Information for non-residents who invest in PIEs

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

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

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

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

How PIEs calculate tax

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

A non-resident investor can invest in any PIE. However, there are two types of MRP specifically for non-resident investors:

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

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

PIEs that are not MRPs include:

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

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

IRD numbers

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

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

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

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

PIR for non-residents

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

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

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

A transitional resident or a notified foreign investor who invests in a zero-rate PIE can also have a 0% PIR.

Notified foreign investor

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

The investor must not be:

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

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

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

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

PIR for notified foreign investors

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

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

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

Ceasing to be represented by a proxy

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

Arriving/leaving New Zealand and your PIR

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

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

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

All transitional and new residents who are not an investor in a zero-rate PIE, must include their worldwide income when determining their PIR in the first two years they are a New Zealand resident.

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

Any PIE attributed income earned must be included in their annual income tax assessment regardless of the PIR used.

Record-keeping requirements

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

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

Income attributed by the MRP

PIE tax and NRWT (non-resident withholding tax)

The NRWT rules do not apply to MRP investments other than a foreign investment PIE choosing to use the NRWT rules for certain dividends paid to a notified foreign investor.

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

Otherwise, as the tax on income from your investment in the PIE is actually paid by the PIE:

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

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

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

Where you have:

- notified an incorrect PIR or had the default rate applied, or
- had a zero-rate applied in a quarter on exit from a PIE that files returns using the quarterly option

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

Where the PIE income has been taxed at a rate lower than your actual rate, the tax already deducted by the MRP can be used as a tax credit.

When is your MRP income received?

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

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

Dividends/distributions

Dividends or distributions received from an MRP are excluded income and are not required to be included in your New Zealand income tax return. However, if your foreign investment PIE chooses to pay a dividend instead of attributed PIE income to a notified foreign investor, it may apply the NRWT rules to that dividend and the dividend will be non-excluded income.

A PIE that is a listed company and doesn't use your PIR may continue to pay dividends to non-residents, which will be subject to NRWT.

Investor statements

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

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

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

Where you are required to include MRP income in your New Zealand tax return, what information on the investor statement do you use?

The investor statement issued by the MRP will provide details of the income and tax paid to include in your tax return.

The following table shows where an investor has been taxed at a zero rate on exit from an MRP that files returns using the quarterly option. The investor will not have PIE tax paid. The MRP will attribute the income and any associated tax credits.

Investor statement - to be included in the tax return		
Taxable income/loss	$300	Total income attributed by the MRP. There is no tax paid by the MRP.
FTC	$5	The foreign tax credits attributed to the investor for the year.
IC	$10	The imputation credits attributed to the investor for the year.
RWT credits	$10	The resident withholding tax credits attributed to the investor for the year.

The income tax return will include $300 income with total tax credits of $25.

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

Residual interests

If, at the end of the quarter in which you exit an MRP that files returns using the quarterly option there is any residual value of your interest in the MRP, the residual interest will be paid to Inland Revenue by the MRP, within one month of the end of the quarter in which the exit period falls. You'll be entitled to a tax credit equal to the residual interest paid. This credit can be included in the RWT question on the tax return.

Where does PIE income go in the income tax return?

Where you are required to include PIE income in your New Zealand tax return you will need to provide details of the income, tax credits and tax paid in a separate letter and attach it to the return. We will then complete the required details.

Tax credits

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

Where your income attributed by the MRP has been taxed at a PIR of 0% on exit from the MRP, the foreign tax credits can be claimed in your tax return up to the amount of the tax you're required to pay on the attributed income.

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

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

Note: Non-residents cannot claim imputation credits.

Excess New Zealand tax credits and losses

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

Student loans

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

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

Attributed PIE income from a non-locked-in PIE and dividends from a listed PIE need to be included in your adjusted net income when determining student loan repayments.

Withdrawing your investment in an MRP

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

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

Investor expenses

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

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