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COMPARISON OF FIF CALCULATION METHODS PRE-1 JULY 2011 AND FROM 1 JULY 2011

	Previous FIF rules: for income years Beginning on or before 30 June 2011	**New FIF rules: for income years Beginning on or after 1 July 2011**
(1) AP Method	**Accounting Profits (AP) method** This method was available to be used. Refer to **(10) on page 7** in the separate PDF on the **Choice Of FIF Calculation Methods**. [Section **EX 46(2)**]	**Accounting Profits (AP) method** This method is not available to be used. Refer to **(10) on page 7** in the separate PDF on the **Choice Of FIF Calculation Methods**. [Section **32(1)** of the *Taxation (International Investment and Remedial Matters) Act 2012*]
(2) BE Method	**Branch Equivalent (BE) method** This method was available to be used. Refer to **(11) on page 8** in the separate PDF on the **Choice Of FIF calculation Methods**. [Section **EX 46(3)**]	**Branch Equivalent (BE) method** This method is not available to be used. Refer to **(11) on page 8** in the separate PDF on the **Choice Of FIF calculation Methods**. [Section **32(2)** of the *Taxation (International Investment and Remedial Matters) Act 2012*]

<table>
<tr><th></th><th>Previous FIF rules: for income years
Beginning on or before 30 June 2011</th><th>New FIF rules: for income years
Beginning on or after 1 July 2011</th></tr>
<tr><td>(3) AFI Method</td><td><u>Attributed FIF Income (AFI) Method</u>

This method was unavailable.</td><td><u>Attributed FIF Income (AFI) Method</u>

The AFI method can be used if the AFI calculations are able to be checked by the Commissioner, if requested and:
1. At all times in the accounting period:
(a) The <u>FIF is a company</u>; and
(b) The person’s income interest is ≥ 10%; and
(c) The person is not a PIE; or
2. The <u>FIF is a CFC</u> and:
(a) The person cannot determine the market value of the attributing interest at the beginning of the accounting period except by independent valuation; and
(b) Neither the person nor a person who has a direct income interest of at least 10% in the FIF is:
(i) A listed company.
(ii) A group investment fund.
(iii) A PIE.
(iv) A superannuation scheme.
(v) A unit trust.
(vi) A trustee of a trust with a beneficiary described in 1 or more of subparagraphs (i) to (iv) above.

[Section EX 46(3) as replaced by section 32(2) of the Taxation (International Investment and Remedial Matters) Act 2012]</td></tr>
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<tr><td>(4) DRR Method</td><td><u>Deemed Rate Of Return (DRR) Method</u>
1. The DRR method could be used if the interest <u>is not a direct income interest of < 10%</u> in a foreign company and any of the following applied:
(a) It is not practical to use:
(i) The CV method because the MV of the attributing interest at year-end cannot be determined; or
(ii) The AP method.
(b) The person is a natural person and at all times during the income year total value of attributing interests ≤ $250,000 (either BV at previous year-end if the interest was held then and the person used the DRR method to calculate FIF income for all attributing interests in the previous year, or MV).
(c) It is the default choice because the person does not choose a method and the AP & CV methods cannot be used.
(d) Section EX 62 prohibits the person to change from using the DRR method.
2. The DRR method had to be used if the interest <u>is a direct income interest of < 10%</u> in a foreign company and
(a) The attributing interest is a non-ordinary share; and
(b) The CV method cannot be used because the MV of the attributing interest at year-end cannot be determined
[Sections EX 46(4) & (5) & EX 47]</td><td><u>Deemed Rate Of Return (DRR) Method</u>
The DRR method must only be used if:
(a) The attributing interest is a non-ordinary share; and
(b) The CV method cannot be used because the MV of the attributing interest at year-end cannot be determined.
[Section EX 46(5) as replaced by section 32(4) of the Taxation (International Investment and Remedial Matters) Act 2012 & section EX 47. Note: <u>Section EX 46(4) repealed</u> by section 32(3) of the Taxation (International Investment and Remedial Matters) Act 2012]

Note: The DRR method can only be used for non-ordinary shares when the CV method cannot be used.
It cannot be used for FIFs that are:
Foreign superannuation schemes; or
Foreign life insurance policies.

[See (9) on page 6 of the separate PDF on Choice Of FIF Calculation Methods for a description of what is meant by “non-ordinary shares”.]</td></tr>
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	Previous FIF rules: for income years Beginning on or before 30 June 2011	**New FIF rules: for income years Beginning on or after 1 July 2011**
(5) CV Method	**Comparative Value (CV) Method** There were no restrictions on using the CV method for a FIF that is an interest in a foreign superannuation scheme or a foreign insurer under a life insurance policy. The CV method could only be used by a person for a FIF that is a share in a foreign company, if: 1. The person is a natural person; or 2. The person is a trustee of a complying trust that: (a) Has no gifting settlor who is not a natural person or deceased person; and (b) Is, at all times in the income year, mainly for the benefit of natural persons for whom the settlors have natural love and affection, or charities; and (c) Is not a superannuation scheme; or 3. The person's direct income interest, including interests held by associated persons ≥ 10%; or 4. The share is a non-ordinary share. [Sections **EX 46(6)**]	**Comparative Value (CV) Method** There are no restrictions on using the CV method for a FIF that is an interest in a foreign superannuation scheme or a foreign insurer under a life insurance policy. The CV method can only be used by a person for a FIF that is a share in a foreign company, if: 1. The person is a natural person; or 2. The person is a trustee of a complying trust that: (a) Has no gifting settlor who is not a natural person or deceased person; and (b) Is, at all times in the income year, mainly for the benefit of natural persons for whom the settlors have natural love and affection, or charities; and (c) Is not a superannuation scheme; or 3. The share is a non-ordinary share. [Section **EX 46(6)** and section **32(5)** of the International Investment bill which repeals section EX 46(6)(c) that allowed the CV method to be used by persons with direct income interests ≥ 10%]

	Previous FIF rules: for income years Beginning on or before 30 June 2011	**New FIF rules: for income years Beginning on or after 1 July 2011**
(6) FDR Method	**<u>Fair Dividend Rate (FDR) Method</u>** There were no restrictions on using the FDR method for a FIF that is an interest in a foreign superannuation scheme or a foreign insurer under a life insurance policy. 1. FDR could be used for a FIF that is a share in a foreign company only if: (a) The person's direct income interest, including interests held by associated persons < 10%: (i) At any time in the year if the FIF is a grey list company; or (ii) At all times in the year if the FIF is not a grey list company; or (b) The FIF is a foreign PIE equivalent and the person is: (i) A PIE or an entity that qualifies for PIE status; or (ii) A life insurance company. 2. A person could not use the FDR method for an interest in a FIF that is a share in a foreign company for an income year if: (a) The share is a non-ordinary share described in section EX 46(10); or (b) The person chooses to use the CV method for another attributing interest that is a share in a foreign company and for which the person would be allowed, in the absence of this rule, to use the FDR method. [Section **EX 46(7) & (8)**]	**<u>Fair Dividend Rate (FDR) Method</u>** There are no restrictions on using the CV method for a FIF that is an interest in a foreign superannuation scheme or a foreign insurer under a life insurance policy. A person must not use the FDR method to calculate FIF income or loss from an attributing interest in a FIF that is a share in a foreign company for an income year if: (a) The share is a non-ordinary share described in section EX 46(10); or (b) The person chooses to use the CV method for another attributing interest that is a share in a foreign company and for which the person would be allowed, in the absence of this rule, to use the FDR method. **Note:** The restrictions of the use of the FDR method for shares when the income interest was < 10% or FIFs that are foreign PIE equivalents have been removed. FDR can now be used for any shareholding other than non-ordinary shares or if the CV method has been used as stated above. [Section **EX 46(8)** as amended by clause **26(6B)** of the *Taxation (International Investment and Remedial Matters) Act 2012* & **repeal of section EX 46(7)** by section **32(6)** of the *Taxation (International Investment and Remedial Matters) Act 2012*, from income years beginning on or after 1 July 2011]

	Previous FIF rules: for income years Beginning on or before 30 June 2011	New FIF rules: for income years Beginning on or after 1 July 2011
(7) Cost Method	<u>Cost Method</u> There were no restrictions on using the Cost method for a FIF that is an interest in a foreign superannuation scheme or a foreign insurer under a life insurance policy. The cost method could be used for <u>a FIF that is a share in a foreign company</u> only if: (a) The person's direct income interest, including interests held by associated persons < 10%: (i) At any time in the year if the FIF is a grey list company; or (ii) At all times in the year if the FIF is not a grey list company; and (b) Use of the FDR method is allowed but not practical because the person cannot determine the MV of the attributing interest at the start of the income year except by an independent valuation. [Section **EX 46(9)**]	<u>Cost Method</u> There were no restrictions on using the Cost method for a FIF that is an interest in a foreign superannuation scheme or a foreign insurer under a life insurance policy. The cost method could be used for <u>a FIF that is a share in a foreign company</u> only if: (a) Use of the FDR method is allowed but not practical because the person cannot determine the MV of the attributing interest at the start of the income year except by an independent valuation. **Note:** The restriction of the use of the cost method for shares when the income interest was < 10% has been removed. It can now be used for any shareholding if the use of the FDR method is not practical for the reason stated above. [Section **EX 46(9)** as amended by section **32(8)** of the *Taxation (International Investment and Remedial Matters) Act 2012*]