

## FRED THOMAS PROPERTY INVESTMENT LIMITED

### TAXATION WHAT YOU NEED TO KNOW

The explanation below is designed:

- to assist potential investors in completing their application for B Shares in Fred Thomas Property Investment Limited ("Issuer"); and
- to explain how an investment in the Issuer's B Shares will be taxed.

The statements below apply as at the date of lodgement of the Product Disclosure Statement for the Offer of B Shares in the Issuer. The statements below apply subject to the Disclaimer set out at the end.

#### PIE Registration

The Issuer intends to register (but does not guarantee that it will register) as a portfolio investment entity ("PIE") and a multi-rate PIE as defined in the Income Tax Act 2007. If the Issuer registers as a PIE all taxable income, losses and tax credits related to Issuer's investments must be allocated to investors in proportion to their holdings in the Issuer, with tax payable at the investor's prescribed investor rate ("PIR").

#### You need to tell us your PIR and IRD number

Investors must provide their IRD number, applicable PIR and other details to the Issuer when they subscribe for Shares. If you do not provide these details, your investment in the Issuer will be subject to tax at the 28% PIR. Each year you will be asked to confirm your PIR.

Under the PIE tax legislation, the Issuer will calculate and pay tax on the net income it allocates to you at the following rates (referred to as the prescribed investor rate or PIR).

#### *If you're an individual*

At the date of this PDS an individual Investor who is a New Zealand resident will have a PIR of 10.5%, 17.5% or 28% depending upon your taxable income in the previous 2 years.

<b><i>In either of the two tax years (ending 31 March) immediately before the tax year in question:</i></b>		
<b><i>Taxable income was:</i></b>	<b><i>And taxable income plus PIE income was:</i></b>	<b><i>Then the PIR that applies is:</i></b>
\$0 - \$14,000	\$0 - \$48,000	10.5%
\$0 - \$14,000	\$0 - \$70,000	17.5%*
\$14,000 - \$48,000	\$0 - 70,000	28%*

\*As your PIR is based on your income levels in either of the previous two income years, where you satisfy the criteria for two rates, your correct PIR will be the lower rate.

#### *If you're not an individual*

The Issuer will attribute other Investors with the following PIRs:

- 28% for all non-residents;
- 0% for all New Zealand residents that are not individuals, such as companies, unit trusts, superannuation schemes, and charities;

- New Zealand resident trustees (excluding trustees of unit trusts and charitable trusts), the rate elected by you which must be 0%, 17.5% or 28%; and
- New Zealand resident trustees of testamentary trusts, the rate elected by you which must be 0%, 10.5%, 17.5% or 28%.

*If you're subscribing jointly with another person*

If you are subscribing for Shares jointly with another person, the investment is to be split and each partner/holder will have their share of attributable income taxed at their individual PIR. The individual IRD numbers for each partner/holder will need to be supplied to the Issuer.

### **How the Issuer will account for tax on your investments**

The tax payable by the Issuer on the net income allocated to you for any given period will depend on the net income allocated to you for that period and your PIR. The Issuer will adjust the amount of a distribution to be paid to you to address the difference in PIRs between shareholders and to reflect the tax paid to the IRD on a shareholder's behalf. If there are excess tax credits for a period, the Issuer should be able to make additional cash distributions to you on account of that tax credit. Investors with a 0% PIR can claim their share of excess credits in their own tax return.

Taxable income is attributed annually to 31 March or at any time you dispose of your investment (or a part of your investment) in the Issuer. If you dispose of your Shares in full, any tax liability on the Issuer's net income attributable to your investment will be deducted from any PIE income attributable to you. If you sell a portion of your Shares during the year, this results in tax being attributed to you in proportion to the amount you have sold.

**Taxation legislation and rates of tax change. You should always seek independent professional tax advice on your own personal circumstances.**

Further information can be found on the IRD website: [www.ird.govt.nz](http://www.ird.govt.nz).

You should note that the Issuer has broad powers to act at its discretion to ensure that the Issuer remains eligible to be a PIE. This includes, for example, the ability to refuse investment or to compulsorily re-acquire all or part of your Shares in the Issuer if your continued investment may prejudice the Issuer's PIE eligibility.

### **Taxation treatment outside of the PIE regime**

#### **Taxation of distributions**

If the Issuer is unable to satisfy the eligibility requirements in order to register, or maintain its registration, as a portfolio investment entity, distributions paid by the Issuer (other than on liquidation) will be taxable dividends. The Issuer may attach imputation credits to dividends up to a maximum allowable ratio of 28:72. Any imputation credits attached will be treated as part of the dividend for tax purposes and may be used to satisfy any New Zealand tax liability of a shareholder as discussed further below.

The Issuer will be required to withhold RWT from any dividend it pays.

**All care has been taken with this advice, but the Issuer and its directors do not guarantee its completeness. Tax can have significant consequences for investments. If you have queries in relation to tax consequences, you should obtain professional advice on these consequences.**

Dated 13<sup>th</sup> July 2017