



NEWS & VIEWS

Autumn 2010

■ CHANGES TO RWT & PIR RATES

If you have money invested in a bank or are part of a managed fund, you will need to read this.

There are changes coming which will affect the rate of tax that is deducted from interest earned on your savings and investments.

These changes take effect on **1 April 2010**, and have been introduced by the Government to bring Resident Withholding Tax (RWT) and Prescribed Investor Rates (PIR) into line with current income tax rates.

This is important information and we encourage you to read it. Ignoring similar information sent by your bank or financial institution may lead to you being over taxed.

What are the changes to Resident Withholding Tax (RWT)?

In summary the changes are:

For individuals

- The current 19.5% rate is being replaced by a rate of 21%.
- A new rate of 12.5% will be available to individuals who expect their total annual income to be \$14,000 or less.
- A default rate of 38% will apply to investors who do not choose an RWT rate.

For companies

Your new rate should be 30% (was 33%).

Am I affected?

These changes to RWT rates will affect you if any of the following situations apply:

- You are currently taxed at an RWT rate of 19.5%, or
- You expect your total annual income to be \$14,000 or less, or
- You operate a company (unless it is on a default 38% RWT rate or is exempt from paying RWT).

What are the new RWT rates?

New personal RWT rates	New personal RWT annual income thresholds
0%	Must provide a certificate of exemption from IRD
12.5%	\$0 to \$14,000
21%	\$14,001 to \$48,000
33%	\$48,001 to \$70,000
38%	More than \$70,000



If you have money invested in a Portfolio Investments Entity (PIE), please read on.

What is a PIE?

A PIE is a managed fund which meets the IRD's qualifying criteria. Investors are taxed at their Prescribed Investor Rate (PIR). Once this is deducted, PIE income is not taxable for many investors as it is paid to you after the PIE fund has deducted tax at your PIR rate. However, if a PIR of 0% is selected (or 12.5% or 21% by trusts), the income is allocated to you with a credit for any PIE tax paid, and is taxable to you.

What are the changes to Prescribed Investor Rates (PIR)?

In summary the changes are:

- The current 19.5% rate is being replaced by a rate of 21% from 1 April 2010, and new income thresholds for this rate will apply.
- A rate of 12.5% is being introduced for individuals who, in either of the last two income years, had a taxable income of \$14,000 or less and, when combined with income from Portfolio Investment Entity (PIE) investments, had a total income of \$48,000 or less.
- Trustees of trusts will be able to choose a PIR of 0%, 21% or 30%. Certain testamentary trusts can also choose a new 12.5% PIR.
- The income thresholds applying to the 30% rate will rise on 1 April 2010.

Am I affected?

These changes to PIRs will affect you if any of the following situations apply:

- You are currently taxed at a PIR of 19.5%, or
- Your total taxable income in one of the past two years was \$14,000 or less and, when combined with the income from your PIE investments, your total income was \$48,000 or less, or
- You are the trustee of a trust, or
- You are currently taxed at 30%, but your total taxable income in one of the two past years was between \$14,000 & \$48,000 and, when combined with the income from your PIE investments, your total income was \$70,000 or less.

What are the new PIR rates?

■ NZ resident individuals

If, in one of the last two income years:

- Your taxable income was \$14,000 or less
- Your total income was \$48,000 or less when combined with the income from your PIE investments

Your new PIR rate is 12.5%

If, in one of the last two income years:

- Your taxable income was between \$14,000 and \$48,000
- Your total income was \$70,000 or less when combined with the income from your PIE investments

Your new PIR rate is 21%

If, in **both** of the last two income years:

- Your taxable income was more than \$48,000
- Your total income was more than \$70,000 when combined with the income from your PIE investments

Your new PIR rate is 30%

■ Other NZ resident investors

You can choose a PIR of 0% if you are a company or registered charity.

You can choose a PIR of 0% or 21% if you are a trustee of a trust (some testamentary trusts can also choose 12.5%). This will not be a final tax and an income tax return will be required. If trustees select 30%, this will be the final tax on the trust's income.

■ Others

If you are not a NZ resident, or you do not choose a PIR, an automatic PIR of 30% will be allocated.

What should you do?

Your financial organisation will be contacting you shortly to update your PIR. We are happy to discuss this with you and assist you to select an appropriate rate. Please call us.

Thank you to Forsyth Barr for providing the information used in this article

