

Information for non-residents who invest in PIEs

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

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

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

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

How PIEs calculate tax

Most PIEs will calculate their tax based on the prescribed investor rate (**PIR**) provided by their investors. This type of PIE is called a multi-rate PIE (**MRP**). Some PIEs that do not use investor's PIRs continue to apply the basic tax rate.

A non-resident investor can invest in any PIE. However, there are also 2 types of MRP specifically 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 do not calculate their tax using their investors' PIR. Instead, their tax is calculated using the PIE's basic tax rate.

PIR for non-residents

For non-residents who invest in MRPs, the prescribed rate (whether an individual or non-individual) is 28%. You cannot have a lower rate applied unless you are a notified foreign investor investing in a foreign investment PIE.

IRD numbers

If you have an IRD Number at the time of becoming an investor, you must provide it to the MRP within 6 weeks of becoming an investor.

If you become a New Zealand tax resident you must notify the MRP immediately and you have 6 weeks from this date to provide your IRD number to the MRP.

If you do not have an IRD number you must provide the MRP with the equivalent of your tax file (IRD) number in the country or territory where you reside for tax purposes, or a declaration if you're unable to provide this number. If you do not do this you will be required to provide an IRD number within 6 weeks.

If you do not provide your IRD number within 6 weeks the MRP is required to close your account and treat you as having exited on the last day of the 6-week period.

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

There are only 2 situations where a zero-rate may be applied for a non-resident investor:

- You may be taxed at a zero-rate by a MRP that files PIE returns using the quarterly option, where you exit the MRP during a quarter.
- A transitional resident or a notified foreign investor who invests in a zero-rate PIE can also have a 0% PIR.

Notified foreign investor

A non-resident who holds an investment in a foreign investment PIE may notify the PIE that they wish to be treated as a notified foreign investor.

The investor must not be:

- resident in New Zealand,
- a controlled foreign company,
- a foreign investment fund with a New Zealand resident investor who has an income interest of 10% or more, or
- a non-resident trustee of a trust that is not a foreign trust.

If you do not notify the PIE it will continue to use the 28% PIR.

You need to provide the foreign investment PIE with the following additional information:

- your full name
- your date of birth, if applicable
- your home address in the country or territory where you reside for tax purposes
- the equivalent of your tax file (IRD) number in the country or territory where you reside for tax purposes, or a declaration if you're unable to provide this number
- your New Zealand tax file (IRD) number, if applicable.

PIRs for notified foreign investors

For non-residents who invest in a zero-rate or variable-rate PIE different prescribed rates apply if the investor is a notified foreign investor.

A notified foreign investor in a variable-rate PIE has different rates applied based on the type of attributed income and country of source. For dividend income attributed to you the rate will vary based on whether you live in a country with which we hold a double tax agreement. The current rates are:

All non-NZ sourced income, fully imputed dividends, income from NZ based financial arrangements excluding interest covered below	0%
NZ interest income being a net of tax-based approved issue levy (AIL): $2\% \text{ less } .56\% (2\% \times 28\%) = 1.44\%$	1.44%
NZ dividend income is taxed based on whether the notified foreign investor is resident in a country with which we hold a double tax agreement (DTA) or not (non-DTA)	15% (DTA) 30% (non-DTA)
Other NZ-sourced income (if any)	28%

If you are a notified foreign investor in a zero-rate PIE you can have the zero-rate applied to your attributed PIE income.

Ceasing to be represented by a proxy

If you are represented by a proxy for PIE investors (custodian) and then cease to be represented by that proxy, its obligations will pass directly to the PIE that holds your investment. You should notify the PIE your correct PIR and IRD number.

Arriving in or leaving New Zealand and your PIR

If you are a New Zealand tax-resident individual who has invested in a MRP and you then cease to be resident and you are not a notified foreign investor, your PIR should be 28% from the date your New Zealand tax residence ends. You should tell the MRP of the change as soon as possible. You should also advise us the date you left New Zealand.

If you have invested in a foreign investment PIE, you may choose to be a notified foreign investor.

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

Note: A transitional resident is an individual who is a new resident in New Zealand. Transitional residence is a 48-month period from the time your residence period commences.

All transitional and new residents who are not an investor in a zero-rate PIE, must include their worldwide income when determining their PIR during their transitional resident period.

However, transitional residents may choose not to include their foreign-sourced income when working out their PIR for either or both of the first 2 income years as a resident; but only if they reasonably expect their taxable income in that period will be significantly lower than their total income from all sources for the income year before the first resident year.

Transitional residents should send us a message in myIR or a letter attached to their income tax returns filed during the transitional period confirming how their PIR has been calculated.

Attributed PIE income or loss of a transitional resident will be included in a PIE calculation in their annual income tax assessment regardless of the PIR used.

Record-keeping requirements

If your only New Zealand-sourced income is taxed at source and you have provided your IRD number to all payers there are no record keeping requirements.

However, 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're a notified foreign investor without an IRD number or you have other New Zealand income that is not taxed at source you need to keep your records for 7 years.

Income attributed by the MRP

PIE tax and non-resident withholding tax (NRWT)

The NRWT rules do not apply to MRP investments except where a foreign investment PIE chooses to use the NRWT rules for certain dividends paid to a notified foreign investor.

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

If the PIE does not choose to apply the NRWT rules and PIE tax is actually paid by the PIE, then:

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

A listed PIE that does not use your PIR may continue to pay dividends to non-residents, which will be subject to NRWT.

When must income attributed by the MRP be included in your New Zealand tax return?

When you are not a notified foreign investor and have:

- notified a PIR less than 28% or had the default rate applied, or
- had a zero-rate applied in a quarter on exit from a MRP that files PIE returns using the quarterly option.

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

Where the attributed PIE income is required to be included in your New Zealand tax return, the PIE tax paid can be used as a tax credit up to the New Zealand tax payable on the attributed PIE income. For instance, where you have notified a PIR of 17.5% but your basic tax rate in the tax return is 10.5% your PIE tax credit will be limited to 10.5%. No refund is available where the PIE tax paid exceeds the New Zealand tax applicable.

Non-resident investors cannot include an attributed PIE loss in their New Zealand tax return.

PIE income attributed to a notified foreign investor is not included in a tax return unless the investor has incorrectly advised the PIE that they are a notified foreign investor.

When is your MRP income received?

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

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

Dividends or distributions

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

If your foreign investment PIE chooses to pay a dividend instead of attributed PIE income to a notified foreign investor, it may apply the NRWT rules to that dividend and the dividend will be non-excluded income.

A listed PIE that does not use your PIR may continue to pay dividends to non-residents, which will be subject to NRWT.

Investor statements

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

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

Most MRPs need to provide you with information regarding your investment by 31 May following the end of the tax year. A few types of MRP with late balance dates may send that information to you on or after 30 June.

If you withdraw your investment from a MRP that files returns using the quarterly option and zero-rates exiting investors, the MRP has to provide the information within 1 month of the end of the quarter in which you exited.

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

Listed PIEs may send a dividend statement to their investors.

Where there is a rate change during a year you may receive more than 1 investor statement; 1 for each rate applied during the year.

Residual interests

Any residual investor interest at the end of the quarter in which an investor exits a MRP that files PIE returns using the quarterly option will be paid to Inland Revenue by the MRP within 1 month of the end of the quarter in which the exit occurs.

You'll be entitled to a tax credit in your non-resident tax return equal to the residual interest paid.

Where does PIE income go in the income tax return?

If you have correctly notified the 28% PIR your attributed PIE income is not included in your income tax return. If you have had a rate lower than 28% applied during a year the attributed PIE income will be included as taxable income and taxed at the basic tax rate, which may be higher than 28%. If you file your tax return in myIR there are dedicated fields for attributed PIE income and PIE tax credits. If you file a paper tax return you should send us a message in myIR or a letter attached to the return advising details of your PIE income and tax credits.

Transitional residents

If you're a transitional resident you will have a resident individual income tax assessment. Attributed PIE income or loss is not included in your taxable income in your tax return. There is a separate end-of-year PIE calculation that will include your attributed PIE income or loss regardless of the PIR you have notified.

myIR has a PIE income section we will pre-populate with the details. We will automatically include the PIE income or loss in the PIE calculation as part of processing your income tax return.

Tax credits

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

Where your income attributed by the MRP has been taxed at a PIR of 0% on exit from the MRP, the foreign tax credits can be claimed in your tax return up to the amount of the tax you're required to pay on the attributed income. For instance, where you have notified a PIR of 17.5% but your basic tax rate in the tax return is 10.5% the tax credits will be limited to 10.5%.

New Zealand tax credits are included by the MRP when it calculates its tax after allowing foreign tax credits. They are used by the MRP to the extent of the remaining New Zealand tax payable on the PIE attributed income.

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

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.

Where the investor has a zero-rate applied by a MRP that files PIE returns using the quarterly option a deduction for the loss may be allowed.

Student loans

Attributed income from a locked-in PIE is not required to be included in your adjusted net income when determining student loan repayments.

A locked-in PIE is a superannuation fund or retirement savings scheme, such as KiwiSaver, where you must be of a specified retirement age or be in exceptional circumstances before you can access the funds.

Attributed PIE income from a non-locked-in PIE and dividends from a listed PIE need to be included in your adjusted net income when determining student loan repayments. You can complete the 'Adjust your income' service in myIR or the **Adjust your income - IR215** form.

Withdrawing your investment

If you exit a MRP that files PIE returns using the quarterly option part-way through a quarter, the MRP may calculate tax at the zero-rate on your share of the income attributed. The zero-rated income must be included in your tax return. Alternatively, the MRP may voluntarily pay tax on the attributed income for the exit period, in which case the income will not have to be included in your tax return provided you notified the correct 28% PIR.

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

Investor expenses

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



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