

Changes to RWT and PIEs

The Taxation Act 2009 introduces changes to align RWT (resident withholding tax) rates on interest with recent changes to personal tax rates and the company tax rate, and alignment of PIE (portfolio investment entity) tax rates with personal tax rates.

Changes to RWT

RWT is deducted from investment income before the investor receives it. Generally, the investment income is interest paid on money lent, interest earned on investments and savings and dividends paid on company shares.

The rates at which RWT is deducted for bank account holders earning interest are changing with effect from 1 April 2010 to align with the personal tax rate changes introduced on 1 April 2009.

Current RWT rates:

Income threshold	RWT rate
\$0 - \$48,000	19.5%
\$48,001 - \$70,000	33%
\$70,001 and over	38% or 39%
Company rate	33%

New RWT rates from 1 April 2010:

Income threshold	RWT rate
\$0 - \$14,000	12.5%
\$14,001 - \$48,000	21%
\$48,001 - \$70,000	33%
\$70,001 and over	38%
Company rate	30%* or 33%
No-notification rate	38%

*From 1 April 2010 interest payers have the option to withhold RWT for companies at the rate of 30%. Interest payers are required to withhold RWT for companies at 30% from 1 April 2011.

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If you're currently receiving interest which has RWT deducted at the rate of 19.5% you'll be automatically moved to the new 21% rate from 1 April 2010. You can determine what RWT rate your bank should be using based on the table above and your expected taxable income for the year. If you think your bank is deducting RWT at an incorrect rate you can contact them (from 1 April 2010) and ask for the rate to be changed.

You should only elect the 12.5% rate of RWT if you expect your taxable income for the year will be \$14,000 or less. If you earn over this amount you may end up with a tax bill.

If individuals or businesses fail to provide their IRD number and/or elect an RWT rate for new bank accounts opened from 1 April 2010 they'll have RWT deducted at the new no-notification rate of 38%.

If we prepare the tax return for you personally or your company or trust you need to provide us with details of any interest earned during the year and the RWT deducted. Your bank should send you an RWT certificate around the end of April. If RWT has been deducted at an incorrect rate this will be reflected in your tax return either by tax to pay or a tax refund.

Changes to PIEs

A portfolio investment entity (PIE) is a type of entity (such as a managed fund) that invests the contributions from investors in different types of investments. PIEs came into existence on 1 October 2007.

New prescribed investor rates (PIR) will apply for income years commencing on or after 1 April 2010.

Individuals

To work out your PIR for the 2011 income year (1 April 2010 to 31 March 2011) you need to use your taxable income from either of the two previous income years as outlined below.

Taxable income was \$14,000 or less

If your taxable income was \$14,000 or less, and your taxable income plus your PIE income or loss was:

\$0 to \$48,000 in either of the previous two income years, your PIR is 12.5%

\$48,001 to \$70,000 in either of the previous two income years, your PIR is 21%

\$70,001 or more in both of the previous two income years, your PIR is 30%.

Taxable income was \$14,001 to \$48,000

If your taxable income plus your PIE income or loss was \$0 to \$70,000 or less in either of the previous two income years, your PIR is 21%.

If your taxable income plus your PIE income or loss was \$70,001 or more in both of the previous two income years, your PIR is 30%.



Taxable income was more than \$48,001

Your PIR is 30% regardless of what your taxable income plus your PIE income or loss was.

Trusts

As a New Zealand resident trustee you can choose a PIR of 30%, 21% or 0%, whichever you accept is in the best interest of the beneficiaries. Trustees of testamentary trusts may also choose 12.5% PIR.

If you choose a PIR of 30%, the PIE will pay the tax related to your attributed income on your behalf. This attributed income will not be included in the trust's tax return. If you choose the 21% or 12.5% PIR and the PIE attributes a loss, the loss and PIE tax details will also not be included in the return.

Trustees of charitable trusts can only use the PIR of 0%.

Choosing a PIR of 0% allows the tax credits as well as the attributed income to flow through to the trust return. If the tax credits are not sufficient to cover the tax liability on the trust income, either as trustee or beneficiary income, the trust will need to pay the extra tax.

If the extra tax means the trust has tax to pay of \$2,500 or more, the trustees should also consider the impacts on their provisional tax liability.

If you don't give your PIR to the PIE the default rate of 30% applies. The resident trustee is treated as a "zero-rated investor" because they did not choose the PIR of 30%. Despite the default rate being applied, the attributed income is not treated as excluded income, and must be included in the trust return. Although the resident trustee will receive tax credits for the tax paid by the PIE, there is no entitlement to a refund of the tax paid in the event that the tax credits exceed the tax payable.

Resident trustees may notify different rates to different PIEs to best suit the beneficiaries.

Companies

Companies have a PIR of 0%

Wrong PIR

If you realise that you have given the PIE the wrong PIR then you should notify the PIE as soon as possible. If the PIE has not done their tax calculation for the quarter or the period, they may be able to adjust it for the correct amount of tax.

At the end of the year

Before the end of the year you should review your PIR for the following year.

