Information for resident individuals who invest in PIEs

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

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

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

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

How PIEs calculate tax

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

There are two types of MRP for non-resident investors:

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

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

PIEs that are not MRPs include:

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

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

What is a prescribed investor rate (PIR)?

A PIR is the tax rate that applies to attributed PIE income of the investor in a multi-rate PIE. The PIR for resident individuals is a prescribed rate based on two tests on your income in the last two income years. First is your taxable income such as income from salary, wages and any additional sources of income you would include in your income tax return. Second is your taxable income plus your attributed PIE income.

Attributed PIE income is the amount after subtracting any attributable PIE loss.

The prescribed rates are 10.5%, 17.5% and 28%.

What happens if you don't notify the multi-rate PIE your PIR?

If you don't provide the MRP with your PIR, the MRP will deduct PIE tax at the rate of 28% which may be higher than your actual PIR.

Updating your PIR

When we identify you are on the wrong rate, we may advise the MRP of the rate that is appropriate for you.

Where you have not notified the correct PIR that applies to your income attributed by the MRP, or that rate is not applied to all your PIE income for the full tax year, a PIE calculation will be made as part of your annual income tax assessment.

How to find the PIR that applies to me?

Your PIR is determined based on the lower rate from either of the last two years' income. For example, to determine your PIR income for the 2022 income year you use the income details for 2020 and 2021.

Note: most individuals have a 31 March income year.

If in either of the previous two income years:

your taxable income was …	and your taxable income plus your PIE income/loss was …	before the relevant tax year for …	then your PIR is …
$0 – $14,000	$0 – $48,000	Either year	10.5%
	$48,001 – $70,000	Either year	17.5%
$14,001 – $48,000	$0 – $70,000	Either year	17.5%
$48,001 or more	Any amount	Each year	28%
Any amount	$70,001 or more	Each year	28%

You must notify your PIE of your IRD number and the rate that applies to you.

If you are a new resident refer to "Arriving or leaving New Zealand and your PIR" below.

IRD numbers

You have 6 weeks from becoming an investor in an MRP to provide your IRD number. If you don't provide it the MRP must close your investment account.

Arriving or leaving New Zealand and your PIR

If you're a New Zealand resident individual who has invested in an MRP and you then cease to be resident and you are not a notified foreign investor, you should have a PIR of 28% from the date you leave New Zealand. You should tell the MRP of the change as soon as possible.

If you're a transitional resident in a zero-rate PIE you can notify the 0% PIR for each year you're a transitional resident.

If you're a transitional or new resident in any other MRP you must include your worldwide income when determining your PIR in the first two years you're a New Zealand resident.

Note: Transitional residents (essentially new residents to New Zealand) are given a four-year exemption on their foreign-sourced investment income.

Despite this requirement, you may choose not to include your foreign sourced income when working out your PIR for either or both of the income years, if you reasonably expect your taxable income in either of the first two years as a resident will be significantly lower than your total income from all sources for the previous income year(s).

For change of residency of a notified foreign investor refer to "You change country of residence" below.

When a zero rate may be applied for an individual

You may be taxed at a zero rate by an MRP that files returns using the quarterly option, if you exit the MRP during a quarter.

A transitional resident who invests in a zero-rate PIE can have a 0% PIR.

There are no other situations where you may have a zero-rate applied.

Ceasing to be represented by a proxy

If you're represented by a PIE investor proxy and then you cease to be represented by that proxy, their obligations will pass directly to the MRP that holds your investment. You should notify the MRP of your correct PIR and IRD number.

Receiving details of your MRP income for calculating your PIR

Generally, MRPs need to provide you with information regarding your investment by 31 May or 30 June following the end of the tax year.

If you withdraw your investment from an MRP that files returns using the quarterly option and zero-rates exiting investors, the MRP has to provide the information within one month of the end of the quarter in which you exited.

If you don't receive any details from your MRP or you think the investor statement is wrong, you need to contact the MRP.

Companies listed on the New Zealand stock exchange may send a dividend statement to their investors.

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

Record-keeping requirements

If your only New Zealand-sourced income, including your attributed PIE income, is taxed at source and you have provided your IRD number to all payers there are no record keeping requirements, except when you're required to provide details of your attributed PIE income for the purpose of a New Zealand student loan repayment obligation, then you must keep your records relating to that income for 12 months after the end of the income year in which the income was derived.

If you carry on a business or other activity with intention of earning income, records need to be kept for 7 years after the income year they relate to.

Income attributed by the MRP

For 2021 and future income years a PIE calculation will be made to check the PIE tax is correct. If your correct PIR has not been applied to all your PIE income for the full year the under or overpayment is then included in your income tax assessment adjusting your tax liability or refund due.

Working for Families Tax Credits and student loans

PIE income from a retirement savings scheme or superannuation fund where the funds are locked in, such as a KiwiSaver scheme, will not affect Working for Families Tax Credits (WfFTC) and student loans. All other multi-rate PIE income needs to be included as family scheme income or adjusted net income. You can complete the Adjust your income service in myIR or the **Adjust your income - IR215** form.

If you receive a dividend from a PIE that is a listed company that doesn't use your PIR, the dividend also needs to be included in family scheme income and adjusted net income. If you have not included the dividend in your income tax return, you'll need to show it on the Adjust your income service or form.

These dividends are not liable for RWT.

Income tested benefits or Main benefit

All investments are cash assets for benefit purposes. Any income received from an investment is charged as income for benefit purposes. Capital gains from managed funds are not income.

Income earned through a PIE, may affect both entitlements to WfFTC and assistance provided by Work and Income such as Accommodation Supplement and Childcare Assistance.

Returns on funds in KiwiSaver and other superannuation schemes aren't treated as chargeable income or cash assets for benefit purposes while these funds are locked into the scheme.

If you have any questions, please call Work and Income.

When is your MRP income received?

You'll need to know in which income year your MRP attributed income is received so you can determine:

- your correct PIR
- in which income tax return any income attributed by the MRP should be included.

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

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

If you have a ...	and ...	then ...
30 June 2022 balance date (your 2022 income year)	the MRP has a 31 March 2022 balance date	because the end of the MRP's 2022 income year falls within your 2022 income year, the income is also your 2022 attributed income.
31 December 2021 balance date (your 2022 income year)	the MRP has a 31 March 2022 balance date	because the end of the MRP's 2022 income year falls after the end of your 2022 income year, the income falls into your 2023 income year.

Dividends or distributions

You don't need to include dividends or distributions from an MRP in your income tax return. The're excluded income.

Dividends or distributions received from a PIE that is a listed company and doesn't use your PIR won't need to be included in your income tax return, unless you choose to include the dividend to claim imputation credits.

These dividends are not liable for RWT.

Investor statements

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

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

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

If your investor statement shows more than one PIR has been applied to your PIE income you will need to include all your PIE income in the PIE calculation question in your return.

Also if the PIR used is not your correct rate a PIE calculation will be required.

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

Residual interests

If, at the end of the quarter in which you exit an MRP that files returns using the quarterly option there is any residual value of your interest in the MRP, the residual interest will be paid to Inland Revenue by the MRP. This will be included in the PIE calculation and included in your income tax assessment.

Where does PIE income go in the income tax return?

myIR has a PIE income section we will pre-populate with the details we hold. Any adjustment, such as for a joint holder of the investment, needs to be made in the earnings/income summary tab.

The paper **Individual tax return - IR3** has a new question for Portfolio investment income calculation with three new boxes in the return and a worksheet in the guide to help complete them. We will automatically include the PIE calculation as part of processing your income tax return.

If the PIE calculation outcome is a debit this will be added to the tax on taxable income. This ensures any foreign tax credits or imputation credits you may have can be used to cover this tax liability.

If it is a credit it is added to a refund due or subtracted from tax to pay.

Excess New Zealand tax credits and losses

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

Losses attributed to resident individual investors in an MRP cannot be claimed in the investor's income tax return.

Withdrawing your investment in an MRP

If you exit an MRP that files returns using the quarterly option part-way through a quarter, the MRP may calculate tax at the zero rate on your share of the income attributed. In all other cases the MRP will calculate tax on exit at your PIR.

Your actual PIR will be applied to the PIE income when we process your income tax assessment.

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

PIE investments in overseas markets

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

Investor expenses

Generally, investor expenses charged by the MRP in relation to your interest will be taken into account when it calculates the income to attribute to you. You won't be able to claim the expenses in your tax return.

You change country of residence

A number of scenarios can occur when a notified foreign investor changes residence. They can become a resident, a resident can become a notified foreign investor and a notified foreign investor can move to another foreign country or territory. For the third scenario the change could affect the PIR applied to unimputed dividends based on the double tax agreement (DTA) to non-double tax agreement (DTA) country rule.

The issue is further complicated by the foreign investment PIE's ability to apply a change in residency.

For example, a quarterly PIE may only be able to apply the status for the whole quarter instead of applying a change part-way through a quarter. Therefore, flexibility has been built in to allow the PIE to make the change to an investor's status as soon as practicable, but no later than the start of the next tax year.

For more information on who can be a notified foreign investor refer to our factsheet **Information for non-residents who invest in PIEs - IR858**.

For resident investors who become notified foreign investors, the PIE should treat the investor as a notified foreign investor from the day it's notified of the change of status if possible, but no later than the start of the next tax year.

If the investor has misrepresented their status to the PIE by indicating they're a notified foreign investor when in fact they're a resident, the rules ensure the income attributable to the period when the PIE has treated them as a notified foreign investor should be taxable to the investor as if they were a resident (with credit for any tax paid at the PIE level).

For a notified foreign investor who becomes a resident investor, the foreign investment PIE has the choice of changing the investor's status immediately or waiting until the beginning of the next tax year to do so. If the PIE waits, the investor can continue to be treated as a notified foreign investor for the tax year and any income attributed to the investor during this transitional period won't be subject to further tax at the investor level.

Among other things, this is to handle situations when residency applies retrospectively, due to the application of the 183-day rule.

Investments at the time of death

Investments held at the time of death will pass to the estate. The transfer to the estate is considered to be an exit and the MRP may zero-rate the income in the period to the date of death. In this case the MRP income will have to be included in the tax return to the date of death. For resident individual investors this would be included in the calculation of the PIE schedular income tax adjustment as part of processing the annual income tax return.

If the investments aren't distributed to the beneficiaries but continue to be held in the estate, the resident executor should advise the MRP of the PIR chosen by a New Zealand resident trustee (either 0%, 10.5%, 17.5% or 28%).

For more information on options for trustees refer to our factsheet: **Information for trustees who invest in PIEs - IR856**.

Joint investments and partnerships

Where an investment is held by a partnership or in joint names, each partner/holder of the investment has tax obligations in relation to their share of the income. The separate individuals should advise the MRP or their IRD number and PIR that applies. If the partners don't provide the MRP with their PIR and/or IRD number, the MRP will deduct PIE tax at the default rate of 28% which may be higher than the actual rate.

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

If the PIE holds the joint holder's details including their IRD number and reports the details to us we will split the investment income and tax details according to the number of joint holders. If the share is not equal, you will need to manually change it in myIR or contact us to update the shares.

Each New Zealand resident holder of a joint investment in a listed PIE can choose to declare their share of the dividend in their tax return.

Transferring your investments

Income from investments held in your name can't be transferred to another person, eg, a spouse on a lower income. However, investments can be sold. There are rules about valuation of property sold to associated persons. Please refer to our website.