Inland Revenue
Te Tari Taake

Business
Ngā Ūmanga

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Information for companies that invest in PIEs

This factsheet helps you understand your tax obligations as a company when investing in a portfolio investment entity (PIE).

A portfolio investment entity (PIE)—such as a managed fund—invests the contributions from investors in different types of investments.

Entities that meet the eligibility requirements can elect to become a PIE if they are a:

- managed fund, such as a:
  - unit trust, or
  - superannuation fund
- company
- benefit fund
- life fund
- group investment fund.

How PIEs calculate tax

Most PIEs will calculate their tax based on the prescribed investor rate (PIR) provided by their investors rather than at the entity's tax rate. This type of PIE is called a multi-rate PIE (MRP).

PIEs that are not MRPs include:

- listed PIEs
- benefit fund PIEs
- certain life fund PIEs.

These PIEs do not calculate their tax using their investors' PIR. Instead, their tax is calculated using the entity's basic tax rate.

Two new PIE types

Two new types of PIE have been introduced:

- a foreign investment zero-rate PIE (zero-rate PIE)
- a foreign investment variable-rate PIE (variable-rate PIE).

These PIEs allow qualifying non-resident investors (notified foreign investors) to have tax rates applied to their attributed PIE income similar to the tax rates that would apply if they invested directly in the assets of the PIE.

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 they wish to be treated as a notified foreign 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 investor 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 or territory where they reside for tax purposes, or a declaration if they're unable to provide this number.

PIR for companies

The PIR for resident companies is 0%, ie, companies are zero-rated investors. Non-resident companies have a PIR of 28% if they're not notitifed foreign investors.

If the company doesn't provide its IRD number and/or PIR to the MRP then the default rate of 28% applies.

Ceasing to be represented by a proxy

If the company is represented by a PIE investor proxy and then ceases to be represented by that proxy, their obligations will pass direct to the MRP that holds the company's investment. The company should notify the MRP of its correct PIR and IRD number.

Record-keeping requirements

All records relating to the company's investments must be kept for at least seven years for tax purposes.

Companies changing their residence

A company that has become resident in New Zealand can apply a PIR of 0% from the date its New Zealand residency starts.

A resident company that has invested in an MRP but then ceases to be resident in New Zealand, should apply a PIR of 28% from the date its New Zealand residency ceases.

For a change of residency that involves becoming or ceasing to be a notified foreign investor go to www.ird.govt.nz (keyword: PIR).

Income attributed by the MRP

All income attributed by the MRP to the company must be included in the company's tax return. A deduction is allowed for an attributed loss. If the default rate has been applied, the company must include the attributed income in its tax return. A credit will be allowed for the tax paid. The PIE can't claim a tax credit in relation to zero-rated investors.

When is MRP income received?

MRP income is treated as being received in the income year that includes the end of the MRP's income year. If the company and the MRP have standard 31 March balance dates, the year the MRP attributes the income and the company receives it, will be the same.

If the company has a balance date other than 31 March, the year the income is received may be different from the year the MRP attributes the income.

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

Dividends or distributions

Dividends or distributions received from an MRP are excluded income and aren't required to be included in the company's income tax return.

Dividends or distributions received from a PIE that is a listed company and doesn't use your PIR are taxable income and must be included in the company's tax return. However, the amount of the dividends or distributions received from listed PIEs that exceed:

- the fully imputed amount and/or
- the amount fully credited for foreign dividend payments

will be treated as excluded income and not required to be included in the tax return.

Where a PIE makes a tax-free distribution to a corporate investor and the company forwards the distribution on to its shareholders as a dividend, the tax-free status of the distribution doesn't carry through to the dividend. The dividend received by the company's shareholders will be assessable income.

Dividends received from a listed PIE aren't liable for RWT.

Investor statements

MRPs are required to issue investor statements providing investors with information about:

- their interest in the MRP
- the income derived from their investment in the income year
- the tax calculated by the MRP on their investment.

Generally, investor statements are required to be issued by 31 May or 30 June after the end of the MRP's tax year.

What information on the investor statement is included in the tax return?

The investor statement issued by the MRP will provide details of the income and tax credits to include in the company's tax return.

The following table shows the details where an investor has had the zero rate applied by their MRP. The company won't have had PIE tax paid. The MRP will attribute the income and any associated tax credits.

Investor statement		To be included in the tax return
Taxable income/loss	$300	Total income attributed by the MRP. No tax is paid by the MRP.
FTC	$5	The foreign tax credits attributed to the investor for the year.
IC	$10	The imputation credits attributed to the investor for the year.
RWT credits	$10	The resident withholding tax credits attributed to the investor for the year.

The income tax return will include $300 income with total tax credits of $25.

Where the company has had the 28% default rate applied, the taxable income and any PIE tax will need to be included in the tax return.

Where there is a rate change during a year the company may receive two investor statements, one for each rate applied during the year.

Residual interests

If, at the end of the quarter in which the company exits an MRP that files returns using the quarterly option there is any residual interest in the MRP, the residual interest will be paid to Inland Revenue by the MRP within one month of the end of the quarter the exit period falls in. The company will be entitled to a tax credit equal to the residual interest paid. This credit can be included in the RWT question on the tax return.

Where does PIE income go in the income tax return?

Income or loss attributed by the MRP should be included in the "Overseas income" question. Any specified tax credits (eg, RWT) shown on the investor statement should be included in the corresponding box on the return.

Tax credits

Available foreign tax credits will generally be the lesser of:

- the amount of the attributed credits
- the amount calculated by multiplying the income attributed by the MRP by the company's tax rate.

The attributed New Zealand tax credits flow direct to the company. Limitations to the credits able to be claimed may arise in the company's income tax return.

Withdrawing investments

If the company withdraws its investment from an MRP it should include the income in the tax return that includes the end of the MRP's income year in which the withdrawal occurred.

PIE investments in overseas markets

If the PIE invests in overseas markets, the company doesn't have to complete disclosures or make calculations for the purposes of the foreign investment fund (FIF) rules. Any calculations under the FIF rules will be made by the PIE.

Investor expenses

Investor expenses, charged by the MRP, incurred by the company in relation to its interest in the MRP will generally be taken into account by the MRP when calculating the taxable income. The company won't be able to claim the expenses in its tax return.

Certain qualifying expenditure for a member superannuation fund that invests into a PIE master superannuation fund can also be taken into account to the extent of the attributed PIE income.

Attributed income from an MRP and provisional tax

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

Previously, distributions may have attached credits that could be used against the company's income tax. Under the PIE rules those credits may no longer be available.

Companies investing in partnerships that invest in PIEs

It's the partners that hold the investment. Therefore the partnership should split the investment and advise the MRP of the IRD number and PIR that applies for each partner/holder. If the partners do not provide the MRP with their PIR and/or IRD number, the MRP will deduct PIE tax at the default rate of 28% which may be higher than the actual rate.

The tax obligations relating to the income from a PIE rest with the partners.

This also applies to joint investments.

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