

# Budget 2010: impact on benefits from PIEs

## Benefits of PIE tax rates

- The PIE tax rates have always been attractive to many investors compared to their marginal tax rates on direct investments. However, the new PIE tax rates announced in the 2010 Budget to apply from 1 October 2010 substantially increase both the range of investors that benefit and the extent of the potential benefits.
- The PIE rates applying from 1 October 2010 are shown below with the new standard marginal tax rates.
- The key elements of the comparison are:
  - The top PIE tax rate is 28% whereas investors can be taxed at 33% and 30% on direct investments.
  - Investors with a marginal tax rate of 30% can be taxed on PIE income at 17.5% - a reduction of 12.5%.
  - Investors with a marginal tax rate of 17.5% can be taxed on PIE income at 10.5% - a reduction of 7%.

- PIEs remain attractive for top tax rate investors - there is still a 5% difference in the top marginal rate of 33% and the top PIE rate of 28%.
- The new PIEs rates are much more attractive to investors on the lower tax rates, who make up a significant proportion of retail investors. This is demonstrated below.

### **Investors with total income below \$48k**

The PIE rules now allow income between \$14k and \$48k to be taxed at **10.5%** rather than the normal marginal tax rate of **17.5%**.

Take a retiree with Government Super of \$14k per year, and investment income up to \$34k. This reduces the tax on that investment income from \$5,950 to \$3,570 - **a saving of \$2,380**. At an interest rate of **6.25%**, this increases the effective pre-tax yield to **6.78%**.

### **Investors with \$48k to \$70k of income**

These investors previously had a **33%** tax rate for income over \$48k when they invested directly and a **30%** rate when investing through a PIE. This group can now achieve a tax rate of **17.5%** via a PIE for income over \$48k.

An investor with just under \$48,000k of direct income can earn \$22k of additional PIE income and be taxed on that \$22k at 17.5%. This reduces the tax payable on the \$22k from \$6,600 to \$3,850 - **a saving of \$2,750**. This converts a **6.25%** rate to an effective pre-tax yield of **7.37%**.

## **Marginal tax rates v PIE tax rates**

Taxable Income	Combined Taxable & PIE Income	Tax Rates from 1 Apr 2011	PIE Tax Rates from 1 Oct 2010
0 – 14,000	0 – 48,000	17.5%	10.5%
14,001 – 48,000	14,000 – 70,000	30.0%	17.5%
48,001 – 70,000	48,001 – 70,000	30.0%	28.0%
Over 70,000	Over 70,000	33.0%	28.0%

## Budget 2010: impact on PIE returns

Example returns - \$10,000 invested at 6.25%

	Marginal Tax Rate of Investor		
	17.5%	30.0%	33.0%
<b>Direct investment</b>			
Interest	625.00	625.00	625.00
Tax	(109.38)	(187.50)	(206.25)
<b>Post tax cash in hand</b>	<b>515.62</b>	<b>437.50</b>	<b>418.75</b>
<b>PIE Investment</b>			
Income allocation	625.00	625.00	625.00
Tax at 10.5%	(65.63)		
Tax at 17.5%		(109.38)	
Tax at 28%			(175.00)
<b>Post tax cash in hand</b>	<b>559.37</b>	<b>515.62</b>	<b>450.00</b>
<b>Increase in return</b>	<b>43.75</b>	<b>78.12</b>	<b>31.25</b>
<b>Effective pre-tax yield</b>	<b>6.78%</b>	<b>7.37%</b>	<b>6.72%</b>

*This document contains information of a general nature only. Individual investors should seek advice on their specific circumstances. This document is accurate as at 14 June 2010.*