

PIE Regime

Some things to get right

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What we expected from the reforms?

- Transparent tax treatment for collective investment vehicles
- Remove tax distortions
 - Direct v indirect (PIE)
 - Grey list (FIF/FDR)
- Simplification
 - Remove multiplicity of regimes (superannuation, unit trust, GIF)
- Stimulate savings industry

What did we get?

~~Collective investment vehicles~~

Portfolio investment entity

PTRE (Unlisted)

- Annual exit
- Quarterly payer
- Provisional taxpayer

PLC (Listed)

Cash PIEs

Gross pricing

Net pricing

Crediting rate

Historic pricing

Forward pricing

Plain English legislation

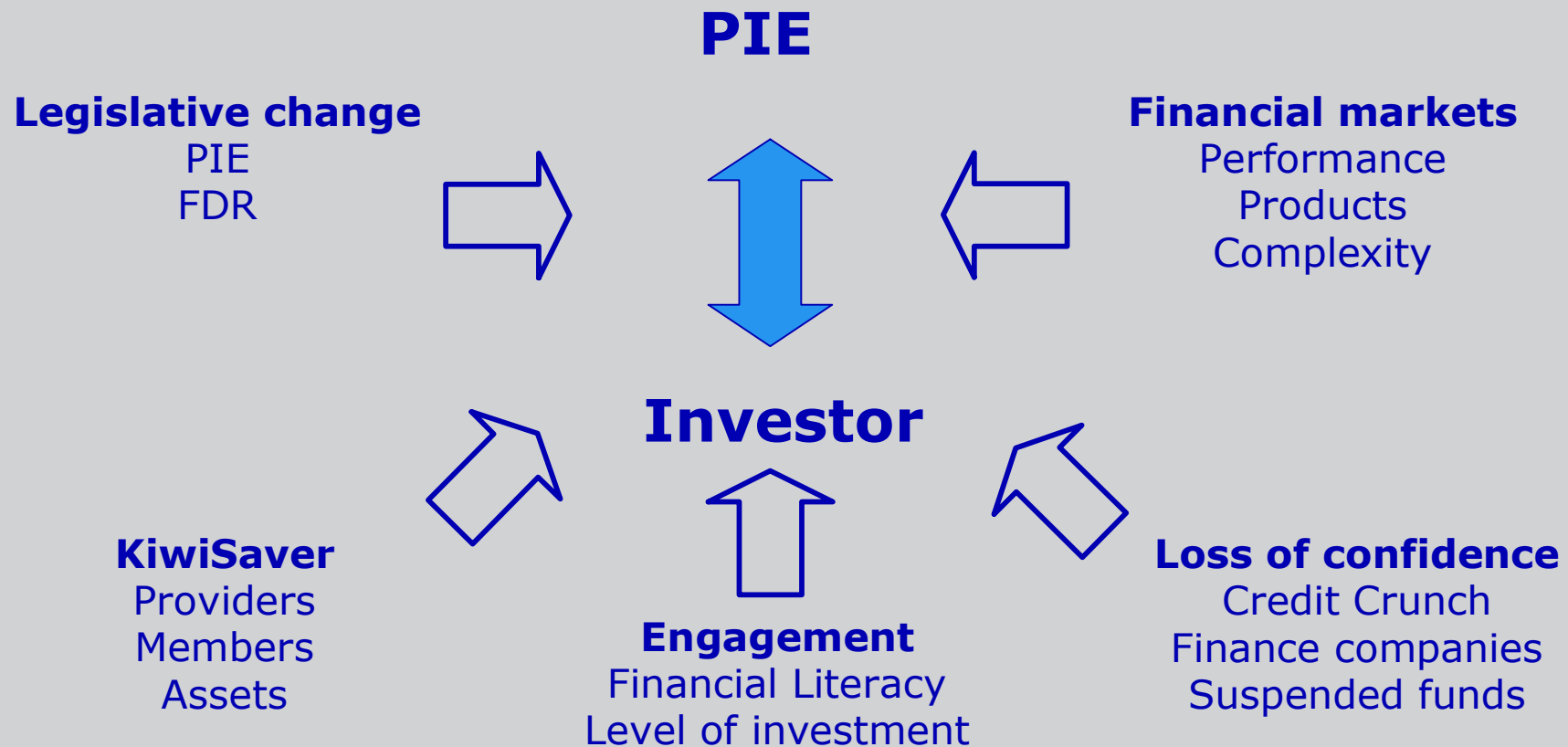
- Drafting is complex / convoluted
- Hastily introduced
- Multiple remedial amendments

Yeah right

A failing scorecard?

- Look-through treatment E
- Remove distortions A-
- Simplification C+
- Plain English legislation C-
- Stimulate industry B

Environmental influences



What needs to be right?

- Members
 - Communications are critical
 - Education is needed
- Trustees
 - Due diligence
 - Know your beneficiaries/membership
- Managers
 - Clear offering
 - Ensure PIE benefits are passed through
 - Efficient administration

Communications

- Members are suffering information overload
 - Significant change (PIE, FDR, PIR and KiwiSaver)
 - Coping with amendment and consent
 - Confusion and misconceptions fuel concern
- Need to get communications right
 - Confidence in product / industry
 - Manage complexity and change

Communication challenges

- Would “Frank” understand?
 - Prospectus
 - Investment statement
 - Brochure
 - Reporting of investment performance and tax
- Work out your PIR
- What does my tax statement mean?

Communication challenges

- Potential new PIRs
 - IRD consulting on effect for PIR
 - New bands
 - New thresholds
 - New communications to members

Tax rate changes

- New individual tax rates
 - 12.5%, 21%, 33% and 39%
 - Initial change 1 October 2008
 - Thresholds change each year until 2012 tax year
- Potential impacts
 - Different PIR rates and thresholds
 - Additional band (systems issues?)
 - 19.5% elections invalid
 - Re-elect, or default to 30%
 - Late / split-year elections

Risk created by pressure

- Major change with limited time and resources in-house and external
 - Management time
 - I/T and programming
 - Tax and legal
 - Actuarial, project management...

Risk created by pressure

- Battle weariness
 - Tax changes: PIE, FDR
 - KiwiSaver, MED's RFPP
 - Investment markets: credit crunch, finance companies
- Need for due diligence and risk management
- Time to check implementation and administration

Decisions to become a PIE

- Employer superannuation schemes
- Whether to become a PIE
 - 30% v 33% for 39% investors
 - Gains exemption for Australasian equities
 - Outsource providers now available
- Or... invest into a PIE
 - But lose 19.5% for low income investors?

Monitor qualification criteria

- Review fund structure and compliance with PIE qualification requirements
 - Exemption period is over (initial 6 months)
 - Most funds need to confirm by 30 Sept 2008
 - Need to test compliance periodically
 - Opportunity to correct within the following quarter
- Potential for tainting if investor-in requirements are breached
- Aggregation of 5% holders. Changes in July Bill

Choices within PIE regime

- Various legislated options
 - Listed / unlisted
 - Annual, quarterly, provisional tax options
 - Option to tax partial withdrawal
- Commercial variation permitted
 - Gross unit price, or net
 - Unit pricing daily, weekly or monthly
 - Historic pricing or forward
 - Unit price, fixed price units, or crediting rate
 - Recognition of income / expenses

Income recognition

- Scheme crediting rates
 - Unallocated income
 - Maximum period to allocate
- Timing and provisions
 - Income recognised for tax in line with unit pricing or financial accounts

PIR when investing in a PIE

- Either 0% or 30% available to superannuation funds
- 30%
 - no compliance
 - lose benefit for low income earners
- 0%
 - flexibility for low income investors (if PIE)
 - offset PIE income against losses or expenses

Tax calculations

- Consequence of retrospective amendment
- PIE tax is more system driven and dependent on registry
- No simple reconciliation of tax expense to accounting profit
- Loss of natural reasonableness tests
- Need sufficient checks to have comfort over completeness and accuracy of tax calculation

Tax filings

- Difficulties with information requirements for IRD filings
- Interaction of fund accounting (taxable income) and registry (tax rate)
- Honeymoon period (for now?)

The big 3

- Communications
- Governance
- Operations

Communications

- Make tax reports to members make sense
- Make disclosure documents clear and simple
- Prepare early to communicate changes to PIR
- Ensure all communications contribute to:
 - understanding of your products
 - improved financial literacy
 - confidence in the industry and markets

Due diligence

- Instigate quarterly reporting on PIE qualification
- Understand make-up of fund
- Confirm decisions made to date
- Create a tax reconciliation, or reality check
- Fully understand consequences of crediting decisions if your scheme uses a crediting rate

Operations

- Ensure that members get PIE benefits
- Confirm how close you are to full compliance
- Plan for additional PIR bands

Questions?