How to calculate 0% PIR returns

This information sheet sets out the formula we expect managers of portfolio investment entity (PIE) funds to use when calculating a fund's return with a 0% prescribed investor rate.

Calculation of 0% PIR in PIE fund returns

1. Every fund update must set out the performance of the fund over the past 12 months (and where relevant its average return over the past five years).[1] For a fund that is a PIE, its performance must be disclosed in two ways:
    a. the return net of fund charges, trading expenses and accrued tax applied at the highest prescribed investor rate (PIR) that applied throughout the period
    b. the return net of fund charges, trading expenses and accrued tax applying a 0% PIR.[2]
2. The obligation on managers of PIE funds to calculate accrued tax, by applying both the highest PIR and a 0% PIR, is similar to the obligations KiwiSaver scheme managers have had in the periodic disclosure regulations[3].
3. For PIE funds, we understand the unit price or the market value of the fund will not include the value of accrued tax and are 'off balance sheet' from an accounting perspective. This is the formula we expect managers to use for calculating the returns of a fund:

    the change in the fund's unit price or market value for the relevant period (net of all fund fees) *less* accrued tax

Accrued tax

4. Accrued tax is not a defined term in either the Financial Market Conduct Regulations 2014 (the Regulations) or the KiwiSaver periodic disclosure regulations. Inconsistent interpretations of accrued tax can have a material impact on the calculation of returns. This can result in users of this information not being able to accurately assess a fund's past returns to make fully informed decisions or conclusions.
5. We expect managers to use the following formula for the calculation of accrued tax:

    (the fund's total taxable income or loss for the relevant period x PIR) *less* tax credits
6. Tax credits include things such as resident withholding tax (RWT), foreign tax credits (FTC) and imputation credits (IC) deducted from income received by a fund during the relevant period. Where funds have had formation losses on conversion to the PIE regime, these may also be included on a unitised basis as if they were tax credits when calculating zero PIR returns.

1 Clause 59 of schedule 4 of the Regulations.

2 Clause 59(1)(b)(i) of schedule 4 of the Regulations.

3 The 0% PIR returns under regulations 16(3) of the periodic disclosure regulations are only disclosed in the csv data file.

Accounting for accrued tax in 0% PIR returns

7. There are a number of possible methods of accounting for accrued tax when calculating 0% PIR returns. We consider the following method to be the most appropriate. The PIR component of the accrued tax formula is set to 0%. The tax credits component reflects the total tax credits attributed to members during the return period. This effectively 'adds back' any tax credits to the change in the fund's unit price or market value for the relevant period. Or put another way, it presents the returns of the fund as if tax credits had not been deducted.
8. We consider this method to be the most appropriate method because, the 0% PIR returns of a fund should reflect the fund's investment returns during the period, before any tax credits were withheld from income generated by the fund's investments.