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12 November 2013

Mr John Fisk
PricewaterhouseCoopers
PO Box 243
Wellington 6140

Dear John

***Ross Asset Management Limited (In Liquidation) and related entities (RAM)
— Information to assist investors complete outstanding income tax
returns/request amendments to income tax returns***

The purpose of this letter is to assist RAM investors complete outstanding income tax returns and/or request amendments to income tax returns where they have previously included income in relation to their RAM investments. The information in this letter is reasonably generic in nature and is intended to assist the wider RAM investor group. Investors' tax positions will depend on their own individual circumstances and investors should obtain their own tax advice.

At the outset, the Commissioner acknowledges that this is an unusual and complicated situation involving limited information. Against this backdrop, the Commissioner has attempted to adopt a practical approach while meeting the Commissioner's legal obligations.

As the information in this letter is based on our current understanding of the RAM situation, it is possible that it may be necessary to update this letter at a later date (e.g. if further information arises). A particular investor's circumstances may also warrant a different tax outcome. That said, we would not expect changes to our following comments regarding the 31 March foreign investment values or the comments regarding managements fees.

Matters covered in this letter should not be seen as setting precedent(s) for non-RAM matters.

This letter follows our earlier letter dated 19 March 2013, which included comments regarding amendments to income tax returns.

31 March foreign investment values — for calculating FDR income

It is our understanding that many RAM investors have returned taxable income based on the 31 March foreign investment values in their portfolio reports, applying the 'foreign investment fund' (FIF) 5% 'fair dividend rate' (FDR) method.

As the actual RAM related investment values determined by the liquidators are lower than the values in the original reports, investors may seek to have their income tax returns amended.

Ordinarily it is necessary to identify individual investment values relating to individual investors. However, this is not possible in the unique RAM situation where details about the investments are not always clear. Further, it is not possible to simply say that there is nil FDR income to return as there were some actual foreign investments in prior years.

We have reviewed the work undertaken by the liquidators to estimate all RAM related foreign investments at 31 March 2007-12 and we are prepared to accept the following reduced values for calculating investors' reduced taxable income for the 2008-2013 years.

Tax Year Ended 31 March	Portfolio Value at 31 March	Reduced Value	Original RAM Value *	% Reduced Value/Original RAM Value
2008	2007	\$61,129,724	\$207,996,642	29.39%
2009	2008	\$52,332,854	\$219,330,477	23.86%
2010	2009	\$42,238,422	\$196,662,191	21.48%
2011	2010	\$38,356,648	\$287,358,354	13.35%
2012	2011	\$18,674,557	\$326,298,361	5.72%
2013	2012	\$12,667,361	\$345,128,052	3.67%

* RAM value equals total RAM investor holdings from RAM database, which totals individual investor portfolio reports.

Investors can calculate their reduced FDR taxable income as originally filed FDR income multiplied by the percentage of Reduced Value to Original RAM Value. For instance, if 2012 FDR income was \$50,000 the reduced FDR income is now \$2,860 (being \$50,000 multiplied by 0.0572).

Quick sale adjustments under FDR may be reduced to the percentage of Reduced Value to Original RAM Value set out in the above table for the income year concerned.

Where investors calculating their income using FDR have received cash distributions the Commissioner will not consider the cash distributions as being subject to income tax as FDR is a proxy for calculating the taxable income from the investment.

New Zealand and overseas interest and dividends

It is our understanding that some RAM investors have included New Zealand interest and dividends, as shown in their portfolio reports, in their taxable income (including associated tax credits eg. imputation credits and RWT credits). Investors may also have included taxable foreign company dividends in respect of pre FDR periods, post FDR period ASX listed company dividends and foreign currency deposit amounts in their taxable income.

Such interest and dividend amounts were often shown as credited to investor portfolios although actual cash payments have been made to investors in some situations.

Where investors seek to have income tax returns amended to remove such amounts (including associated tax credits), the Commissioner will consider whether the distributions are taxable applying ordinary principles.

Where investors apply to have their income tax returns amended to remove interest or dividend amounts (and associated tax credits) the onus of proof is on the investor to establish that the amounts (including actual cash distribution where applicable) were not in the nature of income.

As a general principle even where interest or dividends from investments which ultimately fail result in a loss of capital, income tax is payable on the interest or dividends.

Management fees

It is our understanding that RAM investors have deducted management fees as shown in their portfolio reports as costs incurred in deriving taxable income.

The portfolio value at each 31 March date has been shown to have been overstated and where a management fee has been charged based on a percentage of the portfolio value the management fee will also therefore have been overstated.

Accordingly as a general principle where an investor seeks to have income tax returns amended to reflect their FDR income being based on the reduced investment values above, any deduction for management fees based on a percentage of the investment values will also be based on the reduced investment values rather than the inflated original RAM value.

For instance, assume a 31 March 2011 Investor Portfolio Total Value of \$1 million, with \$500,000 of FDR investments and \$500,000 of other investments (NZ debt and equities, and ASX listed equities), and a 2012 \$10,000 management fee then the 2012 management fee is reduced by:

2012 Management Fee	X	$\frac{31 \text{ March 2011 FDR Investments}}{31 \text{ March 2011 Total Investments}}$	X	(1 - 0.0572)
\$10,000	X	$\frac{\$500,000}{\$1,000,000}$	X	(1 - 0.0572)
	=	\$4,714		

Accordingly the deduction for the management fee would be \$5,286 being \$10,000 less \$4,714:

- \$5,000 management fee treated as relating to other investments (NZ debt and equities, and ASX listed equities with interest and dividends being fully taxable with tax credits);
- \$286 management fee treated as relating to FDR investments (FDR income and the management fee relating to that income being calculated on the reduced 5.72% portfolio size).

Where investors are able to show actual payment of management fees in excess of this amount the Commissioner will determine any entitlement to deductibility on a case by case basis.

Other Distributions received during the post FDR periods (ie. From 1 April 2007)

Distribution amounts received during post FDR periods (ie. From 1 April 2007) for which tax adjustments are sought should be non-taxable to investors providing:

- Foreign equity investments have been treated as subject to FDR as explained above;
- New Zealand and overseas interest and New Zealand and ASX listed equity dividend amounts (including associated tax credits) from investors' portfolio reports have been included in the investor taxable income.

Refund requests

Applications for refunds should be made pursuant to section 113 of the Tax Administration Act 1994 and be sent to the following address:

*Graeme Hall
Senior Technical Advisor
Legal & Technical Services
Inland Revenue
PO Box 1462
Wellington 6140*

Applications should include – for the periods for which tax adjustments are sought:

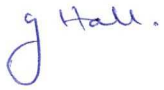
- investor statements received from RAM;
- evidence of any management fees charged by RAM and detail how these fees were paid eg. Cash payments, charges against portfolio values;
- details of any distributions received from RAM;
- evidence showing the amount of RAM foreign investment income previously treated as taxable in the investor's income tax return;
- details showing how the reduced tax payable on RAM foreign income has been calculated, applying the above formula and including evidence showing the original value of the investor's foreign investments at 31 March for the relevant year (eg. an extract from the investor's RAM portfolio report);
- an explanation why any adjustments relating to the 2008 or earlier years is a result of a clear mistake or simple oversight.

If an investor is seeking an adjustment to a tax loss balance or a beneficiary's tax position (as could occur if previous RAM related income had been used against tax losses or distributed to a beneficiary), please provide relevant details in a request for an amended tax position(s).

General

We trust this information is useful for your current needs. If you have any queries or require any further information, please contact us.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'g Hall.' with a stylized initial 'g'.

Graeme Hall
Senior Technical Advisor
Inland Revenue