

Completing your New Zealand tax return 2007-2008

To assist you in completing your New Zealand 'Individual Tax Return IR3', Perpetual Investment Management Limited (Perpetual) has prepared some guidance notes for the questions regarding overseas income. Please use these notes in conjunction with your New Zealand Tax Statement, which contains information about your investments with Perpetual.

Information contained in this guide is not taxation advice

We recommend that you consult your financial or taxation adviser or the New Zealand Inland Revenue Department when completing your 'Individual Tax Return IR3'. If you have any questions about your 'Individual Tax Return IR3' please consult your taxation adviser or the New Zealand Inland Revenue Department, as we are not able to provide you with any tax advice. Alternatively, to discuss any aspect of your investment with Perpetual, call us, toll free from New Zealand, on **0800 442 261** during business hours (Sydney time).

Which income tax return form should you use?

If you are an individual and a New Zealand resident taxpayer who has an investment in any of Perpetual's funds, then you may be required to complete an 'Individual Tax Return IR3' for the New Zealand Inland Revenue Department.

Please see page 5 of the 'Individual Income Tax Return IR3 Guide 2008' for further information including the circumstances where you must file an 'Individual Tax Return IR3'.

These guidance notes are only applicable if you are completing an 'Individual Tax Return IR3'. Different rules may apply if you are preparing a return on behalf of a trust, partnership or company.

Offshore portfolio investment rules

Perpetual's funds are registered Australian unit trusts. Accordingly, the new foreign investment fund (FIF) rules may apply to your investment in the Perpetual funds from 1 April 2007. Attached at Appendix A is important information regarding the changed New Zealand tax treatment of foreign investments. We recommend that you consult your financial or taxation adviser on the effect of these changes taking into account your specific circumstances.



Currency

The information on your Tax Statement is in Australian dollars (AUD). You will need to convert these amounts to New Zealand dollars (NZD). To do this you will need to determine the relevant exchange rate to use.

The New Zealand Inland Revenue Department's website has a calculator that can convert overseas income to New Zealand dollars.

Alternatively, you can obtain the relevant exchange rate(s) from the following sources:

- refer to the exchange rate(s) in the New Zealand Inland Revenue Department's 2008 conversion of overseas income to New Zealand currency (IR270) leaflet, found on the New Zealand Inland Revenue Department's website **www.ird.govt.nz**
- by calling the New Zealand Inland Revenue Department on **0800 377 774** (within New Zealand)
- by contacting the overseas section of a trading bank.

Questions applying to overseas income in the Individual Tax Return IR3

Questions 17 and 38 relate to income received from overseas in the 'Individual Tax Return IR3'.

Question 17 – Overseas Income (refer to Pages 21-24 of the 'Individual Tax Return IR3 Guide 2008')

17. Did you receive any overseas income?

No

Yes

Total overseas tax paid	Total overseas income
17A \$ <input type="text"/>	17B \$ <input type="text"/>

If you received income from one of Perpetual's funds or are subject to tax using the new Fair Dividend Rate Method you are required to tick **'Yes'**.

You can use the first page of your Tax Statement to help you calculate 'Total overseas income' from Perpetual. Please refer to Appendix A for information regarding the new Fair Dividend Rate Method.

Please note:

- you will need to calculate any 'Quick Sale' amounts separately using the information provided during the year and
- if you have a number of foreign investments you will need to consolidate the information.

Once you have calculated and converted the Australian dollar amounts to New Zealand dollars, to complete Question 17 you should:

- enter the total Australian tax withheld amount¹, in New Zealand dollars, in the box next to 17A on your 'Individual Tax Return IR3', and
- enter the total taxable income amount, in New Zealand dollars, in the box next to 17B on your 'Individual Tax Return IR3'.

¹ During the migration to our new registry system, tax withheld from the distributions included on your Tax Statement was labelled incorrectly as 'Australian TFN withholding tax'. Although the description on your Tax Statement is incorrect, the amount withheld and shown is correct. Please add this to any amount of Australian tax withheld to calculate the total 'overseas tax paid'.

The New Zealand Inland Revenue Department requires you to provide proof of any overseas tax paid. A copy of the front page of your Tax Statement or alternatively, a copy of your Distribution Statements could be used for this purpose.

Question 38 – Foreign rights disclosure (refer to Pages 53-55 of the 'Individual Income Tax Return IR3 Guide 2008')

38. Did you at any time during the income year hold rights in a foreign: company, unit trust, superannuation scheme, or life insurance policy for which disclosure is required?

No

Yes 38A

Perpetual's funds fall within the definition of a FIF. Accordingly, you will need to tick 'yes' unless you meet one of the various exemptions, for example the NZ \$50,000 de minimus exemption (refer to Appendix A). For further information, please see page 54, in the 'Individual Income Tax Return IR3 Guide 2008'.

Imputation credits

No New Zealand imputation credits were attached to any distributions made by Perpetual's funds during the year ended 31 March 2008.

Deductibility of the Adviser Service Fee

If you have paid an Adviser Service Fee in relation to your investments in a Perpetual fund it may be deductible. This will depend on your circumstances and the nature of services provided by your Adviser – you should consult your tax adviser for further information.

Appendix A – changed New Zealand tax treatment for foreign investments from 1 April 2007

From 1 April 2007, the New Zealand tax treatment of foreign investments changed for most New Zealand investors in:

- Perpetual's Wholesale Funds and
- Perpetual WealthFocus Investments – Perpetual Series.

What are the changes?

The new tax calculations will apply to New Zealand investors who hold less than 10 per cent of a foreign company or unit trust, such as a fund within Perpetual's Wholesale Funds or Perpetual WealthFocus Investments – Perpetual Series.

Unless your investment meets an exemption, it will be subject to tax using the Fair Dividend Rate (FDR) method or the Comparative Value (safety net) method. Special rules apply to the conversion of foreign currency to New Zealand dollars. Under the FDR method, the taxable amount will be:

- five per cent of the opening market value¹ of all of your foreign investments and
- an amount calculated using the 'Quick Sale' rules for any foreign investments bought and sold in the same financial year.

If you're an individual or (certain) family trust investor you can rely on the 'safety net' option and pay tax on your actual returns (realised and unrealised) if this is less than five per cent of the opening market value of your foreign investments, as described above. But if the actual return is a net loss you can't claim it as a deduction.

Under the Quick Sale rules, you would be taxed on the lower of:

- your actual gain or
- five per cent of the cost of your investment sold (using an 'average cost basis' for all shares or units bought in the tax year).

Tax credits are available for the Australian withholding tax deducted from distributions, however the credit is limited to the New Zealand income tax payable on that income.

¹ Please note that the Perpetual Funds are priced daily.

What are the exemptions?

There are two exemptions:

1. NZ \$50,000 de minimus (individual investors only)

The original cost of all your foreign investments (not the market value) is relevant for this exemption — if this is equal to or less than NZ\$50,000 you won't be subject to the new rules. If you held any investment at 1 January 2000, you can choose to treat 50 per cent of its market value at 1 April 2007 as the original cost. If this exemption applies to you, you will continue to be **taxed under the previous rules**.

2. Holdings of 10 per cent or more in a foreign company or unit trust (such as a fund within Perpetual's Wholesale Funds and Perpetual WealthFocus Investments – Perpetual Series)

If you hold 10 per cent or more of a foreign company or unit trust, that investment will generally remain **taxable under the previous rules**.

What are the previous rules?

Distributions

Distributions are generally taxable as dividends when received or reinvested. The taxable amount is the cash distribution received plus any Australian withholding tax deducted, converted to New Zealand dollars. If Australian withholding tax is deducted you may be able to offset it against your New Zealand income tax liability, up to the amount of the New Zealand tax paid on your distributable income (net of any expenses).

Withdrawals

In New Zealand tax law there is a distinction between a withdrawal via a buy back and a withdrawal via a redemption. Any gain from a buy back of units generally isn't taxable providing you did not:

- deal or trade in such investments
- carry on a business of buying and selling such investments
- acquire the units with the dominant purpose of sale
- derive the gain as part of a profit making undertaking or scheme.

Similarly, if the buy back resulted in a loss you're unlikely to be able to claim it as a deduction. If you make a withdrawal via the redemption of units, the amount may be taxable as a dividend or a gain on sale.

Important information

Since we can't provide you with tax advice, we recommend you see a tax adviser about the changes in the tax law and the impact these may have on your investments with us. The information in this letter is of a general nature only and should not be relied on. For general information about Australian tax for non-resident investors, see the current product disclosure statements for Perpetual's Wholesale Funds and Perpetual WealthFocus Investments – Perpetual Series at www.perpetual.com.au.

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Further information

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