

Information for non-residents who invest in PIEs

This factsheet helps you understand your tax obligations as a non resident 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 don't calculate their tax using their investors' PIR. Instead, their tax is calculated using the entity's basic tax rate.

Rate change from 1 October 2010

When a PIE calculates its income tax, it attributes its income/loss across each day in the year. As the PIRs and the default rate are changing from 1 October 2010, the PIE will calculate the tax using two different rates:

- from 1 April 2010 to 30 September 2010 (inclusive) the PIE will use the old rate of 30%
- from 1 October 2010 the PIE will use the new rate of 28%.

The PIE will automatically move the old rate to the new rate, unless you notify the PIE of a different rate.

The rates referred to in this factsheet are the new rates from 1 October 2010.

PIR for non-residents

The prescribed rate for non-residents (whether an individual or non-individual) is 28%. You can't choose a lower rate.

IRD numbers

If you have been issued with an IRD number you must provide your IRD number within one month of a request from the MRP.

Ceasing to be represented by a proxy

If you are represented by a PIE investor proxy and then cease to be represented by that proxy, their obligations will pass direct to the PIE that holds your investment. You should give the PIE your correct PIR and IRD number.

When a zero rate may be applied for a non-resident

You may be taxed at a zero rate by an MRP that files returns using the quarterly option, where you exit the MRP during a quarter. There are no other situations where you may have a zero rate applied.

Arriving/leaving New Zealand and your PIR

If you are a New Zealand-resident individual who has invested in an MRP and you then cease to be resident you should have a PIR of 28% from the date you leave New Zealand. You should tell the MRP of the change as soon as possible.

If you were a non-resident individual, without New Zealand-sourced income and you then become a New Zealand resident, you can use a PIR of 10.5% for two years after arriving in New Zealand.

If you were a non-resident individual, with an existing investment in an MRP or other New Zealand-sourced income and you then become a New Zealand resident, you can generally use a PIR of 10.5% for two years after arriving in New Zealand, provided you also satisfy the resident individual PIR thresholds (ie, PIR based on income taxable in New Zealand received in the previous two income years). You must also advise the MRP of the change from 28% to 10.5%.

Record-keeping requirements

If your income from the MRP is taxed at your actual PIR it doesn't have to be included in your tax return. You don't have to keep records.

If your income from the MRP has been taxed at a zero rate on exiting the MRP or if you have given the MRP a PIR lower than your actual rate, you must keep your records relating to that income for seven years for tax purposes.

Income attributed by the MRP

PIE tax and NRWT (non-resident withholding tax)

Generally, the NRWT rules don't apply to MRP investments.

If you are a resident of a country New Zealand operates a double taxation agreement (DTA) with, under the NRWT rules the tax you pay on interest, dividends and royalties is limited to prescribed tax rates (usually 10% or 15%).

As the tax on income from your investment in the PIE is actually paid by the PIE:

- the limitation under the DTA will **not** apply, and
- the tax on your investment will be calculated at 28%, and
- you may not be able to claim the tax paid by the PIE as a credit in your country of residence.

A PIE that is a listed company and doesn't use your PIR may continue to pay dividends to non-residents, which will be subject to NRWT.

When income attributed by the MRP has to be included in your New Zealand tax return

Where you have:

- notified an incorrect PIR, or
- had a zero rate applied in a quarter on exit from a PIE that files returns using the quarterly option

your PIE income must be included in your New Zealand income tax return.

Where the PIE income has been taxed at a rate lower than your actual rate, the tax already deducted by the MRP can be used as a tax credit.

When is your MRP income received?

In New Zealand, MRP income is treated as being received in your income year that includes the end of the MRP's income year. If you and the MRP have standard 31 March balance dates, the year in which the MRP attributes the income and you receive it, will be the same.

If you have a balance date other than 31 March, the year in which the income is received may be different from the year in which the MRP attributes the income.

Dividends/distributions

Dividends or distributions received from an MRP are excluded income and are not required to be included in your New Zealand income tax return.

A PIE that is a listed company and doesn't use your PIR may continue to pay dividends to non-residents, which will be subject to NRWT.

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 30 June after the end of the MRP's income year.

Where you are required to include MRP income in your New Zealand tax return, what information on the investor statement do you use?

The investor statement issued by the MRP will provide details of the income and tax paid to include in your tax return.

The following table shows where an investor has been taxed at a zero rate on exit from an MRP that files returns using the quarterly option. The investor will not have 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. There is no tax 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 there is a rate change during a year you may receive two investor statements, one for each rate applied during the year.

Residual interests

If, at the end of the quarter in which you exit an MRP that files returns using the quarterly option there is any residual value of your 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 in which the exit period falls in. You'll 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?

Where you are required to include PIE income in your New Zealand tax return you will need to provide details of the income, tax credits and tax paid in a separate letter and attach it to the return. Inland Revenue will then complete the required details.

Tax credits

Foreign tax credits are taken into account by the MRP when it calculates its tax. They can only be used to the extent of the New Zealand tax payable on the PIE attributed income.

Where your income attributed by the MRP has been taxed at a PIR of 0% on exit from the MRP, the foreign tax credits can be claimed in your tax return up to the amount of the tax you're required to pay on the income attributed by the MRP.

New Zealand tax credits are taken into account by the MRP when it calculates its tax. They can only be used by the MRP to the extent of the New Zealand tax payable on the PIE attributed income.

Where you have been taxed at a zero rate by the MRP on exit, the amount of the attributed New Zealand tax credits flow directly to your New Zealand tax return.

Note: Non-residents cannot claim imputation credits.

Excess New Zealand tax credits and losses

Most MRPs that have excess New Zealand tax credits or losses in a tax calculation period receive a tax credit calculated at the individual investor's PIR. The MRP then credits the investor by adjusting their interest in the MRP, or making a distribution to the investor.

Student loans

If the attributed income from a PIE isn't required to be included in your income tax return, it is not taken into account when determining student loan repayments.

If you're required to include the income attributed by the PIE in your income tax return, it will be taken into account in determining student loan repayments.

Withdrawing your investment in an MRP

If you exit an MRP that files returns using the quarterly option part-way through a quarter, the MRP may calculate tax at the zero rate on your share of the income attributed. The zero-rated income must be included in your tax return. Alternatively, the MRP may voluntarily pay tax on the attributed income for the exit period, in which case the income won't have to be included in your tax return.

A partial withdrawal may not be significant enough to be treated as an exit, or switches from one investor class to another within the same entity may not reduce your interest in the MRP. In these situations the MRP may make voluntary payments of tax. If the tax calculation has been made at the correct PIR and is sufficient to meet the tax liability, the income does not have to be included in your tax return.

Investor expenses

Investor expenses charged by the MRP, incurred by you in relation to your interest may be taken into account by the MRP when it calculates the income to attribute to you. You will not be able to claim the expenses in your tax return.



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