



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

SUMMARY OF THE CHOICES BETWEEN FIF METHODS BEFORE 1 JULY 2011

Important: these are the old rules before the changes that came into effect for income years commencing on or after 1 July 2011

1. Page 2 contains a Table summarising the FIF method choices and limitations applying to income years commencing before 1 July 2011.
2. The Table should be read in conjunction with the Notes that follow, which are referenced back to the Table.
3. Following the Notes is a section on Changing Between Calculation Methods on pages 9 to 11.
4. A section on Consequences of Changes in Method is set out on pages 12 to 13.

Refer to the **Table** below and the **Notes** that follow it. Further below are the rules on changing methods.

	Rules regarding the choice of the FIF calculation method (for income years beginning on or before 30 June 2011)	AP	BE	DRR	CV	FDR	COST
I	<p>If the person is a <u>natural person</u> and the attributing interest is an <u>ordinary share</u> in a foreign company:</p> <p><u>Default method</u>: If no method is chosen, the natural person is treated as having chosen:</p> <p>(a) For < 10%, FDR, if practical, or Cost. (b) For ≥ 10%, AP, if allowed, or CV, or DRR. [See Note (7)]</p>	<p>✓ But only if Note (1) is met</p>	<p>✓ But only if Note (2) is met</p>	<p>✓ Only for ≥ 10% - See Note (3)</p>	<p>✓ See Note (4)</p>	<p>✓ Only for < 10% - see Note (5)</p>	<p>✓ Only for < 10% & no FDR see - Note (6)</p>
II	<p>If the person is a <u>trustee</u> and the attributing interest is an <u>ordinary share</u> in a foreign company:</p> <p><u>Default method</u>: If no method is chosen, the trustee is treated as having chosen:</p> <p>(a) For < 10%, FDR, if practical, or Cost. (b) For ≥ 10%, AP, if allowed, or CV, or DRR. [See Note (14)]</p>	<p>✓ See Note (8) - only if Note (1) is met</p>	<p>✓ See Note (9) - only if Note (2) is met</p>	<p>✓ Only for ≥ 10% & no CV/AP - See Note (10)</p>	<p>✓ Only if Note (11) is met</p>	<p>✓ Only for < 10% or PIEs - Note (12)</p>	<p>✓ Only for < 10% & no FDR - see Note (13)</p>
III	<p>If the person is a <u>company</u> and the attributing interest is an <u>ordinary share</u> in a foreign company:</p> <p><u>Default method</u>: If no method is chosen, the natural person is treated as having chosen:</p> <p>(a) For < 10%, FDR, if practical, or Cost. (b) For ≥ 10%, AP, if allowed, or CV, or DRR. [See Note (21)]</p>	<p>✓ See Note (15) - only if Note (1) is met</p>	<p>✓ See Note (16) - only if Note (2) is met</p>	<p>✓ Only for ≥ 10% & no CV/AP - See Note (17)</p>	<p>✓ Only for ≥ 10% - See Note (18)</p>	<p>✓ Only for < 10% or PIEs - Note (19)</p>	<p>✓ Only for < 10% & no FDR - see Note (20)</p>
IV	<p><u>Any person</u> and the attributing interest is a <u>non-ordinary share</u> in a foreign company:</p> <p><u>Default method</u>: CV must be used, and if not practical, DRR. [See Note 22]</p>	<p>✗ See Note (22)</p>	<p>✗ See Note (22)</p>	<p>✓ Only if CV can't be used see Note (22)</p>	<p>✓ See Note (22)</p>	<p>✗ See Note (22)</p>	<p>✗ See Note (22)</p>
V	<p><u>Any person</u> if the attributing interest is a right to benefit from a <u>foreign superannuation scheme</u>:</p> <p><u>Default method</u>: CV or, if not practical, DRR.</p>	<p>✗ See Note (23)</p>	<p>✗ See Note (23)</p>	<p>✓ See Note (24)</p>	<p>✓ See Note (25)</p>	<p>✓ See Note (25)</p>	<p>✓ See Note (25)</p>
VI	<p><u>Any person</u> if the attributing interest is a right to benefit from a <u>life insurance policy</u> for which a FIF is the insurer:</p> <p><u>Default method</u>: CV or, if not practical, DRR.</p>	<p>✗ See Note (23)</p>	<p>✗ See Note (23)</p>	<p>✓ See Note (24)</p>	<p>✓ See Note (25)</p>	<p>✓ See Note (25)</p>	<p>✓ See Note (25)</p>

NOTES:**I Natural person with an attributing interest that is an ordinary share in a foreign company**

- (1) A natural person (or a trustee or a company) may use the accounting profits method for an accounting period to calculate FIF income or loss from an attributing interest in a FIF that is an ordinary share in a foreign company only if all the following requirements are met:
- (a) The FIF must be a company.
 - (b) At all times during the accounting period when the FIF exists, interests in the FIF similar to the person's attributing interests were:
 - (i) Quoted on the official list of a recognised exchange; or
 - (ii) Offered widely by or for the FIF to the public in 1 or more countries.
 - (c) The net after-tax accounting profits or losses of the FIF for the accounting period are calculated under generally accepted accounting practice (GAAP), or an equivalent standard for consistent and undistorted reporting of net profits, of the country in which the FIF is resident.
 - (d) The net after-tax accounting profits or losses are detailed in financial statements:
 - (i) Sent or made available to shareholders in the FIF; and
 - (ii) Readily available to interested members of the public; and
 - (iii) Audited by a chartered accountant, or accountant of equivalent professional standard in the country in which the FIF is resident; and
 - (iv) For which such an accountant has given a standard audit opinion, without qualifications, to the effect that the financial statements represent the income and financial position of the FIF to the degree of validity normally required in the country in which the FIF is resident.
 - (e) Where the FIF has 1 or more subsidiaries, the net after-tax accounting profits or losses are calculated on a consolidated basis.
 - (f) The net after-tax accounting profits or losses include any extraordinary items.
 - (g) The person has no reason to believe that the net after-tax accounting profits or losses do not fairly represent the net after-tax accounting profits or losses of the FIF for the accounting period.
 - (h) The FIF is not an entity described in Schedule 25, Part C (Foreign entities for which accounting profits method may not be used).
 - (i) The Commissioner has not concluded that the net after-tax accounting profits or losses do not fairly represent the net after-tax profits or losses of the FIF for the accounting period.

This method is not available for income years beginning on or after 1 July 2011

[Section EX 46(2) and section 32(1) of the *Taxation (International Investment and Remedial Matters) Act 2012*]

NOTES (continued)

- (2) A natural person (or a trustee or a company) may use the branch equivalent (BE) method to calculate FIF income or loss from an attributing interest in a FIF for an accounting period only if:
- (a) The FIF is a company; and
 - (b) The person can provide to the Commissioner, if requested, sufficient information to enable the Commissioner to check the calculations required by section EX 50 before the amendments to that section contained in clause 29 of the International Investment bill took effect (i.e. section EX 50 before 1 July 2011).

This method is not available for income years beginning on or after 1 July 2011

[Section **EX 46(3)** and section **32(2)** of the *Taxation (International Investment and Remedial Matters) Act 2012*]

- (3) The DRR method can be used by a natural person for a FIF interest that is ordinary shares in a foreign company if the FIF interest is a direct income interest $\geq 10\%$ and
- (a) It is not reasonably practical for the person to use:
 - (i) The CV method, because the person cannot determine the MV of the attributing interest at the end of the income year; or
 - (ii) The AP method for any accounting period that falls wholly or partly in the year; or
 - (b) The total value of attributing interests in FIFs held by the person \leq \$250,000 valuing each interest at:
 - (i) Its 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; and
 - (ii) Its market value in other cases; or
 - (c) The DRR method is the default method, because use of the AP method is not allowed or is not practical, and it is not practical to use the CV method; or
 - (d) The person is not allowed to change to another method under section EX 62.

Note: For income years beginning on 1 July 2011 onwards, the DRR method may only be used for an attributing interest that is a non-ordinary share.

[Section **EX 46(4)** & section **EX 48** before amendment]

- (4) A natural person may use the CV method for a FIF that is a share in a foreign company.
[Section **EX 46(6)(a)**]

NOTES (continued)

(5) A natural person may use the FDR method for a FIF that is an ordinary share in a foreign company, only if the person's direct income interest < 10% (including direct income interests of associated persons):

(a) At any time in the year, if the FIF is a grey list company; or

(b) At all times in the year, if the FIF is not a grey list company;

Providing that

(c) The person does not choose to use the CV method for another attributing interest that is a share in a foreign company for which the person could have used the FDR method.

Note: The restriction of the use of the FDR method to natural persons with income interests < 10% is being removed, effective from income years beginning on or after 1 July 2011.

[Section **EX 46(7) & EX 46(8)(b)** before amendment]

(6) A natural person may use the cost method for a FIF that is a share in a foreign company only if:

(a) The person's direct income interest < 10% (including direct income interests of associated persons):

(i) At any time in the year, if the FIF is a grey list company; or

(ii) At all times in the year, if the FIF is not a grey list company; and

(b) FDR is allowed, but not practical because the person cannot determine the market value ("MV") of the attributing interest at the start of the year except by independent valuation.

Note: The restriction of the use of the Cost method to natural persons with income interests < 10% is being removed, effective from income years beginning on or after 1 July 2011.

[Section **EX 46(9)** before amendment]

(7) If a natural person does not choose a method for a FIF interest that is an ordinary share in a foreign company, the person is treated as having chosen to use, for the period:

(a) For a direct income interest in a foreign company < 10% for which FDR is allowed under section EX 46 (7):

(i) The FDR method if it is practical to use it; and

(ii) The Cost method if it is not practical to use the FDR method.

(b) For a direct income interest in a foreign company \geq 10%

(i) The AP method, if allowed by section EX 46(2), and it is practical to use it; or

(ii) The CV method, if use of the AP method is not allowed or not practical, and it is practical to use CV; or

(iii) The DRR method, if use of the AP method is not allowed or practical, and it is not practical to use the CV method.

[Section **EX 48**]

NOTES (continued)**II Trustee with an attributing interest that is an ordinary share in a foreign company**

(8) Refer to Note **(1)**

(9) Refer to Note **(2)**

(10) The DRR method can be used by a trustee for a FIF interest that is ordinary shares in a foreign company if the FIF interest is a direct income interest $\geq 10\%$ and

(a) It is not reasonably practical for the trustee to use:

(i) The CV method, because the trustee cannot determine the MV of the attributing interest at the end of the income year; or

(ii) The AP method for any accounting period that falls wholly or partly in the year; or

(b) The DRR method is the default method, because use of the AP method is not allowed or is not practical, and it is not practical to use the CV method; or

(c) The trustee is not allowed to change to another method under section EX 62.

Note: For income years beginning on 1 July 2011 onwards, the DRR method may only be used for an attributing interest that is a non-ordinary share.

[Section **EX 46(4)** & section **EX 48** before amendment]

(11) A trustee may use the CV method for a FIF that is a share in a foreign company:

1) If the trustee's direct income interest in the FIF, including the direct income interests of associated persons, $\geq 10\%$ at any time in the income year; or

2) If the trust:

(a) Has no gifting settlor who is not a natural person or deceased person, meaning that no person, who is not the trustee of a trust or a natural person or deceased person has made a transfer of value, by disposing of property, to the trustee of:

(i) The relevant trust; or

(ii) A trust with a trustee who settles property on the relevant trust, directly or through the trustees of other trusts; and

(b) At all times in the income year, is a complying trust for a distribution made at the time; and

(c) Is, at all times in the income year, mainly for the benefit of

(i) A natural person for whom the gifting settlors of the trust have natural love and affection (or had natural love and affection when alive); or

(ii) An organisation or trust with income that is exempt income under sections CW 41 or 42 (which exempt certain income of charities); and

(d) Is not a superannuation scheme.

[Section **EX 46(6)(b) & (c)**]

NOTES (continued)

(12) A trustee may use the FDR method for a FIF that is an ordinary share in a foreign company, providing that the trustee does not choose to use the CV method for another attributing interest that is a share in a foreign company for which the trustee could have used the FDR method:

- (a) If the trustee's direct income interest < 10% (including direct income interests of associated persons):
 - (i) At any time in the year, if the FIF is a grey list company; or
 - (ii) At all times in the year, if the FIF is not a grey list company; or
- (b) The FIF is a foreign PIE equivalent and the trust is a PIE or a trust that qualifies for PIE status.

Note: The restriction of the use of the FDR method to trustees with income interests < 10% is being removed, effective from income years beginning on or after 1 July 2011.

[Section **EX 46(7) & EX 46(8)(b)**]

(13) A trustee may use the cost method for a FIF that is a share in a foreign company only if:

- (a) The trustee's direct income interest < 10% (including direct income interests of associated persons):
 - (i) At any time in the year, if the FIF is a grey list company; or
 - (ii) At all times in the year, if the FIF is not a grey list company; and
- (b) FDR is allowed, but not practical because the trustee cannot determine the market value ("MV") of the attributing interest at the start of the year except by independent valuation.

Note: The restriction of the use of the Cost method to trustees with income interests < 10% is being removed, effective from income years beginning on or after 1 July 2011.

[Section **EX 46(9)**]

(14) If a trustee does not choose a method for a FIF interest that is an ordinary share in a foreign company, the trustee is treated as having chosen to use, for the period:

- (a) For a direct income interest in a foreign company < 10% for which FDR is allowed under section EX 46 (7):
 - (i) The FDR method if it is practical to use it; and
 - (ii) The Cost method if it is not practical to use the FDR method.
- (b) For a direct income interest in a foreign company \geq 10%
 - (i) The AP method, if allowed by section EX 46(2), and it is practical to use it; or
 - (ii) The CV method, if use of the AP method is not allowed or not practical, and it is practical to use CV; or
 - (iii) The DRR method, if use of the AP method is not allowed or practical, and it is not practical to use the CV method.

[Section **EX 48**]

NOTES (continued)

III Company with an attributing interest that is an ordinary share in a foreign company

(15) See Note (1)

(16) See Note (2)

(17) The DRR method can be used by a company for a FIF interest that is ordinary shares in a foreign company if the FIF interest is a direct income interest $\geq 10\%$ and

(a) It is not reasonably practical for the company to use:

(i) The CV method, because the company cannot determine the MV of the attributing interest at the end of the income year; or

(ii) The AP method for any accounting period that falls wholly or partly in the year; or

(b) The DRR method is the default method, because use of the AP method is not allowed or is not practical, and it is not practical to use the CV method; or

(c) The company is not allowed to change to another method under section EX 62.

Note: For income years beginning on 1 July 2011 onwards, the DRR method may only be used for an attributing interest that is a non-ordinary share.

[Section EX 46(4) & section EX 48]

(18) A company can only use the CV method for an attributing interest that is an ordinary share in a foreign company if the company's direct income interest, including the direct income interests of all associated persons, $\geq 10\%$ at any time in the income year.

Note: For income year beginning on 1 July 2011 onwards, a company cannot use the CV method for an attributing interest that is an ordinary share in a foreign company.

[Section EX 46(6)(c)]

(19) A company may use the FDR method for a FIF that is an ordinary share in a foreign company, providing that the company does not choose to use the CV method for another attributing interest that is a share in a foreign company for which the company could have used the FDR method:

(a) If the company's direct income interest $< 10\%$ (including direct income interests of associated persons):

(i) At any time in the year, if the FIF is a grey list company; or

(ii) At all times in the year, if the FIF is not a grey list company; or

(b) The FIF is a foreign PIE equivalent and the company is a PIE or a company that qualifies for PIE status, or a life insurance company.

Note: The restriction of the use of the FDR method to companies with income interests $< 10\%$ is being removed, effective from income years beginning on or after 1 July 2011.

[Section EX 46(7) & EX 46(8)(b) before amendment]

NOTES (continued)

(20) A company may use the cost method for a FIF that is a share in a foreign company only if:

- (a) The company's direct income interest < 10% (including direct income interests of associated persons):
 - (i) At any time in the year, if the FIF is a grey list company; or
 - (ii) At all times in the year, if the FIF is not a grey list company; and
- (b) FDR is allowed, but not practical because the company cannot determine the market value ("MV") of the attributing interest at the start of the year except by independent valuation.

Note: The restriction of the use of the Cost method to companies with income interests < 10% is being removed, effective from income years beginning on or after 1 July 2011.

[Section **EX 46(9)** before amendment]

(21) If a company does not choose a method for a FIF interest that is an ordinary share in a foreign company, the company is treated as having chosen to use, for the period:

- (a) For a direct income interest in a foreign company < 10% for which FDR is allowed under section EX 46 (7):
 - (i) The FDR method if it is practical to use it; and
 - (ii) The Cost method if it is not practical to use the FDR method.
- (c) For a direct income interest in a foreign company \geq 10%
 - (i) The AP method, if allowed by section EX 46(2), and it is practical to use it; or
 - (ii) The CV method, if use of the AP method is not allowed or not practical, and it is practical to use CV; or
 - (iii) The DRR method, if use of the AP method is not allowed or practical, and it is not practical to use the CV method.

[Section **EX 48** before amendment]

IV Any person with an attributing interest that is a non-ordinary share in a foreign company

(22) A person (whether a natural person, a trustee or a company) must calculate FIF income or loss from an attributing interest that is a non-ordinary share described in section EX 46(10) using:

- (a) The CV method; or
- (b) The DRR method, if the use of the CV method is not practical because the person cannot determine the market value ("MV") of the attributing interest at the end of the income year.

[Section **EX 47**]

NOTES (continued)**V & VI Any person with an interest in a foreign superannuation scheme or life insurance policy**

(23) The AP or BE method can only be used for a FIF that is a company or a CFC. The AP or BE method cannot be used for a FIF interest in a foreign superannuation scheme or a life insurance policy.

[Sections **EX 46(2) & EX 46(3)** before repeal]

(24) The DRR method can be used:

(a) By a natural person with a total value of attributing interests in FIFs held by the person, at all times in the income year, \leq \$250,000 valuing each interest at:

(i) Its 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; and

(ii) Its market value in other cases; or

(b) By any person who is not able to use the CV method, because the person cannot determine the market value of the attributing interest at the end of the income year; or

(a) By a person who is required to continue using the DRR method by section EX 62.

Note: The ability to use the DRR method for superannuation or life insurance interests has been repealed, with effect from income years beginning on or after 1 July 2011.

[Sections **EX 46(4)** before repeal]

(25) There are no restrictions on the use of the CV, FDR or Cost methods for an attributing interest that is a right to benefit from a FIF that is a foreign superannuation scheme, or a right to benefit from a life insurance policy for which a FIF is the insurer.

If no method is chosen, the default method is CV, and if it is not practical to use CV, the DRR method.

Note: The requirement to use the CV and DRR methods, in that order, as the default methods, is also being repealed.

[Section **EX 48** before amendment]

CHANGING BETWEEN CALCULATION METHODS**General Rule: No changes unless allowed**

Once a person uses a particular calculation method to calculate FIF income or loss for an attributing interest in a FIF for a particular period, they must use the same method for interests in the FIF for the next period unless they are allowed to change by sections EX 62(2) to (9).

[Section EX 62(1)]

Basis for changing from a particular method to another method

A person may change if it is not practical to continue with the same method because:

1. In the case of the Accounting Profits (AP) method:
 - (a) The method is no longer available for income years commencing on or after 1 July 2011; or
 - (b) For income years beginning before 1 July 2011:
 - (i) The requirements to use the AP method in section EX 46(2) are not met; or
 - (ii) It is impossible to obtain enough information to continue using the AP method.
2. In the case of the Branch Equivalent (BE) method:
 - It is impossible to obtain enough information to continue using the BE method.
3. In the case of the CV method:
 - It is impossible to find out the year-end MV of the interest.
4. In the case of the DRR method:
 - If the person was entitled to use that method only by falling under the \$250,000 threshold in section EX 46(4)(b), the threshold is exceeded.
5. In the case of the FDR method:
 - It is impossible to find out the MV of the interest at the beginning of the year except by independent valuation.
6. In the case of the Cost method:
 - If it was the default method under section EX 48, it ceases to be the default method.

[Section EX 62(2)]

CHANGING BETWEEN CALCULATION METHODS (continued)

Change by notice to the Commissioner

7. A person may change methods by notice to the Commissioner if both of the following requirements are met:

The first requirement is that:

- (a) The person requesting the change is a natural person whose total attributing interests in FIFs have a market value \leq \$250,000 at the end of the year or period before the year or period in which the change is to take effect; or
- (b) The change is to the BE method, and:
 - (i) It is the first time the person has chosen to change to the BE method for an attributing interest in the FIF; or
 - (ii) It is not the first time the person has chosen to change to the BE method for an attributing interest in the FIF, but:
 - a. There has been a change in circumstances, such as a significant change in shareholding, that significantly changes the person's ability to obtain enough information to use the BE method; and
 - b. Altering their income tax liability is not the principal purpose or effect of the change; or
- (c) The change is from the BE method back to a calculation method the person used for attributing interests in the FIF before they used the BE method, and:
 - (i) It is the first time the person has chosen to change from the BE method for an attributing interest in the FIF; or
 - (ii) It is not the first time the person has chosen to change from the BE method for an attributing interest in the FIF, but:
 - a. There has been a change in circumstances, such as a significant change in shareholding, that significantly changes the person's ability to obtain enough information to use the BE method; and
 - b. Altering their income tax liability is not the principal purpose or effect of the change.

The second requirement is that the notice must comply with the following contents and timing requirements:

- (a) The notice gives the reason(s) for the change; and
- (b) The notice complies with the Commissioner's notice requirements; and
- (c) The notice is given before the end of the first income year or accounting period for which the change is to take effect, unless the Commissioner agrees to a retrospective notice; and
- (d) In the case of a natural person relying on the \$250,000 threshold test, be given before the end of the year or period before the year or period in which the change is to take effect.

[Sections EX 62(3) to (7)]

CHANGING BETWEEN CALCULATION METHODS (continued)**Changing more than once from FDR to CV and from CV to FDR**

8. A person may change more than once from the FDR method to the CV method and from CV to FDR if:
- (a) The person is a natural person; or
 - (b) The person is a trustee of a trust that:
 - 1) Has no gifting settlor who is not a natural person or deceased person, meaning that no person, who is not the trustee of a trust or a natural person or deceased person has made a transfer of value, by disposing of property, to the trustee of:
 - (i) The relevant trust; or
 - (ii) A trust with a trustee who settles property on the relevant trust, directly or through the trustees of other trusts; and
 - 2) At all times in the income year, is a complying trust for a distribution made at the time; and
 - 3) Is, at all times in the income year, mainly for the benefit of
 - (i) A natural person for whom the gifting settlors of the trust have natural love and affection (or had natural love and affection when alive); or
 - (ii) An organisation or trust with income that is exempt income under sections CW 41 or 42 (which exempt certain income of charities); and
 - 4) Is not a superannuation scheme.

[Section **EX 62(8)**]

CONSEQUENCES OF CHANGES IN METHOD**Consequences of changing - Cost-based to/from look-through methods: Disposal and re-acquisition at market value**

If a person holding an attributing interest in a FIF changes the FIF calculation method:

- (a) From 1 of the 4 cost-based calculation methods (CV, DRR, FDR or Cost) to either of the look-through calculation methods (AP or BE); or
- (b) From either of the look-through calculation methods (AP or BE) to 1 of the 4 cost-based methods:
 - 1) The person is treated as having disposed of the interest to an unrelated person immediately before the beginning of the 1st accounting period to which the new method applies; and
 - 2) The person is treated as having re-acquired it immediately after the beginning of the period; and
 - 3) The person is treated as having received for the disposal and having paid for the re-acquisition an amount equal to the interest's market value at the time.

[Sections **EX 63(1) & EX 63(2)**]

Consequences of changing - CV/FDR to Cost/DRR: Disposal and re-acquisition at market value

If a person holding an attributing interest in a FIF changes the FIF calculation method from either the CV method or the FDR method to either the Cost method or the DRR method:

- 1) The person is treated as having disposed of the interest to an unrelated person immediately before the beginning of the 1st income year to which the new method applies; and
- 2) The person is treated as having re-acquired it immediately after the beginning of the income year; and
- 3) The person is treated as having received for the disposal and having paid for the re-acquisition an amount equal to the interest's market value at the time.

[Section **EX 63(3)**]

CONSEQUENCES OF CHANGES IN METHOD (continued)**Consequences of changing – Cost/DRR to CV/FDR: Disposal and re-acquisition at market value**

If a person holding an attributing interest in a FIF changes the FIF calculation method from either the Cost method or the DRR method to either the CV method or the FDR method:

- 1) The person is treated as having disposed of the interest to an unrelated person immediately before the beginning of the 1st income year to which the new method applies; and
- 2) The person is treated as having re-acquired it immediately after the beginning of the income year; and
- 3) The person is treated as having received for the disposal and having paid for the re-acquisition an amount equal to:
 - (i) For a person changing from the Cost method: The amount that would be the interest's opening value under section EX 56 if the person had continued to use the Cost method for the 1st income year to which the new method applies; or
 - (ii) For a person changing from the DRR method: The interest's closing book value under section EX 55(7) for the preceding income year.

[Section EX 63(4)]

Consequences of changing – Changes between CV and FDR: Disposal and re-acquisition at market value

If a person holding an attributing interest in a FIF changes the FIF calculation method from the CV method to the FDR method or from the FDR method to the CV method:

- 1) The person is treated as having disposed of the interest to an unrelated person immediately before the beginning of the 1st income year to which the new method applies; and
- 2) The person is treated as having re-acquired it at the beginning of the 1st income year to which the new method applies; and
- 3) The person is treated as having received for the disposal and having paid for the re-acquisition an amount equal to the interest's market value at the time.

[Section EX 63(5)]