

Information for trustees who invest in PIEs

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

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

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

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

How PIEs calculate tax

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

There are two types of MRP designed 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 of the PIE.

PIEs that are not MRPs include:

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

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

Notified foreign investor

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

The investor must not be:

- resident in New Zealand
- a controlled foreign company (CFC)
- a foreign investment fund (FIF) with a New Zealand resident investor who has an income interest of 10% or more

- a non-resident trustee of a trust that is not a foreign trust.

The investor must also provide the following additional information:

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

IRD numbers

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

If you are a non-resident and 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 are a non-resident and 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 trusts

Resident trustees investing in an MRP can choose either:

- 28% as a final tax
- 17.5% and have income and PIE tax paid included in the trust return
- 0% and have the income/loss and tax credits flow through to the trust return.

Resident trustees of testamentary trusts can choose 10.5% PIR and have the income and PIE tax included in the trust return.

If you use the 10.5% or 17.5% PIR and the trust is attributed a loss the loss can't be included in the trust return. The PIE has already received a tax credit for the loss, calculated at the trusts PIR, that is included in the trusts account.

Trustees of superannuation funds can't choose 10.5%. Trustees of charitable trusts can only choose a PIR of 0%.

If you choose the 28% PIR the income from the MRP may still be taxed at a zero rate in a period on exit from an MRP that files returns using the quarterly option.

Resident trustees can apply different PIRs to different MRPs but can't apply different PIRs to the same MRP.

If you've notified a 28% PIR and you change to 0% you can't include the income taxed at the 28% rate in the trust's tax return. No refund is available.

If you have the default rate applied because you didn't provide the trust's IRD number or your chosen PIR then the income and PIE tax paid needs to be included in the trust return.

Trustees choosing 10.5% or 17.5% PIR

Trustees are allowed to choose 10.5% and 17.5% to more closely reflect the tax rates of the beneficiaries of the trust and to minimise exposure to provisional tax.

Income attributed by the MRP

Where the trust has had its income attributed by the MRP:

- taxed at notified PIR of 28%, and
- it has not had a zero rate applied in a quarter on exit from an MRP that files returns using the quarterly option

the trust's MRP income **is not included** in its income tax return.

The trust's MRP income **must be included** in the trust income tax return if you've:

- chosen a PIR of 0%, 10.5% or 17.5%, or
- the trust has had the zero rate applied in a quarter on exit from an MRP that files returns using the quarterly option, or
- had the default rate of 28% applied.

Note: If the PIE attributes a loss to the trust and you've chosen either 10.5% or 17.5% the loss is not included in the trust return.

PIE income of trust beneficiaries - Working for Families Tax Credits, student loan repayment obligations and child support

Attributed income from a locked-in PIE is not required to be included in your adjusted net income for Working for Families Tax Credits (WFFTC) or when determining student loan repayments.

What happens if you don't notify your IRD number or PIR to the MRP?

If you don't provide the MRP with the trust's IRD number or if you provide your IRD number but do not choose a PIR, the MRP will deduct PIE tax at the default rate of 28%.

If the default rate of 28% has been applied by the MRP to the trust's attributed income, you must still include the income in your tax return.

Note: The default rate is not the same as notifying the 28% PIR.

Proxy representation

If the trust is represented by a Proxy for PIE investors and then ceases to be represented by that proxy, their obligations will pass directly to the MRP that holds the trust's investment. The resident trustee should give the MRP the chosen PIR and the trust's IRD number.

Record-keeping requirements

You must keep trust records relating to that income for seven years for tax purposes.

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 for WFFTC or when determining student loan repayments.

For child support purposes the income may be included where PIE income was included in taxable income under the formula assessment and may impact the child support payment obligations

PIE income allocated as beneficiary income

Beneficiaries must include PIE income allocated as beneficiary income in their income tax return as trust income and not under the PIE calculation question.

When is your MRP income received?

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

If the trust has a balance date other than 31 March then the year in which the income is received may be different from the year in which the MRP attributes the income.

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

Dividends or distributions

Dividends or distributions received from an MRP are excluded income and don't need to be included in the trust's income tax return.

Dividends or distributions received from a listed PIE don't need to be included in the trust's income tax return, unless you, as a resident trustee, choose to include the dividend in the trust's tax return to claim imputation credits.

Investor statements

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

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

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

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

The following table shows where an investor has chosen a PIR of 0%. The investor won't 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. No tax is 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 the trust has had the 10.5%, 17.5% and/or 28% default rate applied, the taxable income at the rate and the PIE tax need to be included in the trust's tax return.

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

Treating the attributed income from the MRP as beneficiary income

If the trustees decide to include PIE income as allocated beneficiary income, the usual income tax rules apply.

If you as a resident trustee choose a PIR of ...	then the attributed income from the MRP ...
0%, 10.5% or 17.5% (or the default rate has been applied)	where it is vested or paid to the beneficiary as beneficiary income, must be included in the beneficiary's income tax return. The trustee must pay tax on behalf of the beneficiary for income attributed to that beneficiary.
28% as trustee income	is excluded income and doesn't need to be included in either the trust or beneficiaries' taxable income in their tax returns.

Residual interests

If, at the end of the quarter in which the trust exits an MRP that files returns using the quarterly option there is any residual value of the trust's 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. The trust will 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?

Generally, the income attributed by the MRP should be included in the "Overseas income" question in the tax return. Any specified tax credits (eg RWT) shown on the investor statement should be included in the corresponding box on the return. When the default rate has been applied, the tax credit is PIE tax paid at 28% and can be shown in the overseas tax credit panel.

Tax credits

For resident trustees who choose the 0% PIR, available foreign tax credits will generally be the lesser of:

- the amount of the attributed credits, or
- the amount calculated by multiplying the attributed income by the beneficiaries'/trust's tax rate.

The foreign tax credits can be claimed in the trust tax return up to the amount of the tax required to be paid on the income attributed by the MRP.

For resident trustees who choose the 10.5%, 17.5% or 28% PIR, foreign tax credits are included by the MRP when it calculates its tax.

For resident trustees who choose the 0% PIR the amount of the attributed New Zealand tax credits flows directly to the trust.

For resident trustees with the 10.5%, 17.5% or 28% PIR, New Zealand tax credits are included by the MRP, after allowing foreign tax credits, when it calculates its tax.

Excess New Zealand tax credits and losses

Where the resident trustee chooses a PIR of 10.5%, 17.5% or 28%, most MRPs that have excess New Zealand tax credits or losses in a tax calculation period receive a tax credit calculated at the chosen PIR. The MRP then credits the investor by adjusting their interest in the MRP, or making a distribution to the investor.

Losses attributed where the 10.5% and 17.5% PIRs have been applied aren't included in the trust return.

Withdrawing investments

Resident trustee investors (who have chosen a PIR of 10.5%, 17.5% or 28%) who exit an MRP that files returns using the quarterly option part-way through a quarter may have tax calculated by the MRP on their attributed income earned during the period at the zero rate and the income will need to be included in the tax return.

However, the MRP may voluntarily pay tax on the attributed income for the exit period. This income won't need to be included in the tax return if the investor's chosen PIR is 28% and it is taxed at that rate.

Resident trustee investors who have chosen a PIR of 10.5%, 17.5% or 28% who exit an MRP that uses the exit option won't be taxed at a zero rate. Instead, the entity would need to pay the investor's share of the PIE tax relating to the exit period. The income for the exit period won't be included in the tax return if the investor's chosen PIR is 28% and it is taxed at that rate.

If the trust withdraws its investment from an MRP it should include the income (if required) in the tax return that includes the end of the MRP's income year in which the withdrawal occurred.

Partial withdrawals and switches

A partial withdrawal may not be significant enough to give rise to an exit period. MRPs that use either the quarterly or exit option may make voluntary payments of tax for resident trustee investors who have chosen a PIR of 10.5%, 17.5% or 28% when an investor fully or partially exits an investor class or when an investor switches from one investor class to another within the same entity.

If a resident trustee investor who has chosen a PIR of 10.5%, 17.5% or 28% withdraws from an investor class and reinvests the funds in another investor class of the same MRP, then the MRP can treat the change of class as a partial withdrawal and calculate tax at that time.

PIE investments in overseas markets

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

Investor expenses

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

Certain qualifying expenditure for a member superannuation fund that invests in a PIE master superannuation fund can also be taken into account to the extent of the attributed PIE income.

Attributed income from the PIE and provisional tax

If the trustee investor's PIR is ...	and ...	then ...
28%	the attributed income from the MRP is excluded income	there may be a reduction in the provisional tax liability depending on the provisional tax method chosen by the trustee.
10.5% or 17.5%	the attributed income from the MRP is not excluded income	the PIE tax paid may reduce or remove the exposure to provisional tax liability
0%		exposure to a provisional tax liability may be increased.

Trustees investing in partnerships that invest in PIEs

It's the partners that hold the investment. Therefore the partnership should split the investment and advise the MRP of the IRD number and PIR that apply for each partner/holder. If the partners do not provide the MRP with their PIR and/or IRD number, the MRP will deduct PIE tax at the default rate of 28%.

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

This also applies to joint investments.



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