

23 July, 2010

Changes Coming for Your Investment

Tucked away in the detail of this year's budget, the Government announced that it would make qualifying companies subject to 'flow-through tax treatment' from 1 April 2011. As an Investor in one of the 44 investments which we manage that include qualifying companies in their structure, the changes may affect you.

From 1 April 2011, the only way to pass tax losses to Investors will be via the 'flow-through tax treatment' rules. Application of these rules to your qualifying company investment results in consequential changes which could be unacceptable to Investors. Forest Enterprises has made submissions on the changes, clearly identifying the consequences, and setting out our suggested solutions (preferred and minimum).

Prior to the implementation date of 1 April 2011 (assuming legislation is passed) a decision may be required by Investors. At this stage the possible options, and their details in brief, are –

1. Transition out of the present investment structure (a partnership of multiple qualifying companies) to one limited partnership for each existing investment. This is our preferred option assuming the transitional provisions requested are implemented, and would be an excellent outcome. Each investment would then be one limited partnership. All existing benefits, including deduction of annual tax losses and limited liability would be retained, plus Investors would have much greater investment flexibility. A further bonus would be the prospect of reduced future costs.
2. Remain a qualifying company under the existing investment structure, but only if our minimum solution is implemented. Under this option, most Investors would notice no change to their investment at this time. If your investment has a current value over \$50,000, either per investment unit, or when the value of multiple investment units in the same investment are combined, there may be implications should you wish to transfer or sell your investment.

3. Exit the qualifying company regime but remain under the present partnership of multiple company (but not qualifying company) investment structure. This is our least preferred option and would probably only be recommended if our two solution alternatives necessary for options 1 and 2 above are rejected. The consequences of this option are the loss of the annual tax deduction (a negative consequence), but a benefit would be increased investment flexibility.

No action is required by you at this time. However, should you wish to better understand the impact of the change of qualifying companies to 'flow-through tax treatment', our comprehensive Report can be downloaded from the link www.forestenterprises.co.nz/changesreport. Alternatively, we can mail a copy if you telephone Forest Enterprises on +64 6 370 6360. Our Report provides details on how to obtain a copy of the Government paper on the changes, and our submissions.

There are a number of steps in the process to implement these changes and the budget announcement is only the first. We will be working vigorously to ensure the best possible outcome for Investors and will keep you informed on developments as they occur.

Yours faithfully,



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Managing Director

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EXAMPLE

P.S. The comments in this letter reflect the consequences for New Zealand resident taxpayers. The consequences for someone like you not living in New Zealand may be different. When the legislation is enacted we will provide further information, and recommend that you seek your own professional advice.