



Fisher Funds

Investor Education Centre

*Making investing enjoyable, understandable
and profitable...*

Nothing half PIE here

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I used to tell investors that tax is important, but by no means the most important factor in choosing an investment. Since PIEs came into being, tax has become a more important consideration ... for all the right reasons.

Until the introduction of PIEs in 2007, investors like us at Fisher Funds were at a relative disadvantage from a tax point of view. Professional fund managers faced an uneven playing field.

We used to have to provide for capital gains tax on all gains, realised or unrealised, at the rate of 33%. An individual investor could invest in exactly the same portfolio of shares as us, but not have to pay capital gains tax (assuming they didn't trade very often). All that changed in 2007 with the introduction of PIEs.

Portfolio Investment Entities are managed funds and other entities that pay tax on investment income based on their investors' prescribed investor rate ("PIR"), rather than at the entities' tax rate.

PIEs offer a benefit to those investors on a relatively high tax rate and a relatively low tax rate. PIEs have been eagerly adopted by fund managers and KiwiSaver providers, and you will probably have noticed that your bank now offers cash PIEs alongside their traditional term deposits and cash accounts.

These PIEs offer the same underlying products for you to invest your money but if you are a 33% or 38% taxpayer, you are better off because the top tax rate the PIE will pay is 30%. If you are on a 19.5% tax rate, you can declare any income earned from a PIE and may receive a tax refund for the additional tax paid within the PIE.

A positive for us is the ability for PIEs that invest in New Zealand or large Australian listed companies to trade as often as they like without incurring capital gains tax.

That now puts us in a more favourable position than individual investors who may still run the risk of having to pay tax on gains if they trade too often. So the tables have turned completely. The other day an investor asked me about PIEs and suggested that the weekend newspapers should highlight all the listed companies that are PIEs. He mentioned a property trust and a company that we manage, Kingfish Limited, as being his favourites because they were PIEs, and so could give him a decent dividend yield which he and his wife relied on.

You see that's the other attractive side effect of the PIE regime.

In the past, traditional "growth" entities could only ever pay out income that had been earned (and had tax paid on it). Listed PIEs can now effectively pay income out of capital gains as well. Kingfish for example pays a dividend of 2% per quarter (a current yield of 8.8% pa) despite it only receiving dividends from the companies it invests in of just 5% pa.

In the current environment of low interest rates, this extra income makes all the difference to investors.

There's nothing half pie about that.

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