



INVESTNOW
INVESTMENTS, YOUR WAY

2018 InvestNow Tax Guide

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Introduction

This guide is intended to provide general information on aspects of New Zealand's tax legislation which are relevant to investors using the InvestNow platform. The guide also explains how to use your InvestNow Tax Summary Report, which collates information about income received in your InvestNow account and makes it easier to prepare your 2018 income tax return (IR3), if required.

For simplicity, the guide has been prepared in relation to individual or joint investors who are New Zealand tax residents.¹ We recommend that non-resident, trust, company or other investors seek independent tax advice.

Please note that individual circumstances may differ and your tax situation may change if you have investments held outside of InvestNow's custody. InvestNow does not provide tax advice, and we recommend that you seek appropriate tax advice to ensure that you meet your tax obligations.

Types of funds offered by InvestNow

For tax purposes, there are three types of funds available on InvestNow:

- **Unlisted multi-rate Portfolio Investment Entities (PIEs)** make up the majority of funds available on InvestNow. When you invest in an unlisted PIE, InvestNow will pay tax on income attributed to you by the PIE during the tax year, at your nominated Prescribed Investor Rate (PIR). Provided that tax has been deducted at the correct PIR, or a PIR higher than your correct PIR, this is a final tax and PIE income is not required to be included in your tax return (note that the situation may differ for trusts or companies). If tax has been deducted at a PIR lower than your correct rate, an adjustment will need to be made in your income tax return. If you are in this position, we recommend that you seek independent tax advice.
- **Listed PIEs include the Exchange Traded Funds (ETFs) offered by Smartshares.** During the year, you may have received dividends from these funds. The dividends may include tax credits known as imputation credits, which are credits for NZ tax already paid by the companies the ETF is invested in, to ensure that the income isn't taxed twice. While you are not required to include Listed PIE distributions and related imputation credits in your income tax return, you can include the taxable portion if you prefer. To simplify the preparation of your return, we have listed the taxable portion of the dividends on your tax report. Including the dividends may be beneficial if your tax rate is less than 28%, as this will result in excess imputation credits that can be used to reduce the tax payable on your other income.
- **Australian Unit Trusts (AUTs)** include the funds offered by Vanguard and Morphic, along with the Russell Global Opportunities Fund, Russell Global Opportunities \$NZ Hedged Fund and the Russell Emerging Markets Fund. Income from these funds is subject to the Foreign Investment Fund (FIF) rules if you are not a de minimis investor, and the related FIF income must be included in your tax return. If you are a de minimis investor, then the distributions you receive from these funds should be included in your tax return.

¹ Different rules may apply to new migrants who are 'transitional residents' for income tax purposes. Therefore, we recommend new residents seek independent tax advice.

FIF rules explained

De minimis exception from FIF rules

InvestNow has not deducted Resident Withholding Tax (RWT) from any dividend income received from an AUT on the assumption that the FIF rules apply to you as an investor. However, individuals can choose not to apply the FIF rules if the de minimis exception applies. This exception applies if the total cost of your FIF investments did not exceed NZ\$50,000 at any point during the income year.

If the de minimis exception applies, you pay tax on the value of the dividends or distributions received from your FIF investments. You can choose to calculate your income using the FIF rules instead - however, if you elect to do this, you must apply the FIF rules for the next four years.

FIF calculations

If you held units in any AUT during the income year, FIF calculations will be included in your Tax Summary Report. There are two calculation methods for which we report information:

- Fair Dividend Rate (FDR) - 5% of the opening market value at the beginning of the income year, plus a quick sale adjustment if you bought and then subsequently sold units in the same fund during the year.
- Comparative Value (CV) – Closing value plus gains, minus opening value plus costs. Gains include dividends, sale proceeds and tax credits. Costs include the cost of buying units, along with foreign income tax paid by you directly on income of the FIF (i.e. this would not ordinarily include withholding taxes).

Individual or joint investors can choose which of these calculation methods to use. We provide both calculations so that you can choose which method is more beneficial for you.

You must use the same calculation method for all of your FIF investments. Also, you cannot claim a FIF loss in relation to any of the AUTs held on InvestNow.

InvestNow's tax reports convert foreign currency amounts based on the exchange rate as of the day of the transaction. If you use, or have previously used, a different methodology in relation to your FIF investments, we recommend seeking independent tax advice on the approach required.

Foreign tax credits

Australian withholding tax may have been deducted on dividends received from your AUT holdings. You may be able to claim this as a credit against your New Zealand income tax liability; however, certain limits apply. The credit available in relation to tax withheld from a specific fund cannot exceed your New Zealand tax liability on that fund for the relevant year – if you did not receive any FIF income from a particular fund, you will not be able to claim the foreign tax credit.

Due to the way New Zealand's income tax legislation operates, it is not possible for InvestNow to determine the total foreign tax credit (if any) available to you without access to information on all of your income and expenses. Therefore, our tax reports specify the total foreign tax withheld.

If you have any questions regarding your ability to claim a foreign tax credit, we recommend you refer to Inland Revenue's 'A guide to foreign investment funds and the fair dividend rate – IR461'² or contact your tax advisor.

² Available at <http://www.ird.govt.nz/forms-guides/number/forms-400-499/ir461-guide-fif-fair-dividend-rate.html>

Understanding your InvestNow Tax Summary Report

You will receive your Tax Summary Report as an Excel spreadsheet, with four tabs – Summary, Income, FIF Income and FIF Activity. The report can be requested and downloaded from the ‘My Documents’ page on InvestNow.

Summary

The Summary tab shows the totals of the different types of income you have received, being:

- Listed PIE dividends
- FIF income according to both the FDR and CV calculations
- Taxable income from unlisted PIEs

Under ‘Tax Credits’ it shows the amount of foreign tax withheld on AUT dividends and imputation credits on listed PIE dividends. Under ‘PIE Tax Credits’ it shows the foreign tax credits and imputation credits which relate to your PIE taxable income.

Income

The Income tab shows a list of all the dividends and distributions received over the year, separated by fund type (FIF, PIE Fund and Listed PIE) with subtotals next to each fund type. The gross income and the tax credits are shown for each dividend. Note that the tax treatment of the amount doesn’t depend on whether or not your dividends were reinvested.

Taxable Income Summary	
Anonymous Investor, Portfolio	
Period: 31 Mar 2017 - 31 Mar 2018	
Income	
Dividends	
Listed PIE	38.24
Equity Income	
FIF - FDR Method	103.40
FIF - CV Method	3,628.98
PIE Taxable Income	
Attributed Taxable Income (28.0%)	794.13
Tax Credits	
Tax Credits	
Foreign Tax Credit - Dividends	40.85
Imputation Credit (Listed PIE)	14.87
PIE Tax Credits	
Foreign Tax Credit	32.16
Imputation Credit	78.71

Dividends							
Description	Currency	Income	RWT	FTC	NRWT	Imputation	Franking
FIF		1,316.84	-	40.85	-	-	-
Equity							
Russell Global Opportunities Fund \$NZ Hedged B		497.32	-	0.03	-	-	-
Vanguard International Shares Select Exclusions Index Fund		390.18	-	-	-	-	-
Vanguard Intl Shares Select Exclusions Index Fund - NZD Hedged		429.35	-	40.82	-	-	-
PIE Fund		55.06	-	-	-	-	-
Equity							
Russell Investment Hedged Global Share Fund		49.30	-	-	-	-	-
Russell Investments Global Shares Fund		5.76	-	-	-	-	-
Listed PIE		38.24	-	-	-	14.87	-
Equity							
Smartshares - Europe Fund (NS) (EUF)		38.24	-	-	-	14.87	-

FIF Income

This tab shows the workings for the two FIF income calculations (FDR and CV), side by side, for each of the AUT funds that you invest in. You can refer to this tab if you need to check how much FIF income comes from a particular fund.

CV Method						
Security	Open Value	Acquisitions	Disposals	Gross Income	Close Value	CV Income
Russell Emerging Markets Fund Class B	-	10,000.00	-	-	9,757.60	(242.40)
Vanguard International Shares Select Exclusions Index Fu	-	19,101.92	-	390.18	20,324.47	1,612.73
Vanguard Intl Shares Select Exclusions Index Fund - NZD	-	25,429.35	-	429.35	26,993.19	1,993.19
Russell Global Opportunities Fund \$NZ Hedged B	2,067.96	497.32	-	497.32	2,333.42	265.46
					Total	3,628.98

FDR Method										
Holdings			Acquisitions	Quick Sale Disposals	Peak Holding	Actual	Quick Sale	Open Value		
Open	Peak	Close	Avg Cost	Total	Vol	Adjustment	Gain	Adjustment	x 5%	FDR Income
-	6,823	6,823	1.47	-	-	-	-	-	-	-
-	16,822	16,822	1.14	-	-	-	-	-	-	-
-	23,200	23,200	1.10	-	-	-	-	-	-	-
1,337	1,740	1,740	1.24	-	-	-	-	-	103.40	103.40
									Total	103.40

FIF Activity

You can check this tab if you need more detail about your transactions for a FIF fund or if you want to check the figures used in the FIF calculations. It shows the amounts, prices, dates and applicable FX rate for all of your FIF transactions during the year.

Russell Emerging Markets Fund Class B										
Date	Journal	Action	Description	Qty	Currency	Amount	FX Rate	NZD Amount		
31 Mar 2017			Opening Values	-						
21 Nov 2017	573656	Application Trade	Buy 6,822.57 Russell Emerging Markets Fund Class B at 1.3206	6,823	AUD	9,009.89	0.9010			10,000.0
31 Mar 2018			Closing Values	6,823						9,757.6

Russell Global Opportunities Fund \$NZ Hedged B										
Date	Journal	Action	Description	Qty	Currency	Amount	FX Rate	NZD Amount		
31 Mar 2017			Opening Values	1,337						2,067.9
30 Jun 2017	432320	Dividend Payment	Russell Global Opportunities Fund \$NZ Hedged B ; 30 Jun dividend payment;	-	AUD	(471.82)	0.9528			(495.15)
30 Jun 2017	432321	Equity Trade	Buy 400.7 Russell Global Opportunities Fund \$NZ Hedged B at 1.1775	401	AUD	471.82	0.9528			495.1
29 Mar 2018	758262	Dividend	Russell Global Opportunities Fund \$NZ Hedged B ; Mar dividend accrual	-	AUD	(2.00)	0.9417			(2.12)
29 Mar 2018	758265	Dividend Reinvestment	Reinvest Russell Global Opportunities Fund \$NZ Hedged B net distribution	2	AUD	2.00	0.9417			2.1
31 Mar 2018			Closing Values	1,740						2,333.4

Vanguard International Shares Select Exclusions Index Fund										
Date	Journal	Action	Description	Qty	Currency	Amount	FX Rate	NZD Amount		
31 Mar 2017			Opening Values	-						
19 Apr 2017	379159	Application Trade	Buy 4,953.13 Vanguard International Shares Select Exclusions Fund at 1.0339	4,953	AUD	5,121.04	0.9311			5,500.0
19 Jun 2017	417184	Application Trade	Buy 3,920.77 Vanguard International Shares Select Exclusions Fund at 1.084	3,921	AUD	4,250.11	0.9526			4,461.7
3 Jul 2017	428363	Dividend Payment	Vanguard International Shares Select Exclusions Fund; Jul dividend payment;	-	AUD	(88.61)	0.9517			(93.1)
3 Jul 2017	428364	Equity Trade	Buy 84.14 Vanguard International Shares Select Exclusions Fund at 1.0531	84	AUD	88.61	0.9517			93.1
18 Jul 2017	432347	Application Trade	Buy 4,267.21 Vanguard International Shares Select Exclusions Fund at 1.0238	4,267	AUD	4,428.61	0.9233			4,700.0

Using the InvestNow Tax Summary Report with your IR3 Tax Return

Listed PIE Income

You don't have to include listed PIE income in your tax return, but may choose to do so if you wish. Generally, investors would only elect to include income if their tax rate is less than 28%, as this allows the excess imputation credits to be offset against their other tax liabilities.

Some listed PIE dividends may include an "excluded amount", which is not taxed. This amount does not need to be included in your tax return and will not appear in your tax summary report.

Tax Summary Report - Summary tab	IR3 Income Tax Return
1. Income – Dividends – Listed PIE, plus Imputation Credit (Listed PIE)	Put this total in box 14B
2. Tax Credits - Imputation Credit (Listed PIE)	Put this amount in box 14

14 Did you have any **New Zealand dividends** paid or credited to you or did you receive shares instead of dividends? Include any dividends from partnerships, look-through companies and/or trusts. Keep your dividend statements.

No Go to Question 15 Yes Print the totals here. See page 17 in the guide.

Total dividend imputation credits

14 ▶ \$, , , .

Total dividend RWT credits

14A ▶ \$, , , .

Total gross dividends

14B ▶ \$, , , .

If any of your dividends were received from a partnership, look-through company, trust and/or estate, please tick 14C.

14C ▶

FIF - de minimis exception applies

If the de minimis exception applies (i.e. your FIF investments cost less than NZ\$50,000 at all times during the year), you can choose to pay tax on the distributions you received from your AUT holdings, instead of the income calculated under the FIF rules (assuming that you have not applied the FIF rules in any of the four prior years).

Tax Summary Report - Income tab	IR3 Income Tax Return
1. Dividends – FIF – Income total	Put this figure in box 17B
2. Dividends – FIF – FTC total	Put this figure in box 17A*

* In some cases, your ability to claim a foreign tax credit may be restricted, and therefore you may not be able to include the full amount in your return. In particular, the credit available in relation to a specific fund cannot exceed your New Zealand tax liability on that fund.

17 Did you receive any **overseas income**? Staple proof of overseas tax paid and a letter detailing any overseas losses to the top of page 3.

No Go to Question 18 Yes Print the totals here. See page 19 in the guide.

Total overseas tax paid

17A ▶ \$, , , .

Total overseas income

17B ▶ \$, , , .

If your total overseas income includes a withdrawal and/or transfer from a foreign superannuation scheme, please read page 20 in the guide and tick Box 17C if applicable.

17C ▶

