Savings tax rate: questions and answers

1 **Why is the tax rate on different savings products being reduced to 30 per cent?**

The tax reduction is to encourage individuals to save. Less tax paid on income from the savings vehicles will mean faster accumulation of savings by individuals.

2 **Which savers will benefit from the new 30 per cent tax rate?**

People who save through most managed funds and superannuation funds will benefit from the 30 per cent tax rate because the funds will pay less on their investment income.

The top tax rate on investment income earned on behalf of individuals who invest in managed funds and superannuation funds that choose to use the new portfolio investment entity rules will also reduce from 33 per cent to 30 per cent.

3 **Which managed fund investments will be subject to the 30 per cent tax rate?**

The 30 per cent tax rate will apply to unit trusts, group investment funds (those that are taxed as companies), life insurance savings products, and widely held superannuation funds and widely held group investment funds (those that are taxed as trusts).

4 **I am on a top marginal tax rate of 39 per cent and invest in a portfolio investment entity (PIE). At what rate will investment income attributed to me be taxed?**

The top tax rate on investment income attributed to investors will be 30 per cent.

5 **When do the new savings rates, including the top portfolio investment entity rate, apply from?**

The new rates will generally apply from the beginning of the particular fund's 2008/09 income year. However, they will apply from 1 April 2008 for portfolio investment entities that do not pay provisional tax and that attribute investment income to individuals on a daily or quarterly basis.

6 **I am the only beneficiary of a private superannuation fund. Will the new 30 per cent tax rate apply to investment income earned in that fund?**

No, as the superannuation fund is not "widely held" the income will continue to be taxed at the trustee tax rate of 33 per cent. A superannuation fund would generally be required to have at least 20 members to be eligible for a 30 per cent tax rate.

7 Why are non-widely held superannuation funds and non-widely held group investment funds that are taxed as trusts not subject to the new 30 per cent tax rate?

The new savings tax rate applies to retail savings schemes such as KiwiSaver funds. Non-widely held funds such as superannuation funds and certain group investment funds are arrangements which are close substitutes for private trusts.

8 I own some bonus bond units. Will I be taxed on any prizes and at what rate?

There will be no change to current law, under which the recipient does not pay tax on bonus bond prizes. The unit trust which distributes prizes from its tax-paid income, however, will be taxed at the new 30 per cent tax rate, down from 33 per cent.

9 I am on a 19.5 per cent tax rate and invest in a portfolio investment entity. Will there be any tax rate reductions?

No. The rate for 19.5 per cent savers in portfolio investment entities has not changed.

10 I am a beneficiary in a family trust. At what rate will investment income in that trust be taxed?

Family trusts will continue to be taxed at 33 per cent.

11 I am on a 19.5 per cent tax rate and invest in a managed fund. Am I required to notify the managed fund of my tax rate?

If the managed fund is a portfolio investment entity, you should notify the fund of your tax rate in order to obtain the benefit of having your share of fund income taxed at 19.5 per cent instead of 30 per cent. If you do not notify the fund, it will pay tax on your income at 30 per cent. If the fund is not a portfolio investment entity, it will pay tax at 30 per cent. Generally, you are entitled to the benefit of the 19.5 per cent tax rate if you invest in a portfolio investment entity and your taxable income in either of the prior two income years is no more than $38,000.