April 2012. A variable-rate PIE can make the election from 29 August 2011 with effect from 1 April 2012.

Sections HM 2(2)(e), 19B, 19C and 71B

Cessation and breaches

There are new rules in relation to foreign investment PIEs that operate alongside the existing breach rules.

Where a zero-rate PIE derives income, other than allowable New Zealand based amounts such as business income, the zero-rate PIE will be treated immediately as a variable-rate PIE.

Where a zero-rate PIE:

- exceeds the threshold for New Zealand based investments (1% equity and 5% debt) on the last day of a quarter (first quarter), and
- fails to remedy the breach by the last day of the following quarter (second quarter)

it'll become a variable-rate PIE from the first day of the third quarter. A transitional rule applies for the first year, so that if the third quarter starts prior to the date a variable-rate PIE can become effective, then the zero-rate PIE will become an MRP that isn't a foreign investment PIE from 1 January 2012.

Where a variable-rate PIE:

- doesn't identify the income source or the investment type for New Zealand based income, or
- doesn't apply the appropriate PIR for each amount on the last day of a quarter (first quarter), and
- fails to remedy the breach by the last day of the following quarter (second quarter)

it'll become an MRP that isn't a foreign investment PIE from the first day of the third quarter.

If either PIE type owns New Zealand land or more than 20% of a land investment company, it'll immediately cease to be a foreign investment PIE.

Section HM 55H

Foreign investment zero-rate PIE - thresholds for income with a New Zealand source - 5% and 1%

The zero-rate PIE will have an investment strategy that's focused on offshore markets. It may hold a small amount of New Zealand based funds as a source of ready cash to cover day-to-day expenditure in:

- debt instruments such as bank accounts - up to 5% of the total value of the PIE's investments. This covers accounts with terms of less than 91 days and is designed to provide the PIE with sufficient liquidity to run its day-to-day operations (eg, funding redemptions, paying expenses, applications etc), or
- equity investments to cater for the situation where a PIE has an investment that tracks a global index which includes New Zealand based equity investments - up to 1% of the total value of the PIE's investments. Derivatives such as currency hedge arrangements or other non-interest-bearing financial arrangements on foreign investments whether entered into in New Zealand or offshore are ignored for the purposes of the threshold measurements.

The income from New Zealand based (financial arrangements) debt instruments for notified foreign investors is limited to the coupon return (interest income) and not the full income that may be calculated using the financial arrangement rules. This aligns the treatment of a notified foreign investor in a PIE with the treatment of a non-resident investor who invests directly in New Zealand debt. The financial arrangement rules don't apply to non-residents.

The threshold allows the PIE to treat any income from these sources as if it were non-New Zealand income for notified foreign investors, therefore all income attributed is zero rated. Note that no deductions can be claimed by the PIE in relation to this income. This again aligns the treatment of non-resident investors in debt and equity investments to that of non-residents investing directly in New Zealand debt or equity, who are taxed on a gross basis.

Section HM 55G

New PIRs

New PIRs have been introduced for a variable-rate PIE to use when calculating the tax on income attributed to notified foreign investors. These rates are designed to align the tax treatment with that of a non-resident who invests directly in the same investments as the PIE. The variable rates are:

- 0% for all offshore income
- 1.44% for interest income. The normal AIL rate is 2% as a deductible amount at the PIE tax rate of 28%, giving a net amount of 2% - 0.56% = 1.44%
- 0% for an amount derived from a New Zealand-based financial arrangement that isn't interest
- 0% for fully imputed dividends as 28% tax has been paid by the company paying the dividend
- for unimputed dividends or the portion of the dividend from New Zealand companies there are two possible rates based on the residence of the notified foreign investor:
  - 15% if the notified foreign investor resides in a country with which we hold a DTA
  - 30% for notified foreign investors who reside in a non-DTA country.

  These rates align with the NRWT rules that apply to a non-resident investor who invests directly.
- 28% for other New Zealand income, remembering the PIE can't invest in New Zealand land or derive income from land, including its disposal.

Section HM 55F, schedule 6 table 1B

Unimputed dividend option

A variable-rate PIE that derives dividends from New Zealand based companies can treat certain dividends attributed to a notified foreign investor as non-resident passive income and deduct NRWT.

There are four requirements for treating a particular dividend, or part, as liable for NRWT:

- NRWT only applies to the unimputed portion of a New Zealand dividend.
- A payment of an amount that represents some or all of the unimputed dividend is made to a notified foreign investor.
- The payment must be made by the time the PIE is required to file a return in which that dividend would have had to be included.
- The variable-rate PIE chooses to treat the amount paid as liable for NRWT.

This allows the variable-rate PIE to provide the notified foreign investor with a tax credit that should be claimable in their country of residence. PIE tax generally can't be claimed in foreign countries as it isn't similar in nature to income tax paid by the investor.

Income treated as non-resident passive income isn't included in the variable-rate PIE's assessable income and doesn't appear in any of the PIE returns, investor certificates or investor statements as PIE income.

The PIE will need to register and account for NRWT using the normal NRWT process.

The amount treated as non-resident passive income isn't excluded income of the investor.

Sections CX 56B(2), HM 44B and schedule 6 table 1B

Notified foreign investor

A notified foreign investor is a new class of investor.

A non-resident who holds an investment in a foreign investment PIE may notify the PIE that they wish to be treated as a notified foregin investor.

The investor must not be:

- resident in New Zealand
- a controlled foreign company (CFC)
- a foreign investment fund (FIF) with a New Zealand resident who has an income interest of 10% or more
- a non-resident trustee of a trust that isn't a foreign trust.

The investor must also provide the following additional information:

- date of birth, if applicable
- home address in their country or territory where they reside for tax purposes
- their equivalent of their tax file (IRD) number in the country of territory where they reside for tax purposes, or a declaration if they're unable to provide this number.

The Commissioner may add to or change the list of information.

The foreign investment PIE must once a year ask the investor to confirm they meet all of the above requirements to remain a notified foreign investor. If they receive no response the PIE may continue to treat the investor as a notified foreign investor.

The foreign investment PIE must then apply the appropriate PIR using the 0% PIR for zero-rate PIEs and the appropriate PIR(s) for variable-rate PIEs.

A non-resident who doesn't meet these requirements continues to have the 28% PIR applied.

The Commissioner can advise the PIE to disregard an investor's notification if he considers on reasonable grounds that the person doesn't meet or no longer meets the requirements. The change should be made as soon as reasonably practicable. The investor is treated as a non-resident and will have the 28% PIR applied. If the change is required because the investor is a resident the change comes within the existing power of the Commissioner to advise a corrected notified investor rate.

A notified foreign investor cannot be treated as an exiting investor and have the zero rate applied.

Sections HM 32(3), 55D, 55F, 60(5) and schedule 6 table 1B

Investor changes residence

A number of scenarios can occur when a notified foreign investor changes residence:

- A notified foreign investor can become a resident and no longer qualify as a notified foreign investor.
- A resident can become a notified foreign investor by moving to a foreign country or territory.
- A notified foreign investor can move from one foreign country to another.

For the last scenario the change could affect the PIR applied to unimputed dividends based on the DTA to non-DTA country rule.

The issue is further complicated by the foreign investment PIE's ability to apply a change in residency. For example, a quarterly PIE may only be able to apply the status for the whole quarter instead of applying a change part-way through a quarter. Therefore flexibility has been built in to allow the PIE to make the change to an investor's status as soon as practicable, but no later than the start of the next tax year.

For resident investors who become notified foreign investors, the PIE should treat the investor as a notified foreign investor from the day it's notified of the change of status, if possible, but no later than the start of the next tax year.

If the investor misrepresents their status to the PIE by indicating they're a notified foreign investor when in fact they're a resident, the income attributable to the period when the PIE has treated them as a notified foreign investor will be included in the investor's tax return. A credit for any tax paid at the PIE level will be allowed.

Sections CX 56(1B), HM 55D, 55E and schedule 6 table 1B

The following tables set out the various scenarios and results for a natural person

Scenario 1

A notified foreign investor becomes a resident and advises the PIE straight away or during the year		
If ...	**and ...**	**then ...**
the PIE makes the change straight away	the PIE applies the correct PIRs for each part of the year	provided the investor has notified the correct PIRs the attributed PIE income is excluded income.
the PIE makes the change at the start of the next tax year	the PIE applies the transitional rule and doesn't change the PIR during the tax year	provided the investor has notified their correct PIRs for each year, the attributed PIE income is excluded income.
the PIE omits the change	the PIE corrects for its period of omission	the income is excluded income.

A notified foreign investor becomes a resident and advises the PIE during the next tax year		
If ...	**and ...**	**then ...**
the PIE makes the change straight away	the PIE applies the new rate to income from then on	for the period from the start of the next tax year when the notified foreign investor rates have been applied, the income needs to be included in the investor's income tax return.
the PIE makes the change at the start of the next tax year	the PIE treats the investor as a resident for all of the next tax year	provided the investor has notified their correct PIRs, the income for both years remains excluded income.
the PIE omits the change	the PIE corrects for its period of omission	the income is treated as per the first or second row as applicable.

Scenario 2

A resident becomes a notified foreign investor and advises the PIE straight away or during the year		
If ...	**and ...**	**then ...**
the PIE makes the change straight away	the PIE applies the correct PIRs for each part of the year	provided the investor has notified the correct PIRs, the attributed PIE income is excluded income.
the PIE makes the change at the start of the next tax year	the PIE applies the transitional rule and doesn't change the PIR until the start of the next tax year	provided the investor has notified their correct PIRs, the income for both years remains excluded income.
the PIE omits the change	the PIE corrects for its period of omission	the income is treated as excluded income.

A resident becomes a notified foreign investor and advises the PIE during the next tax year		
If ...	**and ...**	**then ...**
the PIE makes the change straight away	the PIE applies the new rate to income from then on	for the period from the start of the next tax year when the incorrect investor rate was applied, the income may need to be included in the investor's income tax return.
the PIE makes the change at the start of the next tax year	the PIE treats the investor as a resident investor for the year of change, then applies the notified foreign investor rates for the next tax year	provided the investor has notified their correct PIRs, the attributed PIE income is excluded income.
the PIE omits the change	the PIE corrects for its period of omission	the income is treated as per the first or second row as applicable. If the PIE hadn't corrected the position the investor may not have any recourse if taxed at a PIR greater than required.

Scenario 3

A notified foreign investor changes foreign country of residence (DTA to/from non-DTA)
Where the investor has had a rate applied to their attributed PIE income, which is less than their correct PIR, the income is no longer excluded income. The investor should file an income tax return to correct the shortfall.

The foreign investment PIE's responsibility

The rules around the responsibility of foreign investment PIEs in relation to an investor claiming to be a notified foreign investor have been designed to replicate the treatment afforded by the PIR and the notified investor rate.

The foreign investment PIE can rely on the notification from the investor of their entitlement to access a particular PIR(s). The PIE can continue to treat the investor's status as unchanged up to the end of the tax year even though the investor's residency status may have changed part-way through the tax year.

Section HM 55D(5B)

Transitional resident's PIR

Transitional residents (essentially new residents to New Zealand) are given a four-year exemption on their foreign-sourced investment income. Investment income sourced in New Zealand is fully taxed to transitional residents from day one.

If a transitional resident invests in a foreign investment PIE that derives income sourced in New Zealand, the PIE should pay tax in relation to the transitional resident on the basis they're a New Zealand resident. This includes an investment in a variable-rate PIE.

However, where a transitional resident invests in a zero-rate PIE they will only derive income treated as non-New Zealand sourced and therefore the transitional resident will be able to use the zero-rate PIR for this income.

When the 48-month transitional period ends during a tax year the transitional resident can continue to have the zero rate applied until the beginning of the next tax year.

Sections CX 56(1B)(c), HM 55D(8), and schedule 6 table 1B row 10

Wholesale to retail PIEs look-through treatment

Where a retail PIE invests in a wholesale PIE, the retail PIE normally derives attributed PIE income only. The income is treated as New Zealand sourced and of one type. Therefore a notified foreign investor doesn't receive the tax benefit that would be available if they invested directly.

A new rule allows a retail PIE to choose to look through the wholesale PIE to identify the source and type of income that was attributed. This means it can identify and apply the correct variable rate to each source and type of income for its notified foreign investors.

In order to do this, the retail PIE needs to have sufficient information about the attributed PIE income they derive from the wholesale PIE to enable them to fully discharge their tax obligations.

Section HM 6B

PIE investor proxies (PIP)

A PIP can choose to take on the responsibilities of a foreign investment PIE and collect information required from the investor and the foreign investment PIE it holds an investment in, for a notified foreign investor.

Sections HM 33(2)(bb) and (db)

Exclusion from the source rules

The current source rules have been amended for foreign investment PIEs in order to ensure non-New Zealand sourced income attributed to notified foreign investors isn't treated as sourced in New Zealand merely because a contract was made or performed in New Zealand. This is provided the contract relates to the PIE's foreign-based investments.

Section HM 55C

Deductions from income attributed to notified foreign investors

The New Zealand sourced interest and dividend income of a non-resident is taxed without deductions. On this basis, the income attributed to a notified foreign investor by the MRP can't have deductions claimed against it. In general this means the PIE should track income and expenditure relating to notified foreign investors in order to ensure no deductions are claimed. However to minimise compliance costs, provided the PIE correctly:

- identifies the income taxed at a PIR greater than zero, and
- calculates the PIE tax

the deductions may appear as if they were offset against zero-rated income.

Generally this means the PIE will pay tax on the assessable income of its notified foreign investors. Any calculations made for a class of investors that includes notified foreign investors will need to treat the notified foreign investors as if they were in a separate class.

Generally the PIE only derives investment income such as:

- interest
- dividends
- income under the financial arrangement rules
- income from land.

For income from land, such as rental income, a non-resident is normally allowed deductions incurred in deriving the income. To remove the complication of tracking deductions for income from land, foreign investment PIEs aren't permitted to own New Zealand land or derive any income from the land including its disposal. They are also unable to own options or rights in New Zealand land.

This aligns the treatment of non-residents investing in New Zealand debt and equity investments. Non-residents investing directly in New Zealand debt or equity are taxed on a gross basis (without deductions).

Sections DB 54B, HM 19C

Land investment companies

Foreign investment PIEs are allowed to own up to 20% of a land investment company based in New Zealand, provided it's not part of a group of companies that includes the PIE. For the zero-rate PIE this investment must also fall within the 1% threshold for investments based in New Zealand.

This allows the PIE to have an investment in land that will provide them with an income, ie, a dividend return that could be attributed to the notified foreign investor on a gross basis. This is consistent with the principle in the PIE rules that PIEs can generally own up to 20% of any entity in which they've invested. The 20% level should ensure independence in the operation of the land investment company.

A foreign investment PIE is allowed to hold up to 100% of a land investment company resident outside New Zealand. This income is not liable for New Zealand income tax when attributed to a notified foreign investor.

Sections HM 13 and IC 3(2C)

Determining amounts for notified foreign investors or calculating taxable amounts

The taxable income of a notified foreign investor is equal to the assessable income attributed to the investor.

Expenses, losses and credits for fees are treated as zero for the purposes of the calculation of attributed amounts. If these adjustments result in an overall loss (a negative result) then the attributed income is treated as nil.

Expenses and tax credits are still attributed across all investors in the class, including notified foreign investors. For the purposes of the tax calculation, the notified foreign investors are treated as if they were a separate class.

The standard formula for calculating amounts attributed to an investor is:

$$\frac{\text{percentage} \times (\text{income} - \text{loss})}{\text{days in period}} - (\text{expenses} - \text{credits for fees}).$$

The formula is amended by

(a) the item **loss** is treated as zero
(b) the item **expenses** is treated as zero
(c) the item **credits for fees** is treated as zero
(d) if the result given by the formula is negative, the result is treated as zero.

The net effect is the taxable income of the notified foreign investor class is equal to the assessable income attributed to each notified foreign investor.

It's recognised that PIEs operate different systems, so the process may vary between PIEs. Any process used must arrive at the same tax payable amount and reach the same result as if the standard formula had been applied.

The following demonstrate this:

Description	Standard formula	Alternative
Gross income attributed (assessable income)	$1,000	$1,000
Expenses attributed	$50	$50
Less expenses claimed (treated as zero)	$0	$50
Net income	$1,000	$950
Expenses added back	$0	$50
Taxable income (= assessable income)	$1,000	$1,000

The foreign investment PIE may have specific classes for notified foreign investors only, in which case the normal class requirements must be met. Where the notified foreign investors are merely treated as if they were a separate class, the class doesn't need to meet the eligibility requirements.

If all the income was zero-rated then the item reported as Income attributed to 0% PIR could be $950. If however all the income was attributed to PIRs greater than zero then the full $1,000 must be reported and taxed at the appropriate PIR.

Sections DB 54B, HM 35C, 52, 54 and 55F

Tax calculations

Zero-rate PIEs apply the 0% PIR to attributed PIE income of notified foreign investors. For all other investors, they apply the notified investor rate. Transitional residents can have the zero rate applied (see page 74).

Variable-rate PIEs may need to apply various PIRs. The variable-rate PIE must identify each source and type of New Zealand sourced income for the purposes of applying a tax rate. They only need to identify the source of offshore income for this purpose. A notified foreign investor can have up to four rates applied during one tax calculation:

- 0% for offshore income and fully imputed New Zealand dividends and New Zealand financial arrangement income excluding interest
- 1.44% on New Zealand sourced interest
- 15% or 30% for New Zealand sourced dividends, and
- 28% for other New Zealand sourced income.

If the result of a tax calculation is negative no tax credit arises in respect of notified foreign investors in a foreign investment PIE.

Variable-rate PIEs may also treat unimputed New Zealand dividends as being non-resident passive income and tax the income under the NRWT rules. Income treated as non-resident passive income is no longer assessable income of the PIE.

Sections HM 35C and 47(4)(a)(ib)

Use of tax credits

Generally a notified foreign investor won't be able to use any tax credits for income that is taxed at a rate greater than 0%.

Imputation credits attached to dividends can't be claimed.

Foreign tax credits also can't be claimed, as the foreign income is zero-rated.

PIEs are allowed an exemption for RWT from interest so there shouldn't be any RWT credits. If RWT has been deducted then a credit is allowed. This includes RWT on dividends.

If an investor has:

- incorrectly claimed to be a notified foreign investor, or
- ceased qualifying in an earlier tax year, and
- their attributed PIE income is no longer excluded income the investor can claim a tax credit for the amount of PIE tax paid.

Sections HM 51(1)(c), 53(1)(b)(iii), LS 1(2)(a)(iii) and LS 2(1)(c)

Losses and notified foreign investors

No tax losses will arise for notified foreign investors because:

- PIE losses can't be used to reduce the income of notified foreign investors
- foreign investment PIEs can't claim deductions for expenditure incurred on income attributed to notified foreign investors, and
- the tax calculations also can't go below zero for the investor.

The calculation of taxable income for notified foreign investors allows losses to be attributed to the investor, but then changes the result of this part of the calculation so the investor doesn't deduct a loss from other income. This also ensures losses aren't attributed to investors other than notified foreign investors.

Formation losses and class losses are attributed to the notified foreign investor under the normal attribution rules. They can't be used by the PIE in the calculation of the tax liability for a notified foreign investor.

Foreign investment PIEs aren't allowed to have direct land investments so the land loss provisions won't apply. If a PIE has a land loss from an earlier period carried forward, the notified foreign investor can't use that loss. A PIE can only hold up to 20% of a land investment company so no loss can be passed from the company to the PIE.

Sections HM 35C(3), 64 and 65

Exclusion - CFC and FIF

An exclusion applies to New Zealand residents who invest in CFCs or who hold 10% or more income interest in a FIF to prevent them incorrectly accessing the notified foreign investor tax rates. A CFC or FIF holding an investment in a foreign investment PIE can't be a notified foreign investor.

Section HM 55D(3)

Reporting requirement changes

New versions of the returns and reporting requirements have been developed for use by the new foreign investment PIEs. It is however acknowledged that where a fund has multiple PIEs one or more of which become a foreign investment PIE, they may find it easier from a system perspective to use the one version for the reporting requirements for all their PIEs. In this case they will use the foreign investment PIE version.

The *PIE periodic return (IR852)* will have two new fields to cater for income attributed to notified foreign investors and tax paid on that income. The ability to report the combined results rather than the tax calculated at each rate is to ensure compliance costs are kept to a minimum. The fields "Taxable income" and "Taxable loss" will be changed to "Total income" and "Total loss" to cater for the inclusion of expenses that are not deductible for notified foreign investors.

A zero-rate PIE can continue to use the current version of the IR852 and IR853 but must use the new IR854.

A variable-rate PIE will use version 0004 of the IR852 and IR854 and can use either version 0003 or 0004 of the IR853 for the 2013 tax year on.

The new fields have been appended to the bottom of the returns so PIEs that don't become one of the foreign investment PIEs can continue to use the existing returns.

PIE periodic return (IR852)

The foreign investment PIE details are reported as follows:

A zero-rate PIE can continue to use version 0003 with the change to the field titled "Taxable income" being "Total income".

A variable-rate PIE will use version 0004 of the return filing specification.

Return identification and version number

There are two additional data fields that aren't part of the return but are used to identify the type of message.

- The return type = IR852. For file transfer this is the first field. For B2B this is the root element.
- The return version, eg, 0003. This is the second field for file transfer (CSV). For B2B this will be the first field.

Element	Description
Part A PIE details	
PIE name	Name of the MRP
IRD number	IRD number of the MRP
Period end date	End of the month or quarter when a return is required to be filed
Total value of investment assets	Once a year - total value of the investment assets an MRP has at the end of the return period or from the statement of financial position.
Part B Income details	
Gross income	For the PIE's gross income or loss for the return period: • exclude any income/loss from a land class investment • include all income from all sources and types, whether non-New Zealand or New Zealand based • exclude dividends that are treated as being paid out as non-resident passive income. See below for further information.
Deductible expenses	• Enter as a positive amount any expenditure incurred by the PIE during the return period, or allowable annual expenditure attributed to the period. • To cover adjustments, enter a negative.
Net income/loss	This is net income or loss after deducting expenses.
Net land class income/loss	If the PIE has an investment class that qualifies as a land class, record the net income or loss here. A land class loss can only be offset against land class income.
Combined income/loss	This is the combined income or loss amount for the different investment classes (if more than one) during the return period. Note: Land class loss can't be offset against income from other classes, but it can be zero.
Formation loss used	The amount of the formation loss used.
Land class loss brought forward	This is the land class loss carried forward to the current return period.
Land class loss amount to carry forward	The land class loss amount to be carried forward to the next return period is the amount resulting from "Net land class income/loss" and "Land class loss brought forward" less "Land class loss claimed".
Land class loss claimed	Where there is residual land income after deduction of any formation loss then land losses brought forward may be claimed. This is limited to the extent of any land income.
Total income	This is the total taxable income of the PIE for all classes for the return period. It includes income taxed at the zero rate for notified foreign investors and transitional resident investors. Income of a notified foreign investor can be net of expenses where there is no impact on the tax liability for the investor. **Note**: This is the PIE's taxable income before adjusting for "Investor expenses less credit for fees". This field covers investors who have income for the return period. There isn't any adjustment for notified foreign investors.
Total loss	This is the total taxable loss of the PIE for all classes for the return period. **Note**: This is the PIE's taxable loss before adjusting for "Investor expenses less credits for fees". This field covers investors who have a loss for the return period.
Income retained and taxed at 28%	This is the income or loss the PIE attributes to itself, eg, non-vested income or loss, reserves or hybrid benefit fund PIEs. Where a separate investor has been created for employer non-vested income, report this as a 28% rate investor instead of entering the amount here. It can be positive or negative.

Income or loss of exited zero-rated	For a quarterly PIE, this is the income or loss attributed for an exit period to an investor(s). **Note**: This is the "Total income" or "Total loss" before adjusting for "Investor expenses less credits for fees".
Investor expenses less credits for fees	This is the adjustment for expenses less credits for fees that are charged at the investor level. This could be a debit or credit (expenses less credits for fees). Show expenses as positive and credits negative. If credits exceed expenses charged then enter the amount as a negative. This includes deductions passed up from a member superannuation fund.
Total income to attribute	This is the income to attribute across the PIRs. "Total income" less "Investor expenses less credits for fees".
Total loss to attribute	This is the loss to attribute across the PIRs. "Total income" less "Investor expenses less credits for fees".
Part C Attribution details	
Income attributed to 0% PIR	The amount is a component of the "Total income to attribute" amount. Zero-rate PIEs can include income attributed to notified foreign investors.
Loss attributed to 0% PIR	The amount is a component of the "Total loss to attribute" amount.
Income attributed to low PIR	The amount is a component of the "Total income to attribute" amount.
Loss attributed to low PIR	The amount is a component of the "Total loss to attribute" amount.
Income attributed to mid PIR	The amount is a component of the "Total income to attribute" amount.
Loss attributed to mid PIR	The amount is a component of the "Total loss to attribute" amount.
Income attributed to top PIR	The amount is a component of the "Total income to attribute" amount.
Loss attributed to top PIR	The amount is a component of the "Total loss to attribute" amount.
Part D Tax calculation details	
Tax payable or credit due	This is the accumulation of all tax calculations for each investor for each investor class, including tax on income or loss retained: • Don't include details for investors who have had the zero rate applied. • Include tax payable under the various PIRs applying to notified foreign investors shown under "Tax on NFI income". This is net of tax credits used and is detailed below: • Show tax payable as a positive amount. • Show credit due as a negative amount.
Zero-rated exited investor's tax payment for exit period	If an exited investor, in a quarterly return filing PIE, has any units or interests left at the end of the exit period, the PIE will pay the value of the units or interests as tax. The investor is then allowed a credit in their income tax return for this payment made by the PIE. This is a positive amount.
Net tax payable or credit due	"Tax payable or credit due" plus "Zero-rated exited investor's tax payment for exit period". Tax payable is a positive amount and credit due is shown as a negative amount.
Part E Tax credit details	
Foreign tax credit (FTC)	This is the total used for a non-zero-rated investor as part of arriving at "Tax payable or credit due": • Don't include credits attributed to investors whose income or loss has had the zero rate applied. • Show tax credits as positive. • Show adjustments as negative. • Don't include any FTCs attributed to a notified foreign investor.
Foreign dividend payment (FDP)	This is the total used for a non-zero-rated investor as part of arriving at "Tax payable or credit due": • Include Māori authority credits (MAC). • Don't include credits attributed to investors whose income or loss has had the zero rate applied. • Show tax credits used for notified foreign investors including where the zero rate has been applied. • Show tax credits as positive. • Show adjustments as negative.

Imputation credit (IC)	This is the total credits used for a non-zero-rated investor as part of arriving at "Tax payable or credit due": • Don't include credits attributed to investors whose income or loss has had the zero rate applied. • Show tax credits as positive. • Show adjustments as negative. • Don't include credits associated with income attributed to notified foreign investors.
RWT	This is the total used for a non-zero-rated investor as part of arriving at "Tax payable or credit due": • Don't include credits attributed to investors whose income or loss has had the zero rate applied. • Show tax credits used for notified foreign investors including where the zero rate has been applied. Where a notified foreign investor has been attributed RWT associated with interest income, a credit is allowed. • Show tax credits as positive. • Show adjustments as negative.
Part F Additional foreign investment PIE details	
Income attributed to NFI	For variable-rate PIEs this amount is a component of the "Total income to attribute" and is the total income attributed to notified foreign investors.
Tax paid on NFI income	This amount is a component of the "Total income to attribute" and is the tax calculated at the various PIRs for variable-rate PIEs on "Income attributed to NFI".

Note: To the extent that a dividend is paid to a notified foreign investor and the payment is treated and qualifies as a payment of non-resident passive income, it isn't included in the PIE return. This includes the income and NRWT withheld.

Annual reconciliation return (IR853)

The foreign investment PIE will continue to use the existing version of the return filing specification. A new version 0004 is available to keep the version series aligned. The only visual difference is the field shown as "Taxable income/loss" which has been changed to "Total income/loss" for notified foreign investors.

Investor certificate (IR854)

The foreign investment PIE details will be reported using version 0004 of the return filing specification.

Note: A new certificate is required for each change of country during the year.

Return identification and version number

There are additional data fields that aren't part of the return but are used to identify the type of message.

- The return type = IR854. For file transfer this is the first field. For B2B this is the root element.
- The return version, eg, 0003. This is the second field for file transfer (CSV). For B2B this will be the first field.

Element	Description
Part A	
Note: The additional investor level details are contained in Part E	
PIE name	Name of the MRP or PIE investor proxy (PIP).
PIE IRD number	IRD number of the PIE or PIP.
Period end date	Annual return 31 March YYYY. This is always to the year ended 31 March regardless of balance date or cease date.
Investor's name	The full name of the investor. Don't include commas.
Investor's IRD number	If the investor doesn't provide their IRD number, use default 00000000. **Note**: The field requirement is 8 to 9 characters. If the investment is in a partnership name, enter the partnership's IRD number. For joint holders of investments, provide the IRD number for the holder with the highest PIR.
Certificate ID (investor certificate ID)	An ID assigned by the PIE to uniquely identify the certificate. This may be a sequential number or other unique identifier, particularly relevant if more than one certificate is being filed for any single investor. The certificate number will show that it isn't a duplicate or amendment.
PIR as at year-end	This is the latest PIR used in a tax calculation requiring a tax payment or credit for the tax year. For notified foreign investors, use the code 99.99 for investors in countries with which New Zealand holds a DTA and 90.00 for notified foreign investors in non-DTA countries.
PIR changed during the year	This indicates whether the investor's PIR changed during the tax year, when used in a final tax calculation. Note: If the PIE recalculated the tax for the full year with the latest rate then they haven't operated two rates for the year. For notified foreign investors a rate change will require the completion of another certificate for the investor. For these purposes the variable rates are treated as one rate.
Part B	
Total income or loss	The taxable income or loss for all investors includes zero-rated investors. For notified foreign investors this can be net income after non-deductible items provided the correct tax liability is reported. Note: This is after deducting "Investor expenses less credits for fees" except for notified foreign investors. For notified foreign investors this is all assessable income attributed by the foreign investment PIE for all PIRs 0%, 1.44%, 15%, 28%, or 30%.
Total tax credits used in the tax calculation	This is the total of all various tax credits (FTC, IC, MAC, FDP and RWT) for investors who had a PIR used in a final tax calculation. Note: For notified foreign investors there is no claim for FTC or IC. Note: Excess FTCs that are lost are excluded, eg, if the taxable result for a natural person investor is a loss, then all FTCs attributed to that investor are lost. As tax credits can be positive or negative, the result may also be positive or negative. The default is positive.
PIE tax paid or credited on investor's income or loss	This is the total net tax position for the investor with a PIR greater than zero.

Part C	
Taxable income or loss taxed where more than one rate greater than zero used	This is the taxable income or loss for an investor who had tax calculated during the year at two or more of the rates greater than zero: • The income or loss details are only applicable to the amount where two or three of the 10.5%, 17.5% or 28% PIRs were applied in a final tax calculation. • The income attributed to a period where the tax calculated at a rate lower than the investor's correct rate is no longer excluded income. Note: This is after deducting "Investor expenses less credits for fees" at a lower rate or rates. For notified foreign investors this field will be 0.00.
PIE tax paid or credited on investor's income or loss where more than one rate greater than zero used	This is the PIE tax paid or credited for the investor who had tax calculated during the year at two or three of the low, mid and top PIRs, after deducting tax credits. • The tax paid or credited details are only applicable to the amount where the lower rate or rates (if three rates applied) were applied. • The income attributed to a period where tax was calculated at a rate lower than the investor's correct rate is no longer excluded income. For notified foreign investors this field will be 0.00.
Total tax credits where more than one rate greater than zero used	These are the total tax credits for the investor who had tax calculated during the year at two or three of the low, mid and top PIRs. The total of the various tax credits (FTC, IC, MAC, FDP and RWT) is attributed to the period in which the lower rate or rates were used. Note: If an investor is required to file a return because their PIR is higher than that given to a PIE and thus, the attributed income is not excluded income, the investor may be entitled to some further FTCs, which were not available to offset the tax payable at the PIE level. As tax credits can be positive or negative, the result may also be positive or negative. The default is positive. For notified foreign investors this field will be 0.00.
Part D	
Taxable income or loss for investors who used zero and another PIR	This is the taxable income or loss for investors who had the zero rate and any other rate used in a final tax calculation for the year. It isn't necessary to include the details for companies, except for trustees. It usually applies to quarterly filers that zero-rate exiting investors to identify the zero-rated component. Note: This is after deducting "Investor expenses less credits for fees". For notified foreign investors in variable rate PIEs, this field will contain all income taxed at zero and includes imputed New Zealand dividends, offshore income, and New Zealand financial arrangement income excluding interest.
Total zero-rated attributed FTC	These are total FTCs attributed to the investor who had the 0% rate applied. It includes investors in PIEs that file quarterly with income or loss that is zero-rated for an exit period. As tax credits can be positive or negative, the result may also be positive or negative. The default is positive. This field can be used for notified foreign investors.
Total zero-rated attributed FDP tax credits or MAC	This is the total of all FDP tax credits and MAC attributed to investors who had the 0% PIR applied. It includes investors in PIEs that file quarterly with income or loss that is zero-rated for an exit period. As tax credits can be positive or negative, the result may also be positive or negative. The default is positive. This field can be used for notified foreign investors.
Total zero-rated attributed IC	This is the total of all ICs attached to New Zealand dividends attributed to investors who had the 0% PIR applied. It includes investors in PIEs that file quarterly with income or loss that is zero-rated for an exit period. As tax credits can be positive or negative, the result may also be positive or negative. The default is positive. This field can be used for notified foreign investors.
Total zero-rated attributed RWT credits	This is the total of all RWT credits attributed to investors who had the 0% rate applied. It includes investors in PIEs that file quarterly with income or loss that is zero-rated for an exit period. As tax credits can be positive or negative, the result may also be positive or negative. The default is positive. This field can be used for notified foreign investors.

Zero-rated exited investor's tax payment for exit period	If an exited investor, in a quarterly return filing PIE, has any units or interest left at end of the exit period, the PIE will pay the value of the units or interest as tax. The investor is then allowed a credit in their income tax return for the payment made by the PIE. For notified foreign investors this field will be 0.00.
Part E Notified foreign investor additional details	
Investor's date of birth	Enter the investor's date of birth if applicable as YYYYMMDD. The default is 11111111.
Investor's address	Enter the investor's home address in the country or territory where they reside for tax purposes. Don't include commas.
Investor's country code	Enter the country code for the country or territory where the investor resides for tax purposes. This is a two digit ISO code. - see *NRWT rates and country codes (IR290)* on our website **ird.govt.nz**
Investor's residence tax file number	Enter the equivalent of the investor's tax file number in the country or territory where they reside for tax purposes, or a declaration if they are unable to provide this number. Don't include commas. Where a declaration is held enter "Declaration" in the field.
Units held Y/E	Number of units held by the investor. Covers all investors.

The declaration for being unable to provide a tax file number for the notified foreign investors should contain the following:

I [name of investor] of [investor's address] [investor's country of residence] declare that I am unable to provide my tax file number or equivalent as [enter reason such as {my country of residence does not issue tax file numbers}, {I am unable to obtain a number due to circumstances outside my control} or state other reason].

Signed ______________________________ Dated ______ / ______ / __________

The declaration may be built into existing investor applications or declarations.

Investor statement for notified foreign investors in foreign investment PIEs

Information	Description
Investor's name	The full name of the investor.
Investor's IRD number	The IRD number of the investor and the tax file number from place of residence if available.
PIE's balance date	The PIE's balance date so that the investor can determine the income year that the attributed income falls within.
Prescribed investor rate (PIR) as at year end	The notified investor status and DTA or non-DTA status.
Total income	This is the total attributed income for the notified foreign investor, covering all PIRs 0%, 1.44%, 15%, 28% and 30%.
Gross tax paid	This is the amount of tax liability on the income attributed to the notified foreign investor.

If appropriate, you may also need to comment on dividends that have been treated as, and paid out as non-resident passive income and subject to NRWT. Refer to the unimputed dividend option on page 71.

You may include the relevant income and NRWT details as part of the statement. You'll still need to forward the NRWT certificates and reconciliation statements to us.

You may also reproduce the additional investor level information required as a notified foreign investor and request confirmation that they satisfy the annual eligibility requirement.

Part 9 - PIR change transitional process

This part explains the process and options when there is a change to the prescribed investor rates (PIRs) during a tax year. The context refers specifically to the changes to PIRs from 1 October 2010 but guidance is also provided on how to manage the transition for future changes.

From 1 October 2010, MRPs have the authority to move investors from the current rates to the new rates without having to request a formal notification of the new rate from their investors. The rate changes are as follows:

Band	Current PIR to 30 September 2010	New PIR from 1 October 2010
Low	12.5%	10.5%
Mid	21%	17.5%
Top	30%	28%

This option also applies to changes to the default rate and the rate used where the PIE is treated as the sole investor in the investor class. Both of these rates have changed from 30% to 28% from 1 October 2010.

Reason for two processes

There are a number of variations on how reporting requirements are managed and one option doesn't fit all MRPs. For MRPs using the exit option an alternative process was required. The two processes are called "status quo" and "hard close". These processes are explained below.

Status quo

Status quo is the default process for managing the transition to the new PIRs. This requires the MRP to use the current PIR for all income or loss attributed for each day in the period 1 April 2010 to 30 September 2010 and the new PIR for all income or loss attributed for each day in the period 1 October 2010 to 31 March 2011.

For investor certificate reporting purposes, movement within a band won't trigger the requirement to report the details for each PIR used in a tax calculation for the year. However, some MRPs may prefer or choose to provide their investors with a report for each PIR.

If required, separate investor certificates can be produced for each part of the year. The investor certificate identifier must be different so that our system doesn't treat the later one as a replacement for an earlier input certificate.

PIR change indicator: Where two separate certificates are produced for the year, movements between bands across the two six-month periods don't need to be identified. An example of this would be when an investor has a 21% PIR for the period 1 April 2010 to 30 September 2010 (first six months), then changes to 10.5% in the period 1 October 2010 to 31 March 2011 (second six months). Provided the rates are applied for the whole six-month period, the MRP isn't required to record changes to the PIR on the certificates. This applies for the transition year only.

We can accept the situation where the MRP's system records the movement from the current rate to the new rate as a change and completes the *Investor certificate (IR854)* on this basis. Because the last rate shown on the certificate will be lower than the rate applied in the first part of the year, our system won't trigger a compliance action.

Foreign tax credits that haven't been used in an investor's tax calculation as at 30 September 2010 can be carried forward to be attributed to later periods in the second six months. Under the rewritten PIE rules a calculation period can be:

- one or more attribution periods
- an exit period
- a tax year.

This allows the PIE to decide between using foreign tax credits to offset an income tax liability for a day or the whole calculation period.

The investor statement requirements are not being altered. For our purposes, movements within the bands won't trigger the requirement to separately report the details of each PIR change. MRPs that already report these may continue to do so.

Status quo process

For investors who exit during the first six months
Their tax will be calculated at the current rates according to the normal return filing and investor adjustment requirements.

For investors who exit during the second six months
Their tax will be calculated using the current rates for income or loss attributed for each day in the first six months and the new rates for income or loss attributed for each day they are in the MRP in the second six months. The combined figures will be included in the normal *PIE periodic return (IR852)*.

For investors remaining in the MRP at 31 March 2011

Their tax will be calculated in two parts as set out in the previous paragraph and combined for the March *PIE periodic return (IR852)* reporting requirement.

No new fields will be created for the *PIE periodic return (IR852)*, *Annual reconciliation return (IR853)*, *Investor certificate (IR854)* or the investor statement. No new version number will be needed for the file transfer or B2B return filing systems.

The *Annual reconciliation return (IR853)* and *Investor certificate (IR854)* will be filed by 30 June 2011. If more than one certificate is being filed for an investor the investor certificate identifier must be different.

Investor statements will be issued under the normal requirements though more than one statement can be issued for an investor.

There are no changes to normal end-of-year PIE requirements.

Hard close

The hard close alternative to the status quo process has been developed for MRPs using the exit filing option. It treats 30 September 2010 as the end of the tax year and requires the MRP to carry out the normal end-of-year return reporting requirements and investor adjustments at this date.

Treating the day before the new rates apply as the end of the tax year will trigger the requirement for the MRP to calculate the investor's tax liability for the first six months using the current PIRs. MRPs will complete the September 2010 *PIE periodic return (IR852)* for all investors in the MRP in September 2010 for the period 1 April 2010 to 30 September 2010. The return will be filed and any tax liability paid by 31 October 2010. Any adjustment to the investor interest is made by 30 November 2010.

Foreign tax credits (FTC) that have not been used in an investor's tax calculation as at 30 September 2010 can be carried forward to be attributed to later periods in the second six months.

Under the rewritten PIE rules a calculation period can be:

- one or more attribution periods
- an exit period
- a tax year.

This allows the PIE to decide between using FTCs to offset an income tax liability for a day or the whole calculation period.

No new fields will be created for the *PIE periodic return (IR852)*, *Annual reconciliation return (IR853)*, *Investor certificate (IR854)* or the investor statement. No new version number will be required for the file transfer or B2B return filing systems.

The timing of the preparation and filing of the *Annual reconciliation return (IR853)* and *Investor certificate (IR854)* will be flexible to allow:

- filing both the IR853 and IR854s covering the first six months by 15 January 2011
- filing the IR854s for the first six months with the IR854s for the second six months by 30 June 2011
- combining the first and second six-month details filed at the normal due date of 30 June.

Where two certificates covering different periods within the 12 months are filed for the same investor, the investor certificate identifier needs to be different otherwise our system will replace the first certificate with the second.

PIR change indicator: Where two separate certificates are produced for the 12-month period, movements between bands across the two six-month periods don't need to be recorded. An example of this would be when an investor has a 21% PIR for the period 1 April 2010 to 30 September 2010 (first six months), then changes to 10.5% in the period 1 October 2010 to 31 March 2011 (second six months). Provided the rates are applied for the whole six-month period MRPs are not required to record any changes to the PIR on the certificates. This applies for the transition year only.

Where two IR853s are to be filed, the second IR853 needs to contain the combined details for the 12-month tax year as it will replace the original IR853 filed.

The investor statement requirements are not being altered. For our purposes, movements within the bands won't trigger the requirement to separately report the details of each PIR change. MRPs that already report these may continue to do so.

Hard close process

MRPs that choose this transitional option will use the following process

1 April 2010 to 30 September 2010

- Carry out tax calculations for all investors in the MRP in September 2010 using the current rates covering the period 1 April 2010 to 30 September 2010.
- Complete and file the *PIE periodic return (IR852)* by the end of October 2010.
- Complete and file the *Annual reconciliation return (IR853)* and *Investor certificate (IR854)* by 15 January 2011 for those that choose to complete two sets of IR853 and IR854s for the year.
- Carry forward unused FTCs as at 30 September 2010 to attribute to the remaining six months.
- Use 1 October 2010 as the start of the next year.
- Pay tax by 31 October 2010.
- Adjust investors' interest by 30 November 2010.

1 October 2010 to 31 March 2011

- Carry out tax calculations for all investors covering the period 1 October 2010 to 31 March 2011 using the new rates.
- Complete and file the *PIE periodic return (IR852)* by the end of April 2011.
- Complete the *Annual reconciliation return (IR853)* as a combination of both tax years ended 30 September 2010 and 31 March 2011.
- Choose either:
  - a separate certificate IR854 for the six months to 31 March 2011 with a different investor certificate identifier from that used for the September 2010 IR854, or
  - a replacement certificate IR854 covering the whole year using the same investor certificate identifier filed with the 30 September 2010 reconciliation.
- Where two separate IR854 certificates are produced for the year there is no need to identify movements between bands across the two six-month periods. Provided the rates are applied for the whole six-month period, MRPs are not required to record any PIR changes on the certificates.
- Complete investor statements on the basis of the PIR bands (low = 10.5% and 12.5%; mid = 17.5% and 21%; and top = 28% and 30%). Only movements between the bands within a six-month period require the breakdown of each of the PIR band details.

If you are sending in IR854s they need to be associated with an IR853.

Our preferred process under this option is to receive one IR853 and one IR854 (though two or more IR854s are acceptable) filed by the normal due date of 30 June 2011.

Assurance

The processes and exceptions contained in this part don't alter the requirement to keep sufficient records to enable the Commissioner to readily ascertain the correctness of information contained in the returns.

Part 10 - General information

Distributions

Distribution by an MRP

An amount of income derived by an investor as a distribution or dividend of an MRP is excluded income of the investor.

Distribution by a PIE that isn't an MRP

Individuals and trustees

Distributions or dividends from a listed PIE to shareholders who are New Zealand resident natural persons or New Zealand resident trustees are excluded income unless the investor chooses to include the distribution as income in their tax returns. If the investor elects to do so, any imputation credits attached to the dividend or distribution would be able to be used to offset any tax on the distribution. Excess imputation credits could be used against other income tax payable. Where the investor chooses to include the distribution in their tax return, the distribution will be taken into account for the purposes of Working for Families Tax Credits, child support and student loan obligations.

Other investors

Where a listed PIE pays a dividend that is fully imputed or fully credited for an FDP and the investor isn't a New Zealand resident natural person or a New Zealand resident trustee, the amount by which the distribution exceeds the total of distributions that are fully imputed and/or distributions that are fully credited for FDP is excluded income of the investor.

The NRWT rules generally don't apply to MRP investments (except foreign investment variable rate PIEs). A listed PIE may continue to pay dividends subject to NRWT.

Dividends from listed PIEs are not liable to RWT.

Imputation credit distribution requirement

The imputation credit distribution requirement only applies to entities that elect to become listed PIEs. Listed PIEs will continue to pay tax as a company and must maintain an imputation credit account. Any distributions made by these entities must carry imputation credits to the extent permitted by imputation credits available as determined by the directors of the entity.

Reporting requirements

Record-keeping requirements for investor

Where the income attributed by the MRP has been taxed for an individual correctly at 10.5%, 17.5% or 28% PIR and is treated as excluded income, there are no record-keeping requirements.

Records must be kept for at least seven years for tax purposes where:

- an investor is a zero-rated investor
- a trustee doesn't notify a PIR of 28%, (ie, notified a PIR of 0%, 10.5%, 17.5% or had the default rate of 28% applied)
- an investor with a PIR of 10.5%, 17.5% or 28% has been taxed at a zero rate on exiting a quarterly MRP
- a resident individual investor has notified the MRP of a PIR lower than their actual rate.

Breaches

A PIE should notify us if it breaches an eligibility requirement that causes it to cease being a PIE.

A PIE should check, at least once a quarter, to ensure it hasn't breached any of the eligibility requirements. Where a temporary breach of the eligibility requirements occurs, the PIE doesn't have to advise us if the breach is corrected within the required timeframe. If the breach isn't corrected within the required time, the entity will cease to be a PIE from the last day of the first quarter if the breach is significant and within their control, otherwise the last day of the second quarter, following the expiry of the six-month period or other period depending on the PIE commencement date - refer to page 20. However, when a permanent breach occurs within the first 12 months after the PIE commences, the entity will be treated as if it never became a PIE.

A breach of the residency, life insurance business, investor interest adjustment, crediting or foreign PIE equivalent requirements will cause immediate cessation of PIE status.

The PIE notifies us by completing the PIE cessation form at **ird.govt.nz**

Transitional adjustments

If tax needs to be paid as a result of the transitional adjustments on becoming a PIE, the entity will need to advise us of the details separately so that the appropriate due date changes can be made.

Send these details with the income tax return to:

Team Leader, Customer Services
Large Enterprises
Inland Revenue
PO Box 2198
Wellington 6140

PIP

A PIP must provide us with returns covering the attribution of investor income, distributions, credits and payments along with any other information required.

It must also give notice to the PIE that it is holding the investor interest as a PIP on behalf of investors. It must also provide relevant information to the PIE that investors who invest through the PIP may cause the PIE to breach any of the PIE's eligibility requirements.

Investor statements

MRPs are required to issue notices to investors giving information that we consider relevant - refer to pages 45 to 48.

PIR

PIEs must, at least once in each tax year, issue a request to each investor for the investor to provide their PIR to the MRP.

IRD numbers

PIEs must request at least once a year the investor's IRD number (if they don't already have it). All investors in an MRP are required to provide their IRD number to the MRP within one month of it being requested by the MRP.

Foreign investment fund (FIF) disclosures

PIEs that invest in FIFs are required to disclose to us the value of their interest in the fund. Further information on FIFs can be found at **ird.govt.nz/foreign-investment-funds**

PIPs don't own investments and therefore have no disclosure obligations.

KiwiSaver

One of the aims of the PIE rules is to support the KiwiSaver objective of encouraging savings by lower and middle income earners. It does this by removing disincentives to saving through managed funds.

A default KiwiSaver scheme provider is required to be a PIE. Other schemes can choose to become a PIE where they meet the requirements. Generally, a KiwiSaver fund that is set up as an umbrella trust, operates independently and has an IRD number, can register as a PIE in its own right.

Mistaken registration

If a person who isn't eligible to join KiwiSaver has mistakenly been enrolled as a KiwiSaver member, Inland Revenue or the relevant KiwiSaver scheme provider must be notified as soon as practicable. A person is considered to be a KiwiSaver member starting from the date of enrolment to the earliest of the following:

- three months after the mistake is discovered by the KiwiSaver scheme provider
- three months after the mistake is notified to the provider by us or another person
- the day the provider pays the member's accumulated fund to us.

For KiwiSaver scheme providers that are PIEs, the mistakenly enrolled member is considered an investor over this period of time and is taxed in accordance with the PIE provisions.

Key terms

Term	Description
Annual income tax filer	A PIE that isn't an MRP and which files income tax returns. This includes listed PIEs, benefit fund PIEs and life fund PIEs.
Annual reconciliation	A return completed electronically by an MRP or PIP for the income year showing the income tax paid by the MRP for the year and any further information we consider relevant (noted on page 64) and also attaching certificates notifying attributed income or loss and tax deducted for each investor.
Attribution period	The period in which an MRP attributes income, expenditure and tax credits.
Benefit fund PIE	A defined benefit fund that is a PIE and which doesn't attribute income to investors.
B2B	Business to business or B2B is a term commonly used to describe electronic commerce transactions between businesses, as opposed to those between businesses and other groups. In this case, it allows direct transfer of the information from the MRP to us.
Calculation period	The period which contains one or more attribution periods and in which an MRP calculates income, loss and tax credits of an investor.
Class net income	The amount of class assessable income minus class deductions, if the calculated amount is more than zero.
Class taxable income	For an attribution period the amount of the class net income after the class net loss and other loss used have been deducted, if the amount is more than zero.
Collective investment vehicle (CIV)	A group investment entity such as a managed fund.
Entity formation loss	The total amount of unclaimed losses arising from a period: • before the entity becomes a PIE, or • a PIE applied the provisional tax calculation method before electing to apply a different method.
Exit MRP	A PIE that has become an MRP with a calculation period of a day.
FDP credit	A tax credit attached to a foreign dividend payment
File transfer	This is the internet filing option available through our website under "Secure online services".
Foreign PIE equivalent (FPE)	A widely-held entity that isn't resident in New Zealand. If it was a New Zealand tax resident and satisfied the eligibility requirements, it would be eligible to be a PIE that holds portfolio investments in underlying companies.
Foreign tax credit (FTC)	Foreign tax credits are amounts that, if paid, would satisfy a person's tax obligations in a foreign country that have the same nature as New Zealand income tax. The foreign tax credit won't arise unless there is foreign tax paid.
Investor	An investor, in relation to a PIE or foreign PIE equivalent is: • a person who is a shareholder in a company • if the entity isn't a company, treated as a shareholder as if the entity was a company and is generally entitled under the rules of the entity, to a proportion of the funds available for distribution. In an MRP, the investor is sometimes described as a unit holder • where the entity is a life fund PIE, the person whose benefits under the relevant life insurance policy are directly linked to the value of the investments in the fund • where the investor's interest is held through a PIE investor proxy (PIP), the PIP.
Investor attributed income (also known as attributed PIE income)	The income an MRP shows on an investor statement as attributed to an investor from an investment or superannuation scheme for the tax year.
Investor interest	An interest in a PIE that gives the holder an entitlement to a distribution of proceeds from the PIE's investments.
Investor statement	A notice given to each investor in an MRP for each income year, giving information we consider relevant.

Land investment company	An investment entity other than a PIE that holds property with a market value of more than $100,000 where at least 90% of the market value of all property of the company consists of interests in land or shares in a land investment company (other than itself) on 80% or more of the days of the year and that satisfies the income type requirement for PIEs.
Life fund PIE	A unit-linked fund of a New Zealand domiciled life insurer that must: • be separately identifiable from all other funds of the life insurer, and • have benefits directly linked to the value of investments held in the fund.
Listed PIE	A PIE that is a company (other than a life fund PIE) listed on a recognised exchange in New Zealand, or meeting the requirements for an unlisted company that chooses to become a listed PIE, and isn't an MRP.
MRP choosing to pay provisional tax	A PIE that has become an MRP that has a calculation period of a year and has elected to file income tax returns and pay provisional tax.
Multi-rate PIE	A PIE that isn't a company listed on the New Zealand stock exchange that hasn't chosen to be an MRP, a benefit fund PIE or a life fund PIE. An entity that uses its investors' PIR to calculate its income tax.
New Zealand tax credit	New Zealand tax credits include imputation credits, RWT credits, FDP credits and Māori authority credits.
Notified investor rate	The rate at which an MRP calculates tax on investors' attributed income in a calculation period. The rate is: • 28% where the following two bullet points don't apply • the latest prescribed investor rate that an investor who has provided their IRD number advises the MRP, and the Commissioner hasn't notified another rate • 0% where an investor with a PIR of 10.5%, 17.5% or 28% exits a quarterly MRP. (Refer page 28)
Notified foreign investor	A non-resident who holds an investment in a foreign investment PIE and notified the PIE they wish to be treated as a notified foreign investor.
Percentage	The fraction of the proceeds from an entity investment to which the investors in the investor class in an MRP are entitled as a group.
PIE periodic return (IR852)	PIE tax returns required to be filed by quarterly zero and exit MRPs.
PIE investor proxy (PIP)	An entity that holds the interest in a PIE on behalf of an investor.
Prescribed investor rate (PIR)	The rate that an investor notifies the MRP and that an MRP may apply in calculating tax on the investor's attributed income. The PIR is based on the type of entity the investor is, and on the marginal tax rate of the investor - refer page 43.
Quarterly MRP	A PIE that has become an MRP with a calculation period of a quarter and which may zero rate exiting investors.
Tax liability satisfied	The PIE's tax liability is satisfied by use of tax credits then by a tax payment or credit available to refund for the balance of the tax.
Zero-rated investor	An investor in an MRP that has a PIR of 0%.

Miscellaneous

How to make payments

You can make payments by:

- direct debit in myIR
- credit or debit card at ird.govt.nz/pay
- internet banking - most New Zealand banks have a pay tax option.

When making a payment, include:

- your IRD number
- the account type you are paying
- the period the payment relates to.

Find all the details of our payment options at **ird.govt.nz/pay**

Refunds/credits

All PIEs should provide their bank account details for direct credit purposes at the time of PIE registration.

How to contact us

For general PIE enquiries, please call us on 0800 443 773. We're available from 8 am to 4.30 pm Monday to Friday. Remember to have your IRD number handy.

If you're calling from a cellphone the number is 04 978 0644.

If you're calling from overseas the number is +64 4 978 0644. Free calling doesn't apply to international or cellphone calls.

File transfer enquiries

If your enquiry is of a general nature please contact:

Team Leader, Customer Services
Inland Revenue
PO Box 2198
Wellington 6140

Phone: 0800 443 773.

Further information

For further information relating to PIEs go to our website at **ird.govt.nz/toii/pie/** and **ird.govt.nz/industry-guidelines/pie**

Tax Information Bulletin (TIB)

The TIB is our monthly publication containing detailed technical information about all tax changes. Subscribe at **classic.ird.govt.nz/subscribe** and we'll send you an email when we publish each issue.

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your tax and entitlements under the Acts we administer. We may charge penalties if you do not.

We may also exchange information about you with:

- some government agencies
- another country, if we have an information supply agreement with them, and
- Statistics New Zealand (for statistical purposes only).

You can ask for the personal information we hold about you. We'll give the information to you and correct any errors, unless we have a lawful reason not to. Find our full privacy policy at **ird.govt.nz/privacy**

If you have a complaint about our service

We're committed to providing you with a quality service. If there's a problem, we'd like to know about it and have the chance to fix it.

If you disagree with how we've assessed your tax, you may need to follow a formal disputes process.

Find out more about making a complaint, and the disputes process, at **ird.govt.nz/disputes**