

May 2018

A special report from
Policy and Strategy, Inland Revenue

Provision of IRD numbers to Portfolio Investment Entities

Section 28B of the Tax Administration Act 199; sections HM 4 and HM 62 of the Income Tax Act 2007

The Taxation (Annual Rates for 2017–18, Employment and Investment Income, and Remedial Matters) Act 2018 introduced changes to the administration of employment and investment income information.

This special report provides early information on the provision of IRD numbers to Portfolio Investment Entities (PIEs), and precedes full coverage of the new legislation in the June 2018 edition of the *Tax Information Bulletin*.

Amendments have been made to encourage taxpayers to provide their IRD numbers to their PIE.

Background

Inland Revenue has difficulty attributing income to a taxpayer if it does not have the taxpayer's IRD number. The non-declaration rate, the rate which applies to taxpayers who have not provided their IRD number to their PIE, is too low (28% for PIE income) to encourage taxpayers on the top marginal tax rate to provide their IRD number to their PIE as it is the same rate as they would have even if they did provide their IRD number.

Further, taxpayers with social policy entitlements or obligations who can have much higher effective tax rates (taking into account abatement of entitlements or additional obligations), benefited from not providing their IRD number as it made it unlikely Inland Revenue could verify that their investment income was taken into account when social policy entitlements/obligations were calculated. This meant they may have received more social assistance or paid less in child support and student loan repayments than they should have.

Key features

Investors opening new investments in multi-rate PIEs will be required to provide their IRD number to the PIE within six weeks of opening their account in order to remain a member of the PIE.

This change should encourage people to provide their IRD numbers so that PIE income is allocated to the relevant taxpayer, ensuring the taxpayer is paying the right amount of tax, and

receives the correct amount in social policy entitlements, and pays the correct amount in social policy obligations.

Application date

The requirement for new investors in a PIE to provide their IRD numbers in order to stay invested in the PIE came into force on 1 April 2018.

Detailed analysis

PIE funds – IRD number requirement

Six weeks to provide IRD number

Section 28B of the Tax Administration Act 1994 requires an investor in a multi-rate PIE to notify the PIE of their tax file number within six weeks of becoming an investor.

This doesn't apply to a non-resident who does not have an IRD number but provides the equivalent tax identification number for their country of residence, or a declaration if they are unable to.

Non-residents who subsequently become residents are required to provide their IRD number to their PIE within six weeks of notifying the PIE that they have become a resident.

Consequence and treatment of not providing IRD number

Section HM 62 of the Income Tax Act 2007 provides that a PIE must close an investor's account, pay the necessary tax and refund the remainder of the balance to the investor where the investor has not provided their IRD number by the date provided in section 28B of the Tax Administration Act 1994 (that is, within six weeks of becoming an investor).

Section HM 4 provides that an investor who has not provided their IRD number to the multi-rate PIE within six weeks of becoming a member is treated as reaching the exit level. This requires the PIE to calculate its tax liability in relation to the exiting investor, under sections HM 42 and HM 47 of the Income Tax Act 2007.

Joint investors IRD numbers

While PIEs are required to get an IRD number for each new investment and may only be collecting one IRD number for joint investments in some cases, they will be required to report the details (including the IRD number) of all of the joint investors from 1 April 2020. As the legislation requiring the reporting of joint investors details has been enacted it is expected that PIEs will hold those details for all joint investors that have made investments from 1 April 2018. PIEs should therefore ensure that they begin collecting these additional details in advance of 1 April 2020.