



Tax Guide 2010





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1. Introduction

Welcome to the 2010 FNZ Tax Report User Guide. This is the second user guide produced by FNZ in its capacity as the administrator and custodian. It replaces the supplementary notes previously supplied with the tax reports. FNZ trust that you find it informative and helpful in completing your tax return (if required).

Most of the information that you should need is in the following section on completing your income tax return. More detailed information is contained in the following sections should you require it.

Should you or your tax adviser have any questions regarding your tax reports or this user guide, please contact your financial 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 its custody, FNZ does not provide tax advice.

Your tax report brings together all details of the interest and distributions received and processed by FNZ for you during the year ended 31 March 2010. An amalgamated tax statement such as your tax report should make filing your income tax return much simpler. However, as FNZ and your financial adviser may not have complete knowledge of your individual circumstances, it is strongly recommended that you seek independent tax advice from a professional tax adviser. You should provide this user guide together with your tax report 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 whole year, you may also need to include the income from those investments in your income tax return.

Yours sincerely



Damian Millin
Director
FNZ Custodians Ltd

The information contained in this user guide is of a general nature only. The user guide is based on tax legislation and the interpretation of that legislation at the time the guide is prepared. Both tax legislation and its interpretation are subject to change over time. Tax legislation and its application to your specific circumstances can be complex. As such, you are strongly encouraged to seek professional tax advice where required. Whilst every effort has been made to ensure the accuracy of this user guide and your tax reports, to the maximum extent permitted by law, no liability is accepted by FNZ or your financial adviser for any errors or omissions.

2. Completing your income tax return

The section below titled *How to complete your tax return* contains information on how to take the information found in your tax report and enter it onto the tax return forms provided by the Inland Revenue. 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. It also indicates a monetary figure which is required to be reported to the Inland Revenue.

Your tax report should be retained for income tax purposes. Together with information from other sources, the summaries at the front of the report will assist in the production of your income 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 whilst the investments are held under 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 matters are essential items to check for completing your income tax return. More detailed information is provided on some of these topics in the following sections.

Taxation of fixed interest securities

The cash basis method of tax accounting for interest income has been used to prepare your tax report. Please note that the cash basis method may not be appropriate for your circumstances and it is recommended that you discuss your requirements with your tax adviser. For 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.

In addition to the interest received during the year, you may need to make adjustments for tax purposes for any accrued interest and premiums or discounts that were included in the purchase price of any fixed interest securities you have previously 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.

Portfolio Investment Entities - Prescribed Investor Rate

Your Prescribed Investor Rate (PIR) at 31 March 2010 which has been supplied by your adviser is shown at the top of the summary pages of your tax report. It is important you confirm that this rate is still correct based on the legislative test and notify your adviser of any change. Your PIR is the rate at which the PIE will calculate and deduct tax on your PIE allocated income or calculate any rebate due when a loss is incurred.

A change to your PIR will only affect income that has not already been taxed during the income year by the PIE. Provided you are not required to use a PIR of 0% and you have used the correct PIR, the PIE tax deducted from your allocated PIE income is generally a final tax so you should not need to include the allocated income in your tax return. Using the correct PIR will generally be beneficial in that the maximum PIR is 30% compared to the higher marginal tax rates of 33% and 38%, which may apply if you are required to include PIE allocated income in your personal tax return.

As such, advising FNZ or your adviser of your correct PIR is critical as in some cases, an incorrect PIR could lead to more tax being paid in the PIE or required to be paid through your income tax return.

If a PIR of less than 30% has been applied at any time during the year to tax your PIE allocated income, you will need to consider whether you are required to include your PIE allocated income in your tax return. Investors who have had the 19.5% PIR applied during the year should confirm that they were entitled to use the 19.5% rate. If you are unsure what your PIR should be, please speak with a tax adviser or consult the Inland Revenue website (<http://www.ird.govt.nz/toii/pir/workout>).

Generally, if a partnership invests into a PIE (and the partnership consists of only natural persons), the highest PIR of an individual should be elected for the partnership investment. For example, if a partnership consisted of two partners, of which one qualifies to use a 19.5% PIR and the other a 30% PIR, the partnership should elect a 30% PIR.

Where a partnership consists of natural persons and a trust or a company, the partnership investment in that PIE must be separated as to ensure the correct PIR is elected for both the natural person and the trust or company. If you invest in a PIE through a partnership, please consult your tax adviser on the most appropriate PIR for your partnership PIE investment.

Please note that joint investors should elect the highest PIR of the individual persons in the joint investment.

The section below *How to complete your tax return* is based upon the assumption that you have been taxed at the rate appropriate for your situation. If you find that the PIR rate applied to your investments is less than the PIR that you were entitled to use, you may need to include some income in your tax return. The amount of income that you may be required to return is the Attributed Taxable Income that has been taxed at the incorrect rate. The amount of this income can be found in the Unlisted PIE Proxy Income and Tax Information schedule of your tax report. You will, however, be entitled to claim a credit for the PIE tax paid on your behalf by the PIE.

Where an investor's PIE investment has incurred a loss, unless that investor has a 0% PIR, the loss is not allocated to the investor and is instead a loss of the PIE. The tax effect of the loss incurred is "distributed" to the investor by way of an increase in the investor's shareholding in the PIE or cash. Only investors with a 0% PIR that are allocated a PIE loss should include this loss in their tax return.

Electing to treat the imputed portion of listed PIE distributions as taxable

Dividends or distributions received from listed companies that have elected to become PIEs are not taxable when received by individuals and trusts. However, individuals on a marginal tax rate of less than 30% as well as trusts may choose to treat the imputed portion of distributions from listed PIEs as taxable so as to utilise the additional imputation credits. It is important to note that for the purposes of the section *How to complete your tax return*, the treatment must be consistent throughout the tax return. For example, if you choose to include the Imputation Credits or Foreign Withholding Payment Credits (FWPC) in your tax return, you must also include the associated Gross Income as taxable income in your tax return. This may also have an impact on various Government entitlements such as Working for Families credits. Investors should consult their tax adviser before making this election.

Companies are required to treat the imputed portion of distributions from listed PIEs as taxable.

De minimis exemption

Where you hold investments that are Foreign Investment Funds (FIFs), your de minimis status will determine whether resident withholding tax (RWT) will be deducted from dividends and distributions received from your FIF investments, how your FIF investments are shown in your tax report and also whether FIF income calculations are completed for you.

Your recorded de minimis status at 31 March 2010 is shown at the top of the Summary of Foreign Investment Fund Income page of the tax report. If the total cost of your FIF investments (including any FIF investments not held in custody with FNZ) does not exceed NZ\$50,000 at any time during the year, you should be subject to the de minimis exemption and you should not be subject to the FIF rules.

Please note that your de minimis status as shown on your tax reports has been supplied by your adviser and is based on his/her knowledge of the investments you hold. If you hold other FIF investments outside FNZ or that your adviser is not aware of, your de minimis status may be incorrect. In this instance we recommend you contact your adviser immediately or discuss this with a tax adviser as your tax reports may be incorrect. If your recorded de minimis status is incorrect please notify your adviser **immediately** to have your status corrected as this will determine whether RWT is required to be deducted from dividends and distributions received from your FIF investments.

Resident withholding tax

Clients should take time to review the withholding tax rate that has been supplied to FNZ. The current rate held for you is shown at the top of the summary page of your tax report. If this rate needs to be changed now or in the future, please notify your adviser.

In addition, if you hold an exemption certificate from RWT that expires or becomes or has become invalid, please notify your adviser immediately so that FNZ's records can be updated.

Foreign tax credits

Investors are able to claim a tax credit against their New Zealand tax liability for any foreign tax that has been withheld on overseas dividend or interest income.

However, 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 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.

Inland Revenue in their January 2009 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 the investor has New Zealand losses available, these must be offset against taxable income before foreign tax credits can be claimed. If these losses exceed the investor's taxable income, foreign tax credits may be forfeited. As each investor's circumstances are different, we recommend that you consult your tax adviser.

Tax residency

All tax reports provided have been generated on the basis that you are resident in New Zealand for tax purposes. The manner in which information is reported to you and the amount of withholding tax deducted from your investment income is based on your tax residence. As such, please notify your adviser if you are not currently or will not be a tax resident in New Zealand in the near future.

Rebates, Fees, and Charges

PIE rebates received by an investor are shown in the PIE income schedule and have been treated as taxable. Rebates received from fund managers and finance companies are generally taxable and are detailed on a separate schedule (Fund Manager and Finance Company Rebate Information). For the purposes of the section *How to complete your tax return*, FNZ assumes that Rebates are taxable. Investors are encouraged to seek professional advice if they are unsure of their individual circumstances.

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. Investors are encouraged to seek professional advice if they are unsure of their individual circumstances.

Relevant tax changes with application from 1 April 2010

Portfolio Investor Rate (PIR)

From 1 April 2010, individuals that invest in PIEs can elect either a 12.5%, 21% or a 30% PIR.

From 1 April 2010, trusts that invest in PIEs will have a default PIR of 0% (if a valid IRD number has been provided to your adviser or FNZ). Where a 0% PIR is not appropriate, trusts can elect either a 21% or a 30% PIR. In addition, a testamentary trust may be eligible to elect a 12.5% PIR. An election of less than 30% means that the trust will have to include PIE income in its income tax return. We recommend that investors consult their adviser to determine their appropriate PIR.

From 1 April 2010, companies will be required to have a 0% PIR unless a valid IRD number has not been provided to FNZ or their adviser. Where no IRD number is provided for any entity (including an individual, company, trust or charitable trust), the default PIR of 30% is applied.

Individuals and trusts (not including charitable trusts) that previously had a 19.5% PIR on 31 March 2010 will automatically be treated as having a 21% PIR from 1 April 2010, unless the investor elects a different PIR. As the PIR election criteria have changed to accommodate the new PIR rates, investors should consult their adviser to determine their correct PIR.

Resident Withholding Tax (RWT) rates

From 1 April 2010, the RWT rates for individuals have changed to 12.5%, 21%, 33% or 38% (or 0% where an RWT exemption certificate is held). Where an investor (including an individual, company, trust or charitable trust), does not supply a valid IRD number to FNZ or their adviser, RWT will be withheld at the default rate of 38%.

From 1 April 2010, the RWT rates for trusts have changed to 21%, 33% or 38% (or 0% where an RWT exemption certificate is held). In addition, a testamentary trust may be eligible to elect a 12.5% RWT rate.

Individuals and trusts that previously had RWT withheld at a payment rate of 19.5% before 1 April 2010 will automatically be treated as having a 21% RWT rate, unless the investor elects a different RWT rate. As the RWT election criteria have changed to accommodate the new RWT rates, investors should consult their adviser to determine their correct RWT rate.

From 1 April 2010, the RWT rate for companies has changed from 33% to 30% (or 0% where an RWT exemption certificate is held). Where a valid IRD number has not been provided to FNZ or their adviser, the applicable RWT rate will be 38%.

General comments

Please note that FNZ is not in the business of providing tax advice. The comments in this tax guide are not intended to replace formal advice from your tax adviser. While every effort has been made to ensure that the comments herein are accurate at the point of printing, FNZ accepts no liability for loss or damages incurred as a result of reliance on the comments contained in this tax guide. Please consult with your tax adviser or the Inland Revenue if you are unsure how the tax rules apply to your personal situation.

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 ▶ \$ <input type="text"/> , <input type="text"/> , <input type="text"/> . <input type="text"/>

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 ▶ \$ <input type="text"/> , <input type="text"/> , <input type="text"/> . <input type="text"/>
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 ▶ \$ <input type="text"/> , <input type="text"/> , <input type="text"/> . <input type="text"/>
Please ensure you were eligible for each PIR used during the year as this may affect your calculation for this section.		

IR3 Box 23 - Total Other Income		
FNZ Tax Report	Item	NZ Tax Return
Determine which of your management fee rebates are taxable:		
Fund Manager and Finance Company Rebate Income - Total Rebate Income		19
		Total other income
		23 ▶ \$ <input type="text"/> , <input type="text"/> , <input type="text"/> . <input type="text"/>

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 expenses claimed
		26 ▶ \$ <input type="text"/> , <input type="text"/> , <input type="text"/> . <input type="text"/>

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Please ensure that you have read the entire contents of section 2 (Completing Your Income Tax Return) before continuing.

IR4 – Company Tax Return

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 Withholding 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 ▶ \$ <input type="text"/> , <input type="text"/> , <input type="text"/> . <input type="text"/>

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 ▶ \$ <input type="text"/> , <input type="text"/> , <input type="text"/> . <input type="text"/>
<p>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.</p>		

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 ▶ \$ <input type="text"/> , <input type="text"/> , <input type="text"/> . <input type="text"/>

IR4 Box 21B - Total Other Income		
FNZ Tax Report	Item	NZ Tax Return
Determine which of your management fee rebates are taxable:		
Fund Manager and Finance Company Rebate Income - Total 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 ▶ \$ <input type="text"/> , <input type="text"/> , <input type="text"/> . <input type="text"/>

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IR6 – Trust Tax Return

IR6 Box 9A - 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
		9A ▶ \$ <input style="width: 100px;" type="text"/> . <input style="width: 20px;" type="text"/>

IR6 Box 9B - Total Gross Interest		
FNZ Tax Report	Item	NZ Tax Return
New Zealand Interest Income - Gross Income	1	
		Total gross interest
		9B ▶ \$ <input style="width: 100px;" type="text"/> . <input style="width: 20px;" type="text"/>

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
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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 ▶ \$ <input style="width: 100px;" type="text"/> . <input style="width: 20px;" type="text"/>
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 Withholding 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
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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 ▶ \$ <input style="width: 100px;" type="text"/> . <input style="width: 20px;" type="text"/>
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 ▶ \$ <input style="width: 100px; border: 1px solid black;" type="text"/> . <input style="width: 20px; border: 1px solid black;" type="text"/>

IR6 Box 13A - 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
		13A ▶ \$ <input style="width: 100px; border: 1px solid black;" type="text"/> . <input style="width: 20px; border: 1px solid black;" type="text"/>
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 (or loss)
		13B ▶ \$ <input style="width: 100px; border: 1px solid black;" type="text"/> . <input style="width: 20px; border: 1px solid black;" type="text"/>
Please ensure you were eligible for each PIR used during the year as this may affect your calculation for this section.		

IR6 Box 15B - Total Other Income		
FNZ Tax Report	Item	NZ Tax Return
Determine which of your management fee rebates are taxable:		
Fund Manager and Finance Company Rebate Income - Total Rebate Income	19	
		Total other income
		15B ▶ \$ <input style="width: 100px; border: 1px solid black;" type="text"/> . <input style="width: 20px; border: 1px solid black;" type="text"/>

IR6 Box 20 - 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 amount claimed
		20 ▶ \$ <input style="width: 100px; border: 1px solid black;" type="text"/> . <input style="width: 20px; border: 1px solid black;" type="text"/>

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3. Withholding tax deducted by FNZ from distributions

FNZ Custodians Limited as an agent is obliged to withhold tax on dividend and interest payments made to investors.

Unless you have provided exemption details or are subject to the FIF rules, all dividends have been taxed at a flat rate of 33%. Where applicable, eligible tax credits received on behalf of investors have been used to offset the Resident Withholding Tax (RWT) withheld.

Interest has been subject to withholding tax at the rate that you have provided to FNZ. If you have not provided a valid IRD number or have provided a valid IRD number and have not provided FNZ or your adviser with a withholding tax rate election, withholding tax has been withheld on interest at the rate of 39%.

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. An adjustment can be made through your personal tax return for incorrect RWT deductions.

Dividend and interest coupon deductions have been made by FNZ Custodians Limited, IRD number 81-369-763. Deductions from cash interest have been withheld by FNZ Ltd, IRD number 95-408-605. Separate certificates have been sent to the Inland Revenue with the deduction information.

In respect of FIF investments, an RWT obligation exists if at the time of receipt of the distribution an investor is subject to the de minimis exemption. If the de minimis threshold is exceeded, no RWT is generally required to be deducted from any distributions received from FIF investments.

However, where the investor ceases to be subject to the de minimis exemption at any time during the income year, all distributions received from FIF investments during the year will retrospectively no longer be taxable (even those on which RWT has already been withheld). However, these investments will still be subject to tax in New Zealand under the FIF rules (discussed later in this guide). Investors may wish to claim a credit for this RWT in their tax return. If you are unsure how this affects you, please speak with a tax adviser or consult the Inland Revenue website.

4. New Zealand fixed interest investments

Fixed interest investments are subject to the financial arrangements tax rules that generally require income or losses from financial arrangements to be spread evenly over the life of the financial arrangement.

All interest will generally be taxable regardless of whether it is received in respect of New Zealand or overseas fixed interest investments.

Generally, all gains and losses from financial arrangements are taxable. These taxable gains and losses include premiums and discounts that are part of the purchase or sale price.

If, however, you are a cash basis person, you are generally not required to apply a spreading method and are only subject to tax on a cash basis. This exception only applies to individuals who hold total financial arrangements of less than a substantial value.

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.

Your tax adviser can advise you on the most appropriate tax reporting basis for your circumstances.

Investors should note that depending on their 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. Investors are encouraged to seek professional tax advice before claiming a tax deduction for such losses.

5. Financial Arrangement or accrual rules

Generally, an investor must calculate income and expenditure from their 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 an investor is a “cash basis person”, income is calculated on an interest paid/received basis.

If an investor is not a cash basis person, income must be calculated each year using an accrual rather than cash method.

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.

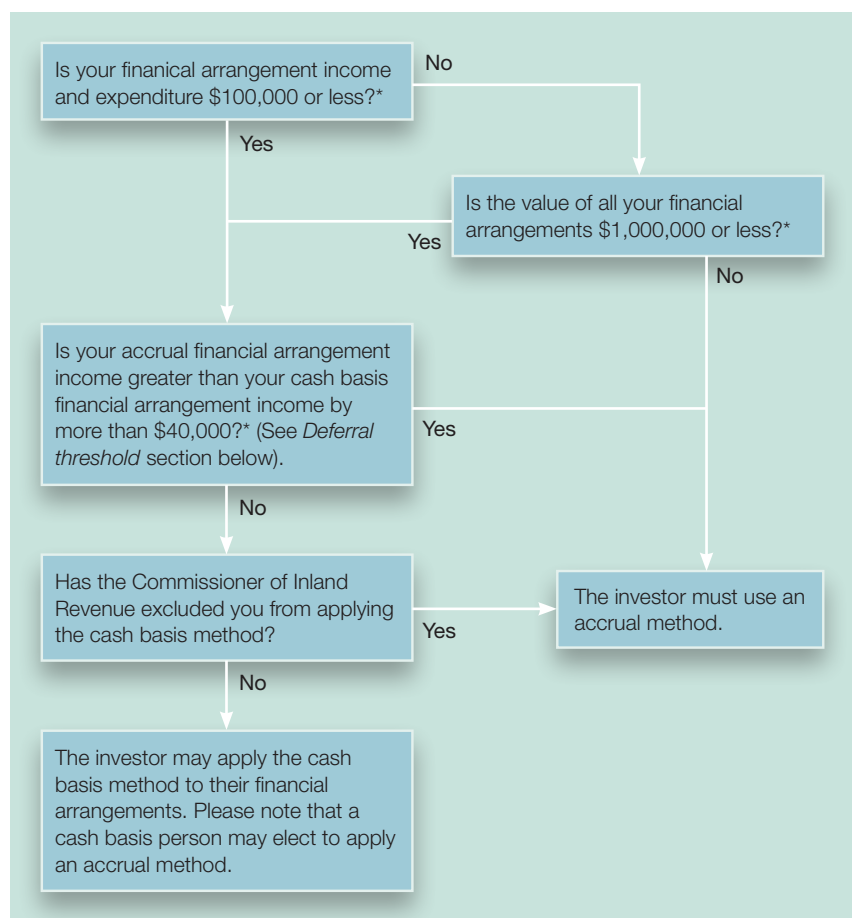
Cash basis person and method

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 have recently been widened to allow both companies and all 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.

Cash basis test



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

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Beneficiary or trustee of a trust

If an investor is a beneficiary or trustee of a trust, that investor may be required to either include or exclude the value of the financial arrangements held by the trust when determining if that person, in their personal capacity, is 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.

Trustee of an estate

A trustee of an estate may be a cash basis person if at the time of the deceased's death the person was a cash basis person and the cash basis thresholds (outlined in the flowchart above) are met. If these criteria are met, the trustee 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 the trustee fails to meet the cash basis test, the trustee must apply an accrual method, and is 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.

Beneficiary of a bare trust

If the investor is a beneficiary of a bare trust, the investor must calculate their share of the trust's financial arrangements and the income and expenditure from the trust's financial arrangements.

The result of these calculations is included when determining if the investor, in their personal capacity, meets the cash basis test.

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

If the investor is a trustee of a trust (other than a bare trust or estate), the following trust amounts are excluded when applying the tests to the trustee's 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 an investor who is a trustee of a trust does not count the trust's financial arrangements when determining if they are, in their personal capacity, a cash basis person.

Beneficiary of a trust (other than a bare trust)

If the investor is a beneficiary of a trust (other than a bare trust), the following trust amounts are excluded when applying the tests to determine the beneficiary's 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 a beneficiary does not count the trust's financial arrangements when determining if they are, in their personal capacity, a cash basis person.

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 the person is greater than \$40,000, the person does not qualify to use the cash basis and must apply an accrual spreading method.

Base Price Adjustment

Generally, a Base Price Adjustment (BPA) is required to be performed when a person ceases to be a party to a financial arrangement (for example, but not limited to, disposal, maturity or absolute assignment) or the financial arrangement is mutually varied. 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.

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 previous 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 previous income years.”

Amount remitted is defined as “any amount that is not included as part of the consideration which 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.

Ceasing to be or becoming a cash basis person

Where a person ceases to be a cash basis person, or where a person ceases to be required to use the accrual method and chooses to use the cash basis method, an adjustment is required to be made to the income and expenditure that person must return as income in the income year their 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.

Accrual methods

Where an investor does not meet the criteria to use the cash basis method, the investor must use an accrual method to calculate income and expenditure from their financial arrangements.

An accrual method will generally require an investor to spread the income and expenditure from their investment over the life of the investment. Yield to maturity is the default method. 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 IRR may not match the interest actually received during the period.

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

Some specific issues are considered below.

IFRS taxpayers

If the investor is required to prepare financial statements under International Financial Reporting Standards (IFRS), the investor is 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.

Foreign denominated financial arrangements

Please note that where an investor holds financial arrangements that are denominated in a foreign currency, the investor 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.

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 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.

Base Price Adjustment

As outlined above, a Base Price Adjustment (BPA) is generally required to be performed when a person ceases to be a party to a financial arrangement. 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.

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 adviser prior to making an election.

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 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.

Simple accrued interest at balance date- accrual method

John is a New Zealand resident for tax purposes. On 1 July 2009, 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 2010 and, as such, he is required to calculate and return as income the interest which he has received and which has accrued at 31 March 2010.

John is required to return the 31 December 2009 coupon interest payment of \$5,000 as income in the 2010 income year. John is also required to return a portion of the 30 June 2010 coupon payment which has accrued at 31 March 2010. The calculation John is required to perform to calculate the accrued interest as at 31 March 2010 is:

$$= (\text{face value} \times \text{coupon rate}) \times (\text{days interest has accrued}^* / 365)$$

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

$$= \$2,465.75$$

* The days the interest has accrued represents the number of days between the first day of the interest accruing period (1 January 2010) and the calculation date (31 March 2010).

In total, John will return interest income of \$7,465.75 in the 2010 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 adviser for further information.

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 cashflow 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 2008, 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 2009, 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 2008. 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 2008)

Settlement Date	Instrument Description	Instrument Code	Trade Type	Face Value	Settlement Amount	Capital Price	Accrued Interest	FX Rate	Currency
12/03/2008	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

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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 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
15/05/2008	64	\$1,012,500.00 ¹	\$28,745.96	\$70,000.00
15/11/2008	184	\$971,245.96	\$79,277.30	\$70,000.00
15/05/2009	181	\$980,523.26	\$78,729.64	\$70,000.00
15/11/2009	184	\$989,252.90	\$80,747.10	\$1,070,000.00
Total	613	\$0.00	\$267,500.00	\$1,280,000.00

* To calculate the principal outstanding, add the *original settlement amount* and the *income in respect of period* and subtract the *payment received at end of 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 Base Price Adjustment 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
15/05/2008	\$28,745.96	64	2007/2008	19	\$8,533.96	\$8,533.96
			2008/2009	45	\$20,212.00	
15/11/2008	\$79,277.30	184	2008/2009	184	\$79,277.30	\$158,085.56
			2009/2010	136	\$58,596.26	
15/05/2009	\$78,729.64	181	2008/2009	45	\$20,133.38	\$100,880.48
			2009/2010	184	\$80,747.10	
Total	\$267,500.00	613		613	\$267,500.00	\$267,500.00

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2010 tax year

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

BPA calculation	Consideration	Income already returned	Expenditure ahead returned	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 income for the year ended 31 March 2010 of:

$$\begin{aligned}
 &= (\text{consideration} - \text{income} + \text{expenditure} + \text{amount remitted}) \\
 &= (\$267,500 - \$166,619.52 + 0 + 0) \\
 &= \$100,880.48
 \end{aligned}$$

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 31/03/2008	\$0.00
15/05/2008 - payment received	\$70,000.00 ²
15/11/2008 - payment received	\$70,000.00 ²
Accrued interest on purchase	-\$45,260.27 ³
Income for year ended 31/03/2009	\$94,739.73
15/05/2009 - payment received	\$70,000.00 ⁴
15/11/2009 - payment received	\$70,000.00 ⁴
Discount received (net base price adjustment)	\$32,760.27
Income for year ended 31/03/2010	\$172,760.27
Total income returned	\$267,500.00

2008 tax year

As Sarah did not receive any interest payments for the year ended 31 March 2008, she would not return any interest income in the 2008 income year.

2009 tax year

Sarah must return the interest she received in the 2009 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 2009 and 2010 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 2009 and 2010 income years (detailed below).

New Zealand Interest Income and Tax Information (year ended 31 March 2009)

Date	Instrument Description	Instrument Code	Gross Interest Income (Local)	Deductions		Net Interest Income (Local)	Net Interest Income (NZD)	FX Rate	Currency
				Source Withholding Tax (Local)	NZ Resident Withholding Tax (Local)				
Interest on New Zealand Securities									
15/05/2009	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
15/11/2009	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

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 2008)

Settlement Date	Instrument Description	Instrument Code	Trade Type	Face Value	Settlement Amount	= Capital Price	+ Accrued Interest	FX Rate	Currency
12/03/2008	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 2009.

2010 tax year

In the 2010 year, Sarah would be required to do the base price adjustment as follows:

BPA calculation	Consideration	Income already returned	Expenditure ahead returned	Amount remitted
Cost	-\$1,012,500.00	\$94,739.73	\$0.00	\$0.00
Interest received / receivable	\$280,000.00			
Capital repayment	\$1,000,000.00			
Total	\$267,500.00	\$94,739.73	\$0.00	\$0.00

Applying the BPA formula, Sarah would return interest income for the year ended 31 March 2010 of:

$$\begin{aligned}
 &= (\text{consideration} - \text{income} + \text{expenditure} + \text{amount remitted}) \\
 &= (\$267,500 - \$94,739.73 + 0 + 0) \\
 &= \$172,760.27
 \end{aligned}$$

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).

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

New Zealand Interest Income and Tax Information (year ended 31 March 2010)

Date	Instrument Description	Instrument Code	Gross Interest Income (Local)	Deductions		Net Interest Income (Local)	Net Interest Income (NZD)	FX Rate	Currency
				Source Withholding Tax (Local)	NZ Resident Withholding Tax (Local)				
Interest on New Zealand Securities									
15/05/2009	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
15/11/2009	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

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

$$\begin{aligned}
 &= (\text{purchase price} - \text{face value} - \text{accrued interest}) \\
 &= (\$1,012,500^1 - \$1,000,000^5 - \$45,260.27^3) \\
 &= -\$32,760.27 \text{ (discount)}
 \end{aligned}$$

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

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.

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6. New Zealand equity investments

If you hold your New Zealand shares on capital account, you should only be subject to tax on any dividends received. Any imputation credits attached to those dividends should be included as taxable income and the imputation credits are then offset against the resulting tax liability.

If however you hold the shares on revenue account, you may be required to include any realised gains or losses in your tax return. You should consult your tax adviser to determine your individual circumstances.

Dividends or distributions received from listed companies that have elected to become Portfolio Investment Entities (PIEs) are not taxable when received by individuals and some trusts. However, individuals on a marginal tax rate of less than 30% and trusts may choose to treat the imputed portion of distributions from listed PIEs as taxable so as to utilise the additional imputation credits. Companies are required to treat the imputed portion of distributions from listed PIEs as taxable. Refer to the later section on PIEs (section 10) for further information.

Dividends or distributions received from unlisted companies that have elected to become PIEs are generally not taxable when received by individuals and some trusts. If these distributions have not been taxed using the correct prescribed investor rate (PIR), or taxed using a PIR of 0%, the taxable part of the distribution may need to be included in the investor's tax return.

Unit trusts are treated as companies for tax purposes. However, most New Zealand unit trusts have elected to become PIEs and the general principles outlined above also apply.

Some companies listed on the NZX are not New Zealand resident companies. Unless these companies are subject to the Australian listed company exemption they may be subject to the FIF rules if the de minimis exemption does not apply.

7. 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 that generally require income or losses to be spread evenly over the life of the investment. 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. For more information on fixed interest investments, please refer to section 4.

Your tax adviser can advise you on the most appropriate tax reporting basis.

8. Overseas shares and overseas managed funds

Where an investor holds an investment in an overseas investment or an overseas managed fund which is not subject to the exemptions (outlined below), the investor may be subject to tax under the Foreign Investment Fund (FIF) rules.

Generally speaking, the amount of FIF income an investor will be required to include in their tax return will be calculated using either the Fair Dividend Rate (FDR) method or the Comparative Value (CV) method. These calculation methods are explained in more detail later in this section, and in more detail in section 11 (Foreign Investment Fund Income).

In addition to the information set out in this user guide, investors may wish to review the information provided by Inland Revenue in January 2009 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>).

For an investment which is not subject to the FIF rules, generally an investor will have to include as taxable income any dividends or distributions received. The treatment of gains or losses made from the sale of such investments will depend on the investor’s purpose in acquiring the shares. Please consult your adviser for further information.

Foreign Investment Funds

How the investor holds their Foreign Investment Fund (FIF) investments will determine how they calculate their FIF income for tax purposes and how much tax they are required to pay.

If an individual or a family trust holds FIF investments with a total cost of NZ\$50,000 or more during the tax year, they are required to apply the FIF rules.

Any entity other than an individual or a family trust is required to apply the FIF rules irrespective of the cost of its FIF investments.

A detailed explanation of the FIF rules and calculation methods are contained in the later sections of this user guide.

The calculations in the tax report are dependent on the accuracy of the information held by FNZ which may have been supplied by you or your adviser. Please ensure the transactional data shown in your tax report is true and correct. Any changes required to that data may result in changes to your calculated FIF income.

Please note that if you have FIF investments that are not held in custody with FNZ, you may be required to make adjustments to your tax report information as some FIF income calculations are required to be based on a total portfolio basis.

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 and / or make any amendments to the tax report where appropriate.

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 calculate their FIF income using the FDR or CV methods.

In the tax report, overseas dividend transactions are categorised as being either “Exempt from the FIF Rules” or “Subject to the FIF Rules” at the end of the income year. This classification will depend on the de minimis status recorded for the investor when the tax report is produced which may differ from the status that was recorded when the dividend was received.

For example, if the de minimis status changes during the income year, overseas dividend transactions which were not subject to the FIF rules prior to the change will be subject to the FIF rules and the report will categorise them as such. Where overseas dividend transactions were processed as being exempt from the FIF rules, but at the time the tax report is produced those transactions need to be categorised as subject to the FIF rules, then they will be reported as such.

These exemptions are outlined in further detail below.

De minimis exemption

If the de minimis exemption applies, the investor will only be subject to tax on dividends and distributions received, provided the investments are held on capital account.

For individuals, joint account holders who are individuals and/or certain limited types of trusts, they may be exempt from the FIF rules if they fall within 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 an investor’s foreign investments totals NZ\$50,000 or less **at all times** during an income year, then the FIF rules do not apply for that investor’s income year.

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.

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.

Australian listed share exemption

Investments in shares in Australian companies that are listed on an approved index of the ASX are exempt from the FIF rules provided the company meets certain other criteria.

Where an investor holds a particular Australian share at the beginning of the income year, as long as it is listed on an approved index at the beginning of the investor's income year and maintains a franking credit account, it is exempt for that investor for their entire income year.

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

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/>. This exemption list should only be used as a guide. Please contact your adviser for further information.

Specific exemptions

If you hold shares in Guinness Peat Group plc (GPG), there is a specific exemption to the FIF regime which may apply to you. Your GPG shares are exempt from the FIF rules unless you elect that the FIF rules apply to your GPG shares. Once you have made the election to apply the FIF rules your election is irreversible and the FIF rules will continue to apply.

Please notify your adviser if you have not previously made an election and now wish to have the FIF rules applied to your GPG shares.

Foreign tax credits

Investors are able to claim a tax credit against their New Zealand tax liability for any foreign tax that has been withheld on overseas dividend or interest income.

However, 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 FDR 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 January 2009 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 the investor has 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.

9. Rebates, Fees, and Charges

Fund manager and finance company rebate income shown on the separate schedule (titled “*Fund Manager and Finance Company Rebate Information*”) represent rebates received and allocated to the investor. These rebates have not been taken into account in calculating the investor’s taxable income. However, generally these rebates are taxable. Depending on the exact legal nature of the rebates they may or may not be taxable to you. It is recommended that you consult your tax adviser on which is correct in your circumstances.

Fund manager rebates from PIEs have been included in “Gross Taxable Income / (Loss)” for PIE Tax crystallisation. These rebates are not shown on the separate schedule, as the associated tax liability has been met through the PIE investment.

Ongoing Fees

Under current legislation, 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 needs to be reduced by the GST already claimed. Investors are encouraged to seek professional advice if they are unsure of their individual circumstances.

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). The main scenario where this occurs is outlined below:

- ADR / GDR (American Depositary Receipt / Global Depositary Receipt) Fees. This is a fee that 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.

10. Portfolio Investment Entities (PIEs)

Unlisted PIEs

If you have a holding in an unlisted Portfolio Investment Entity (PIE) product, taxable income and tax credits will be allocated to you during the year. Your tax liability on this allocated PIE income will be calculated at your Prescribed Investor Rate (PIR) and any available tax credits are deducted.

In most cases, FNZ Custodians Ltd has been acting as a Portfolio Investment Proxy (PIP) and undertaking the tax obligations of the PIE by allocating income and associated tax credits.

Distributions from unlisted PIEs are generally not subject to tax. Instead the PIE's taxable income is allocated to investors periodically (generally on a daily basis) and a tax obligation is built up throughout the year based on the investment holding at each income allocation date. These tax obligations are "crystallised" either when investments are sold or transferred during the income tax year, or at the end of the year if investors have not reduced the PIE investment they hold in FNZ's custody during the year.

At the date the tax obligation is crystallised, FNZ Custodians Ltd will calculate either a rebate or an amount of tax to pay, and will then either issue the investor with additional units (or cash depending on the investor's PIE tax settlement method setting in Wrap) in the unlisted PIE, or cancel units / cash equal to the amount of PIE tax which has been calculated.

Your PIR is not the same as your marginal tax rate. To determine your correct PIR please refer to the following website (<http://www.ird.govt.nz/toii/pir/workout/>). Alternatively, please consult your own tax adviser.

If you have selected the correct PIR you will generally not be required to include the amount of PIE allocated income in your own tax return, as the PIE tax is a final tax.

Companies and trusts using a 0% PIR need to include all allocated PIE income and tax credits allocated to them in their tax return.

Consequences of using an incorrect PIR

If an investor elects a lower PIR than they are entitled to and this incorrect PIR has been applied to calculate their PIE tax liability, the investor may be obliged to include the amount of PIE allocated income that has been taxed at the incorrect PIR in their tax return. The income which they have been allocated will therefore be subject to tax at the investor's marginal tax rate. However, a tax credit can be claimed for any PIE tax already paid.

If a higher PIR is used, any excess tax already paid on behalf of the investor can generally not be claimed back from the Inland Revenue.

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

Calculation Methods for Unlisted PIE Proxy Income and Tax Information

Generally, a PIE taxable income calculation is required when an investor partly or fully disposes of their shares in a PIE and / or at the end of the income year. FNZ calculates the income to be attributed by determining the affected units (Event Quantity).

Crystallisation Ratio

This is calculated by dividing the Event Quantity by the Total Client holdings. The Event Quantity is the number of units that are subject to tax either through the redemption of units during the year or as part of the year end process. The Total Client Holdings is the total number of units held by the client at the time just prior to the taxable event taking place.

Example: An investor redeems 200 of their 800 units of an unlisted PIE. The crystallisation ratio is 25.00%.

Attributed Investment Income / (Loss) - also referred to as PIE Taxable Income

This represents the taxable investment income or loss allocated to the investor by the PIE fund since the beginning of the year, or since the investment was made if the units were acquired during the year.

Attributable Taxable Income / (Loss)

This is calculated in event order, with prior crystallisations (that occurred within the current tax year) impacting the subsequent Attributable Taxable Income / (Loss).

Example: At the start of the year an investor owns 800 units of an unlisted PIE. Part way through the year, they sell 200 units, triggering a taxable event (crystallisation). Assume for the purpose of this example that the PIE Taxable Income on these 800 units is \$20.00.

To calculate the Attributable Taxable Income / (Loss) you take the PIE Taxable income \$20.00, subtract any earlier Attributable Taxable Income \$0.00 and multiply by the Crystallisation Ratio. In this case, the crystallisation ratio is 25% (200/800 units). The Attributable Taxable Income is:

$$(\$20.00 - \$0.00) \times 25\% = \$5.00.$$

A few months later, the client sells another 300 units. Assume for the purpose of this example that the PIE Taxable income for this transaction 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 now 50% (300/600 units) due to the reduction in client units.

To calculate the Attributable Taxable Income / (Loss) you take the PIE Taxable income \$14.00, subtract any earlier Attributable Taxable Income \$5.00 and then multiply by the Crystallisation Ratio, so the Attributable Taxable Income is:

$$(\$14.00 - \$5.00) \times 50\% = \$4.50$$

Later on in the year, the client sells their remaining 300 units. Assume for the purpose of this example that the PIE Taxable income for this transaction is \$25.00. The Crystallisation ratio for this event is 100% (300/300 units) due to the previous reduction in client units.

To calculate the Attributable Taxable Income / (Loss) you take the PIE Taxable income \$25.00, subtract any earlier Attributable Taxable Income of \$5.00 and \$4.50 and then multiply by the Crystallisation Ratio, so the Attributable Taxable Income is \$15.50.

Gross PIE Tax Payable / (Rebated)

This is calculated by multiplying the Attributable Taxable Income / (Loss) by the clients PIR for each event.

Example: Taking the first example from above, the Attributable Taxable Income is \$5.00 and the client's PIR is 30%. The Gross PIE Tax Payable is:

$$\$5.00 \times 30\% = \$1.50$$

Net PIE Tax Payable / (Rebated)

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

Listed PIEs

If you have an investment in a listed PIE, the distribution you receive can potentially be split into two components being the fully imputed portion and the unimputed portion.

Fully Imputed Portion of Distributions

If you are an individual investor, you have the choice to include this imputed portion in your tax return. Generally, if a dividend received from a listed PIE is imputed at a ratio of 33%, only investors on a marginal tax rate of lower than 33% will include this in their tax return to claim the excess imputation credits. Where a dividend received from a listed PIE is imputed at 30%, generally only investors on a marginal tax rate of lower than 30% 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 as the inclusion of the dividend 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.

Imputation credits which have been included in a company's tax return will result in a credit to the imputation credit account.

Unimputed Portion of Distributions

The unimputed portion of a distribution from a listed PIE should not be included in your tax return, as this portion of the distribution is considered to be excluded income and is not taxable.

11. Foreign Investment Fund (FIF) Income

Calculation methods for FIF income (used by FNZ Custodians Ltd)

The amount of FIF income an investor will 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 the requirements to apply the FDR method are not met, FNZ will calculate an investor's FIF income under the CV method (detailed in the tax report as the "Comparative Value - The Compulsory Method").

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

If the investor is not an individual or a family trust (i.e. a company), the investor **must** apply the FDR method to all FIF investments **unless** the requirements to apply the FDR method are not met. In such situations, the investor 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/calc-method-choose/>).

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

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 sold within the income year.

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 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.

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 the investor's tax position.

Any applicable imputation credits attached or resident withholding tax withheld should be available as a credit.

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

Exclusions from applying the FDR method

The FDR method is generally not available to be used to calculate FIF income if the investor, and any persons associated with the investor, have a combined direct income interest in a FIF of greater than 10%.

In addition, the FDR method can not be used to calculate FIF income on shares which are treated as debt. These types of investments or inherent characteristics of shares which should be treated as debt 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 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 where the Commissioner of Inland Revenue has made a determination under the Tax Administration Act that an investment that is not excluded from the FDR method by the above restrictions, but is still substantially debt in nature and as such does not qualify for the FDR method.

Where the investor, and any persons associated with the investor, have a combined direct income interest in a FIF of greater than 10% or the share is of the type treated as debt, the investor must use the CV method to calculate FIF income (detailed in the tax report as the CV compulsory method). We recommend investors contact their tax adviser to determine the appropriate FIF calculation method for their FIF investments.

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. 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).

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 taxed on the lower of:

- 5% of the cost of the purchase (PH method); *or*
- The actual gains made on these quick sales (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 Quick Sales (Units) x Average Cost of Purchases

Where the Quick Sales (Units) 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 formula for QSG amount is:

Sale Proceeds from Quick Sale Units + Pro Rata Share of Dividends (received and declared during quick sale period) - Average Cost of Quick Sale Shares

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

Comparative Value (CV) method calculation

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

$$\text{(Closing Market Value + Gains)} - \text{(Opening Market Value + Costs)}$$

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 and returns of capital.

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.

Comparative Value - The Compulsory Method

The CV method must be used to calculate FIF income where the investor, and any persons associated with the investor, have a combined direct income interest in a FIF of greater than 10% or the share is of the type treated as debt.

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 an investor incurs a loss under the CV compulsory method, the investor may be entitled to offset the loss against other sources of taxable income, or alternatively, carry forward the loss into future income years.

Comparative Value - The Optional Method

The CV optional method may be used by an individual or a family trust 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 the investor is given the option of calculating FIF income under either the FDR or CV (optional) methods, the investor must apply the same method to all applicable FIF investments. Accordingly, the investor must value all of their 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 the investor has 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 the amounts calculated under the FDR or CV optional methods.

Other Calculation Methods (not used by FNZ Custodians Ltd)

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.

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:

1. 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*
2. 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, a person 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. A person is also required to use the same currency conversion method for all attributing interests for which they use the same FIF calculation method.

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

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:

An investor has 100 shares in a foreign company at the start of the income year, worth \$100. On 1 May 2008 they purchase an additional 20 shares for \$1 per share. By 30 May 2008, the market value had increased to \$1.20 per share. On 1 June 2008 a two for one share split occurs. On 1 July 2008 the person 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.

12. Questions and Answers

Do I need to get independent tax advice?

FNZ and your financial adviser may not have complete knowledge of your individual circumstances. Therefore it is strongly recommended that you seek independent tax advice. You should provide this tax guide together with the FNZ tax report to your tax adviser. This tax guide does not replace formal advice from your tax adviser.

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

You should contact your financial 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, FNZ does not provide tax advice.

Do I have to file a tax return?

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. The 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.

Why have my distributions received imputation credits at a combined rate of 30% and 33%?

As a result of the corporate tax rate change from 33% to 30% for the 2008/2009 income year onwards, some companies have attached both 33% and 30% imputation credits to dividends paid. Please consult your tax adviser if you are unsure of the tax treatment of the imputation credits.

I sold all of my shares in Australian Company Limited 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?

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.

This means that where 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.

13. Appendix / Technical Definitions

General definitions

For your information please find below for a brief glossary 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 adviser.

Cash Basis Person

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

- Means a natural 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

Non-taxable PIE income.

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.

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 of the month in 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.

Unlisted PIE

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

Yield to Maturity

Yield to maturity is the default method used to spread income and expenditure of a financial arrangement held by a non-IFRS tax payer.

Generally, the yield to maturity is the rate of return anticipated on an instrument if it is held until the maturity date.

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.

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 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. The deduction of RWT ensures that a total of 33% tax is paid on dividends received by you. RWT is a refundable tax.

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. Where available these credits are taken into account in calculating the amount of tax FNZ deducts from distributions received.

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.

Note: While every attempt has been made to source correct opening market pricing on positions backdated into a prior year for tax purposes, FNZ can not 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.

Security Transfer

These are treated as a sell and a buy.

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

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 11 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.

