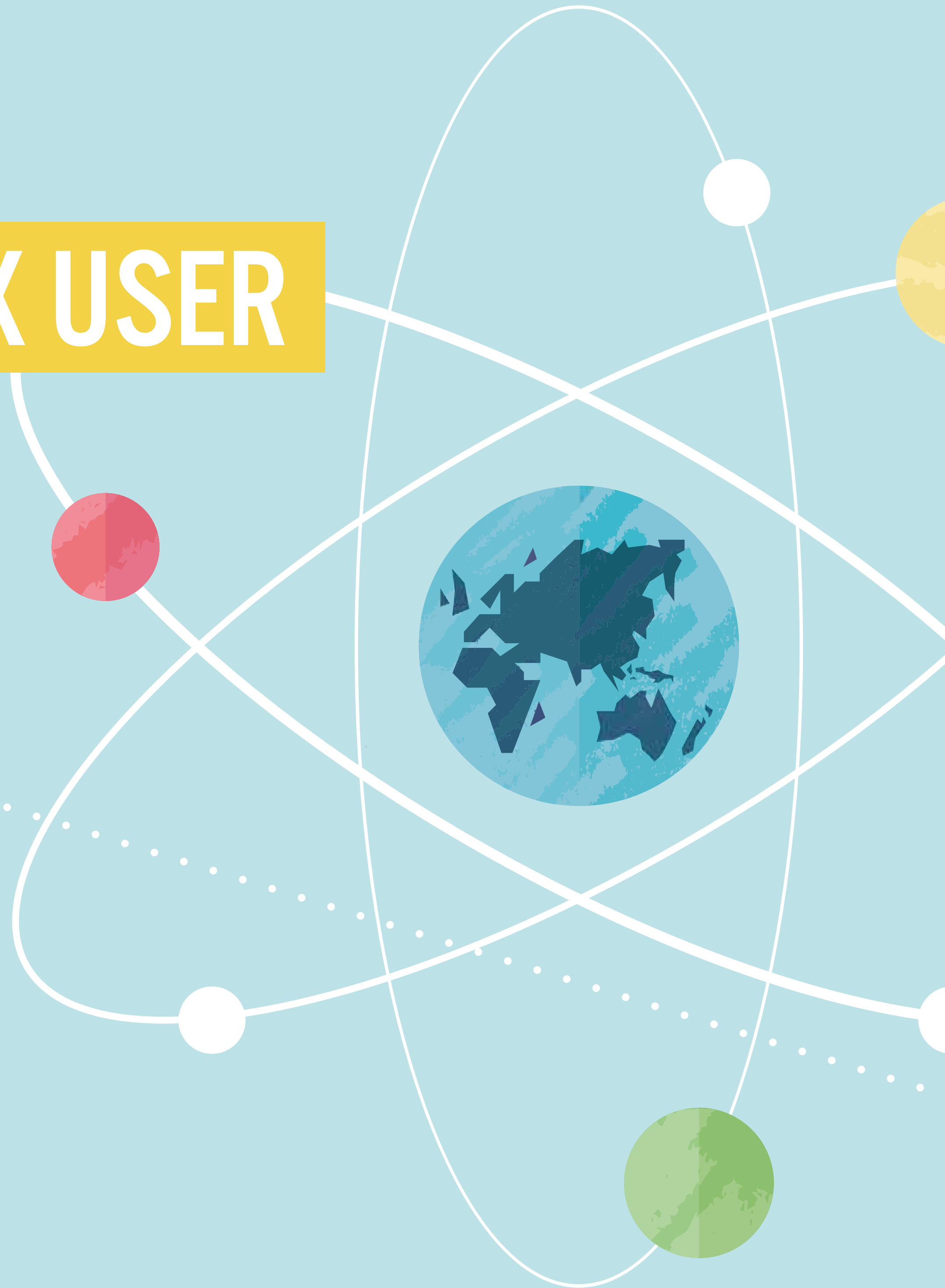
FNZ®

2019
FNZ TAX USER GUIDE



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2. INTRODUCTION

Welcome to the 2019 FNZ Tax User Guide. This User Guide is produced by FNZ Custodians Limited (FNZ) in its capacity as an integrated financial services provider in relation to your investments. It has been prepared for New Zealand tax residents and FNZ trusts that you find the contents of this User Guide informative and helpful in understanding your New Zealand tax obligations and, should you be required to, completing your New Zealand tax return.

The User Guide contains general information on the various aspects of New Zealand tax legislation that may be relevant to your personal circumstances. The majority of the information that you should need to complete your tax return is in the next two sections.

Your FNZ Tax Report collates information on the interest, dividend, and distributions received and processed by FNZ for you during the year ended 31 March 2019 ("the 2019 income year"). An amalgamated tax statement such as your FNZ Tax Report makes filing your income tax return much simpler. We recommend that you provide your FNZ Tax Report and this User Guide to your tax adviser.

Should you have other investments that are not held in custody with FNZ or investments that have not been held in FNZ's custody for the entire income year, you may also need to include the income from those investments in your tax return. They may also affect the treatment of the FNZ held investments.

Should you or your tax adviser have any questions regarding your FNZ Tax Report or the User Guide, please contact your financial adviser in the first instance. Please note that while FNZ can provide information on your investments held in its custody, and how FNZ has chosen to process any transaction, FNZ does not provide tax advice.

Please also note the income figures expressed in this report are not your portfolio performance. To obtain your portfolio performance please contact your financial adviser. There may also be differences between how certain transactions are displayed in your tax report compared to other reports, due to how tax legislation applies to your investments and certain transactions. Please see section 12 of the long form FNZ Tax User Guide for more details.

As FNZ and your adviser may not have complete knowledge of your specific circumstances, we strongly recommend that you seek independent tax advice from a professional tax adviser to ensure you meet your New Zealand tax obligations.

Yours sincerely

Charlie Trotter
Managing Director - NZ
FNZ Limited

Disclaimer

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3. GENERAL INFORMATION REGARDING YOUR INVESTMENTS

This section contains general information regarding your investments which may be relevant to you when preparing your 2019 tax return. We recommend you read this section in its entirety before completing your tax return.

3.1 Taxation of financial arrangements

3.1.1 Resident Withholding Tax on interest income

Your Resident Withholding Tax ("RWT") rate as at 31 March 2019 which was supplied by you or your adviser is shown at the top of the first page of your tax report.

If the RWT rate supplied was incorrect during the 2019 income year, you may have underpaid or overpaid RWT on your interest income. Practically, any under or overpayment is calculated by filing a tax return. As RWT is a refundable tax credit, any overpayment is generally refundable.

We recommend that you seek advice from your tax adviser to quantify any tax liability or refund.

3.1.2 Tax reports prepared on a cash basis

Your tax report has been prepared on a cash basis for tax purposes. As the cash basis method may not be appropriate for you, we recommend you discuss your circumstances with your tax adviser to ensure you meet your New Zealand tax obligations.

As an example, if you hold the investments as part of a business activity or through a trust or company and are preparing financial statements, or you do not meet the criteria to be a cash basis person, you may be required to account for interest income using an accrual method.

Accrual tax reporting is a complex area of tax law. If you qualify for accrual tax reporting, you will be required to use a 'spreading method' to determine the income to include in your tax return. Factors such as accrued interest, premiums and discounts on purchase and disposal of certain fixed interest investments will be required to be factored into any 'spreading method' calculation. Your tax report does not contain any accrual calculations.

Section 6 of the long form Tax User Guide contains the tests to determine if you qualify to be a cash basis person. It also includes detailed worked examples which may be helpful to you in calculating your accrual interest income should you be required to apply accrual reporting.

3.2 Portfolio Investment Entities (PIEs)

3.2.1 Prescribed Investor Rate – Unlisted PIEs

Your Prescribed Investor Rate ("PIR") at 31 March 2019 which was supplied by you or your adviser is shown at the top of the first page of your tax report.

Individual and joint investors should not be required to include unlisted PIE income in their tax return if they elected the correct PIR or a PIR that was too high throughout the 2019 income year. This is on the basis that PIE tax is generally a final tax.

Please note that PIE tax is not a final tax for:

- individuals and joint investors who had unlisted PIE income crystallised at an incorrect PIR that was too low;
- trusts, unless the highest available PIR was elected at all times during the income year; *and*
- any entity that had unlisted PIE income crystallised at a 0% PIR during the income year.

Electing the correct PIR is beneficial in that the maximum PIR is typically lower than the corresponding marginal tax rate. That is, in some situations, you will pay more income tax if you are required to include your PIE income in your tax return and be taxed at your marginal rate, as opposed to the applicable PIE tax that

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would have been paid if you elected the correct PIR. If the PIR that applied to your unlisted PIE income was less than you were entitled to use, you may need to include some of your unlisted PIE income in your tax return. The amount of income you are required to return is generally the amount that was taxed at the lower PIR. You should be allowed to claim a credit for any PIE tax paid on your behalf that relates to the PIE income included in your tax return.

If your PIE investments incurred a loss during the 2019 income year, you should not be required to include this loss in your tax return unless you had a 0% PIR or you elected a PIR that was too low.

Please note that there are specific rules on how new residents of New Zealand set their PIR. Please contact your tax adviser or visit **www.ird.govt.nz** for more details.

We recommend that you seek advice from your tax adviser to determine if you are required to include any unlisted PIE allocated amounts in your tax return. We also recommend advice is sought around whether certain PIE income is required to be included for any other purposes (for example the Working for Families package) as the rules around these areas have recently changed.

3.2.2 Unlisted PIE distributions

Such amounts are considered as excluded income in terms of the Income Tax Act and therefore, clients are never required to include them in their tax returns. FNZ however reports these distributions for information purposes and so that the total distributions reported in the tax report is consistent with other reports issued by FNZ.

3.2.3 Fully imputed listed PIE distributions

Distributions received from listed PIEs are generally not taxable when received by individuals and trusts. However, individuals on a marginal tax rate of less than 28%, and trusts that have beneficiaries on a marginal tax rate of less than 28%, may benefit from electing to treat the imputed portion of distributions from listed PIEs as taxable. This is on the basis that the excess imputation and/or FDP credits can be offset against other taxable income (potentially resulting in a tax refund).

If you wish to take advantage of the imputation or FDP credits received from your listed PIE investments, you should include the gross fully imputed PIE distribution and any tax credits in your tax return.

For completeness, investors other than individuals and trusts are generally required to treat the imputed portion of distributions from listed PIEs as taxable.

Amounts showing in your tax report as “Excluded Listed PIE distributions” do not have to be included in your tax return.

3.3 Taxation of dividend income

A ‘dividend’ is a broad concept under New Zealand tax legislation and generally includes all situations where a company provides a ‘transfer of value’ to a shareholder. This ‘transfer of value’ can occasionally include non-cash items such as the distribution of shares or other non-cash assets by the company to its shareholders. FNZ interprets the dividend rules as part of discharging its role as custodian and encourages clients to seek their own tax advice on the application of the dividend rules where necessary.

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3.3.1 New Zealand dividend income

Prima facie, all New Zealand sourced dividend income is subject to RWT at 33%. However, no RWT is required to be deducted by FNZ if you had a valid RWT certificate of exemption and this was provided to FNZ.

If the company paying the dividend has attached imputation credits to the dividend, FNZ will allocate you your share of these imputation credits. Where applicable, FNZ has offset eligible tax credits against your tax liability to reduce the RWT withheld.

You should consider whether dividend or associated credits should be included in your tax return.

3.3.2 Overseas dividend income

Prima facie, FNZ is required to deduct RWT at 33% on dividend income paid to investors from an overseas resident entity. However, no RWT is required to be deducted if:

- the overseas entity is a FIF **and** the investor has, at the time the distribution is paid, elected to be subject to the FIF rules (outlined in further detail below); *or*
- if you had a valid RWT certificate of exemption and this was provided to FNZ.

If you have not elected to be subject to the FIF rules, RWT is generally deducted from all overseas dividend income. Please note that the amount of RWT withheld from dividends you receive is based on the information available at the time (being your FIF election and if the overseas entity is a FIF or is exempt from FIF).

3.4 Foreign Investment Fund rules

The Foreign Investment Fund ("FIF") regime contains rules specifically designed to tax certain overseas investments. A FIF is broadly defined to include a right (i.e. a share) in a foreign company (i.e. a company that is not resident in New Zealand). However, there are some exemptions for certain Australian ASX listed companies and Australian unit trusts. A FIF interest also includes rights in certain foreign superannuation schemes and life insurance policies. While you do not hold such investments through FNZ, holding such an interest may impact on your ability to apply the de minimis exemption (see across).

3.4.1 De minimis exemption from the FIF rules

Individuals and certain trusts can choose not to apply the FIF rules if the **total cost** of their FIF investments did not exceed $50,000 at any time during the income year. This is known as the 'de minimis' exemption. Companies, and other trusts, must apply the FIF rules regardless of the cost of their FIF investments.

Additionally, where you do not exceed the $50,000 threshold you can elect to calculate your income using the FIF rules. If you do elect to do this you are required to calculate your income using the FIF rules for four years.

Your de minimis election as at 31 March 2019 which was supplied by you or your adviser is shown at the top of the first page of your tax report.

If you have elected to be subject to the FIF rules, we have included FIF calculations in your tax report for your investments held in custody with FNZ. If you have elected not to be subject to the FIF rules, no FIF calculations have been included in your tax report.

If you have other FIF investments not held in custody with FNZ or that your adviser is not aware of, we recommend that you consider the impact of these on your FNZ de minimis election. If your de minimis election is incorrect, we recommend you contact your adviser immediately to have your de minimis election amended.

As the FIF rules are complex, we recommend that you seek advice from your tax adviser to determine if you are subject to the FIF rules, and if so, which FIF calculation method is most beneficial for you.

Note where FIF instruments have been transferred out of custody, the FIF schedules may need to be modified for transactions that occurred outside of FNZ custody as well as your actual closing FIF holdings when preparing your tax return. We suggest you refer to the appendix for more information regarding our treatment of transfers.

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3.5 Foreign tax credits

Foreign tax may be withheld from overseas interest or dividend income derived by you. The rate of withholding tax will depend on the law of the foreign jurisdiction. In many circumstances, you may be able to claim a credit against your New Zealand tax liability for the foreign tax that has been withheld.

However, there are complicated rules around the amount of the foreign tax credit which is allowed as a credit in your tax return. In general, it is limited to your New Zealand tax liability on the investments that gave rise to the foreign tax credit. For example, if your taxable income on your USA FIF investments is nil, you will be unable to claim any credits for USA tax paid for these investments. In addition, if you have New Zealand losses available, these must be offset against taxable income before foreign tax credits can be claimed. If these losses exceed your taxable income, foreign tax credits may be forfeited.

Further, certain Double Tax Agreements ("DTA") between New Zealand and foreign jurisdictions may limit the amount of the foreign tax credit. Some countries require certain steps be taken before a lower tax rate under the DTA can be applied. However, New Zealand tax rules generally limit foreign tax credits to the rate under the DTA. For example, if the DTA rate is 15% and the amount withheld in the foreign jurisdiction is based on a 30% rate, you may be limited to a tax credit at the 15% rate even though the actual tax withheld is at 30%.

Inland Revenue released a publication in November 2018 titled "A guide to foreign investment funds and the fair dividend rate (IR461)" which provides information on the eligibility to claim the benefit of foreign tax credits.

As the rules around foreign tax credits are complex, we recommend that you seek advice from your tax adviser to determine if you are eligible to claim a foreign tax credit.

3.6 Tax residency

As noted, this User Guide has been prepared to assist tax residents of New Zealand to understand their New Zealand tax obligations.

FNZ prepares different tax reports for residents of New Zealand and non-residents. If you were non-resident in New Zealand at any stage during the 2019 tax year, you will receive the non-resident report in respect of the entire year. We note that the manner in which information is reported to you and the amount of withholding tax deducted from your interest and dividend income is based on your tax residency.

The tax rules that apply if your residency changes during the year are complex and the information in your tax report should be carefully considered when completing your tax return. We would particularly recommend that you seek tax advice on how to use the information in your tax report and what adjustments may be required to the information shown (for example part year calculations).

Please notify your adviser if your recorded residency status is not currently correct or if it was not correct during the previous year.

3.7 Rebates, Fees, and Charges

On the Summary of Investment Income page, FNZ separately displays a subtotal for rebates that have been taxed through a PIE crystallisation and a subtotal for untaxed rebates. Unlisted PIE rebates are generally taxed in your unlisted PIE proxy tax calculations (as shown in the relevant section of your tax report). A separate schedule of untaxed rebates from PIE funds and other issuers is provided in the tax report and these are generally taxable. For the purposes of the following section 'How to complete your tax return', FNZ has assumed that these rebates are taxable.

Fees and charges may be deductible for tax purposes. For the purposes of the section How to complete your tax return, FNZ assumes that fees and charges are deductible, including any GST paid. If investors have claimed GST input credits for any GST paid in respect of any fees and charges in their GST returns, the deductible amount needs to be reduced by the GST already claimed.

We recommend that you seek advice from your tax adviser to determine if the rebates you received are taxable and if the fees and charges you incurred are deductible for tax purposes.

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4. COMPLETING YOUR TAX RETURN

The section below is a guideline on how to use the information contained in your tax report to populate your tax return. On the summary pages of the tax report a numbered 'Item' has been inserted which relates to an 'Item' in the '*How to complete your tax return*' section.

Your tax report should be retained for tax purposes. Together with information from other sources, the summaries at the front of the report will assist in the production of your tax return. However, the summaries are not designed to be the sole source of information, particularly if you have other investments that are not held in custody with FNZ.

Only income and distributions received while your investments are held in FNZ custody are included within your tax report. Where investments are transferred into custody part way through an income year, FNZ will only report income and distributions from the date that the investments are transferred into FNZ custody.

All amounts in the tax report summary pages are reported in New Zealand dollars. The exchange rates used are at the close of business on the day the distribution is paid. In some cases, this rate could differ from the actual rate used in the cash management conversion.

The following section should be used as a guide only. The income that is required to be included in your tax return will depend on your personal circumstances. As such, we strongly recommend you seek professional advice before filing your New Zealand tax return.

The information used to generate your tax report comes from a number of sources, including user input, domestic, and international sources. Accordingly FNZ cannot guarantee the accuracy of this information. We note that FNZ attempts to process all transactions in line with the relevant New Zealand tax requirements. However there may be rare cases where certain complicated foreign corporate transactions (for example some restructures, demergers, spinouts or takeovers) result in amounts displayed in the tax report that may require further analysis on a case-by-case basis. Accordingly clients should review the tax treatment of all transactions and seek advice as required. -FNZ does not provide tax advice.

The tax report details the various amounts of tax deducted from the income of investments held in custody with FNZ. We note that the rules around claiming any tax credits are complicated and vary depending on your specific circumstances and the nature of the investments you have held. The ability to claim tax credits that are included in your tax report may also be impacted by the investments you hold, or gains and/or losses derived from investments not held in custody with FNZ. As such, we recommend you seek professional advice if you intend to claim any tax credits displayed in your FNZ tax report as part of your tax return.

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4.1 How to complete your tax return

4.1.1 IR3 – Individual Tax Return

Please ensure that you have read the entire contents of section 3 (*General information regarding your investments*) before continuing.

IR3 Box 13A - Total Interest RWT

FNZ Tax Report	Item	NZ Tax Return
New Zealand Interest Income - NZ Resident Withholding Tax	2	
Overseas Interest Income - NZ Resident Withholding Tax	9	
		Total RWT 13A $, , .

IR3 Box 13B - Total Gross Interest

FNZ Tax Report	Item	NZ Tax Return
New Zealand Interest Income - Gross Income	1	
		Total gross interest 13B $, , .

IR3 Box 14 - Total Dividend Imputation Credits

FNZ Tax Report	Item	NZ Tax Return
New Zealand Dividend Income - NZ Imputation Credits	4	
Overseas Dividend Income (Exempt from FIF Rules) - NZ Imputation Credits	11	
Overseas Dividend Income (Subject to FIF Rules) - NZ Imputation Credits	15	
Do you elect to treat fully imputed portion of listed PIE distributions as taxable?		
Listed PIE Distributions - NZ Imputation Credits	If yes, 29	
Have you had PIE income taxed at 0% during the year?		
Unlisted PIE Income (PIR 0% for Period) - Allocated Imputation Credits	If yes, 27	
		Total dividend imputation credits 14 $, , .

Please ensure you were eligible for each PIR used during the year as this may affect your calculation for this section.

IR3 Box 14A - Total dividend resident withholding tax and payments for foreign dividends

FNZ Tax Report	Item	NZ Tax Return
New Zealand Dividend Income - Foreign Withholding Payment Credits	5	
New Zealand Dividend Income - NZ Resident Withholding Tax	6	
Overseas Dividend Income (Exempt from FIF Rules) - Foreign Withholding Payment Credits	12	
Overseas Dividend Income (Exempt from FIF Rules) - NZ Resident Witholding Tax	14	
Overseas Dividend Income (Subject to FIF Rules) - Foreign Withholding Payment Credits	16	
Overseas Dividend Income (Subject to FIF Rules) - NZ Resident Withholding Tax	18	
Do you elect to treat fully imputed portion of listed PIE distributions as taxable?		
Listed PIE Distributions - Foreign Withholding Payment Credits	If yes, 30	
Have you had PIE income taxed at 0% during the year?		
Unlisted PIE Income (PIR 0% for Period) - Allocated DWP Credits	If yes, 25	
Unlisted PIE Income (PIR 0% for Period) - Allocated RWT Credits	If yes, 26	
		Total dividend RWT and payments for foreign dividends 14A $, , .

Please ensure you were eligible for each PIR used during the year as this may affect your calculation for this section.

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IR3 Box 14B - Total Gross Dividends		
FNZ Tax Report	**Item**	**NZ Tax Return**
New Zealand Dividend Income - Gross Income	3	
Do you elect to treat the fully imputed portion of listed PIE distributions as taxable?		
Listed PIE Distributions - Gross Income	If yes, 28	
		Total gross dividends 14B $, , .

IR3 Box 17A - Total Overseas Tax Paid		
FNZ Tax Report	**Item**	**NZ Tax Return**
Overseas Interest Income - Foreign Withholding Tax	8	
Overseas Dividend Income (Exempt from FIF Rules) - Foreign Withholding Tax	13	
Overseas Dividend Income (Subject to FIF Rules) - Foreign Withholding Tax	17	
Have you had PIE income taxed at 0% during the year?		
Unlisted PIE Income (PIR 0% for Period) - Allocated Foreign Tax Credits	If yes, 24	
		Total overseas tax paid 17A $, , .

Please ensure you were eligible for each PIR used during the year as this may affect your calculation for this section.

IR3 Box 17B - Total Overseas Income		
FNZ Tax Report	**Item**	**NZ Tax Return**
Overseas Interest Income - Gross Income	7	
Overseas Dividend Income (Exempt from FIF Rules) - Gross Income	10	
Comparative Value (The Compulsory Method) - Total Comparative Value	33	
Foreign Investment Fund (FIF) Income		
Choose the lower of the Total Fair Dividend Rate and the Total Comparative Value (the Optional Method)	31 or 32	
Have you had PIE income taxed at 0% during the year?		
Unlisted PIE Income (PIR 0% for Period) - PIE Taxable Investment Income	If yes, 23	
		Total overseas income 17B $, , .

Please ensure you were eligible for each PIR used during the year as this may affect your calculation for this section.

IR3 Box 24 - Total Other Income		
FNZ Tax Report	**Item**	**NZ Tax Return**
Determine which of your management fee rebates are taxable:		
Fund Rebate Income - Untaxed Fund Rebate Income	19	
		Total other income 24 $, , .

IR3 Box 26 - Total Expenses Claimed		
FNZ Tax Report	**Item**	**NZ Tax Return**
Determine which of your fees and charges are deductible including the GST portion:		
Fees and Charges - Total Fees and Charges	20	
		Total other expenses 26 $, , .

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4.1.2 IR4 – Company Tax Return

Please ensure that you have read the entire contents of section 3 (*General information regarding your investments)* before continuing.

IR4 Box 13A - Total Interest RWT and/or NRWT		
FNZ Tax Report	**Item**	**NZ Tax Return**
New Zealand Interest Income - NZ Resident Withholding Tax	2	
Overseas Interest Income - NZ Resident Withholding Tax	9	
		Total RWT and/or NRWT 13A $, , .

IR4 Box 13B - Total Gross Interest		
FNZ Tax Report	**Item**	**NZ Tax Return**
New Zealand Interest Income - Gross Income	1	
		Total gross interest—if a loss put a minus sign in the last box 13B $, , .

IR4 Box 14 - Total Dividend Imputation Credits		
FNZ Tax Report	**Item**	**NZ Tax Return**
New Zealand Dividend Income - NZ Imputation Credits	4	
Overseas Dividend Income (Exempt from FIF Rules) - NZ Imputation Credits	11	
Overseas Dividend Income (Subject to FIF Rules) - NZ Imputation Credits	15	
Listed PIE Distributions - NZ Imputation Credits	29	
Unlisted PIE Income (PIR 0% for Period) - Allocated Imputation Credits	27	
		Total dividend imputation credits 14 $, , .

Dividends and associated credits do not need to be included in your IR4 Income Tax return if you were liable to pay Foreign Dividend Withholding Payment tax during the year on the dividends.

IR4 Box 14A - Total dividend RWT and FDP credits		
FNZ Tax Report	**Item**	**NZ Tax Return**
New Zealand Dividend Income - Foreign Withholding Payment Credits	5	
New Zealand Dividend Income - NZ Resident Withholding Tax	6	
Overseas Dividend Income (Exempt from FIF Rules) - Foreign Withholding Payment Credits	12	
Overseas Dividend Income (Exempt from FIF Rules) - NZ Resident Witholding Tax	14	
Overseas Dividend Income (Subject to FIF Rules) - Foreign Withholding Payment Credits	16	
Overseas Dividend Income (Subject to FIF Rules) - NZ Resident Withholding Tax	18	
Listed PIE Distributions - Foreign Withholding Payment Credits	30	
Unlisted PIE Income (PIR 0% for Period) - Allocated DWP Credits	25	
Unlisted PIE Income (PIR 0% for Period) - Allocated RWT Credits	26	
		Total dividend RWT and FDP credits 14A $, , .

Dividends and associated credits do not need to be included in your IR4 Income Tax return if you were liable to pay Foreign Dividend Withholding Payment tax during the year on the dividends.

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IR4 Box 14B - Total Gross Dividends

FNZ Tax Report	Item	NZ Tax Return
New Zealand Dividend Income - Gross Income	3	
Listed PIE Distributions - Gross Income	28	
		Total gross dividends 14B $, , .

IR4 Box 18A - Total Overseas Tax Paid

FNZ Tax Report	Item	NZ Tax Return
Overseas Interest Income - Foreign Withholding Tax	8	
Overseas Dividend Income (Exempt from FIF Rules) - Foreign Withholding Tax	13	
Overseas Dividend Income (Subject to FIF Rules) - Foreign Withholding Tax	17	
Unlisted PIE Income (PIR 0% for Period) - Allocated Foreign Tax Credits	24	
		Total overseas tax paid 18A $, , .

Dividends and associated credits do not need to be included in your IR4 Income Tax return if you were liable to pay Foreign Dividend Withholding Payment tax during the year on the dividends.

IR4 Box 18B - Total Overseas Income

FNZ Tax Report	Item	NZ Tax Return
Overseas Interest Income - Gross Income	7	
Overseas Dividend Income (Exempt from FIF Rules) - Gross Income	10	
Comparative Value (The Compulsory Method) - Total Comparative Value	33	
Total Fair Dividend Rate - FIF Income	31	
Unlisted PIE Income (PIR 0% for Period) - PIE Taxable Investment Income	23	
		Total overseas income—if a loss put a minus sign in the last box 18B $, , .

IR4 Box 21B - Total Other Income

FNZ Tax Report	Item	NZ Tax Return
Determine which of your management fee rebates are taxable:		
Fund Rebate Income - Untaxed Fund Rebate Income	19	
Determine which of your fees and charges are deductible (including the GST portion):		
Fees and Charges - Total Fees and Charges	20	
		Total other income—if a loss put a minus sign in the last box 21B $, , .

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4.1.3 IR6 – Trust Tax Return

Please ensure that you have read the entire contents of section 3 (*General information regarding your investments*) before continuing.

IR6 Box 9A - Total Interest RWT

FNZ Tax Report	Item	NZ Tax Return
New Zealand Interest Income - Allowable NZ Resident Withholding Tax	2	
Overseas Interest Income - Allowable NZ Resident Withholding Tax	9	

Total RWT

9A $, , .

IR6 Box 9B - Total Gross Interest

FNZ Tax Report	Item	NZ Tax Return
New Zealand Interest Income - Gross Income	1	

Total gross interest—if a loss put a minus sign in the last box

9B $, , .

IR6 Box 10 - Total Dividend Imputation Credits

FNZ Tax Report	Item	NZ Tax Return
New Zealand Dividend Income - NZ Imputation Credits	4	
Overseas Dividend Income (Exempt from FIF Rules) - NZ Imputation Credits	11	
Overseas Dividend Income (Subject to FIF Rules) - NZ Imputation Credits	15	
Do you elect to treat fully imputed portion of listed PIE distributions as taxable?		
Listed PIE Distributions - NZ Imputation Credits	If yes, 29	
Have you had PIE income taxed at 0% during the year?		
Unlisted PIE Income (PIR 0% for Period) - Allocated Imputation Credits	If yes, 27	

Total dividend imputation credits

10 $, , .

Please ensure you were eligible for each PIR used during the year as this may affect your calculation for this section.

IR6 Box 10A - Total Dividend RWT and Payment for Foreign Dividends

FNZ Tax Report	Item	NZ Tax Return
New Zealand Dividend Income - Foreign Withholding Payment Credits	5	
New Zealand Dividend Income - NZ Resident Withholding Tax	6	
Overseas Dividend Income (Exempt from FIF Rules) - Foreign Withholding Payment Credits	12	
Overseas Dividend Income (Exempt from FIF Rules) - NZ Resident Witholding Tax	14	
Overseas Dividend Income (Subject to FIF Rules) - Foreign Withholding Payment Credits	16	
Overseas Dividend Income (Subject to FIF Rules) - NZ Resident Withholding Tax	18	
Do you elect to treat fully imputed portion of listed PIE distributions as taxable?		
Listed PIE Distributions - Foreign Withholding Payment Credits	If yes, 30	
Have you had PIE income taxed at 0% during the year?		
Unlisted PIE Income (PIR 0% for Period) - Allocated DWP Credits	If yes, 25	
Unlisted PIE Income (PIR 0% for Period) - Allocated RWT Credits	If yes, 26	

Total dividend RWT and payment for foreign dividends

10A $, , .

Please ensure you were eligible for each PIR used during the year as this may affect your calculation for this section.

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IR6 Box 10B - Total Gross Dividends

FNZ Tax Report	Item	NZ Tax Return
New Zealand Dividend Income - Gross Income	3	
Do you elect to treat the fully imputed portion of listed PIE distributions as taxable?		
Listed PIE Distributions - Gross Income	If yes, 28	

Total gross dividends

10B $ ___ , ___ , ___ . ___

IR6 Box 13A - Total Overseas Tax Paid

FNZ Tax Report	Item	NZ Tax Return
Overseas Interest Income - Allowable Foreign Withholding Tax	8	
Overseas Dividend Income (Exempt from FIF Rules) - Allowable Foreign Withholding Tax	13	
Overseas Dividend Income (Subject to FIF Rules) - Allowable Foreign Withholding Tax	17	
Have you had PIE income taxed at 0% during the year?		
Unlisted PIE Income (PIR 0% for Period) - Allowable Allocated Foreign Tax Credits	If yes, 24	

Total overseas tax paid

13A $ ___ , ___ , ___ . ___

Please ensure you were eligible for each PIR used during the year as this may affect your calculation for this section.

IR6 Box 13B - Total Overseas Income

FNZ Tax Report	Item	NZ Tax Return
Overseas Interest Income - Gross Income	7	
Overseas Dividend Income (Exempt from FIF Rules) - Gross Income	10	
Comparative Value (The Compulsory Method) - Total Comparative Value	33	
Foreign Investment Fund (FIF) Income		
Choose the lower of the Total Fair Dividend Rate and the Total Comparative Value (the Optional Method)	31 or 32	
Have you had PIE income taxed at 0% during the year?		
Unlisted PIE Income (PIR 0% for Period) - PIE Taxable Investment Income	If yes, 23	

Total overseas income—if a loss, put a minus sign in the last box

13B $ ___ , ___ , ___ . ___

Please ensure you were eligible for each PIR used during the year as this may affect your calculation for this section.

IR6 Box 16B - Total Other Income

FNZ Tax Report	Item	NZ Tax Return
Determine which of your management fee rebates are taxable:		
Fund Rebate Income - Untaxed Fund Rebate Income	19	

Total other income—if a loss, put a minus sign in the last box

16B $ ___ , ___ , ___ . ___

IR6 Box 19 - Total Expenses Claimed

FNZ Tax Report	Item	NZ Tax Return
Determine which of your fees and charges are deductible including the GST portion:		
Fees and Charges - Total Fees and Charges	20	

Total expenses claimed

19 $ ___ , ___ , ___ . ___

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5. RESIDENT WITHHOLDING TAX DEDUCTED BY FNZ

Broadly speaking, as a nominee for tax purposes, FNZ is required to deduct RWT on dividend and interest income paid to New Zealand resident investors on the Wrap Platform (Wrap).

5.1 Interest income

FNZ has deducted RWT on interest income derived by investors based on their elected RWT rate in Wrap at the time of the distribution. If you did not provide FNZ or your adviser with a valid IRD number, FNZ has withheld RWT on interest income at the highest RWT rate.

If you provided a valid IRD number and did not provide FNZ or your adviser with a RWT rate election, RWT has been withheld on interest at the applicable default tax rate depending on your entity type.

Where applicable, FNZ has offset eligible tax credits against any tax liability to reduce the RWT required to be withheld by FNZ. No RWT is deducted on interest income if you elected a 0% RWT rate and provided a valid RWT certificate of exemption to FNZ.

The amount of RWT deducted by FNZ is determined based on the information available at the time of the distribution. If an incorrect amount of RWT has been withheld, you should contact your adviser immediately. As RWT is a refundable tax credit, any overpayment can generally be refunded by filing a tax return, or by filing an IR 454 (for those entities that are not required to file a tax return). Please note that a company's income tax refund is generally limited to the balance in its imputation credit account ("ICA") at the end of the income year.

If you are unsure how this affects you, we recommend that you seek advice from your tax adviser.

5.2 Dividend income

5.2.1 New Zealand dividend income

Prima facie, all New Zealand sourced dividend income is subject to RWT at 33% (less credit for any eligible tax credits which may be attached). However, no RWT is required to be deducted by FNZ if you had a valid RWT certificate of exemption and this was provided to FNZ.

Where applicable, FNZ has offset eligible tax credits against your tax liability to reduce the RWT withheld.

5.2.2 Overseas dividend income

Prima facie, FNZ is required to deduct RWT at 33% on dividend income paid to investors from an overseas resident entity. However, no RWT is required to be deducted if the overseas entity is a FIF and the investor has, at the time the distribution is paid, elected to be subject to the FIF rules. Please note that the FIF rules are discussed in further detail in section 9 and 10 of this guide.

If you have not elected to be subject to the FIF rules, RWT is generally deducted from all overseas dividend income derived by you unless you provided FNZ with a valid RWT certificate of exemption.

Where the investor changes their election to become subject to the FIF rules during the tax year, all distributions received from FIF investments from that point forward will no longer have RWT deducted at 33%. Investors may wish to claim a credit in their tax return for any RWT that has been deducted on distributions from FIF investments at times when the investor was not subject to the FIF rules.

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Where the investor changes their election in Wrap to no longer be subject to the FIF rules during the income year, all distributions received from FIF investments from that point forward will be subject to RWT at 33%. Please note that these investors may be required to file a tax return to ensure tax is paid on distributions from FIF investments (that were not subject to RWT) while the investor was subject to the FIF rules.

Where applicable, FNZ has offset foreign tax paid to reduce the RWT withheld. No RWT shall be deducted on dividend income if the investor has elected a 0% RWT rate and a valid RWT certificate of exemption has been provided to FNZ.

The amount of RWT deducted by FNZ is determined based on the information available at the time of the distribution. If you believe an incorrect amount of RWT has been withheld, you should contact your adviser immediately. As RWT is generally a refundable tax credit, any overpayment can be refunded by filing a tax return or by filing an IR 454 (for those entities that are not required to file a tax return). Please note that a company's income tax refund is generally limited to the balance in its ICA at the end of the income year.

If you are unsure how this affects you, we recommend that you seek advice from your tax adviser.

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6. FIXED INTEREST INVESTMENTS AND THE FINANCIAL ARRANGEMENTS RULES

Generally, you must calculate income and expenditure from your financial arrangements using the “financial arrangement rules” (commonly known as the accrual rules). Broadly, a financial arrangement is a debt or debt like instrument (for example, bonds, and fixed interest investments). If you are a “cash basis person”, income is calculated on an interest paid/received basis. If you are not a cash basis person, income must be calculated each year using an accrual rather than cash method. Please note that all interest income is reported in the tax report on a cash basis (that is, reported when the payment is received by FNZ). Depending on your individual circumstances, the cash basis method may not be appropriate for tax purposes.

In addition to reporting your interest receipts in your tax return, you may be required to make adjustments for any accrued interest and/or discounts or premiums included in the purchase price of any fixed interest securities that you have acquired. Similarly, adjustments may be required for any accrued interest and premiums or discounts that are included in the sale proceeds where securities are sold before maturity date. Information contained in the Direct Bond Trade Report within your tax report will assist you in determining these adjustments.

You should note that depending on your circumstances, any losses or credit impairments resulting from deposits made with finance companies may be a capital loss and, as such, may not be deductible for tax purposes. However, an investor’s business that includes holding or dealing in financial arrangements of the type giving rise to the loss may be able to claim a tax deduction for the loss provided certain requirements are met. You are encouraged to seek professional tax advice before claiming a tax deduction for such losses.

Accrual tax reporting is a complex area of law. We have included this information to help assist you to determine how the accrual rules apply to you.

6.1 Cash Basis Person and method

The cash basis rules exist to provide compliance concessions to persons who hold financial arrangements of a less than substantive value. The cash basis rules also allow non individuals such as companies and trusts to apply the cash basis rules where certain criteria are met. Investors are required to determine their eligibility to use the cash basis method every income year.

The following flowchart summarises an investor’s ability to be a cash basis person. The section following the flowchart outlines some specific rules to use when applying the flowchart.

6.1.1 Beneficiary or trustee of a trust

If you are a beneficiary or trustee of a trust, you may be required to either include or exclude the value of the financial arrangements held by the trust when determining if you, in your personal capacity, are a cash basis person. Similarly, this treatment may be required for financial arrangement income and expenditure derived by the trust. These requirements are considered in further detail below.

6.1.1.1 Trustee of an estate

If you are the trustee of an estate, you may be a cash basis person if at the time of the deceased’s death the deceased person was a cash basis person and the cash basis thresholds (outlined in the flowchart above) are met. If these criteria are met, you may be treated as a cash basis person for the income year of the deceased’s death and the four subsequent income years provided the cash basis test is met each income year.

If you fail to meet the cash basis test, you must apply an accrual method, and are not permitted to use the cash basis method in any subsequent income years. This is irrespective of whether or not the deceased’s estate meets the cash basis test in future income years.

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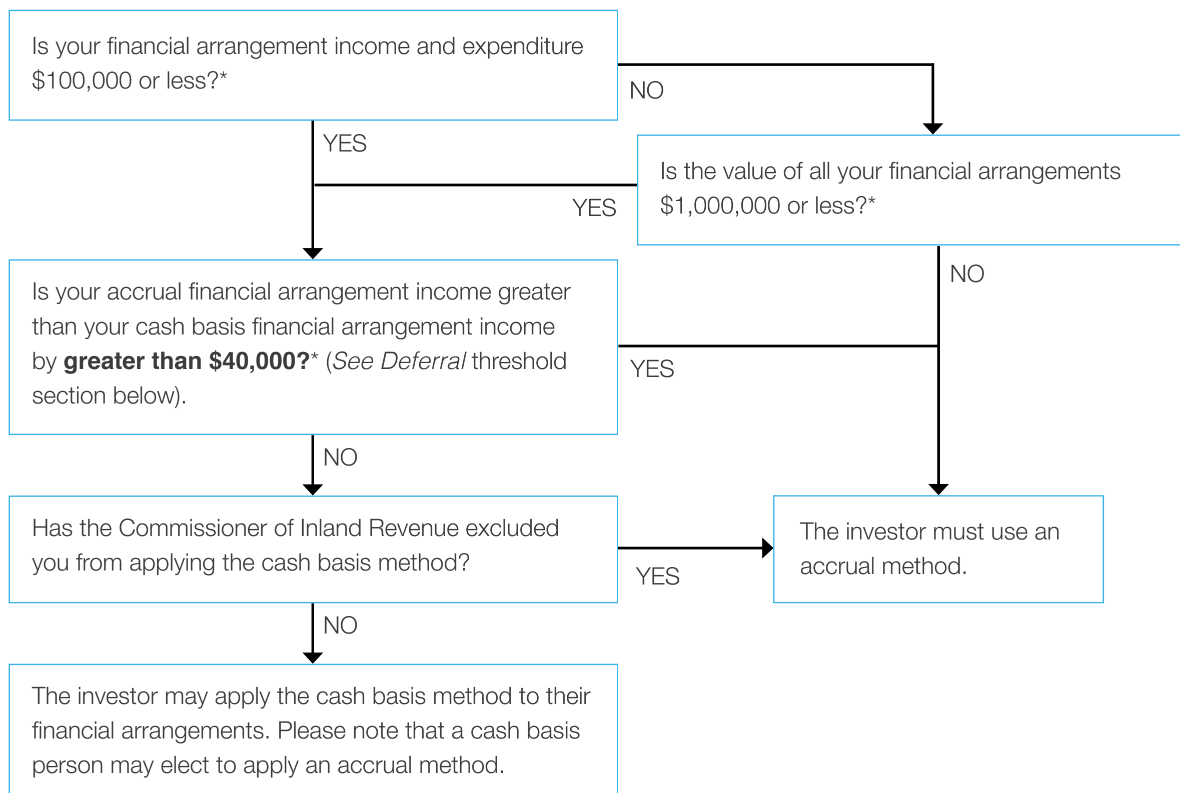

*If you are a beneficiary or a trustee of a trust, please read the *Beneficiary or trustee* sections below.

6.1.1.2 Beneficiary of a bare trust

If you are a beneficiary of a bare trust, you must calculate your share of the trust's financial arrangements and the income and expenditure from the trust's financial arrangements. In effect, you (as beneficiary) are treated as being a party to the arrangement.

The result of these calculations is included when determining if you, in your personal capacity, meet the cash basis test.

6.1.1.3 Trustee of a trust (other than a bare trust or estate)

If you are a trustee of a trust (other than a bare trust or estate), the following trust amounts are excluded when applying the tests to your personal position:

- the value of the arrangement, if it produces trustee income or beneficiary income under the trust rules;
- the income under the arrangement that is trustee income or beneficiary income under the trust rules;
- the value of the financial arrangement, if expenditure is incurred under it; *and*
- the expenditure incurred under the arrangement.

These exclusions ensure that you (as an investor who is a trustee of a trust) do not count the trust's financial arrangements when determining if you are, in your personal capacity, a cash basis person.

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6.1.1.4 Beneficiary of a trust (other than a bare trust)

If you are a beneficiary of a trust (other than a bare trust), the following trust amounts are excluded when applying the tests to determine your personal position:

- the value of the arrangement, if it produces trustee income or beneficiary income under the trust rules; *and*
- the income under the arrangement that is trustee income or beneficiary income under the trust rules.

These exclusions ensure that you (as a beneficiary) do not count the trust's financial arrangements when determining if you are, in your personal capacity, a cash basis person.

6.1.2 Deferral threshold

A person who meets either the $100,000 income test or the $1,000,000 financial arrangement test, or both, must also determine if the difference between an accrual basis and the cash basis is less than $40,000 to be a cash basis person.

The formula to be applied to each financial arrangement is as follows:

(accrual income – cash basis income) + (cash basis expenditure – accrual expenditure)

Where:

- accrual income is the income calculated using an approved accrual basis method;
- cash basis income is income determined on a cash basis;
- cash basis expenditure is expenditure incurred on a cash basis; *and*
- accrual expenditure is the expenditure incurred using an approved accrual basis method.

For example, this situation may arise where the coupon payment (cash basis) is much lower than the internal rate of return (accrual basis) of the financial arrangement.

Where the sum of the above calculation for all financial arrangements held by you is greater than $40,000, you do not qualify to use the cash basis and must apply an accrual spreading method.

6.1.3 Base Price Adjustment

Generally, a Base Price Adjustment (BPA) is required to be performed when a person (including a cash basis person) ceases to be a party to a financial arrangement (for example, but not limited to, disposal, maturity or absolute assignment) and may also be required if the financial arrangement is mutually varied. A BPA is also required where a person (including a cash basis person) ceases to be a New Zealand tax resident.

A BPA is essentially a "wash up" calculation intended to identify any income or expenditure under the financial arrangement which has not already been returned by the investor in earlier income years.

The BPA is a formula which, very broadly, compares all consideration received under the financial arrangement with all consideration paid under the financial arrangement. A BPA calculation that produces a positive result will be taxable to the investor.

Correspondingly, a negative amount that is calculated under a BPA may be tax deductible to the investor as expenditure incurred. This area can be quite complex. Please consult with your tax adviser to confirm that any negative amount you calculate can be claimed as a tax deduction.

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The BPA formula which the investor should apply in relation to the financial arrangement is as follows:

(consideration – income + expenditure + amount remitted)

Broadly, consideration is defined as "all consideration paid, or payable, to the person, minus all consideration paid, or to be paid, by the person".

Income is defined as income from the financial arrangement in earlier income years, any dividend arising from a company releasing debt owed by the person as a shareholder and any suspensory loan remission.

Expenditure is defined as "expenditure incurred by the person under the financial arrangement in earlier income years."

Amount remitted is defined as "any amount that is not included as part of the consideration because it has been remitted by the person or by operation of law."

A BPA is required to be performed irrespective of whether the investor returns income under a cash basis or an accrual method. We provide an example of a BPA for a cash basis person below.

6.1.4 Ceasing to be or becoming a cash basis person

Where you cease to be a cash basis person, or where you cease to be required to use the accrual method and choose to use the cash basis method, an adjustment is required to be made to the income and expenditure that you must return as income in the income year your method changed.

Please consult your tax adviser for further information if you have changed from the cash basis to the accrual basis, or vice versa, during the income year.

6.2 Accrual methods

Where you do not meet the criteria to use the cash basis method, you must use an accrual method to calculate income and expenditure from your financial arrangements.

An accrual method will generally require you to spread the income and expenditure from your investment over the life of the investment. Yield to maturity is the default method (except IFRS taxpayers, see below). This requires the calculation of an internal rate of return (IRR) for the cashflows from the investment. This IRR is used to spread the income over tax years. The income calculated under the IRR spreading method may not match the interest actually received during the period.

You may be eligible to use an accrual spreading method other than yield to maturity depending on the nature of the financial arrangements you hold. Please contact your tax adviser to determine the accrual spreading methods applicable to your circumstances.

Some specific issues are considered below.

6.2.1 IFRS taxpayers

If you are required to prepare financial statements under NZ International Financial Reporting Standards (IFRS), you are typically required to adopt a specific accrual spreading method which differs from those available to a person or entity that does not use IFRS.

Given that an IFRS taxpayer must prepare financial statements, they generally have the option of following the treatment adopted for financial reporting purposes (the default method) or electing another method if they meet the specific criteria.

We have not provided a worked example for an IFRS taxpayer due to the various methods which may be available to be applied and the degree of complexity inherent in these calculations. If you prepare your financial statements under IFRS, please consult your tax adviser for further information regarding the accrual spreading methods available to you.

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6.2.2 Foreign denominated financial arrangements

Please note that where you hold financial arrangements that are denominated in a foreign currency, you may be required to adopt a specific accrual spreading method. This is a complex area of tax law and as such, we recommend you seek advice from your tax adviser to determine the appropriate accrual spreading method for your circumstances.

6.2.3 Certain bonds sold before first coupon date

It is not uncommon for bonds which have been released to the market for the first time (new bonds) to require that the first interest coupon payment be made to the original purchaser. This requirement is typically irrespective of whether or not the original purchaser holds the new bond at the time the interest payment is made.

Please contact your tax adviser if you have purchased a new bond and subsequently sold it before you received the first coupon payment, or if you have purchased a new bond where you are not entitled to receive the first coupon payment, as this may affect the amount of income you are required to return under the accrual rules.

6.2.4 Base Price Adjustment

As outlined above, a BPA is generally required to be performed when a person ceases to be a party to a financial arrangement, or ceases to be a New Zealand tax resident. Investors that use an accrual method are also required to perform a BPA. We provide an example of a BPA for an accrual basis person below.

6.2.5 Election to apply an accrual method

An investor who meets the cash basis test may elect to apply an accrual method. We recommend that you discuss the implications of this election with your tax adviser prior to making an election.

6.3 Worked examples

We illustrate below some of the common calculations which are required to be made under the accrual rules. We have included this to assist you with understanding the types of adjustments required for cash and accrual tax reporting. Please note that these calculations should only be used as a guide. We recommend that you consult your tax adviser to determine the appropriate application of the accrual rules to your financial arrangements.

Furthermore, these examples are based on investors who do not prepare their financial statements under IFRS. If you prepare financial statement under IFRS, please consult your tax adviser.

6.3.1 Simple accrued interest at balance date - accrual method

John is a New Zealand resident for tax purposes on 1 July 2012, John purchased a New Zealand dollar bond with a face value of $100,000. John does not meet the criteria to be a cash basis person.

The bond pays interest at 10% biannually on 30 June and 31 December. For simplicity, we have assumed that the coupon rate is equal to the internal rate of return and that no other accrual spreading method is required to be used to calculate income and expenditure. John's balance date is 31 March 2013 so he is required to calculate and return as income the interest which he has received and which has accrued at 31 March 2013.

John is required to return the 31 December 2012 coupon interest payment of $5,000 as income in the 2013 income year. John is also required to return a portion of the 30 June 2013 coupon payment which has accrued at 31 March 2013. The calculation John is required to perform to calculate the accrued interest as at 31 March 2013 is:

= (face value x coupon rate) x (days interest has accrued* / 365)

= ($100,000 x 10%) x (90/365)

= $2,465.75

* The days the interest has accrued represents the number of days between the first day of the interest-accruing period (1 January 2013) and the calculation date (31 March 2013).

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In total, John will return interest income of $7,465.75 in the 2013 income year.

Please note that if you purchased your bond instrument at face value (i.e. par value), your adviser may be able to provide you with a valuation report that may detail the accrued interest on the bond instrument. Obtaining a valuation report at the beginning and the end of the income year may assist you with your accrual calculations. Please contact your tax adviser for further information.

6.3.2 Accrued interest on purchase, premium paid or discount received - accrual method

For the purposes of the accrual rules, an accrual basis investor who purchases a financial arrangement at a value which is not face value must use an applicable spreading method to spread income and expenditure from the financial arrangement. For this purpose, any premium paid, discount received or accrued interest is taken into account as part of the initial cash flow and is not separately dealt with. This effectively means that these items are spread over the remaining life of the instrument.

We illustrate below the calculations required when purchasing a bond above face value.

Sarah is a New Zealand resident for tax purposes. Sarah does not meet the criteria to be a cash basis person. On 12 March 2012, Sarah purchased a New Zealand dollar bond (ABC Limited) with a face value of $1,000,000 for $1,012,500. The bond matures on 15 November 2013, at which point the face value of the bond is repaid. The bond pays interest at 14% biannually on 15 May and 15 November. Sarah has a 31 March balance date.

As Sarah is not a cash basis person, she will be required to calculate income and expenditure using an accrual method, in this situation, yield to maturity. In essence, this calculation spreads the amount Sarah paid for the bond (including any premium paid or discount received) and any accrued interest on purchase over the life of the bond using an internal rate of return (IRR).

We have inserted below the Direct Bond Trade report from Sarah's tax report for the year ended 31 March 2012. The "Settlement Amount" detailed in the Direct Bond Report should be used in the yield to maturity calculation (as shown below). We have referenced the Direct Bond Trade report to the yield to maturity calculation below to assist you with the calculations.

Direct Bond Trade Report (year ended 31 March 2012)

Settlement Date	Instrument Description	Instrument Code	Trade Type	Face Value	Settlement Amount	=	Capital Price	+	Accrued Interest	FX Rate	Currency
12/03/2012	ABC Ltd 14% bi-annual bond	ABC123	Buy	1,000,000.00	1,012,500.00 [1]	=	967,239.73	+	45,260.27	1.0000	NZD

Below is the yield to maturity income calculation for each interest period based on an IRR of 16.1918%. This rate takes into account the accrued interest on the bond at purchase date. Please note that an IRR can be calculated using software programs such as Microsoft Excel. Alternatively, please contact your tax adviser for further information.

Period ending	Days in period	Original settlement amount / principal outstanding*	Income in respect of period	Payments received at end of period
15/05/2012	64	$1,012,500.00 [1]	$28,745.96	$70,000.00
15/11/2012	184	$971,245.96	$79,277.30	$70,000.00
15/05/2013	181	$980,523.26	$78,729.64	$70,000.00
15/11/2013	184	$989,252.90	$80,747.10	$1,070,000.00
Total	613	$0.00	$267,500.00	$1,280,000.00

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* To calculate the principal outstanding, add the original settlement amount and the income in respect of the period, and subtract the payment received at the end of the period.

To determine the amount of income to be returned each income year, Sarah must allocate income to each income year on a daily basis. We outline this allocation in the table below. Note that in the final year, Sarah will be required to perform a BPA to calculate the income which must be returned.

Period ending	Income in respect of period	Days in period	Allocation to income year	Days	Amount	Total income allocated to each income year
15/05/2012	$28,745.96	64	2011/2012		$8,533.96	$8,533.96
			2012/2013	45	$20,212.00	
15/11/2012	$79,277.30	184	2012/2013	184	$79,277.30	
15/05/2013	$78,729.64	181	2012/2013	136	$59,155.97	$158,645.27
			2013/2014	45	$19,573.67	
15/11/2013	$80,747.10	184	2013/2014	184	$80,747.10	$100,320.77
Total	**$267,500.00**	**613**		**613**	**$267,500.00**	**$267,500.00**

2014 tax year

In the year in which the bond matures, Sarah would perform a BPA calculation as follows:

BPA calculation	Consideration returned	Income already returned	Expenditure already	Amount remitted
Cost	-$1,012,500.00	$167,179.23	$0.00	$0.00
Interest received / receivable	$280,000.00			
Capital repayment	$1,000,000.00			
Total	**$267,500.00**	**$167,179.23**	**$0.00**	**$0.00**

Applying the BPA formula, Sarah would return income for the year ended 31 March 2014 of:

= (consideration – income + expenditure + amount remitted)

= ($267,500 – $167,179.23 + 0 + 0)

= $100,320.77

6.3.3 Accrued interest on purchase, premium paid or discount received- cash basis person

Based on the above example, if Sarah was a cash basis person, her income would be returned as follows:

Allocation to income year	Income amount
Income for year ended 31/03/2012	***$0.00***
15/05/2012 - payment received	$70,000.00 [2]
15/11/2012 - payment received	$70,000.00 [2]
Accrued interest on purchase	-$45,260.27 [3]

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Income for year ended 31/03/2013	*$94,739.73*
15/05/2013 - payment received	$70,000.00 [4]
15/11/2013 - payment received	$70,000.00 [4]
Discount received (net base price adjustment)	$32,760.27
Income for year ended 31/03/2014	***$172,760.27***
Total income returned	**$267,500.00**

2012 tax year

As Sarah did not receive any interest payments for the year ended 31 March 2012, she would not return any interest income in the 2012 income year.

2013 tax year

Sarah must return the interest she received in the 2013 tax year.

The interest payments received information is detailed in the New Zealand Interest Income and Tax Information reports for the income years that Sarah holds the bond.

Where applicable, we have referenced the table above to the New Zealand Interest Income and Tax Information report (for the 2013 and 2014 income years) and the Direct Bond Trade report. This information contained in these reports is used to calculate the income Sarah would return in the 2013 and 2014 income years (detailed below).

New Zealand Interest Income and Tax Information (year ended 31 March 2013

				Deductions					
Date	Instrument Description	Instrument Code	Gross Interest Income (Local)	Source Withholding Tax (Local)	NZ Resident Withholding Tax (Local)	Net Interest Income (Local)	Net Interest Income (NZD)	FX Rate	Currency
Interest on New Zealand Securities									
15/05/2012	ABC Ltd 14% bi-annual bond	ABC123	70,000.00 [4]	0.00	27,300.00	42,700.00	42,700.00	1.0000	NZD
15/11/2012	ABC Ltd 14% bi-annual bond	ABC123	70,000.00 [4]	0.00	27,300.00	42,700.00	42,700.00	1.0000	NZD
Total Interest on New Zealand Securities (NZD)			**140,000.00**	**0.00**	**54,600.00**		**85,400.00**		**NZD**
New Zealand Interest Income (NZD)			**140,000.00**	**0.00**	**54,600.00**		**85,400.00**		**NZD**

(R) = Next Coupon Reset Date, (C) = Next Call Date

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Where accrued interest on the purchase of the bond can be calculated, Sarah is permitted to deduct this amount from the first interest payment received.

Direct Bond Trade Report (year ended 31 March 2012)

Settlement Date	Instrument Description	Instrument Code	Trade Type	Face Value	Settlement Amount	=	Capital Price	+	Accrued Interest	FX Rate	Currency
12/03/2013	ABC Ltd 14% bi-annual bond	ABC123	Buy	1,000,000.00 [5]	1,012,500.00 [1]	=	967,239.73	+	45,260.27 [3]	1.0000	NZD

The accrued interest on purchase of the bond may be detailed in the Direct Bond Trade report in the income year the bond instrument is purchased. If not, please contact your adviser.

Accordingly, Sarah would return as income $94,739.73 ($70,000 [2] + $70,000 [2] - $45,260.27 [3]) for the year ended 31 March 2013.

2014 tax year

In the 2014 year, Sarah would be required to do the BPA as follows:

BPA calculation	Consideration returned	Income already returned	Expenditure already	Amount remitted
Cost	-$1,012,500.00	$166,619.52	$0.00	$0.00
Interest received / receivable	$280,000.00			
Capital repayment	$1,000,000.00			
Total	**$267,500.00**	**$166,619.52**	**$0.00**	**$0.00**

Applying the BPA formula, Sarah would return interest income for the year ended 31 March 2014 of:

= (consideration – income + expenditure + amount remitted)

= ($267,500 – $94,739.73 + 0 + 0)

= $172,760.27

Overall, the result of the BPA is consistent with the cash basis calculation above.

This result can be split into two parts: the interest income ($140,000) and the discount on acquisition ($32,760.27).

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The interest income is the coupon payments she received during the year:

New Zealand Interest Income and Tax Information (year ended 31 March 2014)

Date	Instrument Description	Instrument Code	Gross Interest Income (Local)	Deductions: Source Withholding Tax (Local)	Deductions: NZ Resident Withholding Tax (Local)	Net Interest Income (Local)	Net Interest Income (NZD)	FX Rate	Currency
Interest on New Zealand Securities									
15/05/2013	ABC Ltd 14% bi-annual bond	ABC123	70,000.00 [2]	0.00	27,300.00	42,700.00	42,700.00	1.0000	NZD
15/11/2013	ABC Ltd 14% bi-annual bond	ABC123	70,000.00 [2]	0.00	27,300.00	42,700.00	42,700.00	1.0000	NZD
Total Interest on New Zealand Securities (NZD)			**140,000.00**	**0.00**	**54,600.00**		**85,400.00**		**NZD**
New Zealand Interest Income (NZD)			**140,000.00**	**0.00**	**54,600.00**		**85,400.00**		**NZD**

(R) = Next Coupon Reset Date, (C) = Next Call Date

The discount received on the purchase of the bond can be calculated using the following formula:

= (purchase price – face value – accrued interest)

= ($1,012,500 [1] – $1,000,000 [5] – $45,260.27 [3])

= -$32,760.27 (discount)

In total, Sarah would return income of $267,500 over the life of the bond.

6.3.4 Differences between accrual basis and cash basis

While the yield to maturity spreading method spreads any accrued interest and premium paid or discount received on purchase of the bond using the IRR, there is no such spreading under the cash basis method.

Instead, any amount paid for accrued interest can be claimed as a deduction against the first interest received and any discount received returned as income in the year the financial arrangement matures, or when the person ceases to be a party to the financial arrangement.

6.4 Overseas Fixed Interest Investments

Overseas fixed interest investments are treated similarly to New Zealand fixed interest investments, and as such are subject to the financial arrangements tax rules (as outlined above).

Interest will generally be considered taxable, including premiums and discounts that are part of the purchase or sale price. Also any foreign exchange gains or losses are generally taxable.

Please contact your tax adviser for further information.

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7. PORTFOLIO INVESTMENTS ENTITIES

7.1 Unlisted PIEs

If you had a holding in an unlisted Portfolio Investment Entity (PIE), income and tax credits have been allocated to you during the tax year. Your tax liability on this allocated PIE income is calculated based on your elected Prescribed Investor Rate (PIR) in Wrap at the time the tax liability is calculated (less a credit for any allocated tax credits).

FNZ is a Portfolio Investment Proxy (PIP) and has, for the period in which your unlisted PIE investments were held in custody with FNZ, undertaken certain obligations of the PIE. This includes the allocation of income and tax credits, and the calculation of PIE tax payable.

Distributions from unlisted PIEs are not generally subject to tax. Instead, the PIE's taxable income is allocated to investors periodically (usually on a daily basis) and a tax obligation is accrued based on the unit holding in that PIE at each income allocation date. There is not necessarily a correlation between PIE taxable income and the distributions received from a PIE.

If you are an individual or joint investor and have elected the correct PIR or a PIR that was too high throughout the income year, you will generally not be required to include PIE allocated income in your tax return.

Trusts that have been taxed at a PIR other than the highest PIR may be required to include all PIE income and tax credits in their tax return. Companies are generally required to include PIE allocated income in their tax return.

7.1.1 PIE tax crystallisation events

Unlisted PIE tax is "crystallised" and paid when you either partly or fully dispose of your units in an unlisted PIE; you transfer your PIE units out of custody with FNZ; or at the end of the tax year.

At each PIE tax crystallisation event, FNZ calculates the income to be attributed which is then subject to tax at your PIR.

For crystallisations that occur during the tax year, FNZ will calculate either a rebate or an amount of tax to pay. Any tax liability will be funded from your cash account. Any rebates will be paid into your cash account.

For the year-end crystallisation, FNZ allows you to elect a PIE tax settlement method, being either cash or units. For both options, any PIE tax payable is debited from your cash account. Where you elect the unit settlement method, FNZ Custodians Ltd will place a sell order for the units in that PIE fund equal to the value of the PIE tax payable (note that the money received from the sale of the units may not fully extinguish the PIE tax liability).

7.1.2 Crystallisation ratio

The crystallisation ratio is calculated by dividing the number of units sold or transferred out of custody with FNZ (referred to as 'Event Quantity' in the tax report) by the total units held by the investor in that unlisted PIE prior to the taxable event taking place (referred to as 'Total Client holdings' in the tax report).

Note that when calculating a PIE tax year-end crystallisation, the crystallisation ratio is 100% (that is, all income and tax credits allocated throughout the tax year are included in this crystallisation).

Example

Jane holds 800 unlisted PIE units in a single unlisted PIE investment. Jane sells 200 units. The crystallisation ratio is 25.00% (200/800 units).

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7.1.3 PIE taxable income / (loss)

The PIE taxable income/(loss) figure in the tax report represents the taxable income or loss allocated to you for that PIE investment either since the beginning of the year; since the investment was transferred into custody with FNZ (if transferred during the current tax year); or since the PIE investment was purchased (if purchased during the current tax year) and any taxable management fee rebates refunded by the PIE manager.

7.1.4 Attributable taxable income / (loss)

The attributable taxable income/(loss) figure in the tax report represents the PIE taxable income/(loss), less any PIE income calculated in prior PIE tax crystallisations (that occurred within the same tax year) and multiplied by the crystallisation ratio.

This is best described by an example:

At the start of the year Henry owns 800 units of an unlisted PIE, hereby referred to as 'ABC PIE'. Part way through the year, Henry sells 200 units of ABC PIE. This triggers a PIE tax crystallisation event. Assume for the purpose of this example that the PIE taxable income on these 800 units up to the date of sale is $20.00.

To calculate the attributable taxable income/(loss), take the PIE Taxable income ($20.00), subtract any earlier attributable taxable income that had been crystallised during the tax year (in this case $0.00) and multiply by the crystallisation ratio. In this case, the crystallisation ratio is 25% (200/800 units). The attributable PIE taxable income for this crystallisation is:

($20.00 - $0.00) x 25% = $5.00

A few months later (but within the same tax year), Henry sells a further 300 units in ABC PIE. Assume for the purpose of this example that the year-to-date PIE taxable income for this crystallisation is $14.00 (due to the PIE incurring a $6 taxable loss since the first mentioned taxable event). The crystallisation ratio for this event is 50% (300/600 units).

Using the formula outlined above, the attributable PIE taxable income for this crystallisation is:

($14.00 - $5.00) x 50% = $4.50

No further purchases or sales are made and at the end of the tax year, Henry holds 300 units in ABC PIE. Assume for the purpose of this example that the PIE taxable income for this crystallisation is $25.00. As this is a year-end PIE tax event, the crystallisation ratio is 100% (300/300 units).

Using the formula outlined above, the attributable taxable income for this crystallisation is:

($25.00 - $5.00 - $4.50) x 100% = $15.50

As such, the total income for the year of $25.00 has been taxed over the year, i.e. over three taxing events for $5.00, $4.50, and $15.50.

7.1.5 Gross PIE tax payable / (rebate)

Gross PIE tax payable/(rebate) is calculated by multiplying the attributable taxable income/(loss) by the client's PIR for each PIE tax crystallisation event.

Example

Taking the first PIE tax crystallisation example from above, the attributable taxable income is $5.00 and the client's PIR is 28%. The gross PIE tax payable is:

$5.00 x 28% = $1.40

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7.1.6 Net PIE tax payable / (rebated)

This is calculated by subtracting any tax credits from the Gross PIE tax payable for each PIE crystallisation event.

7.1.7 PIE tax and incorrect PIRs

Generally, for all individuals and joint investors, or trusts that elected the highest PIR throughout the tax year, PIE tax is a final tax. That is, PIE allocated income is not required to be included in your tax return.

However, for trusts that had been taxed at a PIR other than the highest PIR, or individuals that had been taxed at an lower than required PIR, PIE allocated income may be required to be included in your tax return and be taxed at your marginal tax rate. Companies are generally required to include PIE allocated income in their tax returns.

Where this is the case, a tax credit can generally be claimed for any PIE tax already paid. If a higher than required PIR is used, any excess PIE tax paid on behalf of the investor is generally not refundable from the Inland Revenue.

You should notify your adviser or tax adviser as appropriate if you believe that your PIR is incorrect during the previous or current tax year, or if your situation changes such that a different PIR should apply from the start of the next income year.

7.2 Listed PIEs

If you have an investment in a listed PIE, where applicable, the distribution has been split into two components; being a fully imputed portion and an unimputed portion.

7.2.1 Fully imputed PIE distributions

Individuals and trusts have the choice to include fully imputed PIE distributions in their tax return. Generally, if a distribution received from a listed PIE is imputed at a ratio of 28%, only investors on a marginal tax rate of lower than 28% will include this in their tax return to claim the excess imputation credits.

You should consult your tax adviser to confirm your marginal tax rate. Note that the inclusion of the PIE distribution and imputation credits may impact on your entitlement to Government credits such as Working for Families.

Fully imputed distributions may also be included in your tax return if you are a non-individual investor. If you are unsure of the correct treatment to apply you should consult your tax adviser.

Companies are required to treat the imputed portion of distributions from listed PIEs as taxable. Imputation credits attached to PIE distributions should result in a credit to the company's imputation credit account.

7.2.2 Unimputed PIE distributions

The unimputed portion of a distribution from a listed PIE is excluded income. That is, it should not be required to be included in your tax return. This is applicable to all entity types.

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8. REALISED GAINS ON EQUITY INVESTMENTS

8.1 New Zealand and certain Australian listed equities

If you hold your New Zealand or certain Australian listed equity (that are not subject to the FIF rules) investments on revenue account, you may be required to include any realised gain derived or realised loss incurred on the sale of those equities in your tax return.

If you hold your New Zealand or certain Australian listed equity investments on capital account, you are generally not subject to tax on any realised gain and, consequentially, are generally denied a deduction for any realised loss on the sale of those equities.

Please note that your tax report does not detail any gains or losses you have made on these New Zealand and Australian listed equities during the period.

You should consult your tax adviser to determine if you hold your investments on a revenue or capital account.

8.2 Overseas equities subject to the FIF rules

The capital and revenue account rules only apply if you are not subject to the FIF rules (that is, you meet the de minimis threshold). If you are subject to the FIF rules, the capital/revenue account rules should not apply and income is calculated for the overseas equities under the FIF rules only.

Please note that the FIF rules are outlined further in section 9 and 10 below.

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9. FOREIGN EQUITY AND FOREIGN MANAGED FUNDS INVESTMENTS

New Zealand tax legislation contains specific rules that govern the taxation of foreign investments. That is, where certain criteria are met, an investor is required to calculate the income from the foreign investments they hold using one of the calculation methods outlined in the Foreign Investment Fund (FIF) rules.

This section outlines what investments are captured by the FIF rules. It is essential that you understand what qualifies as a FIF investment so as to determine if you are required to apply the FIF rules.

This section also outlines the test to determine if an investor is required to apply the FIF rules. This test is known as the 'de minimis' exemption.

Should you not meet the requirements to be exempt from the FIF rules, we recommend you read section 10 which details the different FIF calculation methods supported by FNZ.

9.1 Foreign Investment Funds defined

Broadly speaking, a FIF is a foreign company or unit trust (i.e. a company or unit trust that is not tax resident in New Zealand). You may be required to apply the FIF rules to that foreign company or unit trust where you have an "attributing interest" in that FIF. In the majority of cases, a person has an attributing interest where the person has a right to receive income from the FIF. An example of this would be a share, when you have the right to receive the income of the FIF (typically by way of a dividend).

However, a person does not have an attributing interest in a FIF if one of the exemptions to the FIF regime applies. Where an exemption applies, that investment is not subject to the FIF rules.

The classification of investments for the calculation of FIF income has been undertaken based on FNZ's interpretation of the FIF rules; in some cases, investments may have been reclassified during the income year so it is recommended that you consult with a tax adviser if you disagree with FNZ's interpretation.

9.2 Exemptions from the FIF Regime

There are a number of investor and investment exemptions that can impact upon whether the FIF rules apply. If one (or more) of these exemptions apply then the investor does not need to apply the FIF rules.

The Australian listed share exemption is outlined in further detail below.

9.3 Australian listed share exemption

Investments in Australian companies that are listed on the official list of the ASX are exempt from the FIF rules provided the company meets certain other criteria. Please note that this exemption had a more limited coverage until 31st March 2017 as it was required that a company be listed on an approved index of the ASX instead of the official list.

Where you hold a particular Australian share at the beginning of the income year, as long as it is listed on the official list at the beginning of your income year, is not stapled to rights in another company, and maintains a franking credit account, it is exempt for your entire income year.

If you acquire a share for the first time during the income year, the company must be on the official list when you acquire the shares in order to meet the exemption requirements. This means although a company is not on the official list at the beginning of the income year, it can still be treated as an exempt investment if it is on the official list when you first acquire the share during an income year.

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Further information regarding FIF exemption for Australian listed products can be found on the IRD website:

http://www.ird.govt.nz/toii/fif/how-taxed/how-tax-exemption/

IRD has replaced the publication of Australian Share Exemption List (IR871) with an online tool for determining FIF exemption since 2017. The exemption list or the online tool should only be used as a guide. Please contact your adviser for further information.

9.4 Determining if the FIF rules apply to you

If the de minimis exemption applies, you will not be required to calculate income from your overseas investments using the FIF rules.

Instead, you will be subject to tax on dividends and distributions received. However, any realised gains or losses may be taxable if the investments are held on revenue account (refer to section 8 for further information).

9.4.1 De minimis exemption

Individuals and joint account holders who are individuals and/or certain limited types of trusts may be exempt from the FIF rules if they meet the requirement of the de minimis exemption.

The de minimis exemption is a minimum threshold before FIF investments are subject to the FIF rules. Once the threshold is exceeded, all FIF investments are subject to the FIF rules, not just those in excess of the threshold.

If the original cost of your foreign investments totals NZ$50,000 or less at all times during the tax year in question, then the FIF rules do not apply to you.

Married couples or couples in a de facto relationship can qualify for a total NZ$100,000 threshold if the shares are held jointly. This only applies if half of the shares costing less than NZ$100,000 are held in each person's name or the shares are jointly owned.

In calculating whether the threshold has been exceeded there is a concession for investments that were acquired before 1 January 2000. For FIFs purchased before this date, 50% of the market value at 1 April 2007 may be used as a proxy for the cost of these investments - which is then added to the cost of investments acquired on or after that date to determine whether the minimum threshold is exceeded. This concession is designed to assist with compliance costs where the cost of pre 2000 investments may not be readily accessible. If an investor chooses to use this rule, they must do so for all investments acquired prior to 1 January 2000.

Additionally, for income years starting on or after 1 July 2011 where you do not reach the NZ$50,000 threshold you can elect to calculate your income using the FIF rules. If you do elect to do this you are required to calculate your income using the FIF rules for four years.

The de minimis status used for the preparation of your tax report is shown at the top of the Summary of Foreign Investment Fund Income page. If this is incorrect, please notify your adviser.

9.5 Portfolio FIFs

Tax reports have been prepared on the basis that investors hold a portfolio investment in a FIF. That is, the investor's direct income interest in the FIF is less than 10% (typically being less than 10% of the shares of the FIF).

If you hold a direct income interest in a FIF of greater than 10%, we recommend you consult your tax adviser immediately, as the information presented in your tax report may not be appropriate for you.

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10. FOREIGN INVESTMENTS FUND (FIF) INCOME

FNZ provides FIF reports for informational purposes only. FNZ endeavours to provide the most accurate reports possible, however, the FIF rules are complex and will depend upon your specific circumstances. We recommend you seek professional tax advice to confirm your FIF income is calculated correctly.

10.1 Calculation methods for FIF income (used by FNZ)

The amount of FIF income you may be required to include in their tax return will be calculated under either the FNZ supported methods of the Fair Dividend Rate (FDR) method or the Comparative Value (CV) method. If you feel another FIF calculation method is more appropriate for your circumstances, please consult your tax adviser.

If FNZ have interpreted that the requirements to apply the FDR method are not met for a particular investment, FNZ will calculate your FIF income under the CV method (detailed in the tax report as the "Comparative Value - The Compulsory Method").

If you meet the requirements to apply the FDR method and you are an individual or a family trust, you are allowed to choose to apply either the FDR method or the CV method (detailed in the tax report as the "Comparative Value - The Optional Method"). In these circumstances, you must apply the chosen method consistently to all of your FIF investments. If you have FIF investments that are not held in custody with FNZ, the result of the FDR and CV optional calculations in your tax report will need to be adjusted to reflect the FIF income calculated on these additional investments.

If you are not an individual or a family trust investor (i.e. a company), you must apply the FDR method to all FIF investments unless the requirements to apply the FDR method are not met. For those investments, you must use the CV method (detailed in the tax report as the "Comparative Value - The Compulsory Method").

Further information regarding the calculation methods for foreign investment fund (FIF) income can be found on the IRD website **http://www.ird.govt.nz/toii/fif/calc-methods/.**

We outline below the FDR method and the situations and investment types for which the FDR method cannot be used to calculate FIF income.

Again, we note that you should review all FIF transactions to ensure that the amounts in the FIF schedules have been calculated in accordance with the applicable tax rules for each investment and investor.

Please also be aware that transfers in and out of custody may impact the FIF reports. We recommend reviewing the section relating to transfers in the appendix of this guide.

10.2 Fair Dividend Rate - the default method

Under the FDR method, FIF income is calculated as 5% of the market value of the FIF investments held at the beginning of the income year with an adjustment for investments that are bought and then sold within the income year (termed as a "quick sale").

Any FIF investments that are bought during the year are ignored provided they have not been sold during the year. New purchases are included in the following year's opening market value. Similarly, investments sold during the year are ignored provided they were not first purchased during the year. Therefore, there is no FIF income in the year of purchase in relation to shares that are acquired after the start of an income year. Conversely, there is no reduction in FIF income in relation to shares held at the start of an income year that are sold during the year.

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Dividends from shares subject to the FDR method of calculating taxable income are not taxed separately. However, foreign withholding tax deducted from the dividends may be available as a foreign tax credit depending on your tax position. Any applicable imputation credits attached or resident withholding tax withheld should also be available as a credit.

No foreign investment fund losses can result from the FDR calculation.

10.2.1 Exclusions from applying the FDR method

The FDR method is generally not available to be used to calculate FIF income if you, and any persons associated with you, have a combined direct income interest in a FIF of greater than 10%. If you hold greater than 10% of any foreign company, please seek professional tax advice.

In addition, the FDR method cannot be used to calculate FIF income on shares (called "non ordinary shares" in the Income Tax Act) for which the Comparative Value method is compulsory. These types of investments are considered to have inherent characteristics of debt and are as follows:

1. Fixed Rate Share Investments in foreign companies.
2. Non-Participating Redeemable Share investments in foreign companies.
3. Investments which involve an effectively non-contingent obligation, directly or through an arrangement, to return an amount to the investor that exceeds the issue price of the investment.
4. Investments in non-resident entities whose assets comprise, directly or indirectly, 80% or more of the market value at a time in the income year:
    a. consist of fixed-rate shares, or financial arrangements providing funds to a person; *and*
    b. are denominated in New Zealand dollars or, under NZIAS 39, are hedged items having a value in New Zealand dollars governed by a hedging instrument that is highly effective.
5. An interest in a non-resident if:
    a. the non-resident holds, directly or indirectly, assets of which 80% or more by value at a time in the year consist of fixed-rate foreign equities or financial arrangements providing funds to a person ignoring financial arrangements between the non-resident and the other members of a group of companies that is a member of; *and*
    b. the non-resident is not listed on a recognised stock exchange but is a foreign investment vehicle; *and*
    c. the interest is, under NZIAS 39, a hedged item having a value in New Zealand dollars governed by a hedging instrument that is highly effective.
6. Investments for which the Commissioner of Inland Revenue has made a determination under the Tax Administration Act that the FDR method is not available.

Nevertheless, if the Commissioner of Inland Revenue determines an investment to be an interest for which the FDR method is available, the above criteria that characterise "non ordinary shares" is not applicable. That means Comparative Value Method is not compulsory in that case.

10.2.2 Fair Dividend Rate (FDR) method calculation

The formula for calculating the amount of FDR income is as follows:

(5% x Opening Market Value) + Quick Sale Adjustment

Where:

Opening Market Value is defined as the total of the market values of the attributing interest in the FIFs that the person holds at the start of the income year.

Quick Sale Adjustment is only required if in the income year, the person disposes of or reduces their interest in a particular FIF after acquiring it or increasing it in that same income year. The quick sale adjustment is zero in any other case.

The Quick Sale Adjustment is the lower of the amount calculated under the Peak Holding method (PH Method) or the Quick Sale Gain amount (QSG amount).

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Calculation of Quick Sale Adjustment

Shares that are purchased after the start of the income year and then sold before the end of the same income year are generally taxed on the lower of:

5% of the cost of the quick sale (the PH method); *or*

The actual gains made on these quick sales (the QSG amount).

The quick sale rules are designed to tax shares that are bought and sold within the same income year. Without these rules, no tax would be payable on these shares as they would not be reflected in the value held at the start of the year or in the value held at the start of the following year.

Peak Holding method

To calculate the PH method, the formula used is:

5% x Peak Holding Differential x Average Cost of Purchases;

Where the Peak Holding Differential in the PH method formula is the lower of:

- The difference between the greatest number of shares held in the foreign company during the income year and the number of shares held in the foreign company at the start of the income year; *and*
- The difference between the greatest number of shares held in the foreign company during the income year and the number of shares held in the foreign company at the end of the income year.

The Average Cost of Purchases component in the PH method formula is a product of the total amount of expenditure that the investor incurs during the income year in acquiring or increasing their shareholding in a foreign company divided by the total number of shares / units acquired during the income year.

There are also rules to deal with situations where an investor buys and sells shares during an income year (or valuation period) and there is a share split, bonus issue or consolidation between when the shares were purchased and when they were sold. These events are collectively described as share re-organisations. The rules establish the average cost of the equivalent interest that is sold for the purposes of applying FDR. This will be explained later once the basics of PH method and QSG have been covered.

Quick Sale Gain Amount

The QSG amount formula for each acquisition or increase in the attributing interest that is disposed of or reduced in the income year is:

Gain – (interest x average cost)

Where:

Gain is the total amount that the person derives from holding or disposing of the acquisition or increase including pro-rata share of dividends during the period;

Interest is the amount of the shareholding acquisition or increase; *and*

Average cost is a product of the total amount of expenditure that the investor incurs during the income year in acquiring or increasing their shareholding in a foreign company divided by the total number of shares / units acquired during the income year.

In ascertaining whether shares are bought and sold in the same year for the purposes of the Quick Sale Gain Amount calculation, the last-in first-out (LIFO) method applies to determine whether shares in a foreign company sold in a year were purchased in the same year.

The QSG amount is the greater of zero and the total amount for all shares bought and sold in foreign companies during the year (a pooled approach). This is calculated by taking the total amount derived from holding (including dividends) or disposing of shares in a foreign company and subtracting the total expenditures incurred in acquiring the interest (excludes holding costs such as interest).

Note that if the QSG amount calculation results in a negative or a loss on a portfolio basis (not instrument basis), then QSG are limited to zero.

The QSG formula set out above is that for the "usual method".

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10.3 Comparative Value (CV) method calculation

The formula for determining the amount of the CV income is:

(Closing Market Value + Gains) – (Opening Market Value + Costs)

Where:

Closing value is the market value of the person's interest in the FIF at the end of the income year.

Gains are the total of all amounts that the person derives during the income year from holding or disposing of the interest, including foreign withholding tax withheld. Returns of capital are included as a gain.

Opening Market Value is the market value of the person's interest in the FIF at the end of the previous income year.

Costs are the total amount for the income year of:

1. All expenditure, if any, that the person incurs in acquiring or increasing the interest; and
2. Income tax on the income of the FIF -
    a. for which the person is liable under the laws of a country or territory outside New Zealand; *and*
    b. paid by the person in the income year.

The CV method takes into account the full economic returns (realised and unrealised capital gains and dividends) from an investment.

We outline below where an investor must use the CV method to calculate FIF income.

10.4 Comparative Value - The Compulsory Method

The CV method must be used to calculate FIF income if the share is a non-ordinary share. Please refer to section 10.2.1 for details.

For these types of FIF investments, the Comparative Value (CV) method must be used to calculate FIF income. The requirement to use the CV method applies to all entity types including companies, individuals and trusts that do not meet the requirements to use the FDR method. If you incur a loss under the CV compulsory method, you may be entitled to offset the loss against other sources of taxable income, or alternatively, carry forward the loss into future income years.

If in the above scenario, it is not practical to use the CV method because the market value cannot be determined, then the deemed rate of return must be used. In these circumstances we recommend you discuss this with your tax adviser.

10.5 Comparative Value - The Optional Method

The CV optional method may be used by an individual or certain family trusts to calculate FIF income for all FIF investments that meet the requirements to apply the FDR method.

Accordingly, individuals and family trusts may choose to pay tax on their FIF investments based on the lower of:

- FIF income calculated using the FDR method; *or*
- Actual gains as calculated using the CV (optional) method.

Where you are given the option of calculating FIF income under either the FDR or CV (optional) methods, you must apply the same method to all applicable FIF investments. Accordingly, you must calculate the tax on all of your eligible FIF investments using either the FDR method or the CV (optional) method.

If the result of the calculation is a loss, the amount able to be claimed under the CV (optional) method is limited to zero. Accordingly, any loss calculated in the tax report is limited to zero where the CV (optional) method is applied.

As such, if you have FIF investments which qualify for the FDR method and are not held in custody with FNZ, these will need to be taken into account when determining the lower of the amounts calculated under the FDR or CV optional methods.

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10.6 Other Calculation Methods (not used by FNZ)

There are other calculation methods which may be available to be used to calculate FIF income. Please consult your tax adviser for further information on the potential application of these methods.

10.7 Currency conversion rules for FIF taxation methods

The rules for converting amounts from foreign currency into New Zealand currency have been standardised for all FIF calculation methods. For all methods of calculating FIF income, investors have two options for performing exchange rate conversions:

- Use the exchange rate on the day for which market value is determined or on which each amount is derived or incurred; (note: this is the method FNZ employs); *or*
- Use the average of the close of trading spot exchange rates for the fifteenth day of each month that falls in the year.

Having chosen a currency conversion method for an attributing interest in a FIF, you must use the same method for that interest in subsequent income years. Therefore, it will no longer be possible to change currency conversion methods from year to year for the same attributing interests. You are also required to use the same currency conversion method for all attributing interests for which you use the same FIF calculation method.

For example, if you choose to use only FDR for your offshore portfolio share investments you must use the same currency conversion method - the actual (spot) exchange rates or an annual average rate - for all those investments.

10.8 Foreign tax credits

In some circumstances you will be able to claim a tax credit against your New Zealand tax liability for any foreign tax that has been withheld on overseas dividend or interest income.

The amount of the foreign tax credit which is allowed as a credit in your tax return is generally limited to the extent of your New Zealand tax liability on the investments that gave rise to the foreign tax credit (for this purpose, FIF income is treated as the relevant taxable income). For example, if your taxable income on your USA FIF investments is nil, you will be unable to claim any credits for USA tax you may have paid on these investments.

Inland Revenue in their November 2018 publication, IR461 "A guide to foreign investment funds and the fair dividend rate", provides a detailed example on how investors should determine their eligibility to claim the benefit of foreign tax credits.

If you have New Zealand losses available, these must be offset against taxable income before foreign tax credits. If these losses exceed the investor's taxable income, any foreign tax credits may be forfeited. As each investor's circumstances are different, we recommend that you consult your tax adviser.

10.9 Share re-organisations

There are rules to deal with situations where an investor buys and sells shares during an income year and there is a share split / consolidation between when the shares were purchased and when they were sold. This is described as a share re-organisation in the legislation. The rules establish the average cost of the equivalent interest that is sold for the purposes of applying the FDR method.

Example:

Linda has 100 shares in a foreign company at the start of the income year, worth $100. On 1 May 2013 she purchases an additional 20 shares for $1 per share. By 30 May 2013, the market value had increased to $1.20 per share. On 1 June 2013 a two for one share split occurs. On 1 July 2013 Linda sells 20 shares for the new current market price of $0.60.

Applying the equivalent interest concept mentioned above, the 20 shares that were sold at $0.60 after the split are actually the equivalent of only 10 pre-split shares at $1.20. Or conversely, the 20 shares purchased at $1.20 before the share split are the equivalent of 40 post-split shares at $0.60. The application of this concept is vital in correctly allocating units to quick sale calculations.

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10.10 Impact of unsettled FIF trades as of 31 March on the tax report

FIF calculations are based on the FIF applicable instruments held by the client at the time the tax report is created. Where an order for a FIF instrument has been placed but settlement has not been confirmed at the date the tax report is run, those holdings will not be included in the FIF calculations of the tax report.

In other words, only FIF instruments that have settled into custody with FNZ during the period for which the tax report was run will be included in the FIF calculations of that tax report. To illustrate this, we provide an example below.

John purchases ABC Limited on 20 March 2018. ABC Limited is a FIF instrument and John has nominated himself to be subject to the FIF rules.

John's investment in ABC Limited is not confirmed until 1 June 2018 with settlement date effective as at 31 March 2018. John is treated as holding this product from the settlement date of 31 March 2018.

John's year-end tax report is created on 1 May 2018 for the period 1 April 2017 to 31 March 2018. As the order for ABC Limited had not settled on the date the tax report was run, John's holdings in ABC Limited will not show on his 2018 year-end tax report.

When the holding in ABC Limited is settled, the purchase date recorded is 31 March 2018. When John's 2019 year-end tax report is run (from 1 April 2018 to 31 March 2019), John's investment in ABC Limited is shown as an opening value in the FDR and CV calculations (being that John held ABC Limited at 1 April 2018).

Please note that the opposite occurs for sell orders that are placed before 31 March and have not been settled by the date the tax report is created. In this situation, the FIF instrument will still show as being held at 31 March, in the 2018 year-end tax report.

It is worth noting that in the above situations, the closing value of FIF instruments as per the 2018 year-end tax report will not match the opening value of the FIF instruments in the 2019 year-end tax report.

As such, FNZ notes that clients may be required to make an adjustment for instruments purchased or sold during a tax year where that instrument had not settled at the time the tax report was created.

To aid in determining the FIF calculations once settlement has been completed, clients are able to run an interim tax report for the tax year to produce re-calculated FIF calculations.

As always, FNZ strongly recommends clients seek professional tax advice to determine their FIF obligations (if any).

10.11 General

In addition to the information set out in this user guide, you may wish to review the information provided by Inland Revenue in November 2018 in its publication IR461 "A guide to foreign investment funds and the fair dividend rate", which is available on their website **http://www.ird.govt.nz/forms-guides/title/forms-f/ir461-guide-fif-fair-dividend-rate.html**

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11. REBATES, FEES AND CHARGES

11.1 Fund Rebate Income

Fund Rebate Income consists Fund Rebate Income taxed through PIE crystallisation as well as Untaxed Fund Rebate Income as displayed on the Summary of Investment Income schedule of the tax report.

11.1.1 Fund Rebate Income taxed through PIE crystallisation

Fund manager rebates from unlisted PIEs that have been included in "Gross Taxable Income / (Loss)" for PIE Tax crystallisation are displayed on the schedule "Unlisted and Listed Variable Rate PIE Proxy Income & Tax Information" as Management Fee Rebates. Please note these are reported on gross basis at the time of respective PIE event and therefore, are repeated if there are more than one PIE tax events. However, the total of the fund rebates taxed through PIE crystallisation is displayed on the Summary of Investment Income schedule.

11.1.2 Untaxed Fund Rebate Income

Untaxed Fund Rebate Income represents fund manager and other issuer rebate income received and allocated to the investor that has neither been taxed at the point of distribution nor through PIE crystallisation in the case of unlisted PIE. These are shown on the separate schedule titled "Untaxed Fund Rebate Income".

Rebates received that are displayed in this section of the tax report may be taxable. These rules are complex and depend on the nature of the rebates as well as other factors, including the FIF calculation method you used for the year. We note that rules around rebates have recently changed and it is recommended that you consult your tax adviser on the position for your circumstances.

11.2 Ongoing Fees

Fees and charges, including any GST paid, may be deductible for tax purposes. If investors have claimed GST input credits for any GST paid in respect of any fees and charges in their GST returns, the deductible amount may be required to be reduced by the GST already claimed. You are encouraged to seek professional tax advice if you are unsure of your individual circumstances.

11.3 Collection Charges

These are charges which are deducted either at source or by the agent from the investor's net dividends (gross dividend less any foreign withholding tax).

Collection charges are typically limited to investments in ADR/GDR (American Depositary Receipt / Global Depositary Receipt) stocks. This fee is charged by the depositary banks to cover administrative costs associated with processing the dividend.

It should be noted that FNZ receives these distributions minus the collection charges. Please contact your tax adviser for clarification on the deductibility of these charges.

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12. RECONCILIATION OF FNZ TAX REPORT TO OTHER FNZ REPORTS

We appreciate that clients and accountants frequently reconcile the amounts reported in the FNZ tax report to those in other reports. It is important to note that the FNZ tax report is prepared with reference to New Zealand tax legislation and therefore there may be differences how certain transactions are reported in your FNZ tax report compared to other reports. This is due to both timing differences and display differences and these need to be considered in such reconciliation.

In particular, timing difference will always arise relating to the year-end PIE tax crystallisation payments. The end of year PIE tax crystallisation is only performed in April following the end of each tax year and yet the tax deducted/rebated is reported in the tax report for the tax year it relates to. However, since these calculations are only actually performed in the next tax year, other FNZ reports record them as transactions in the following tax year (in April). For example, PIE tax deducted in April 2019 for the year ended 31 March 2019 will appear in the March 2019 FNZ Tax Report, but in the April 2019 performance/cash reports.

Display difference arise as transactions are displayed in different sections of the tax report. For example, the total Dividend income in other FNZ reports is split across various schedules in the FNZ tax report since each type of income is taxed under different rules: NZ dividends, overseas dividends, listed PIE dividends, unlisted PIE dividends and listed Variable Rate PIE dividends.

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13. QUESTIONS AND ANSWERS

Q Do I need to get independent tax advice?

A FNZ and your adviser may not have complete knowledge of your individual circumstances. FNZ strongly recommends investors seek independent tax advice. Investors should provide this tax guide together with the tax report to their tax adviser. This tax guide and the tax report do not replace formal advice from your tax adviser.

Q What should I do if I have a question about the figures in my tax report?

A You should contact your adviser in the first instance who will then liaise with FNZ on your behalf. Please note that while FNZ can provide information on your investments held in FNZ custody, and how FNZ has chosen to process them, FNZ does not provide tax advice.

Q Do I have to file a tax return?

A Individuals will be sent a personal tax summary by Inland Revenue in certain circumstances which will help determine whether you are required to file a tax return. In addition, where a personal tax summary has not been issued by Inland Revenue, an investor may be required to request a personal tax summary or request a personal tax summary and file a tax return. Some common situations where an individual must request a personal tax summary are as follows:

- You received interest or dividends in excess of $200 where an incorrect RWT rate was applied
- You received income from employment in excess of $200 where your obligations under the PAYE rules have not been met or where ACC earner levy was not withheld or deducted correctly
- You received dividends where your annual gross salary is greater than $70,000
- You have a student loan and your total income is greater than the student loan threshold. Further information on the student loan threshold can be obtained from the IRD website.

As the above list is not exhaustive, please contact your tax adviser for further information or contact Inland Revenue on 0800 257 776. We recommend that you contact your tax adviser before requesting a personal tax summary. Depending on your circumstances, you may be required to file a tax return. Please consult your tax adviser or Inland Revenue for further information.

Note: Companies and Trusts are not required to request personal tax summaries but will need to consider their own tax consequences and / or consult with a professional tax adviser.

Q I sold all of my shares in an Australian company last tax year and repurchased them this year. Why is the repurchase date used as the setting which controls the FIF applicability of that product?

A New Zealand Tax legislation requires FNZ to look at the FIF exemption status of the Australian company at the earlier of:

- the beginning of the tax year, if that investor held the investment at the beginning of the tax year; *or*
- the date which the investment was first purchased in the tax year by the investor.

Because in this situation, the shares were not held at the start of the tax year, the date of first purchase is used.

In other situations where the shares were held at the beginning of the tax year, this date will be used to record the FIF exemption status of the Australian company, regardless of whether or not the investment has been sold and repurchased during the tax year.

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14. APPENDIX/TECHNICAL DEFINITIONS

14.1 General definitions

For your information please find below a brief glossary of some of the terms included in the summary of taxable income report. The definitions should be read together with the tax guide. It is recommended that you consult your tax adviser for more details.

Average Interest Tax Rate

The Total Resident Withholding Tax divided by the Total Gross Interest as it applies to New Zealand Income.

Balance Date

A balance date is the end of an accounting year. The Balance Date for all investors has been set to 31 March. Please note that your balance date may differ from this; if so please contact your tax adviser.

Cash Basis Person

The following rules can be applied to determine who qualifies as a cash basis person:

- Means a person whose absolute value of the person's income and expenditure in the income year under all financial arrangements to which the person is a party is NZ$100,000 or less; or
- On every day of the income year, the absolute value of all financial arrangements to which the person is a party to is NZ$1,000,000 or less; and
- In both cases the total difference in calculating income under the cash basis and accrual basis is less than NZ$40,000.

Crystallisation

The payment of tax or receipt of a tax rebate at the investor's PIR in respect of an investment in an unlisted PIE at either:

- A reduction of the investor's investment in the unlisted PIE; *or*
- The end of the income tax year, being 31 March.

Current Interest Withholding Tax Rate

This is the withholding tax rate advised by the client applicable to tax deductions from NZ Interest bearing securities at the time of printing the report.

Excluded Income

Income that is not required to be treated as assessable income in an investor's tax return (for example, PIE income which has been taxed at the investor's correct PIR).

Family Trust

A trust that:

- Only has settlors who are or were natural persons;
- Is a complying Trust;
- Is either mainly for the benefit of a natural person who the settlors have natural love and affection for, or for the benefit of a charitable trust; *and*
- Is not a superannuation scheme.

Foreign Investment Fund Income

Income which arises if a person holds an interest of less than 10% in a foreign company and the person cannot apply any of the exemptions.

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Listed PIE

A PIE that is listed on a recognised exchange in New Zealand, including a PIE that proposes to list on a recognised exchange in New Zealand within two years.

New Zealand tax resident

A person who:

- Has a permanent place of abode in New Zealand; *or*
- Has been in New Zealand for more than 183 days in total in a 12 month period.

Transitional resident

A transitional resident is exempt from RWT on overseas sourced distributions for four years. The definition of a transitional resident is outlined as a natural person who satisfies the general requirements for a period:

(a) Beginning from the first day which the person becomes New Zealand tax resident; *and*

(b) Ending on the day that is the earlier of the following:

  (i) The day before the person ceases to be a New Zealand resident:

  (ii) The last day of the 48th month after the month in which the person becomes New Zealand tax resident.

A person satisfies the general requirements for being a transitional resident if:

(a) The person is treated as being a New Zealand tax resident; *and*

(b) Immediately before becoming New Zealand tax resident, the person was a non-resident for a continuous period (non-residence period) of at least 10 years; *and*

(c) The person was not a transitional resident before the non-residence period

(d) The person has not ceased to be a transitional resident after the end of the non-residence period.

Unlisted PIE

A PIE that is not listed on a recognised exchange in New Zealand.

14.2 Tax credit definitions

Imputation Credits

Imputation credits attached to a dividend payment reflect tax paid by the company paying the dividend, and are available to offset any tax payable by the shareholder on receipt of the dividend. In certain situations Australian resident companies that operate in New Zealand may maintain an imputation credit account for tax paid in New Zealand. As such, an Australian resident company may attach imputation credits to dividends paid to New Zealand resident investors in certain circumstances. Where available these imputation credits are taken into account in calculating the amount of tax FNZ deducts from distributions received.

Foreign Dividend Withholding Payment Credits

Similar to imputation credits, these represent tax paid by the company that paid the dividend. However, dividend withholding payment credits may be refundable in certain situations. Where available, these credits are taken into account in calculating the amount of withholding tax FNZ deducts from distributions received.

Resident Withholding Tax (RWT)

This is a tax that is withheld by FNZ on dividends and interest paid to New Zealand resident investors. RWT is a refundable tax credit.

Foreign Withholding Tax (FWT)

This is a tax that has been deducted overseas and paid to a foreign tax authority. It is generally available to be used as a credit to offset an investor's New Zealand tax liability, subject to certain limits and complicated rules. Where available these credits are taken into account in calculating the amount of tax FNZ deducts from distributions received.

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14.3 Classification of transaction types

The accurate identification and recording of buy and sell transactions is essential to the correct calculation of the quick sale adjustment component of FDR income and also the full economic impact calculation required under CV calculation. As such identifying transactions that are mechanically buys and sells regardless of their actual transaction type is important.

Orders & Trades

These are straight trading transactions on a one for one basis and as such should be treated as buys and sells for tax purposes and included in FDR / CV calculations without manipulation.

Transfers

The overriding principle with transfers is that to hold the position being transferred, a client must have purchased the instrument at some stage. What is required is to determine whether that original purchase occurred in the current income tax year or previously, and treat it accordingly.

Transfer In

If an instrument is transferred in during the year and the 'Date of Purchase' field indicates that the instrument was originally bought prior to the beginning of the current income tax year, then it falls outside the scope of buys and sells for quick sale calculations. Instead it is accounted for in the opening market value position for that instrument at the beginning of the income year for FDR and CV calculations.

Conversely, if an instrument is transferred in during the year and the 'Date of Purchase' field indicates that the instrument was originally bought after the beginning of the current income year, then it falls within the scope of buys and sells for quick sale calculations and that 'Date of Purchase' value not the date of the actual transfer is then used to dictate where that transaction sits inside the quick sale calculations.

If the 'Date of Purchase' field is not populated on a transfer, the transfer is treated as a purchase on the date of loading.

NB: While every attempt has been made to source correct opening market pricing on positions backdated into a prior year for tax purposes, FNZ cannot guarantee a pricing feed existed for an instrument prior to actually being transferred onto the platform.

Transfer Out

If there has not been a change in beneficial ownership, the position has effectively not been sold and cannot be treated as a sale for tax purposes. So it needs to be excluded from use in the calculation, it has simply been moved out of the client's portfolio.

As an example, if the instrument has been transferred out to be an 'external' holding, but not transferred out from FNZ reporting completely, the tax reports will display the last known units held as the closing balance in the CV calculations.

If the instrument has been transferred out completely i.e. FNZ no longer reports upon the investors holding of the instrument, the CV calculation will not show a nil value in the closing balance as we will be unable to determine the closing value of the instrument. Also in this situation, the report will still show a nil sale amount as we are unable to determine if there has been a change in beneficial ownership.

In the event of a transfer out, investors will need to adjust their FIF calculations accordingly.

Security Transfer

These are treated as a sell and a buy.

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Account Transfer

With no definitive way to link or associate accounts together, FNZ must assume a change of beneficial ownership when positions are transferred between accounts. Therefore the position has been sold and should be treated as a sale for tax purposes. Given that, FNZ is required to account for the market price on the date of transfer and not the cost price as traditionally used by the system. Performance and Tax reporting implications differ in this respect.

If the client does indeed own the two underlying accounts they should consolidate them once received for tax purposes. This is one of the main reasons why all transactional data is presented, so clients can alter the interpretation of transactions should they disagree with FNZ's interpretations.

Takeovers

These are generally treated as a final sale and original purchase of different stocks for tax purposes. However, we recommend you review all takeover transactions carefully.

Capital Changes (Bonus / Consolidation / Rights Issue)

Bonus Issues and Consolidations are effectively the two extremes of the same share re-organisation method. One creates units without altering the capital value of the entity and the other reduces units without altering the capital value of the entity the corporate action is affecting.

Note: Although bonus issues or consolidations are not treated as buys or sells for tax purposes, it is vitally important that any instrument affected during a client's income year by one of these share re-organisations is accounted for separately from others so that any quick sale or peak holding unit calculations take into account the correct equivalent interest in the product.

Dividends

Dividends in both the FDR and CV calculations are presented on a Gross basis, inclusive of any imputation credits where applicable.

Return of capital

When calculating FIF income using the CV method, returns of capital received from FIF investments have been treated as a dividend. This is on the basis that the CV method requires all amounts received from holding or disposing of the FIF investment to be included in the CV calculation. For more information, please refer to the CV calculation explanation in section 10 of the guide or consult your tax adviser.

Code Change or Name Change

In these cases the underlying product is not technically changing therefore these can't be treated as buys or sells for tax purposes.

Extinction / Acquisition

A security extinction (such as bankruptcy) where the holdings are dissolved is treated as a sell for tax purposes and a subsequent buy if the security is replaced by a new security.

Conversion

These are treated as a final sale and original purchase of different stocks for tax purposes.

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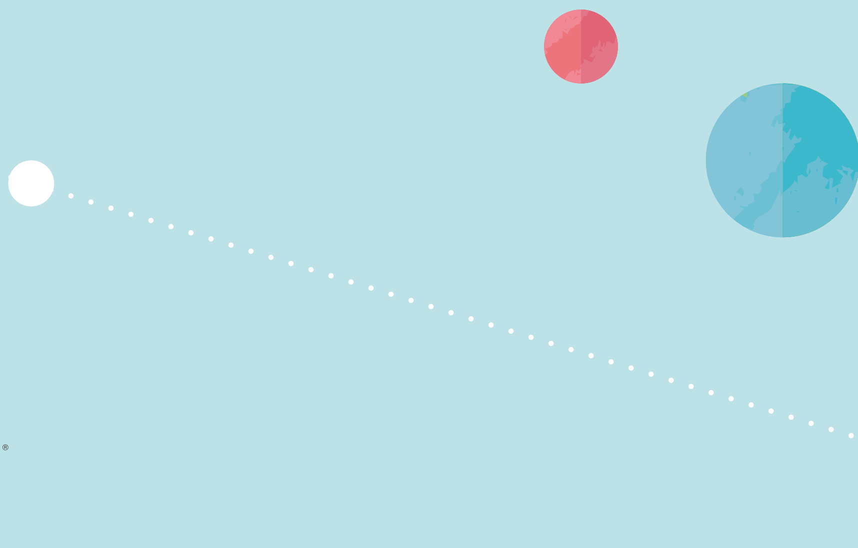

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