Tax Working Group Public Submissions Information Release

Release Document

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RE: Tax Working Group – Submission 30th April 2018

Dear Tax Working Group,

Further to your request to seek submissions on the future of Tax in New Zealand there are few areas we would like to focus on.

1. Capital Flow of Investments

The current tax system puts too much investment emphasis on horticultural/farming and residential property. New Zealand is a fast growing first world country. Growth has been derived from a number of different sources in recent years. Namely, I.T., Financial Services, Tourism, Pharmaceuticals, and niche primary industry value added products, to name a few.

The Tax system needs to encourage investment in these areas to facilitate a faster rate of growth and innovation.

This can be facilitated through the reduction or removal of tax breaks to specific sectors mentioned above where the effective tax burden is much less than other alternative investments. E.g. residential investment property vs NZ bonds. 'Kiwi Ingenuity' is a term that is frequently used in the media. There is no doubt as a country we try to think outside the square to find solutions and have done so for 170 years pioneering many worlds firsts. This view can further facilitate change by encouraging an entrepreneurial way of thinking backed by a fair and equitable tax system.
Investment into some sectors such as residential, horticultural and agricultural property is unfairly encouraged due to the taxable income being low and the expected tax free capital gain being high. This creates an uneven playing field with regard to the allocation of investment capital and encourages perverse investment behaviour which lessens the New Zealand's economic resilience to cyclical shocks.

The fair and equitable solution is to introduce a capital gains tax to level the playing field whilst at the same time lessening the burden of middle income earnings shouldering the burden of growth

2. KiwiSaver

KiwiSaver is the only integrated instrument available to the New Zealand public as a method of retirement planning (excluding NZ Super). For this reason, the focus of this part of our submission will be on improving KiwiSaver from a tax perspective.

The NZ public in general is quite apathetic to KiwiSaver. History has seen the Government place less emphasis on it in terms of incentivising investment. The original Member Tax Credit (MTC) has been halved and the $1,000 kick-start payment has been abolished. What has happened in parallel with these changes is that the cost has been placed on the employer in the form of increased contributions. This approach has had added fuel to the public's view that KiwiSaver is not something to focus on.

The strategy on KiwiSaver needs to refocus on its goal towards retirement planning and social responsibility rather then as an investment solution.
A simple remedy would be to net off **employee** contributions to KiwiSaver in a tax return. This would bring NZ in line with many other OECD countries. The objective is to contribute to the

future of New Zealand. The current system encourages capping contributions at $1,042.86 to avail of all benefits available. Netting off KiwiSaver contributions against gross income incentivises the KiwiSaver member to exceed the contributions limit which benefits the member and society as a whole.

The current system taxes a person under the PAYE framework then treats the contribution as an investment (rather than through a retirement lens) and taxes again under the PIR framework. This does not feel right when planning for retirement.

Granted, the revenue from tax will decrease but this needs to be viewed in conjunction with creating an environment whereby residents of this country are protected into their retirement. The vast majority of New Zealand residents do not have the relevant experience to make informed decisions about retirement. As Kiwi's continue to live longer at 1.2 years per decade, Tax policy needs to assist in this area and would greatly assist in an evitable transition from universal State sponsored superannuation to the individual.

Regards
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