CHARTERED ACCOUNTANTS
DavidCo Limited

DavidCo Limited
CHARTERED ACCOUNTANTS

Level 2, Shortland Chambers
70 Shortland Street, Auckland
PO Box 2380, Shortland Street
Auckland 1140
T +64 9 921 6885
F +64 9 921 6889
M +64 21 639 710
E arun.david@davidco.co.nz
W www.davidco.co.nz

FIF CALCULATION METHODS OTHER THAN THE AFI METHOD

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<td>(1) Comparative Value (CV) Method</td>
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<u>(1) Comparative Value (CV) Method</u>
If a person is using the CV method to calculate FIF income or loss from an attributing interest in a FIF, the FIF income or loss from that interest for the relevant year is calculated using the following formula:
(closing value + gains) - (opening value + costs)
<u>Closing value</u> is
(a) The market value of the person's interest in the FIF at the end of the income year; or
(b) Zero, if:
(i) The interest has been disposed of during the year; or
(ii) Another calculation method is being used (at the end of the year).
<u>Gains</u> are:
• All amounts derived in the year from holding or disposing of the interest, including foreign withholding tax or other tax credits allowed under sections LE 1 & LJ 2 (imputation credits and foreign income tax credits).
<u>Opening value</u> is:
(a) The market value of the person's interest at the end of the previous year calculated using the exchange rate applying under s. EX 57 for that year; or
(b) Zero, if:
(i) The person did not hold the interest at the end of the previous year; or
(ii) Another calculation method was being used (at the end of the previous year).
<u>Costs</u> is:
(a) All expenditure incurred during the income year in acquiring or increasing the interest; and
(b) All income tax on the income of the FIF:
(i) For which the person is liable outside NZ; and
(ii) Paid by the person in the income year.
<u>Reduction of losses to zero rule (excluding FIFs that are non-ordinary shares)</u>
If a person would have a total FIF loss for all attributing interests ("affected interests") for which the CV method is used (excluding only attributing interests that are non-ordinary shares described in section EX 46 (10) – see (9) on page 6 of the separate PDF attachment on Choice Of FIF Calculation Methods):
• The FIF loss for each affected interest is reduced to the extent necessary for the total FIF loss from the affected interests to be zero.
[Section EX 51 including the amendment to section EX 51(7) in s. 36 of the Taxation (International Investment and Remedial Matters) Act 2012, applying from income years beginning on or after 1 July 2011]
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(2) Fair Dividend Rate (FDR) Method: Usual Method	**<u>(2) Fair Dividend Rate (FDR) Method: Usual Method</u>** The usual method is the method that is generally used, unless the special method in section EX 53 is required to be used, or is chosen to be used. The special method – set out in **(3)** below - is used when MVs are determined a number of times during the year, as would be done, for example, for unit-pricing purposes by a unit trust. Therefore, <u>the usual method cannot be used by</u>: (a) A unit-valuing fund that must use the special method in section EX 53 – see **(3)** below; or (b) Any other person that determines the MV of the attributing interest for each period of a day in the income year and that chooses to apply the method in section EX 53. **<u>Under the usual method</u>,** the total FIF income for the income year from attributing interests in FIFs for which a person uses the FDR method ("the FDR interests") is calculated as: **(0.05 x opening value) + (quick sale adjustment)** **<u>Opening value</u>** is: The total MV of FDR interests that the person holds at the beginning of the year, <u>excluding FIF interests where both the following requirements are met</u>: 1. The interests are direct income interests ≥ 10% in FIFs that, at the beginning of the year, meet the following requirements in section EX 35: (a) The FIF is: (i) Resident in Australia; and (ii) Under Australian law subject to income tax on its income or treated as part of the head company of a consolidated group subject to income tax on its income; and (iii) Treated as being resident in Australia under all double tax agreements; and (b) The FIF's liability for income tax for the income year is not reduced by (i) An exemption from income tax for income derived from business activities carried on outside Australia; or (ii) A special allowance, relief or exemption with respect to offshore banking units. 2. If the FIF is a foreign PIE equivalent, the person is not a PIE, or an entity eligible to be a PIE, or a life insurance company. **<u>Quick sale adjustment</u>** is: (a) Required, and is not zero, only if the person, in the income year: (i) Acquires or increases an FDR interest to which this calculation applies; and (ii) Later disposes of or reduces the FDR interest (in the same year). (b) The <u>lesser of</u>: (i) The total **<u>peak holding method amounts</u>** for each FDR interest; and (ii) The total **<u>quick sale gain amounts</u>** calculated for each FDR interest, treating negative amounts as zero. (See **page 5** below) [Section **EX 52** as amended by **s. 37** of the *Taxation (International Investment and Remedial Matters) Act 2012*]

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<td>(2) Fair Dividend Rate (FDR) Method: Usual Method (continued)</td>
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<u>(2) Fair Dividend Rate (FDR) Method: Usual Method (continued)</u>
The <u>peak holding method amount</u> is calculated as:
(0.05) x (peak holding differential) x (average cost)
<u>Peak holding differential</u> is:
(a) If no share reorganisation occurs in the income year, the lesser of:
(i) (Greatest shareholding in the year) - (Shareholding at the start of the year)
(ii) (Greatest shareholding in the year) - (Shareholding at the end of the year)
(b) If a share reorganisation occurs in the income year, the lesser of:
(i) (Greatest equivalent shareholding in year) – (Equivalent shareholding at start of year)
(ii) (Greatest equivalent shareholding in year) – (Equivalent shareholding at end of year)
The greatest equivalent shareholding in the year and the equivalent shareholdings at the start and the end of the year are calculated as follows:
1. The year is first divided into reorganisation periods as follows:
(a) The first reorganisation period begins at the start of the year and ends immediately <u>before</u> the first share reorganisation.
(b) The second reorganisation period begins immediately <u>before</u> the first share reorganisation and ends immediately <u>before the next</u> share reorganisation.
(c) The last reorganisation period in the income year starts immediately before the last share reorganisation in the year and ends at the end of the year.
2. The equivalent shareholding is then determined for each reorganisation period, and for the start and the end of the year as follows:
(a) The amount of the person’s attributing interest in the FIF at any time (“the <u>comparison time</u>”) in each reorganisation period is determined as the attributing interest in the FIF the person would hold at the end of the year if, after the comparison time, there was no change in the attributing interest in the FIF except under share reorganisations occurring in the year (“the equivalent shareholding”)
So, for example, in the first reorganisation period, during which there is no reorganisation (because the period ends before the first share reorganisation), the equivalent shareholding is calculated as the shareholding at the end of the year if there had been no change in the holding except under share reorganisations – i.e. the notional “after reorganisation” amount. The highest notional “after reorganisation” amount in the first reorganisation period will be the greatest equivalent shareholding in the first reorganisation period.
(b) The greatest equivalent shareholdings in each of the remaining reorganisation periods during the year, and at the beginning of the year, are calculated in the same way.
(c) The equivalent shareholding at the end of the year would be the actual shareholding after all share reorganisations during the year.
3. The greatest equivalent shareholding in the year is the highest of the greatest equivalent shareholdings in each of the reorganisation periods.
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(2) Fair Dividend Rate (FDR) Method: Usual Method (continued)	**<u>(2) Fair Dividend Rate (FDR) Method: Usual Method (continued)</u>** <u>Average cost</u> is: (a) If no share reorganisation occurs in the income year: $$\frac{\textbf{Total expenditure in acquiring or increasing the FIF interest during the year}}{\textbf{Total for the year of the shareholding increase in the FIF interest for each acquisition or increase}}$$ (b) If a share reorganisation occurs in the income year: $$\frac{\textbf{Expenditure incurred during the year in acquiring or increasing the attributing interest in the FIF}}{\textbf{Total for the year of the equivalent acquired shareholding for each acquisition or increase}}$$ The equivalent acquired shareholding for each acquisition or increase is: $$\begin{bmatrix}\textbf{Equivalent shareholding for the}\\ \textbf{time of the acquisition or increase}\end{bmatrix} - \begin{bmatrix}\textbf{Amount that would be the equivalent shareholding}\\ \textbf{for the time of the acquisition or increase if the}\\ \textbf{person were not to have acquired the shareholding}\end{bmatrix}$$ The equivalent shareholdings are determined as in **page 3** above. **Note**: <u>Shareholding</u> means the number of shares or units in an attributing interest. [Section **EX 52**]

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<td>(2) Fair Dividend Rate (FDR) Method: Usual Method (continued)</td>
<td>
<u>(2) Fair Dividend Rate (FDR) Method: Usual Method (continued)</u>

The <u>quick sale gain amount</u> is calculated, for each acquisition or increase in the attributing interest that is disposed of or reduced in the income year, on a Last In First Out (LIFO) basis, as:

(Gain) - (interest x average cost)

<u>Gain</u> is:
• The total amount the person derives from holding or disposing of the particular acquisition or increase.

<u>Interest</u> is:
• The amount of the shareholding acquisition or increase.

<u>Average cost</u> is:
(a) If no share reorganisation occurs in the income year:

$$\frac{\textbf{Total expenditure in acquiring or increasing the attributing interest in the FIF}}{\textbf{Total for the year of the shareholding increase in the FIF interest for each acquisition or increase}}$$
(b) If a share reorganisation occurs in the income year:

$$\frac{\textbf{Expenditure incurred during the year in acquiring or increasing the attributing interest in the FIF}}{\textbf{Total for the year of the equivalent acquired shareholding for each acquisition or increase}}$$
The equivalent acquired shareholding for each acquisition or increase is:

$$\left[\begin{array}{l}\textbf{Equivalent shareholding for the}\\ \textbf{time of the acquisition or increase}\end{array}\right] - \left[\begin{array}{l}\textbf{Amount that would be the equivalent shareholding}\\ \textbf{for the time of the acquisition or increase if the}\\ \textbf{person were not to have acquired the shareholding}\end{array}\right]$$
The equivalent shareholdings are determined as in page 3 above.

<u>Deemed disposals or acquisitions are ignored:</u>
Deemed disposals or acquisitions under section EX 63(5) [when changing between the CV and FDR methods] or under section EX 67 [FIF rules first applying after 1 April 2007] are ignored.

Note: <u>Shareholding</u> means the number of shares or units in an attributing interest.

[Section EX 52 including the amendment to section 52(13) by section 40 of the Tax Administration Act 2011]
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<td>(3) Fair Dividend Rate (FDR) Method: Usual Method: Returning share transfers</td>
<td><u>(3) Fair Dividend Rate (FDR) Method : Usual Method: Returning share transfers</u>

Where an “original share” is supplied by a “share supplier” to a “share issuer” under a “returning share transfer”, for the purposes of a person using the FDR method to calculate FIF income, the attributing interest is treated as held by the “share supplier”.

A <u>returning share transfer</u> means an arrangement

(a) Under which

(i) A share (the <u>original share</u>) listed on a recognised exchange is transferred from a <u>share supplier</u> to a <u>share user</u>: and

(ii) It is conditionally or unconditionally agreed that the share user or associate pays a replacement payment to the share supplier or associate, if a dividend is payable on the original share; and

(iii) It is conditionally or unconditionally agreed that the original share or an identical share may be transferred from the share user to the share supplier or associate; and

(b) That is not a warrant or instalment receipt.

[Section EX 52(14C) & Section YA 1]</td>
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<td>(4) Fair Dividend Rate (FDR) Method for unit valuing funds</td>
<td><u>(4) Fair Dividend Rate (FDR) Method for unit valuing funds</u>

This special FDR method applies when a person calculates FIF income for an attributing interest in a FIF under the FDR method, and:

(a) Is a unit trust or other entity (<u>the fund</u>) that:
(i) Makes investments for the benefit of other persons (the investors); and
(ii) Assigns each investor an interest (the unit) in a proportion of the net returns from the investments; and
(iii) Determines the value of the investor’s units for each of a number of periods (the <u>unit valuation periods</u>) making up the income year; or

(b) The person:
(i) determines the market value (“MV”) of the attributing interest for each period of a day (the unit valuation period) in the income year; and
(ii) Chooses that this special FDR method applies.

[Section EX 53(1) & (1B)]</td>
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(4) Fair Dividend Rate (FDR) Method for unit valuing funds (continued)	**(4) Fair Dividend Rate (FDR) Method for unit valuing funds (continued)** The total FIF income for the income year of the fund or the person (the interest holder) from the attributing interests in FIFs (the FDR interests) for which the fund or the person uses the FDR method is the total of the amounts calculated for each valuation period using the following formula: $$[0.05 \text{ x opening value x } \frac{\text{period}}{\text{year}}] + [\text{quick sale adjustment}]$$ Opening value is: The total MV of FDR interests that the person holds at the beginning of the year, excluding FIF interests where both the following requirements are met: 1. The interests are direct income interests ≥ 10% in FIFs that, at the beginning of the year, meet the following requirements in section EX 35: (a) The FIF is: (i) Resident in Australia; and (ii) Under Australian law subject to income tax on its income or treated as part of the head company of a consolidated group subject to income tax on its income; and (iii) Treated as being resident in Australia under all double tax agreements; and (b) The FIF's liability for income tax for the income year is not reduced by (i) An exemption from income tax for income derived from business activities carried on outside Australia; or (ii) A special allowance, relief or exemption with respect to offshore banking units. 2. If the FIF is a foreign PIE equivalent, the person is not a PIE, or an entity eligible to be a PIE, or a life insurance company. Period is: • The number of days in the unit valuation period. Year is: • The number of days in the income year. Quick sale adjustment is: (a) Required, and is not zero, only if the interest holder has a unit valuation period of > 1 day, and in the unit valuation period: (i) Acquires or increases an FDR interest to which this calculation applies; and (ii) Later disposes of or reduces the FDR interest (in the same year). (b) The lesser of: (i) The total **peak holding method amounts** for each FDR interest; and (ii) The total **quick sale gain amounts** calculated for each FDR interest, treating negative amounts as zero. (See **page 9** below) [Section **EX 53(2) to (9)** including the amendment to section **53(5)** in **s. 38** of the *Taxation (International Investment and Remedial Matters) Act 2012* applying form income years beginning on or after 1 July 2011]

(4) Fair Dividend Rate (FDR) Method for unit valuing funds (continued)	**(4) Fair Dividend Rate (FDR) Method for unit valuing funds (continued)** The **peak holding method amount** is calculated as: **(0.05) x (peak holding differential) x (average cost)** Peak holding differential is: (a) If no share reorganisation occurs in the unit valuation period, the lesser of: (i) **(Greatest shareholding in the period) - (Shareholding at the start of the period)** (ii) **(Greatest shareholding in the period) - (Shareholding at the end of the period)** (b) If a share reorganisation occurs in the unit valuation period, the lesser of: (i) **(Greatest equivalent shareholding in period) – (Start of period equivalent shareholding)** (ii) **(Greatest equivalent shareholding in period) – (End of period equivalent shareholding)** The greatest equivalent shareholding in the unit valuation period (the affected period) and the equivalent shareholdings at the start and the end of the affected period are calculated as follows: 1. The affected period is first divided into (non-overlapping) reorganisation periods as follows: (a) The first reorganisation period begins at the start of the affected period and ends immediately before the first share reorganisation. (b) The second reorganisation period begins immediately before the first share reorganisation and ends immediately before the next share reorganisation. (c) The last reorganisation period in the unit valuation period starts immediately before the last share reorganisation in the period and ends at the end of the affected period. 2. The equivalent shareholding is then determined for each reorganisation period, and for the start and the end of the affected period as follows: (a) The amount of the person's attributing interest in the FIF at any time ("the comparison time") in each reorganisation period is determined as the attributing interest in the FIF the person would hold at the end of the affected period if, after the comparison time, there was no change in the attributing interest in the FIF except under share reorganisations occurring in the year ("the equivalent shareholding"). So, for example, in the first reorganisation period, during which there is no reorganisation (because the reorganisation period ends before the first share reorganisation), the equivalent shareholding is calculated as the shareholding at the end of the affected period if there had been no change in the holding except under share reorganisations – i.e. the notional "after reorganisation" amount. The highest notional "after reorganisation" amount in the first reorganisation period will be the greatest equivalent shareholding in the first reorganisation period. (b) The greatest equivalent shareholdings in each of the remaining reorganisation periods during the affected period, and at the beginning of the affected period, are calculated in the same way. (c) The equivalent shareholding at the end of the affected period would be the actual shareholding after all share reorganisations during the affected period. 3. The greatest equivalent shareholding in the year is the highest of the greatest equivalent shareholdings in each of the reorganisation periods.

(4) Fair Dividend Rate (FDR) Method for unit valuing funds (continued)	**<u>(4) Fair Dividend Rate (FDR) Method for unit valuing funds (continued)</u>** <u>Average cost</u> is: (a) If no share reorganisation occurs in the unit valuation period: $$\frac{\textbf{Total expenditure in acquiring or increasing the attributing interest in the FIF during the period}}{\textbf{Total for the period of the shareholding increase in the FIF interest for each acquisition or increase}}$$ (b) If a share reorganisation occurs in the unit valuation period: $$\frac{\textbf{Expenditure incurred during the period in acquiring or increasing the attributing interest in the FIF}}{\textbf{Total for the period of the equivalent acquired shareholding for each acquisition or increase}}$$ The equivalent acquired shareholding for each acquisition or increase is: $$\left[\begin{array}{l}\textbf{Equivalent shareholding for the}\\\textbf{time of the acquisition or increase}\end{array}\right] - \left[\begin{array}{l}\textbf{Amount that would be the equivalent shareholding}\\\textbf{for the time of the acquisition or increase if the}\\\textbf{person were not to have acquired the shareholding}\end{array}\right]$$ The equivalent shareholdings are determined as in **page 8** above. **Note**: <u>Shareholding</u> means the number of shares or units in an attributing interest. [Section **EX 53**]
(4) Fair Dividend Rate (FDR) Method for unit valuing funds (continued)	**<u>(4) Fair Dividend Rate (FDR) Method for unit valuing funds (continued)</u>** The **<u>quick sale gain amount</u>** is calculated, for each acquisition or increase in the attributing interest that is disposed of or reduced in the unit valuation period, on a Last In First Out (LIFO) basis, as: **(Gain) - (interest x average cost)** <u>Gain</u> is: • The total amount the person derives from holding or disposing of the particular acquisition or increase. <u>Interest</u> is: • The amount of the shareholding acquisition or increase. <u>Average cost</u> is: $$\frac{\textbf{Total expenditure in acquiring or increasing the attributing interest in the FIF}}{\textbf{Total for the period of the shareholding increase in the FIF interest for each acquisition or increase}}$$ <u>Deemed disposals or acquisitions are ignored:</u> Deemed disposals or acquisitions under section EX 67 [FIF rules first applying after 1 April 2007] are ignored. **Note**: <u>Shareholding</u> means the number of shares or units in an attributing interest, as noted above. [Section **EX 53**]

(5) Deemed Rate Of Return (DRR) Method	**<u>(5) Deemed Rate Of Return (DRR) Method</u>** When a person uses the DRR method to calculate FIF income or loss from an attributing interest in a FIF for the income year, <u>the formula used depends on whether the interest is unchanged during the year, or it changes</u>. 1. For this purpose, a person's attributing interest in a FIF changes during an income year if the person: (a) Acquires or increases the interest; or (b) Disposes of the interest (but merely receiving an annuity payment from the interest is not a disposal or reduction). 2. The formulae are based, respectively, on the closing book value at the end of: (a) The previous year, when the interest is unchanged during the year; or (b) Each part-year period during which the interest remained unchanged, when the interest changes during the year. 3. In either case, it is also necessary to calculate the closing book value of the FIF interest (a) At the end of the current year; and (b) At the end of each part-year period, if the interest changes during the year. 4. The closing book value is zero, at the end of the current year, or part-year period, respectively, if a calculation method different from the DRR method is used at the end of the income year, or part-year period. [Section **EX 55(1), (2) & (9)**]

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<td>(6) DRR method: Formula if interest is unchanged during the year</td>
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<u>(6) DRR formula if the interest is unchanged throughout the year</u>
If the person has held the interest unchanged throughout the income year, the DRR formula for calculating FIF income or loss is:
[(Opening book value) x (Deemed rate for the relevant year)] + [Adjustments]
<u>Opening book value</u> is the <u>closing book value at the end of the previous income year</u>, which is calculated as follows:
(Opening book value) + (Costs) + (Deemed income) + (Top-up amounts) - (Gains)
Opening book value in this formula is the closing book value at the end of the year before the previous income year calculated using this same formula.
Costs is the total for the previous income year of:
(a) All expenditure incurred in acquiring or increasing the interest; and
(b) Income tax on the income of the FIF:
(i) For which the person is liable under the laws of a country or territory outside NZ; and
(ii) Paid by the person in the income year.
Deemed income is FIF income for the previous income year calculated as:
(opening book value for that year) x (deemed rate for that year)
Top-up amounts are amounts calculated:
(a) Under section EX 60 if, when the DRR method is used for a FIF, the person derives an amount from holding or disposing of the FIF interest that would be income under ordinary (non-FIF) rules. The top-up amount is calculated as:
$$\left[\textbf{The total of such amounts in all years}\right] - \left[\textbf{Total FIF income less FIF losses in all years}\right]$$
(b) Under section EX 61 if the interest has been held since 2 July 1992, and the CV or DRR method was used from 1 April 1993, and the interest was treated as having been acquired for an uplifted cost on 1 April 1993, and the person derives an amount from holding or disposing of the FIF interest that would be income under ordinary (non-FIF) rules. The top-up amount is calculated as:
$$\left[\textbf{The total of such amounts in all years}\right] - \left[\textbf{Total FIF income less FIF losses in all years}\right]$$
Gains is: The total of all amounts the person derives during the year from holding or disposing of the interest; including
Any foreign withholding tax or tax credits allowed under section LE 1 (imputation credits) or LJ 2 (foreign income tax credits).
<u>Deemed rate for the year:</u> is the rate set for the year by the Governor-General by Order in Council:
(a) The DRR for the 2010-11 income year was 8.52%.
(b) The DRR for the 2009-10 income year was 9.12%.
<u>Adjustments:</u> are described in the row below.
[Section EX 55(3), (4), (7), (8) & (10)]
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<td>(6) DRR method: Formula if interest is unchanged during the year (continued)</td>
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<u>(6) DRR formula if the interest is unchanged throughout the year (cont.)</u>

<u>Adjustments</u> are:

[s. EX 60 Top-up income] + [Top-up if DRR inadequate] - [Reduction if DRR excessive]

1. <u>Top-up income under section EX 60</u> is calculated as follows:

Under section EX 60, when the DRR method is used for a FIF, if the person derives an amount from holding or disposing of the FIF interest that would be income under ordinary (non-FIF) rules, the top-up amount is calculated as:

$$\begin{bmatrix}\textbf{The total of such}\\ \textbf{amounts in all years}\end{bmatrix} - \begin{bmatrix}\textbf{Total FIF income less}\\ \textbf{FIF losses in all years}\end{bmatrix}$$

2. <u>Top-up income if the DRR is inadequate</u>: If the closing book value at the end of an income year or part-year is below zero, the person has additional <u>FIF income equal to the deficit</u> (the amount by which the closing book value is below zero) for the relevant income year, unless:
(a) The person is a natural person; and
(b) At all times during the year the total value of the person's attributing interests in FIFs ≤ $250,000, the value of each interest being:
(i) Its closing book value at the end of the previous income year, if the person held the interest then and used the DRR method to calculate FIF income for all attributing interests in the previous income year; or
(ii) Its market value in any other case; and
(c) The deficit in the closing book value arises only because the person disposed of some or all of the interest; and
(d) The gain that the person derived from disposing of the interest or part-interest:
(i) Is not income; or
(ii) Is income only to the extent it gives rise to FIF income.

3. <u>Reduction if the DRR is excessive</u>: If the person has disposed of the whole of an attributing interest in a FIF and the closing book value for the relevant income year or part-year is more than zero, the <u>excess is subtracted</u> when calculating FIF income for the income year under the DRR method, unless:
(a) The person is a natural person; and
(b) At all times during the year the total value of the person's attributing interests in FIFs ≤ $250,000, the value of each interest being:
(i) Its closing book value at the end of the previous income year, if the person held the interest then and used the DRR method to calculate FIF income for all attributing interests in the previous income year; or
(ii) Its market value in any other case; and
(c) The gain that the person derived from disposing of the interest or part-interest:
(i) Is not income; or
(ii) Is income only to the extent it gives rise to FIF income

[Section EX 55(10)-(14)]
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(7) DRR method: Formula if the interest changes during the year	**(7) DRR formula if the interest changes during the year** If the person's interest changes during the income year, the DRR formula for calculating FIF income or loss is: $$\left[(\textbf{Opening book value}) + (\textbf{costs})\right] \textbf{x} \left[(\textbf{deemed rate}) \textbf{ x } \frac{\textbf{days}}{\textbf{365}}\right] + \left[\textbf{Adjustments}\right]$$ **Opening book value** for each part-year during which the interest is unchanged is the closing book value at the end of the previous period during which the interest was unchanged, or previous income year, and is calculated as follows: **(Opening book value) + (Costs) + (Deemed income) + (Top-up amounts) - (Gains)** **Opening book value** in this formula is the closing book value at the end of the period before the previous part-year, calculated using this same formula. **Costs** is the total for the previous part-year, of: (c) All expenditure incurred in acquiring or increasing the interest; and (d) Income tax on the income of the FIF: (iii) For which the person is liable under the laws of a country or territory outside NZ; and (iv) Paid by the person in the previous part-year. **Deemed income** is FIF income for the previous part-year calculated as: (opening book value for that part-year) x (deemed rate for that year) **Top-up amounts** are amounts calculated: (c) Under section EX 60 if, when the DRR method is used for a FIF, the person derives an amount from holding or disposing of the FIF interest that would be income under ordinary (non-FIF) rules. The top-up amount is calculated as: $$\begin{bmatrix}\textbf{The total of such} \\ \textbf{amounts in all years}\end{bmatrix} - \begin{bmatrix}\textbf{Total FIF income less} \\ \textbf{FIF losses in all years}\end{bmatrix}$$ (d) Under section EX 61 if the interest has been held since 2 July 1992, and the CV or DRR method was used from 1 April 1993, and the interest was treated as having been acquired for an uplifted cost on 1 April 1993, and the person derives an amount from holding or disposing of the FIF interest that would be income under ordinary (non-FIF) rules. The top-up amount is calculated as: $$\begin{bmatrix}\textbf{The total of such} \\ \textbf{amounts in all years}\end{bmatrix} - \begin{bmatrix}\textbf{Total FIF income less} \\ \textbf{FIF losses in all years}\end{bmatrix}$$ **Gains** is: The total of all amounts the person derives during the part-year from holding or disposing of the interest; including • Any foreign withholding tax or tax credits allowed under section LE 1 (imputation credits) or LJ 2 (foreign income tax credits). **Deemed rate for the year:** is the rate set for the year by the Governor-General by Order in Council (the DRR was 8.52% for 2010-11 & 9.12% for 2009-10) **Adjustments:** are described in the row below. [Section **EX 55(5), (6), (7), (8) & (10)**]

(7) DRR method: Formula if interest changes during the year (continued)	**(7) DRR formula if the interest changes during the year (cont.)** **Adjustments** are: **[s. EX 60 Top-up income] + [Top-up if DRR inadequate] - [Reduction if DRR excessive]** 4. Top-up income under section EX 60 is calculated as follows: Under section EX 60, when the DRR method is used for a FIF, if the person derives an amount from holding or disposing of the FIF interest that would be income under ordinary (non-FIF) rules, the top-up amount is calculated as: $\begin{bmatrix}\textbf{The total of such}\\\textbf{amounts in all years}\end{bmatrix} - \begin{bmatrix}\textbf{Total FIF income less}\\\textbf{FIF losses in all years}\end{bmatrix}$ 5. Top-up income if the DRR is inadequate: If the closing book value at the end of an income year or part-year is below zero, the person has additional FIF income equal to the deficit (the amount by which the closing book value is below zero) for the relevant income year, unless: (e) The person is a natural person; and (f) At all times during the year the total value of the person's attributing interests in FIFs ≤ $250,000, the value of each interest being: (iii) Its closing book value at the end of the previous income year, if the person held the interest then and used the DRR method to calculate FIF income for all attributing interests in the previous income year; or (iv) Its market value in any other case; and (g) The deficit in the closing book value arises only because the person disposed of some or all of the interest; and (h) The gain that the person derived from disposing of the interest or part-interest: (iii) Is not income; or (iv) Is income only to the extent it gives rise to FIF income. 6. Reduction if the DRR is excessive: If the person has disposed of the whole of an attributing interest in a FIF and the closing book value for the relevant income year or part-year is more than zero, the excess is subtracted when calculating FIF income for the income year under the DRR method, unless: (d) The person is a natural person; and (e) At all times during the year the total value of the person's attributing interests in FIFs ≤ $250,000, the value of each interest being: (iii) Its closing book value at the end of the previous income year, if the person held the interest then and used the DRR method to calculate FIF income for all attributing interests in the previous income year; or (iv) Its market value in any other case; and (f) The gain that the person derived from disposing of the interest or part-interest: (iii) Is not income; or (iv) Is income only to the extent it gives rise to FIF income [Section **EX 55(10)-(14)**]

<table>
<tr>
<td>(8) DRR method: Top-up income under section EX 60</td>
<td>
<u>(8) DRR method: top-up FIF income under section EX 60</u>

Top-up FIF income is required when a person:
(a) Has an attributing interest in a FIF for a period: and
(b) Uses the DRR method to calculate FIF income or loss from the interest; and
(c) Derives in the period, from holding or disposing of the interest, an amount that would have been income if section EX 59(2) had not applied (to exempt income from a FIF from being taxable under any other provisions in the Act).

The gain is FIF income the extent to which the following formula is positive:

(total income gains) – (total FIF income)

Total income gains:

$$\left[\text{total income gains} = \left(\begin{array}{l}\text{total of the amounts, including the amount in question}\\ \text{derived by the person until that time from holding or}\\ \text{disposing of the interest that would have been income}\\ \text{if section EX 59(2) had not applied}\end{array}\right)\right]$$

Total FIF income:

$$\left[\text{Total FIF income} = \left(\begin{array}{l}\text{The total of FIF income, reduced by the total of}\\ \text{FIF losses, derived by the person from the}\\ \text{interest until, and including, the relevant period}\end{array}\right)\right]$$

Consequences of partial sales: If the person disposes of part of the interest:
(a) This rule applies to the part disposed of and the part retained as if they were separate interests.
(b) If this means that an apportionment is necessary, it must be done on the basis of the respective market values at the time the part of the interest is disposed of.

[Section EX 60]
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<td>(9) DRR method: Top-up income under section EX 61</td>
<td>
<u>(9) DRR method: top-up FIF income under section EX 61</u>

Top-up FIF income is required when a person:
(a) Has an attributing interest in a FIF for a period: and
(b) Held the interest on 2 July 1992; and
(c) Calculated their FIF income from the interest in the period starting on 1 April 1993 under the CV or DRR method; and
(d) Was treated as having reacquired the interest on 1 April 1993 for an uplifted cost under section CG 23(1)(d) of the Income Tax Act 1994 or section EZ 7 of the Income Tax Act 2004; and
(e) Derives in the period, from holding or disposing of the interest, an amount that would have been income if section EX 59(2) had not applied (to exempt income from a FIF from being taxable under any other provisions in the Act).

The gain is FIF income the extent to which the following formula is positive:

$$\textbf{(total income gains) – (total FIF income)}$$
Total income gains:
$$\left[\textbf{total income gains} = \begin{pmatrix}\textbf{total of the amounts, including the amount in question}\\ \textbf{derived by the person until that time from holding or}\\ \textbf{disposing of the interest that would have been income}\\ \textbf{if section EX 59(2) had not applied}\end{pmatrix}\right]$$
Total FIF income:
$$\left[\textbf{Total FIF income} = \begin{pmatrix}\textbf{The total of FIF income, reduced by the total of}\\ \textbf{FIF losses, derived by the person from the}\\ \textbf{interest until, and including, the relevant period}\end{pmatrix}\right]$$
Consequences of partial sales: If the person disposes of part of the interest:
(c) This rule applies to the part disposed of and the part retained as if they were separate interests.
(d) If this means that an apportionment is necessary, it must be done on the basis of the respective market values at the time the part of the interest is disposed of.

[Section EX 61]
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(10) Cost Method	**(10) Cost method** 1. If the cost method is used, the method is used separately for each FIF. The method is used for all the person's attributing interests in the FIF. 2. If a person is using the cost method to calculate FIF income or loss from an attributing interest in a FIF for an income year, the person's total FIF income from their attributing interests in the FIF for the year is calculated using the formula: **(0.05 x opening value) + (quick sale adjustment)** **Opening value** is the total of the market values of the person's attributing interests in the FIF, determined based on a series of 7 consecutively applied choices, depending on whether required conditions are satisfied. The choices and conditions as set out in section EX 53(a), (ab), (ac), (b), (c), (d) & (e) are explained on **pages 18 to 20** below, numbered as they are in section **EX 56(3)**. **Quick sale adjustment** is required only if, in the relevant income year, the person disposes of or reduces their attributing interest in the FIF after acquiring it or increasing it. The quick sale adjustment is zero in any other case. The quick sale adjustment is explained **on page 21** below. [Section **EX 56(1), 56(3) & 56(14)**]

<table>
<tr>
<td>(11) Cost method: Opening value – First 5 choices in section EX 56(3)</td>
<td>
<u>(11) Cost method: Opening value choices</u>
<table>
<tr><th></th><th>Condition(s)</th><th>Opening value</th></tr>
<tr><td>(a)</td><td>If the relevant income year is the year in which the person acquires an attributing interest in the FIF</td><td>Zero</td></tr>
<tr><td>(ab)</td><td>If:
1) Condition (a) does not apply; and
2) The FIF makes available to the general public audited financial statements for its accounting year ending in the relevant income year; and
3) The person has audited financial statements for the relevant income year that:
(i) Include the net asset value of the FIF interest; and
(ii) Are made available to the general public; and
4) The person chooses</td><td>The amount that is shown as <u>the net asset value of the interest</u> in the audited financial statements of the person for the relevant income year made available to the general public</td></tr>
<tr><td>(ac)</td><td>If:
1) Neither condition (a) nor (ab) applies; and
2) The person acquired the interest in the 2005-06 or 2006-07 income year; and
3) The interest was not an attributing interest for the income year before the relevant income year</td><td>The cost of the interest
(<u>Concession</u> to allow cost without a 5% uplift to be used in 2007-08 only)</td></tr>
<tr><td>(b)</td><td>If:
1) None of conditions (a), (ab) or (ac) apply; and
2) The person holds the interest at the start of the relevant income year; and
3) The interest was not an attributing interest for the income year before the relevant income year; and
4) The person has used the cost method for the interest for a period of 4 or more income years ending before the relevant income year and has not applied this valuation choice to the interest for any of those income years</td><td>The amount of an independent valuation of the market value of the interest at the start of the relevant income year
(An independent valuation must be done once every 4 years)</td></tr>
<tr><td>(c)</td><td>If:
1) None of conditions (a), (ab), (ac) or (b) apply; and
2) The person’s shareholding (the current opening shareholding) at the start of the relevant income year is the same as the person’s shareholding (the preceding opening shareholding) at the start of the preceding income year

Shareholding means the number of shares or units in the attributing interest.</td><td>$\left[\mathbf{1.05 \times preceding\ opening}\right]$
<u>Preceding opening</u> is the opening value for the income year before the relevant income year</td></tr>
</table>

[Section EX 56(3)(a) to (c) & 56(19)]
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(12) Cost method: 6th choice – para (d) in section EX 56(3)	**(12) Cost method: Opening value – 6th choice: para (d) in section EX 56(3)** If none of the conditions in paragraphs (a), (ab), (ac), (b) and (c) apply, and the person's current opening shareholding is more than the person's preceding opening shareholding, the opening value is an amount calculated as follows: **[(1.05 x preceding opening) + (increase x average cost)]** **Preceding opening** is the opening value for the income year before the relevant income year. The item **(increase x average cost)** in the formula depends on whether there has been a share reorganisation during the year: 1. If there has been no share reorganisation during the preceding income year the item (a) **Increase** is: **(Opening shareholding in current year) – (Opening shareholding in preceding year)** (b) **Average cost** is: $$\frac{\textbf{Expenditure in acquiring or increasing in the preceding year the attributing interest in the FIF}}{\textbf{Total for the preceding year of the shareholding increase in the FIF interest for each acquisition or increase}}$$ 2. If there has been a share reorganisation in the preceding income year the item **(increase x average cost)** is calculated as follows: (a) The **equivalent shareholding** is determined at a particular time (the comparison time) as: the amount the person would have held at the end of the preceding income year if, after the comparison time, there were no changes in the person's FIF interest (other than because of share reorganisations). The equivalent shareholding is calculated at the following comparison times: (i) At the beginning of the preceding income year; and (ii) Immediately before and after each acquisition or increase in order to determine the **equivalent acquired shareholding**: **(Equivalent shareholding after increase) – (Equivalent shareholding before increase)** (b) **Increase** is: **(Opening shareholding in current year) – (Equivalent opening shareholding in preceding year)** (c) **Average cost** for the preceding income year is: $$\frac{\textbf{Expenditure incurred during the preceding year in acquiring or increasing the attributing interest in the FIF}}{\textbf{Total for the preceding year of the equivalent acquired shareholding for each acquisition or increase}}$$ **Shareholding** means the number of shares or units in the attributing interest. [Sections **EX 56(3)(d), 56(5), 56(10)-(11), 56(19) & EX 54**]

(13) Cost method: 7th choice – para (e) in section EX 56(3)	**<u>(13) Cost method: Opening value – 7th choice: para (e) in section EX 56(3)</u>** If none of the conditions in paragraphs (a), (ab), (ac), (b), (c) and (d) apply, and the person's current opening shareholding is less than the preceding opening shareholding, the opening value is an amount calculated as follows: $$\left[\frac{\textbf{opening shareholding}}{\textbf{preceding shareholding}}\ \textbf{x}\ \textbf{1.05}\ \textbf{x}\ \textbf{preceding opening}\right]$$ **Opening shareholding:** is the person's shareholding at the start of the relevant income year. **Preceding shareholding:** is the person's shareholding at the start of the preceding income year. **Preceding opening:** is the opening value for the preceding income year. **Shareholding** means the number of shares or units in the attributing interest. [Sections **EX 56(3)(e), 56(6), 56(8), 56(12)-(13) & 56(19)**]

(14) Cost method: quick sale adjustment	**<u>(14) Cost method: quick sale adjustment</u>** Required if the person disposes of or reduces their attributing interest in the FIF after acquiring it or increasing it: **(0.05) x (peak holding differential) x (average cost)** <u>Peak holding differential</u> is: (a) If no share reorganisation occurs in the income year, the lesser of: (i) **(Greatest shareholding in the year) - (Shareholding at the start of the year)** (ii) **(Greatest shareholding in the year) - (Shareholding at the end of the year)** (b) If a share reorganisation occurs in the income year, the lesser of: (i) **(Greatest equivalent shareholding in year) – (Equivalent shareholding at start of year)** (ii) **(Greatest equivalent shareholding in year) – (Equivalent shareholding at end of year)** The greatest equivalent shareholding in the year and the equivalent shareholdings at the start and the end of the year are calculated as follows: (a) The **equivalent shareholding** is determined at a particular time (the <u>comparison time</u>) as: the amount the person would have held at the end of the income year if, after the comparison time, there were no changes in the person's FIF interest (other than because of share reorganisations). The equivalent shareholding is calculated at the following comparison times: (i) At the beginning of the income year; and (ii) Immediately after each acquisition or increase; (iii) Immediately before each disposal or reduction (b) The equivalent shareholding at the end of the year would be the actual shareholding after all share reorganisations during the year. (c) The greatest equivalent shareholding in the year is the highest of the greatest equivalent shareholdings in each of the reorganisation periods. <u>Average cost</u> is: (a) If no share reorganisation occurs in the income year: $$\frac{\textbf{Total expenditure in acquiring or increasing the FIF interest during the year}}{\textbf{Total for the year of the shareholding increase in the FIF interest for each acquisition or increase}}$$ (b) If a share reorganisation occurs in the income year: $$\frac{\textbf{Expenditure incurred during the year in acquiring or increasing the attributing interest in the FIF}}{\textbf{Total for the year of the equivalent acquired shareholding for each acquisition or increase}}$$ The equivalent acquired shareholding for each acquisition or increase is: $$\left[\begin{array}{l}\textbf{Equivalent shareholding for the}\\ \textbf{time of the acquisition or increase}\end{array}\right] - \left[\begin{array}{l}\textbf{Amount that would be the equivalent shareholding}\\ \textbf{for the time of the acquisition or increase if the}\\ \textbf{person were not to have acquired the shareholding}\end{array}\right]$$ The equivalent shareholdings are determined as above. **Shareholding** means the number of shares or units in the attributing interest. [Sections **EX 56(1), 56(14)-(19) & EX 54**]