Easy as PIE

You too can have a piece of the PIE. Susanna Stuart explains how

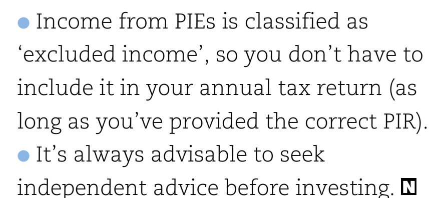
IF YOU'VE AVOIDED investing in unit trusts in the past, you might not have heard about the changes in how these investments are taxed. Up until October 2007, investment via unit trusts was subject to penalising tax rules, meaning even if you were on a low income and paying 19.5% tax, you would still be paying a whopping 33% tax on the gains and income from your investments.

Now, new legislation allows a unit trust to become a PIE (Portfolio Investment Entity) and supply income at whatever the investor's tax rate is. And from April 1, there is a tax cap at 30%, which will benefit investors who pay 33% or 39% on the top end of their income.

This suits investors seeking diversification. Before PIEs, it was more attractive to invest in shares directly rather than via a unit trust, but this wasn't an option for most people given the small amount they had to invest.

What do you need to know about PIEs?

- PIEs are offered by investment houses and banks. You can choose a fund that invests in just shares, just property, fixed interest or a mix. There are even cash PIEs, although make sure your net return after tax is better than what you can get from a bank savings account.
- As tax is paid to the IRD by the PIE fund, you need to provide your correct tax rate. If you are taxed at 19.5%, you would choose 19.5%. If you're taxed at 33% or above, you would choose the capped rate of 30%. This is referred to as the 'prescribed investor rate' (PIR).
- There is a separate set of rules for trusts. You can elect a tax rate of 0% so you can distribute income to a beneficiary at their own tax rate. Or you can elect 30% which will apply to income whether it is retained by the trustees or distributed out. The key is that the 30% tax rate is final.
- Income from PIEs is classified as 'excluded income', so you don't have to include it in your annual tax return (as long as you've provided the correct PIR).
- It's always advisable to seek independent advice before investing.



Seen & heard

From February 29, new rules have required anyone giving financial advice to provide a disclosure statement. This is designed to create more transparency in an industry blighted by unskilled advisers or advisers who've had vested interests.

On the surface, the disclosure statement is a very thorough document. Your adviser must outline their experience, whether or not they have past convictions and whether they have indemnity insurance. They must also show how they get paid, for example what commissions they receive, if any.

It looks good, but in practice there's something big missing. There's still no real way of knowing if an adviser is actually skilled or not. My advice is, don't confuse the openness of an adviser with the quite separate but equally important question: Are they giving me good advice?

Save it

If you're an employee and you haven't signed up for KiwiSaver, now's a good time to add it to your to-do list. It's a great way to build a nest egg for your 65-year-old self and sums-wise it's a no-brainer. You get given $1000 for signing up, then a $1040 top-up each year from the Government. And it just gets better. As of April 1, your employer also contributes 1% to your KiwiSaver. Employer contributions will be raised by 1% each year until a maximum of 4% is reached by 2011.

PHOTOGRAPH **GETTY IMAGES** SUSANNA STUART IS A FINANCIAL ADVISER. A FREE DISCLOSURE STATEMENT IS AVAILABLE BY EMAILING SUSANNA@STUARTCARLYON.CO.NZ