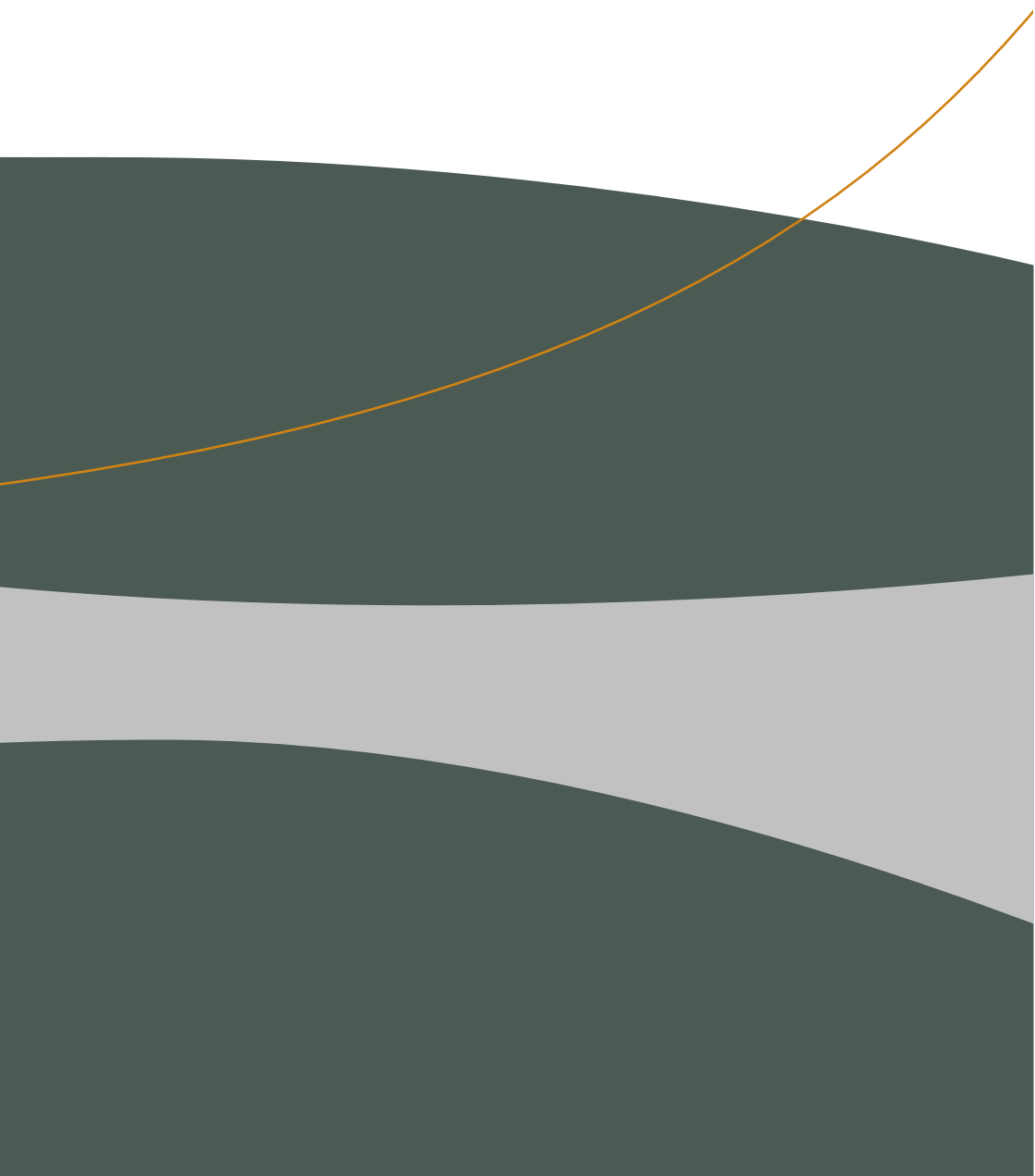


**NZFUNDS**

2010 investor  
tax summary

EXPLANATORY BOOKLET





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For further information, or to request a copy of the relevant Investment Statement, please contact New Zealand Funds Management Limited.

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# Australian Unit Trusts

## **NAVIGATING THROUGH THE TAXATION OF AUSTRALIAN UNIT TRUST INVESTMENTS**

Investments in the Global Investment Service Australian Unit Trusts (GIS AUTs) are taxed under the Foreign Investment Fund (FIF) rules, which were introduced from 1 April 2007.

The following commentary applies to the 1 April 2009 to 31 March 2010 income year.

### **AUT INVESTMENTS** (excluding the Super Yield Fund and/or the Private Mortgage Fund)

Depending on your circumstances, there are three main methods available for calculating taxable income from your AUT investment(s):

- :: Dividends;
- :: Fair Dividend Rate (FDR) method;
- :: FDR-Comparative Value (FDR-CV) method.

### **SUPER YIELD FUND INVESTMENTS**

For investments in the Super Yield Fund, either the Dividends or the CV method must be used in calculating taxable income from these funds.

New Zealand Funds Management has obtained a determination from the Inland Revenue Department requiring individual investors (whose total cost of offshore equity investments is greater than \$50,000), family trusts and companies to use the CV method to calculate their taxable income from this fund for the 2010 income year. Under the CV method, where the total return from the Super Yield Fund is a loss, investors will be able to claim a tax deduction for the loss in their income tax return.

### **PRIVATE MORTGAGE FUND INVESTMENTS**

For investments in the Private Mortgage Fund, either the Dividends or the CV method must be used in calculating taxable income from this fund.

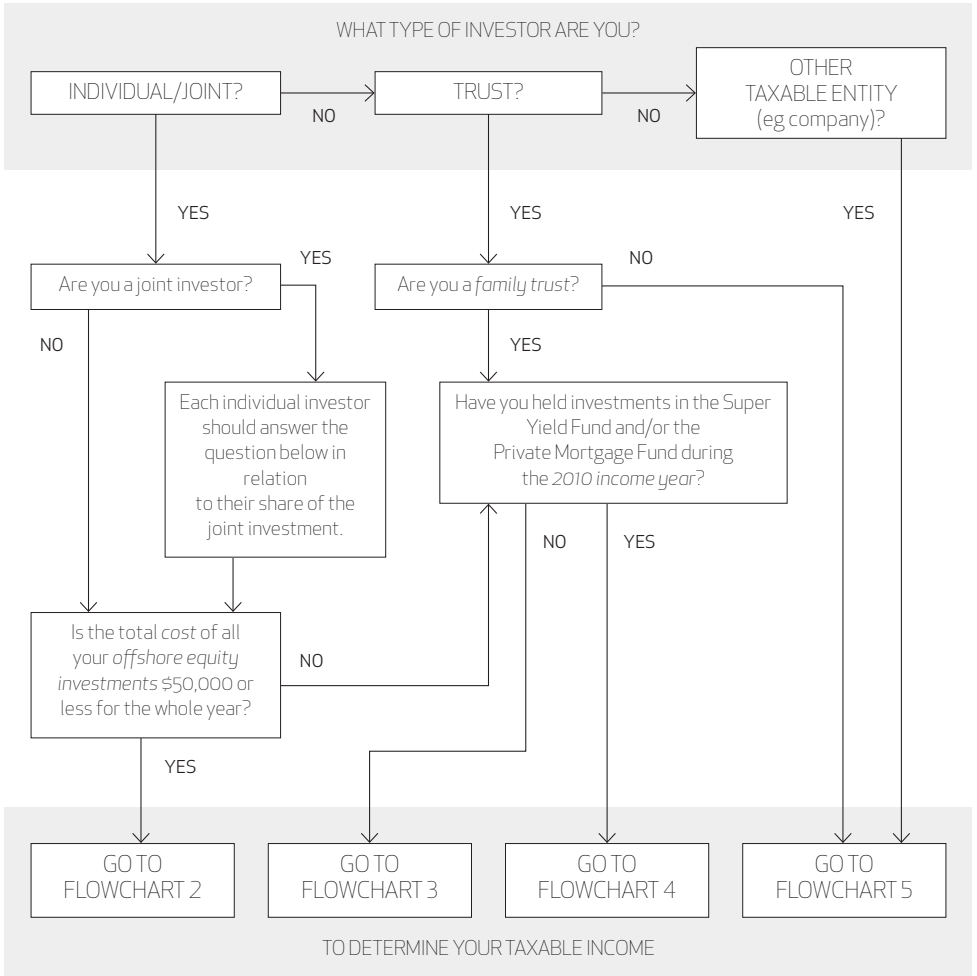
Tax legislation requires individual investors (whose total cost of offshore equity investments is greater than \$50,000), family trusts and companies to use the CV method for this fund, as more than 80% of the fund's assets are financial arrangements either denominated in New Zealand dollars, or hedged back to New Zealand dollars. Under the CV method, where the total return from these investments is a loss, these investors will be able to claim a tax deduction for the loss in their income tax return.

### **DETERMINING YOUR TAXABLE INCOME**

Determining your taxable income from your AUT investment(s) is a two-step process.

First, you must determine what type of investor you are and what your taxable income is (flowcharts one to five will help you with this). Second, you must determine whether you have to file a tax return (flowchart eight will help you in this regard).

# Flowchart 1



**KEY TERMS**

**COST:** What you originally paid for your investment, including any transaction costs (such as brokerage) associated with the purchase. If you paid for your investment in foreign currency, then the cost is converted to New Zealand dollars at the exchange rate applying on the day you purchased the investment, or at the rate advised by the Inland Revenue Department.

**FAMILY TRUST:** A family trust:

- :: is a qualifying trust (generally a New Zealand resident tax-compliant trust); and
- :: is established for the benefit of natural persons for whom the settlor has natural love or affection, or for the benefit of charitable organisations; and
- :: has no settlor who is not a natural or deceased person; and
- :: is not a superannuation scheme.

**OFFSHORE EQUITY INVESTMENT:** This includes your investments in the GIS AUTs and holdings of less than 10% in any other offshore equity investments, but excludes exempt investments such as shares in certain Australian resident listed companies.

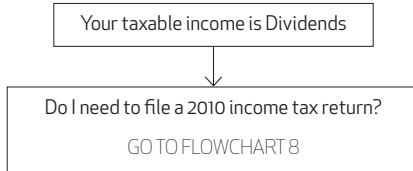
**2010 INCOME YEAR:** The year 1 April 2009 to 31 March 2010. However, it may start and end on a different date with the approval of the Inland Revenue Department.

**NOTES****INDIVIDUAL/JOINT INVESTORS:**

To assist in determining whether you exceed the \$50,000 threshold during the year, please contact your financial adviser.

# Flowchart 2

## INDIVIDUAL/JOINT INVESTORS



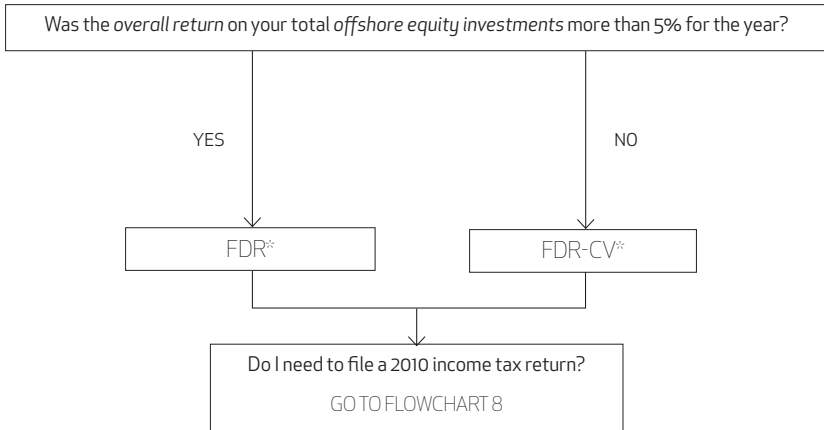
If you are filing an income tax return, the amount you need to include is in Section A of your Tax Summary.

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# Flowchart 3

## CERTAIN INDIVIDUAL INVESTORS AND FAMILY TRUSTS

**No** investments in the Super Yield Fund and/or the Private Mortgage Fund



\*\*This is a suggested method. However, you can elect to use either the FDR or FDR-CV method.

If you are filing an income tax return, the amount you need to include is in Section D of your Tax Summary.

**KEY TERMS**

**OVERALL RETURN:** This is the actual return of your investments and includes dividends received and capital growth for the year.

**OFFSHORE EQUITY INVESTMENTS:** This includes your investments in the GIS AUTs and holdings of less than 10% in any other offshore equity investments, but excludes exempt investments such as shares in certain Australian resident listed companies.

**NOTES****HOW IS FDR INCOME CALCULATED?**

FDR income calculates taxable income based on 5% of your total offshore equity investments' market value as at 1 April 2009, plus Quick Sale gains during the year (if any).

**HOW IS FDR-CV INCOME CALCULATED?**

FDR-CV income calculates the actual return on your investments for the year. If you elect to use the FDR-CV method you must apply this method for your other offshore equity investments as well. If the total amount for all your offshore equity investments (excluding Super Yield Fund and Private Mortgage Fund) is less than zero, your income under this method is nil.

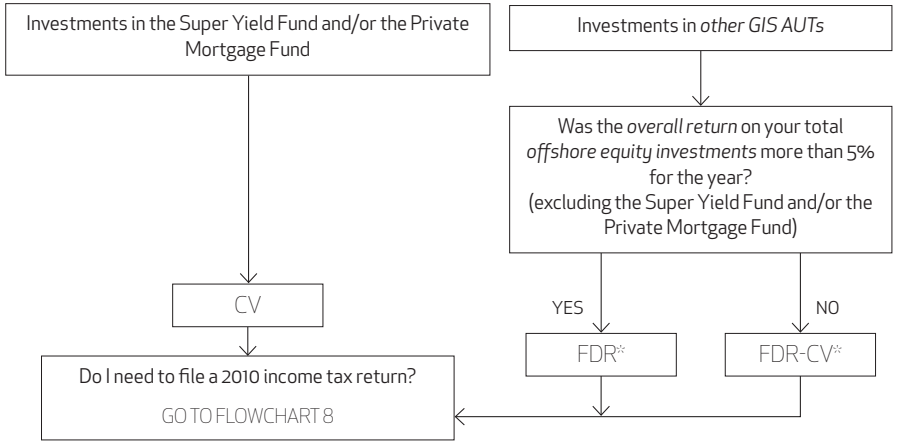
**I RECEIVED BONUS UNITS DURING THE YEAR. ARE THESE TAXABLE TOO?**

Bonus units received for the year are not separately taxable in addition to the FDR or FDR-CV method.

# Flowchart 4

## CERTAIN INDIVIDUAL INVESTORS AND FAMILY TRUSTS

**With** investments in the Super Yield Fund, the Private Mortgage Fund and/or other GIS AUTs



\*\*This is a suggested method. However, you can elect to use either the FDR or FDR-CV method.

If your investment in the Super Yield Fund and/or the Private Mortgage Fund has resulted in a loss for the year, you can claim this loss in your 2010 income tax return.

If you are filing an income tax return, the total amount you need to include is the sum of the following:

- :: CV income or loss for the Super Yield Fund and/or the Private Mortgage Fund found in Section B and C of your Tax Summary; and
- :: FDR or FDR-CV income for your investments in *other GIS AUTs* found in Section D of your Tax Summary; and
- :: FDR, FDR-CV income and/or CV income or loss for your *other offshore equity investments* (if any).

**KEY TERMS**

**OVERALL RETURN:** This is the actual return of your investments and includes dividends received and capital growth for the year.

**OFFSHORE EQUITY INVESTMENTS:** This includes your investments in the GIS AUTs and holdings of less than 10% in any other offshore equity investments, but excludes exempt investments such as shares in certain Australian resident listed companies.

**OTHER GIS AUTS:** This includes all GIS AUTs except the Super Yield Fund and/or the Private Mortgage Fund.

**OTHER OFFSHORE EQUITY INVESTMENTS:** This includes holdings of less than 10% in any offshore equity investments, but excludes all GIS AUTs and exempt investments such as shares in certain Australian resident listed companies.

**NOTES****HOW IS CV INCOME OR LOSS CALCULATED?**

CV income or loss calculates the actual return on your investments for the year.

**HOW IS FDR INCOME CALCULATED?**

FDR income calculates taxable income based on 5% of your total offshore equity investments' market value as at 1 April 2009, plus Quick Sale gains during the year (if any).

**HOW IS FDR-CV INCOME CALCULATED?**

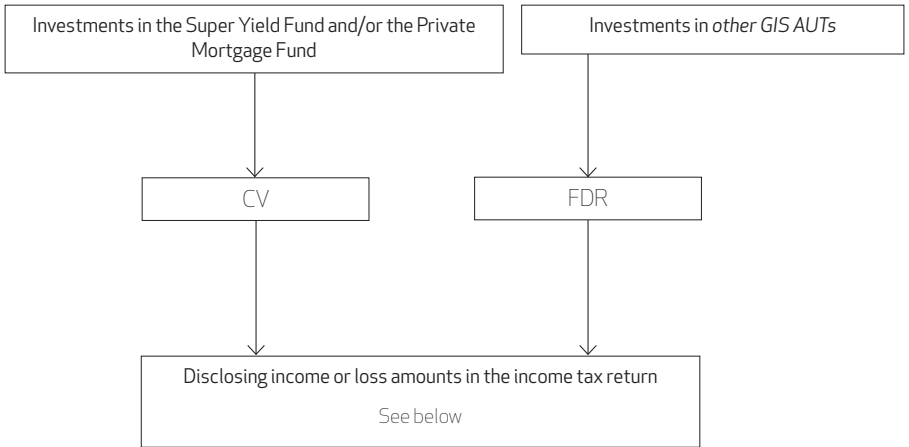
FDR-CV income calculates the actual return on your investments for the year. If you elect to use the FDR-CV method you must apply this method for your other offshore equity investments as well. If the total amount for all your offshore equity investments (excluding Super Yield Fund, Private Mortgage Fund and GIS AUTs) is less than zero, your income under this method is nil.

**I RECEIVED BONUS UNITS DURING THE YEAR. ARE THESE TAXABLE TOO?**

Bonus units received for the year are not separately taxable in addition to the CV, FDR or FDR-CV method.

# Flowchart 5

## OTHER TAXABLE ENTITY



If your investment in the Super Yield Fund and/or the Private Mortgage Fund has resulted in a loss for the year, you can claim this loss in your 2010 income tax return.

If you are filing an income tax return, the total amount you need to include is the sum of the following:

- :: CV income or loss for the Super Yield Fund and/or the Private Mortgage Fund found in Section B and C of your Tax Summary; and
- :: FDR income for your investments in *other GIS AUTs* found in Section D of your Tax Summary; and
- :: FDR income and/or CV income or loss for your *other offshore equity investments* (if any).

**KEY TERMS**

**OFFSHORE EQUITY INVESTMENTS:** This includes your investments in the GIS AUTs and holdings of less than 10% in any other offshore equity investments, but excludes exempt investments such as shares in certain Australian resident listed companies.

**OTHER GIS AUTS:** This includes all GIS AUTs except the Super Yield Fund and/or the Private Mortgage Fund.

**OTHER OFFSHORE EQUITY INVESTMENTS:** This includes holdings of less than 10% in any offshore equity investments, but excludes all GIS AUTs and exempt investments such as shares in certain Australian resident listed companies.

**NOTES****HOW IS CV INCOME OR LOSS CALCULATED?**

CV income or loss calculates the actual return on your investments for the year.

**HOW IS FDR INCOME CALCULATED?**

FDR income calculates taxable income based on 5% of your total offshore equity investments' market value as at 1 April 2009, plus Quick Sale gains during the year (if any).

**I RECEIVED BONUS UNITS DURING THE YEAR. ARE THESE TAXABLE TOO?**

Bonus units received for the year are not separately taxable in addition to the CV or FDR method.

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# Portfolio Investment Entities

## **NAVIGATING THROUGH THE TAXATION OF PORTFOLIO INVESTMENT ENTITY INVESTMENTS**

From 1 October 2007, the Global Investment Service New Zealand Unit Trusts (GIS NZUTs) became Portfolio Investment Entities (PIEs). The NZUTs established after 1 October 2007 also elected to become PIEs.

### **IRD NUMBER**

Only one IRD number may be recorded against your PIE investments. This is determined on a per-account number basis.

### **PIE TAX RATE**

The Tax Summary details the Prescribed Investor Rate(s) (referred to as PIE Tax Rates) applied to your PIE investments during the year.

PIE Tax Rates are applied on a quarterly basis. You may have only one PIE Tax Rate for a quarter.

The PIE Tax Rate noted in the Tax Summary as the rate applying for a quarter is the last PIE Tax Rate advised for the quarter. If you have not elected a PIE Tax Rate, we have applied the highest PIE Tax Rate to your PIE investments, as required by law.

### **SUMMARY OF TAX PAID/RECEIVED ON YOUR BEHALF**

Where tax has been paid on your behalf, this was based on the income attributed to you for each quarter for which you were invested. Tax has generally been paid by the cancellation of some of your units in the relevant PIE.

Where a refund was received on your behalf, it was generally used to acquire further units in your name(s) in the relevant PIE. If you exited completely from the PIE before the refund was received, a cheque was sent to you for the amount of your refund.

### **SUMMARY OF PIE INCOME/LOSS ALLOCATED TO ZERO-RATED INVESTORS**

A PIE is not able to pay tax/receive refunds on behalf of certain investors. These investors are referred to as 'zero-rated investors.'

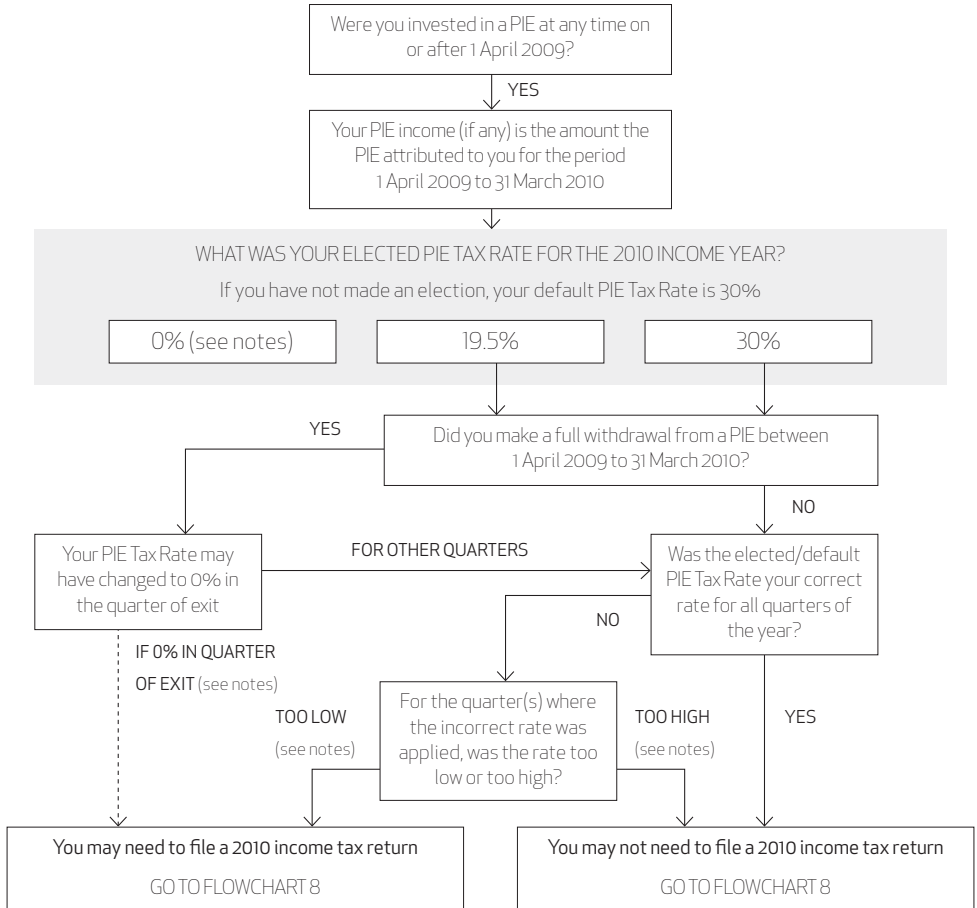
A zero-rated investor is an investor who:

- :: Has elected a zero percent PIE Tax Rate; or
- :: Had their PIE Tax Rate for a quarter set to zero percent by the PIE, either from exiting the PIE completely or from having insufficient investment value at the end of the quarter to pay their PIE tax liability;
- :: Is a company or trust which has a defaulted PIE Tax Rate of 30% and is invested in a Portfolio which is in a loss position in a quarter.

If you are a zero-rated investor, you are required to file an income tax return to pay tax or receive refunds on your PIE investments.

# Flowchart 6

## PIES – FOR NON-TRUST INVESTORS ONLY



**NOTES**

**ELECTED 0% RATE:** If you elected a 0% PIE Tax Rate, you must file an income tax return for all your PIE income/loss that has been attributed to you. See Flowchart 8 for further details.

**PIE TAX RATE TOO LOW OR 0% IN QUARTER OF EXIT:** If you do not normally have to file an income tax return and you have investments in PIEs, you must file an income tax return if you received more than \$200 PIE income and include in the return the income for the quarter(s) where your PIE income has been taxed:

- :: at 19.5%, if your correct rate should have been 30%; or
- :: at 0%.

**PIE TAX RATE TOO HIGH:** If your PIE Tax Rate was too high in the relevant quarters of the income year you are not able to claim a refund on the over paid tax in your income tax return.



**NOTES**

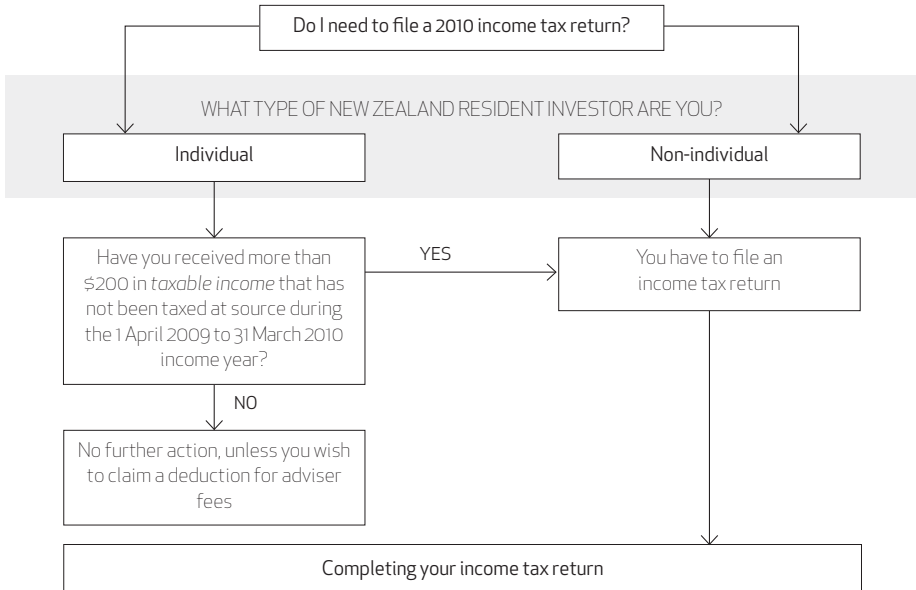
**NET PIE INCOME:** The positive amount after summing the total PIE income and/or loss attributed to you at the PIE Tax Rate of 0% or 19.5%.

**NET PIE LOSS:** The negative amount after summing the total PIE income and/or loss attributed to you at the PIE Tax Rate of 0% or 19.5%.

**0% IN QUARTER OF EXIT:** If your elected PIE Tax Rate was changed from 30% to 0% in the quarter of exit, only the PIE amounts attributed in the quarter of exit will need to be included in the 2010 income tax return.

# Filing an income tax return

## Flowchart 8



### 2010 Individual tax return – IR 3

AUT income (see notes)	
PIE income / (loss) allocated	
PIE tax paid on your behalf	
PIE imputation credits	
PIE resident withholding tax credits	
PIE dividend withholding payment credits	
PIE foreign tax credits*	
Fees	

### Box 2010 Trust tax return – IR 6

17B	AUT income (see notes)
17B	PIE income / (loss) allocated
17A	PIE tax paid on your behalf
14	PIE imputation credits
14A	PIE resident withholding tax credits
14A	PIE dividend withholding payment credits
17A	PIE foreign tax credits*
26	Fees

### Box

13B
13B
13A
10
10A
10A
13A
20

**KEY TERMS**

**TAXABLE INCOME:** This includes income from other sources, in addition to your investments in the GIS AUTs, NZUTs and PIEs that are administered by NZAS. Examples of other sources of income include salary and wages, rental property income, New Zealand Super and self-employed income.

**MARGINAL TAX RATE:** The tax rate applicable to the last dollar of income.

**NOTES**

**AUT INCOME:** This includes income calculated from the following methods, where relevant:

- :: Dividends – Flowchart 2 and Section A of your Tax Summary; or
- :: FDR or FDR-CV income – Flowchart 3 or 4 (Flowchart 5 for other taxable entities) and Section D of your Tax Summary; and/or
- :: CV income or loss – Flowchart 4 (Flowchart 5 for other taxable entities) and Section B and C of your Tax Summary.

**ADVISER FEES**

If you wish to claim a deduction for adviser fees paid during the year you will need to file a tax return.

**\*Availability of PIE foreign tax credits****If your elected PIE Tax Rate is 19.5% or 30% (including default rate)**

The maximum amount of PIE foreign tax credits available for use in your tax return is the lesser of the PIE foreign tax credits attributed to you and the amount calculated as follows:

PIE income allocated multiplied by PIE Tax Rate

Any excess unused PIE foreign tax credits are lost and cannot be carried forward to the next income year.

**If your elected PIE Tax Rate is 0%**

The maximum amount of PIE foreign tax credits available for use in your tax return is the lesser of the PIE foreign tax credits attributed to you and the amount calculated as follows:

PIE income allocated multiplied by your *marginal tax rate*

