

TAX CHANGES IMPLICATIONS FOR PFI INVESTORS

In December 2006 the Taxation (Savings Investment and Miscellaneous Provisions) Act 2006 was passed by the Government. This legislation introduced the Portfolio Investment Entity (PIE) regime for investment entities satisfying certain eligibility criteria.

The PIE regime is intended to level the playing field with respect to the taxation of investments taken directly by individuals and investment through collective investment vehicles.

The PIE regime comes into effect from 1 October 2007 for eligible entities and applies to all dividends paid from a PIE. Advice taken to date indicates that Property For Industry (PFI) will qualify to be a PIE. From the note below you will see that there are compelling arguments for PFI to elect to become a listed PIE.

As a listed PIE, PFI's tax status would not change and PFI would still be required to file a tax return and pay tax on any assessable income. However there would be significant benefits to investors in that cash distributions to investors would not incur any additional tax.

These changes mean that, as a listed PIE:

- PFI would be able to pass through the tax benefit of depreciation deductions to investors;
- investors will generally suffer tax at their marginal tax rate on the taxable component of PFI's income (i.e. accounting profit less tax depreciation and other tax adjustments), compared with the current tax regime where investors are subject to their marginal tax rate on all income distributed by PFI;
- an additional benefit arises to investors on a 39% marginal tax rate as the top tax rate for New Zealand resident investors in a PIE is capped at 33%.

The extent of the benefit to PFI's investors will depend on their tax status, their marginal tax rate and also the effective tax rate of PFI. In the year ended 31 December 2006, PFI's effective tax rate was 22.8%.

Under the PIE regime, dividends received by investors will be split into a fully imputed (tax paid) component and an excluded (tax free) component. Investors on a 33% or 39% marginal tax

rate can choose to treat the entire dividend as excluded income and need not include this income in their personal tax return. These investors will therefore receive the full cash component of the dividend.

Investors on a 19.5% marginal tax rate can choose to treat the fully imputed component of the dividend as taxable income. These investors will therefore receive an additional benefit in the form of a tax credit for excess imputation credits that can be offset against other taxable income.

The following example shows the impact that the PIE regime would have made on PFI's distribution of income for the year ended 31 December 2006, which comprised a cash dividend of 6.76 cents and imputation credits of 2.01 cents.

INVESTOR MARGINAL TAX RATE				
	19.5% ¹	33.0%	39.0%	NON RESIDENT ²
NET INVESTOR CASH (CENTS PER SHARE)				
Current	7.06	5.88	5.35	6.36
PIE	7.58	6.76	6.76	6.76
% change	7.4%	15.0%	26.4%	6.3%

¹ Assumes the benefit of the surplus tax credit can be offset against other taxable income.
² Non-resident returns are shown only in respect of tax paid in New Zealand. There may be further tax to pay in their home jurisdictions.

For advice specific to your PFI investment, please contact your tax advisor.