2019

Comprehensive Tax Guide

booster
making sense of money

To assist you in the completion of your 2019 tax return, Booster Custodial Administration Services Limited ("BCAS") has provided this handy guide.

Summary

This guide provides an overview of each of the reports available to you to enable you to complete your tax return.
It is important that you read this guide carefully to ensure you include the appropriate information in your tax return. As we are unable to confirm your particular tax status based on our records alone, you will need to determine which information is relevant to your circumstances.
If you are unsure about your tax status or unclear about how the tax rules apply to you, we strongly recommend you consult a tax adviser.

The reports outlined in this guide are:

1. Tax Certificate
2. Client FDR Report
3. Client Comparative Value Report
4. Client Comparative Value Report – Guaranteed Return Investments
5. Deductible Fees / Taxable Rebates Report
6. Client Income Report
7. Transaction Summary Report
8. Realised Gains Report
9. Unrealised Gains Report
10. Client Holdings – Fixed Interest Report
11. Client Fixed Interest Transactions Report
12. Schedule of Foreign Dividends
13. Client Holdings Report

For those investors with a relatively simple PIE based managed fund the most important reports for your tax return are the *Tax Certificate* and the *Deductible Fees / Taxable Rebates Report*.

We recommend you review the chart on the final page of this document for an overview of the types of income you may have received in the year.

1. Tax Certificate

The *Tax Certificate* provides a relevant summary of investment income received during the period 1st April 2018 to 31st March 2019 for investments held in our administration service.

You will need to carefully review each component of income and consider whether this needs to be included in your tax return. This guide is designed to help you determine which income is relevant to you and which of the other reports you may need to refer to.

Income is split between New Zealand and foreign sourced and between interest, dividends and realised gains. Foreign income is split between the relevant categories for the Fair Dividend Rate ("FDR") regime. Additional information is provided on Portfolio Investment Entity ("PIE") unlisted attributed income and listed PIE dividends.

Note that if you have any other investments or investment income, these need to be combined with the information reported in this certificate prior to completing your tax return.

How to Use the Tax Certificate – NZ Residents

IRD Tax Return box numbers are provided on the *Tax Certificate* to facilitate completion of the three main tax returns (individual, company and estate/trust).

Each category of income is described below with relevant factors to consider. Please note that not all of the income categories described will be relevant to your personal investments, therefore not all comments in this guide may be applicable to you.

- **NZ Interest**

  This is the income earned on cash balances, directly held bonds and debentures and any Resident Withholding Tax ("RWT") deducted.

- **NZ Dividends**

  This includes any dividends received from shares or non-PIE managed funds, imputation credits attached and any RWT deducted.

- **PIE (Listed)**

  Dividend income received from a PIE listed on the NZ Stock Exchange. Where the dividend paid is partially imputed, we present the dividend in two parts – fully imputed and unimputed to enable the correct treatment to be taken for each part.

  To the extent that dividends do not have imputation credits attached, this income is not taxable (it is treated as excluded income). As a result, unimputed income from listed PIEs is not shown in the *Tax Certificate*, though it is shown in the *Client Income Report*. Where the dividend is fully imputed, **as an individual or trustee you have the <u>option</u>** to include this income in your tax return. For example if your marginal tax rate is lower than the rate of imputation (being 28%) which will allow you to get the benefit of the imputation credits (i.e. higher rate tax payers or non residents would ignore this income). Note the inclusion of this income in your tax return will change your total income and may affect your ability to claim Government benefits. **A company is <u>required</u>** to include the value of the fully imputed dividend in its tax return (not optional), though the unimputed portion remains exempt.

- **Foreign Interest**

  Interest income from foreign resident entities. The NZ RWT deductions made by us should be included as tax credits in the NZ dividends section of your tax return.

- **Foreign Dividends (Non FDR)**

  Income received from investments that are exempt from the FDR regime and generally will be limited ASX listed shares (though if the investment is a 'stapled security' or does not pay tax then the exemption will not apply). Any foreign withholding tax, NZ imputation credits and NZ RWT deductions will be shown.

- **Foreign Dividends (FDR)**

  Income received from investments that are captured by the FDR regime.

  These <u>may not</u> be taxable to you.

  You need to determine if you are exempt from the FDR regime or not. If you are not exempt from FDR you need to calculate taxable income to include in your tax return according to the FDR rules. Please refer to the *Tax Guide: Fair Dividend Rate (FDR)* document to determine if you are exmpt from the FDR regime or not, for guidance on calculating the taxable income from FDR investments and the use of foreign tax credits.

- **PIE (Unlisted attributed income)**

  PIE investment funds do not pay tax themselves, but attribute the taxable income to their unit holders. While this income is taxable to you, the PIE will pay the tax on your behalf where your nominated Prescribed Investor Rate ("PIR") is greater than 0%. The PIE will also take a deduction for the fees charged on your PIE investments so only the net tax payable is deducted by the PIE.

  Currently, the PIRs are 0%, 10.5%, 17.5% or 28%. The income attributed to you has been taxed at your advised PIR. You will need to review the rate that was applied against your income to determine if it was the correct rate for you - to work out the correct rate for you, see the IRD guide at: <u>http://www.ird.govt.nz/toii/pir/workout/</u> .

  If the rate applied is correct then <u>you do not need to include this in your tax return</u> as you have already been taxed at the correct rate.

  If the rate applied was too low, then you will need to include that income in your tax return. You will get the benefit of any tax credits, PIE related expenses (which have already been deducted) and PIE tax paid, but the income will be taxed at your marginal tax rate.

  If the rate applied was too high, you cannot reclaim surplus tax paid by the PIE on your behalf. In this situation, you should ensure the correct PIR is given to your adviser to prevent future attributed income from being taxed at the incorrect rate.

  If your nominated PIR is 0% (and you are not exempt from paying tax such as a charity), then you will be required to include the attributed income (and associated tax credits and expenses) in your tax return.

  If you are required to include the PIE income in your tax return, the gross income less any PIE related fees and expenses, and associated tax credits are (strangely) to be included in the 'Overseas Income' section. Where the income has been taxed (but at a rate lower than your correct PIR), then all credits including PIE tax paid should be recorded in the overseas income section. Where the income has not been taxed (where the PIR was 0%), then the credits are recorded in the relevant sections of the tax return (for example, NZ imputation credits are included in the NZ dividend income section). Note that foreign tax credits received are only able to be utilised where there is positive taxable income – i.e. where the foreign tax credits are greater than the tax liability on that foreign income, then surplus credits may be lost.

Your current PIR is shown at the top of the *Tax Certificate*. If this rate is not correct for you, then please contact your adviser to request a change – this may actually save you from overpaying tax in the future.

If you invest in an unlisted PIE that makes distributions, this income is exempt from tax, and is therefore not included in your *Tax Certificate*.

- **Gain or loss on the sale or disposal of financial arrangements**

  All direct investors in financial arrangements (e.g. debt instruments such as fixed interest bonds, debentures, discount securities etc.) are required to pay tax on the total gains or losses (including any realised gains, however, capital losses on debentures are generally not tax deductible). This is included in the 'Other Income' section of the tax return. For a 'cash basis' investor, tax is paid on the interest as received and on the net gain/ loss on sale or maturity of the investment. If you are not on a 'cash basis' for tax purposes, you will require additional reporting on financial arrangements to determine your accruals basis tax liability (see fixed interest reports). The cash basis calculation **should not** be used by accruals basis tax payers (see definition of accruals and cash basis under the *additional information* section below).

  Should you wish to see the breakdown of this figure, the gains and losses are shown in the *Realised Gains report*.

Features of the Tax Certificate – Non Residents

The *Tax Certificate* is only required to show NZ sourced income for the non resident tax return in NZ (IR3NR). As a result, foreign income is not shown. Should you require information on all income received during the tax year, this can be obtained from the *Client Income Report*.

IRD Tax Return numbers – these are included to the extent they would be relevant to the IR3NR tax return.

NZ interest income has been split between income that was subject to Approved Issuer Levy ("AIL") and income that has had non-resident withholding tax deductions made. This is to assist you in completion of your IR3NR tax return. Income received that is subject to AIL is not required to be included in the IR3NR tax return.

PIE (unlisted attributed income) that has not been taxed at the top PIR (28%) will be shown and will need to be included in your tax return.

PIE (Listed) dividends do not need to be included in your tax return.

2. Client FDR report

This report shows the calculation of the FDR Income

A separate guide (*Fair Dividend Rate (FDR)*) has been produced to assist in the use of this report – please contact your adviser if you require this guide.

Note, the value of investments may differ slightly from your March quarterly report as some final investment valuation information is not available at the time our quarterly reporting is produced, and in the case of OM-IP funds, the tax value may be different from the 'market value'.

3. Client Comparative Value (CV) report

This report shows the calculation of the CV Income

A separate guide (*Fair Dividend Rate (FDR)*) has been produced to assist in the use of this report – please contact your adviser if you require this guide.

4. Client Comparative Value (CV) report – Guaranteed Return Investments

This report shows the calculation of the CV Income on those investments where the FDR calculation is not allowed to be applied.

A separate guide (*Fair Dividend Rate (FDR)*) has been produced to assist in the use of this report – please contact your adviser if you require this guide.

5. Deductible Fees / Taxable Rebates Report

The report summarises fees paid and rebates received to the extent we believe they are deductible or taxable and should be included in your tax return. The fees are separated into adviser fees and rebates and investment / administration service fees and rebates (referred to as management fees or management fee rebates).

To the extent the fees and rebates have already been offset against your PIE attributed income, this is also shown on the report. The residual fees / (rebates) (as shown in the right hand column) are to be included in the section for claiming expenses / (declaring additional income) on the income tax return.

If you only hold Booster retail funds and did not have any account-based fees or rebates, all deductible fees will have been claimed within the Booster retail fund. Therefore, you will not receive a *Deductible Fees / Taxable Rebates Report* as there is no residual non-PIE fees to be included in your tax return.

6. Client Income Report

This provides detailed support for the income shown in the *Tax Certificate* should this be required (it is not specifically needed for the completion of your tax return).

The net receipt for each payment will be shown in the *Cash Transaction Report* (where received in cash) or in the *Security Transaction Report* (where reinvested).

Note that this report shows income **received** in the period (i.e. the primary basis used by the Inland Revenue for taxing income on investments). It does not necessarily agree with the income **earned and accrued** in the period, which may be shown on other reports available from BCAS.

In addition, the report shows PIE **attributed** income (and deductible expenses), which are not distributions but represents the **notional income** that is subject to tax related to your PIE investment.

There may be other income in your *Client Income Report* which is non-taxable such as unlisted PIE distributions.

The gross amount in the *Client Income Report* cash receipt or reinvested amount plus all relevant tax credits (withholding taxes deducted and available NZ imputation credits).

7. Transaction Summary Report

This provides a summary of the key components of movement in the value of your fund over a defined period. See *frequently asked questions* for an overview on how to use this report.

8. Realised Gains Report

This shows gains or losses made on all securities sold or matured during the year. The cost of investments sold is determined on a First In, First Out ("FIFO") basis. Note that gains or losses on financial arrangements are shown for a 'cash basis' holder in this report (and the sum of gains/losses on financial arrangements matches the net gain or loss in the *Tax Certificate*).

9. Unrealised Gains Report (or Client Holding Plus Base Cost)

This report shows the market value, cost and the unrealised gains for your investments.

This report is of value if you are required to prepare financial statements on a historical cost basis (such as for certain trusts).

10. Client Holdings – Fixed Interest Report

This report provides a summary of all financial arrangements held at a specified date. The report shows the components of the book and market value to enable an 'accruals basis' or 'mark to market basis' investor to complete their tax return.

A separate guide (*financial arrangements*) has been produced to assist in the use of this report – please contact your adviser if you require this guide.

11. Client Fixed Interest Transactions Report

This report shows the purchases and sales and maturities of fixed interest securities. Again, this report will be required for 'accruals basis' and 'mark to market' basis investors.

12. Schedule of Foreign Dividends

For company investors, we are not required to deduct RWT from foreign sourced dividends. Instead a company is required to complete a quarterly Foreign Dividend Payment ("FDP") return (IR4F).

The Schedule of Foreign Dividends report provides the required information for this return. Note that the report does not include dividends received from investments that are subject to the FDR regime. These dividends are excluded income for tax purposes, and the FDR rules must be applied instead. Please see separate guide on FDR.

13. Client Holdings Report

This report provides a summary of all investments held and their values at a specified date. Note the values may differ slightly from those in the 31 March *Investment Fund Update* due to availability of information, and in some cases, tax values being different from market values (e.g. for most of the OM-IP funds).

Availability of Reports

Your personal tax position will determine which reports you need to complete your tax return. Previously, only the *Tax Certificate* and the *Deductible Fees / Taxable Rebates Report* were required in many cases. However, some investors will also require the *Client FDR, Comparative Value and Comparative Value - Guaranteed Return Investments reports* (i.e. if they are subject to tax on the FDR basis and have holdings in foreign investments). Trusts and companies may also require the fixed interest reports to enable tax to be determined on an accruals basis.

If you require any of the other reports mentioned in this guide, please contact your adviser. All reports are available from the BCAS system.

Additional Information

Dividends Declared but not Received

Dividends are reported to you based on the date of receipt, therefore any dividends declared but not received prior to 31st March 2019 are not included in the *Tax Certificate*. Any income received after 31st March 2019 will be included in the 2020 *Tax Certificate*.

If you are required to pay tax on an accruals basis, then any dividends announced up to but not received until after 31st March will be recorded as unavailable cash in the *Cash Transaction Report* (for cash dividends) or in the *Security Transaction Report* (for reinvested dividends). For accrued income on financial arrangements, see separate guide (*financial arrangements*).

Change of Country of Residence

If you change your resident status from NZ to foreign (or vice versa) during the year, you will receive two tax certificates. One tax certificate will contain all income received as a NZ resident and the other will be for all income received whilst a foreign resident.

Are you an 'Accruals Basis' Investor?

A tax payer will fall in to one of three categories:

- Cash basis
- Accruals basis
- Mark to market basis

There are a number of criteria to meet to be deemed to be a cash basis person. The main ones are outlined below. You need to:

- Have income from financial arrangements within the tax year of no more than $100,000; or
- Hold no more than $1m of financial arrangements at any point in the tax year; and
- The deferral or acceleration of income caused by the cash basis rather than the accruals basis is $40,000 or less.

To be deemed on a mark to market basis the person's business will generally include dealing in financial arrangements.

If you are neither on a cash basis nor mark to market basis, then you will be on an accruals basis.

If you are at all unsure about your tax status, we advise you to seek professional advice.

Frequently Asked Questions

Why is RWT deducted from foreign income?

We are a New Zealand withholding tax agent. Therefore, the nature of the custodial and investment administration service provided by BCAS means we are required to deduct RWT from:

- non FDR foreign dividends;
- all foreign dividends if you are exempt from the FDR / CV rules; and
- foreign interest.

This deduction does not affect the total tax you are required to pay. The withholding tax credits will be included in your tax statement and are refundable should you be in a net receivable position.

Why is RWT not deducted from all foreign income?

Where income is received from an investment that is included in the FDR regime (e.g. foreign unit trust) and the investor is not exempt from FDR (i.e. has more than $50,000 cost value of foreign investments) the dividend income is not taxable. Instead, taxable income is calculated using the FDR method. In this situation we do not deduct RWT from the distributions (as they are not taxable), and do not deduct RWT from the FDR tax liability (as this cannot be determined until after the end of the tax year). If you believe our RWT treatment is not consistent with your FDR status or your FDR status is incorrect, please advise us and we will make the necessary changes.

Why are there imputation credits from foreign companies?

An agreement between Australia and New Zealand enables an Australian company to attach imputation credits in addition to franking credits (and vice versa). This represents NZ tax paid (generally through its subsidiary operations in NZ) and allows tax benefits to be passed on to NZ investors. (An example of this is National Australia Bank who operates through the BNZ Bank in NZ.)

Why is Approved Issuer Levy ("AIL") not deducted from Government Bonds?

NZ Government Bonds are zero rated for AIL. As a result, no AIL is deducted, and no non-resident withholding tax is deducted either.

Why are some shares shown as foreign in the Client Income Report but NZ in the Client Holding Report?

A number of companies have relocated their head office (and tax residency) offshore, yet their business is primarily based in New Zealand. Therefore from a market exposure perspective, they are considered a NZ investment, but are foreign for tax purposes.

What about non taxable income received?

Where possible we have included any non taxable income (if relevant) in the 'Other Income' section of the *Client Income Report*. This provides visibility of the income received and allows you to conduct your own assessment of the tax status of the income and whether you have satisfied any conditions attached to the non taxable status where relevant.

How does the Transaction Summary Report relate to other reports?

The *Transaction Summary Report* shows the movement in value between the start and end of the defined period. This provides a good guide on how the fund has changed over the period, though presentation differences between reports may result in slight discrepancies (see below).

The opening and closing balances should equal the values in the *Client Holding Report.*

Any new funds or withdrawals will be represented in the *Cash Transaction* or *Security Transaction Reports*.

The net gain is represented by income, fees, rebates and capital growth.

Income should agree to the *Client Income Report.*

Fees and Rebates should agree to the *Deductible Fees / Taxable Rebates Report* **plus** other non deductible fees charged such as implementation fees, exit fees, stamp duty and regular payment fees.

Capital growth primarily comprises realised gains (from the *Realised Gains Report*) and the movement in the unrealised gains (i.e. the closing less opening gains for the period from the *Unrealised Gains Report*), less PIE tax paid, plus an adjustment for income receivable.

The capital growth figure also incudes any gain or loss made on the transfer out of securities, though this gain or loss is not recorded in the *Realised Gains Report* (as this transaction is not actually a sale).

As noted above, the *Client Income Report* is presented on a receipts basis (to be consistent with the tax statement), whereas the fund valuation includes dividend income receivable (where announced up to 31st March 2019).

Therefore, the capital growth figure includes dividends receivable at 31st March 2019 and excludes dividends receivable at 31st March 2018. Dividends receivable at 31st March 2018 can be calculated by summing all dividends with a trade date up to 31st March 2019 and effective date after 31st March 2018, both from the *Cash Transaction Report* and the *Security Transaction Report*.

How are investment transfers treated?

Where investments are transferred from our custodial holding to an investor's own name, we do not treat these as a sale for tax purposes (i.e. there is no change of beneficial owner). It is important that the base cost of this investment at the date of transfer is recorded in your own records to ensure the correct tax position is taken on ultimate sale or maturity.

Where do I find out more on PIE or FDR?

The information contained in this guide is of a general nature and does not address all situations. For further information the IRD has produced a good summary of the PIE and FDR rules – see www.ird.govt.nz/toii/pie and www.ird.govt.nz/toii/fif as well as a general description in the Tax Information Bulletin Vol. 19, No.3 (April 2007), and Vol. 19, No 6 (July 2007) which are available under *Newsletters and Bulletins* on the IRD website. The guide 'Information for Resident Individuals who Invest in PIEs' (IR855) is also a useful summary of PIEs.

The IRD also has a good online calculator you can use to determine your FDR or CV Income for any other investments you may hold outside of our administration system – see *Work it out - All Calculators and Tools* on the IRD website (www.ird.govt.nz). It is referred to as the Foreign Investment Fund Calculator – under 'F' in view showing all calculators by tool name.

Isn't this tax report more complicated than in the past?

The changes to the tax rules in 2007 (FDR from 1 April 2007 and PIE from 1 October 2007) created far greater complexity to investors that held each of these investments during the year (FDR in particular).

This has been compounded by the fact that the action you need to take in completing your tax return is very dependant upon your specific personal situation, and may mean you need to perform calculations of your own, or confirm what information to include in your tax return. Fortunately there have been no significant tax changes since 2007 (other than tax rate changes). This combined with a substantial simplification of our managed funds (through the introduction of PIEs), should make the tax report easier to follow than in the past.

The chart on the final page of this guide provides a simplification of the treatment of the different types of investment income you may have received this year.

What can I do to simplify the tax reporting for the future?

There are some steps you could take in respect of your investment fund which would simplify the tax consequences in the future. Note however, that these changes should be made in consultation with your adviser, as the impact on your investment fund (such as diversification etc.) needs to be carefully considered.

- Invest in PIEs as a core component of your fund.
- Reduce direct investments in FDR securities unless it represents an important part of your investment profile.
- Minimise any foreign investments held outside the administration service - the FDR and CV calculations are time-consuming to perform manually. We would encourage you to consolidate your holdings into a single administration service as far as possible.
- Ensure the correct PIR rate is being used for your investments in PIEs. Use of the incorrect tax rate will

mean you have to complete a tax return and may result in you having to pay more tax (note a lower PIR may apply for low income earners – 10.5% for those earning up to $14,000, excluding PIE income, and up to $48,000 including your PIE income. This may save you more tax).

- Reduce direct investments in financial arrangements to avoid having to calculate taxable income on an accruals basis.

How can I tell what type of investment I have for tax purposes?

The *Client Income Report* categorises the income on investments based on our understanding of the tax status of the investment. For example, if you hold the Booster Investment Series NZ Shares Fund, the *Client Income report* shows the attributed income in the *PIE (Unlisted attributed income)* section – therefore, the investment is an unlisted PIE.

The *Client Holdings Report* also shows the tax status of the investment (in brackets following the name).

Note, a PIE is a New Zealand registered investment trust, therefore will be treated as a non foreign investment irrespective of the investments it holds.

Whilst we have made every attempt to correctly classify all investments for tax purposes, we do not accept liability for any inaccuracies.

What rate of RWT is appropriate for me?

RWT is deducted from interest at the rate you notify to us. The RWT rates applicable from 1 October 2010 for individuals are 33%, 30%, 17.5%, and 10.5%. A rate of 0% is available if a valid exemption certificate is held. If you have not elected a rate, it will default to 33% for new accounts, and 17.5% for existing accounts. You are only able to choose 10.5% if you have a reasonable expectation you will earn $14,000 or less.

For companies, the rate changed from 30% to 28% at 1 April 2011.

The RWT rate for dividends continues to be a flat 33% (other than for listed PIEs which are exempt). This means where a dividend is fully imputed (at a rate of 28%), we will still be required to deduct an additional 5% in RWT.

Why are the fees higher than investment income?

The *Transaction Summary report* shows fees and investment income. However, where the majority of investments are held through non distributing PIEs, the level of 'income' from an investment fund is generally very low or nil. Instead of distributing, PIEs reinvest their income within the fund, resulting in a higher unit price. As a very rough guide, the level of attributed income is an indicator of the income from the PIE investments. However, caution needs to be applied as the attributed income can be heavily influenced by the relative performance of investments that have different tax treatments.

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Summary of Tax Treatment of Income from your Investments (general guide only for NZ residents)