Tax Working Group Public Submissions Information Release

Release Document

September 2018

taxworkinggroup.govt.nz/key-documents

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;

[2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

RETIREMENT VILLAGES ASSOCIATION

SUBMISSION ON THE FUTURE OF TAX – BACKGROUND PAPER

30 APRIL 2018

RETIREMENT VILLAGES ASSOCIATION

COMMENTS ON THE TAX WORKING GROUP'S DISCUSSION PAPER

Executive summary

The RVA represents the interest of the owners, developers and managers of retirement villages throughout New Zealand. Around 96% of the industry by unit number are RVA members. We welcome the opportunity to comment on the Tax Working Group's discussion paper "The Future of Tax".

This submission looks at how the retirement village sector contributes to the Four Capitals in the paper, and argues that the sector is actively meeting a range of public policy objectives, contributing to all four capitals, and especially around delivering age-appropriate housing for older people, the long-term provision for residential age care, employment, and combatting potentially serious health issues such as social isolation.

The sector's growth has been partly due to the demand for villages because of the benefits they offer, but also due to a stable and predictable regulatory regime. This includes the current taxation regime, which has been developed in conjunction with Inland Revenue over 15 or more years.

The RVA's principal submission is that the status quo should be maintained, so far as the capital gains tax, land tax and imputation systems are concerned. We have made some suggestions regarding the existing corporate tax regime.

Social capital

The country will see a significant increase in the population aged over 85 as well as the population over 75. This older group is most likely to need some form of care services, resulting in an increased health bill for the Government. The aged care sector is underfunded and the private sector, through the retirement village sector, is now and will continue to be a significant supplier of aged care beds, reducing the pressure on Government.

In considering the tax system and potential changes, the TWG should consider the need for investment in both retirement village accommodation and aged care infrastructure, and consider the tax setting that will encourage this investment. We note that lack of private sector investment will inevitably lead to increased government costs in providing aged care service either within the home or in hospitals and other health facilities.

A primary economic driver of housing affordability is supply. The RV industry is a critical supplier of affordable housing which reduces upward pressure on housing prices. Accordingly, any changes to the taxation settings in relation to property should be made with a view to incentivise development rather than deter investment in housing infrastructure.

Retirement villages also have an important role to play in reducing social isolation and the attendant negative health impacts. There is no doubt that social isolation presents serious health implications, and this is especially true for older people who may be trapped in their own home and not have any social interaction for days on end.

Retirement villages are communities of like-minded people and our residents report a significant improvement in their social and physical life after they've moved in.

Natural capital

Retirement village operators are building eco-sustainable developments that comply with 6 or more Homestar standards. Villages are also highly efficient users of scarce land, with up to three dwellings occupying the land area of a conventional home.

Human capital

On-going employment from the day-to-day operations of retirement villages is approximately 19,000 people, which includes both full and part-time employees. This ranks 25 out of the 42 sectors in Statistics New Zealand's Business Operations Survey 2016 (in terms of employee count). It is comparable with the real estate industry, or arts and recreation. [1]

Salary information collected through PwC's survey of retirement villages indicates that in 2017 almost $840 million was paid by the retirement villages to full and part-time employees across New Zealand. This has increased steadily each year since 2013 when $513 m was paid in salaries.

Retirement villages also support employment during the construction of new villages. These jobs are predominantly locally-based, which offer employment opportunities for local residents. They cover a broad spectrum of construction-related tasks, which includes construction managers, designers, architects, engineers, builders, quantity surveyors, electricians, plumbers, labourers, heavy/civil labourers, painters, decorators, and landscapers.

PwC's analysis shows that every million dollars spent on retirement village construction supports the employment of 4.0 FTEs in construction and related industries. Once the indirect impacts are included, then every million dollars spent on construction supports the employment of 10.0 FTEs.

Financial / Physical capital

In 2017, day-to-day operations in the retirement village sector added around $1.1b to New Zealand's GDP, accounting for roughly 0.4% of national GDP. This is approximately equivalent to the value-add from department stores, or the motor vehicle retailing industry in 2016. Economic activities supported by day-to-day operations of the industry include village management, administration, operations, marketing/advertising, maintenance and repairs, renovations, back office support, amongst other roles.

In 2017, overall retirement village construction directly contributed approximately $162m to New Zealand. After including indirect impacts, value-added from construction activity and upstream impacts contributed a total of approximately $480m to New Zealand.

---

[1] Information from the PwC report into the retirement village's economic contribution to the economy, which will be released later this year.

Support for the existing corporate tax structure

The current imputation system should be retained as in addition to reducing double taxation, the current system also ensures amounts which are untaxed at the company level are appropriately taxed when distributed to the shareholders.

SUBMISSION ON THE FUTURE OF TAX – SUBMISSIONS BACKGROUND PAPER

1. What is the RVA?

The Retirement Villages Association represents the interests of the owners, developers and managers of registered retirement villages throughout NZ. Our 350 member villages operate some 31,000 villas, apartments and serviced apartments that are home to approximately 40,400 older New Zealanders.

In 2017 the sector built 1,633 units (a rate of 32/week) and around 50 new residents moved in each week. 12.6% of the +75 population choose to live in a retirement village, and this penetration rate has increased steadily from around 9% six years ago. [2]

Our membership is divided between the five listed companies plus Bupa Care Services' 165 villages (18,430 units), 120 independently-owned villages (7,423 units) and 63 not-for-profit villages (3,692 units). This represents around 96% of the sector by unit number.

The RVA welcomes the opportunity to contribute to the Tax Working Group's discussion paper, with a particular focus on section 2, dealing with the changing demographics and the ageing population, and the various challenges that presents.

2. The Retirement Village regulatory regime

The sector's regulatory regime has been in operation fully since 2009, when the reworked Code of Practice became effective. The Code has been amended significantly twice since that time; to improve the insurance and replacement provisions following the Christchurch earthquakes and to upgrade the complaints and disputes process last year.

New Zealand's regulatory regime for retirement villages (RV) consists of nine key elements:

- An explicit description of a "retirement village";
- The requirement to register each new village with the Registrar of Retirement Villages;
- A memorial on the land that prevents it from being operated as anything other than a RV;
- A statutory supervisor to oversee residents' interests;
- Regulations stipulate what must be in the Disclosure Statement and Occupation Rights Agreement (ORA);
- Residents must receive legal advice before signing their contracts;
- Code of Residents' Rights and Code of Practice protects resident rights and interests;
- The monitoring reviews undertaken by the CFFC keep the regime current;
- An effective legislative complaints and disputes resolution scheme exists.

Underpinning this approach is the understanding that residents do not, in the majority of cases, actually own the bricks and mortar of their RV homes; rather, they have a contractual right to live

[2] Jones Lang LaSalle *RV White Paper*, November 2017

there and enjoy the village's amenities for as long as they want to or are able to live independently. This point is developed in section 3 of this paper.

If the operator's circumstances change, for example, if the village is sold, the residents' rights continue unchanged under the new ownership.

The extensive consumer protection means that incoming residents are well-informed about what they have access to, what the operator's responsibilities are, and how the village's financial arrangements are managed. It also demonstrates a commitment by the Government to ensuring the industry is well-managed and residents' interests are effectively protected.

The RVA has argued that our regulatory regime is "world-leading" and we evidenced this by the many requests from around the world (including Australia and the United Kingdom) for assistance in developing other jurisdictions' regimes for their newly-expanding retirement village industry.

The "world-leading" claim was reinforced by a report commissioned recently by the UK industry's sector peak body Associated Retirement Community Operators (ARCO) and produced by the International Longevity Centre – UK, an independent non-partisan research organisation looking at longevity, ageing and population change. This report said "Perhaps the strongest example of legislation specific to this sector *[retirement villages]* comes from New Zealand, where the RV Act was passed in 2003." The report noted "The NZ model incorporates a range of innovative elements that outline the requirements for operators and offer extensive consumer protection". [3]

We stress that the sector's undoubted success is underpinned by a comprehensive and credible regulatory regime that is well-understood and accepted by residents and operators alike. It allows operators and financiers to develop villages in confidence that the regime is robust, stable, and mature. We would strongly argue against any significant changes to the taxation regime that might undermine that level of confidence.

3. The business model

The principal business model in the NZ regime is the "licence to occupy" model. Residents pay a capital sum to the operator to enjoy an unrestricted right to live in their unit and enjoy access to a range of community amenities such as the bowling green, café, cinema, gym, lounge, library, swimming pool amongst others. The initial capital sum is based on around 75% of the average freehold property value in the area. This allows a resident to release equity in their family home to add to their retirement savings, often resulting in a significant improvement in their quality of life, and at the same time, releasing another home for another family to enjoy.

Residents then live in the village for as long as they want to or are able to, and when they move out the unit is refurbished and the occupation right (the contract between the operator and the resident, or ORA) is then made available to another resident. Once the operator has received the next payment, between 70 and 80% of the original capital sum is repaid to the outgoing resident or their estate.

---

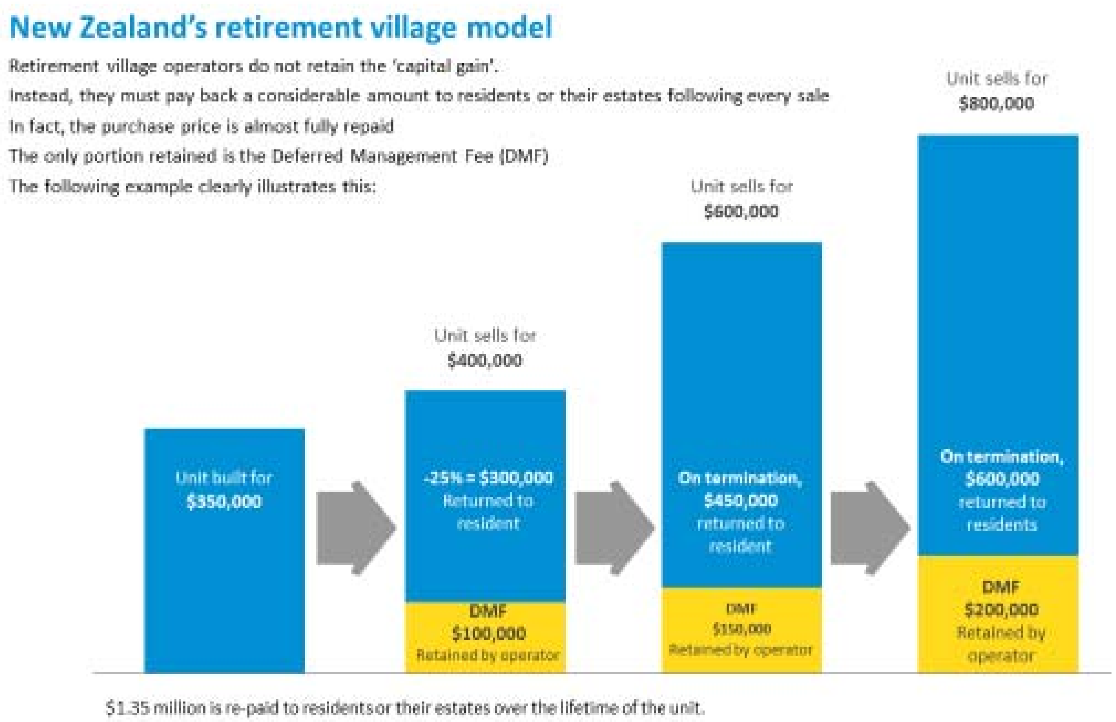
[3] Beach, B : *Stronger Foundations: International Lessons for the Housing-with-Care Sector in the UK*, 2018, p.12

The balance, between 20 and 30%, is referred to as the Deferred Management Fee (DMF) and is used by the operator to meet the costs of providing the range of community assets the resident has enjoyed during their life in the village. It's an "enjoy now, pay later" model. Residents have confidence in paying a capital sum because their investment is protected by the Retirement Villages Act and related regulations, and know almost to the last dollar how much they will get back when they leave. Their rights are enshrined in the ORA and enforced by contract law, and thereby, risks and uncertainly are avoided.

Village operators are also responsible for all maintenance in the village, which can be substantial. For example, a listed RV operator recently provided guidance to the market that they have a $44 million liability for remedial costs to ensure the integrity and quality of their villages for the residents' benefit. As a result, residents are not liable for the structural repairs and maintenance that they would be responsible for in their own homes. Issues facing domestic homeowners around "leaky buildings" is a good example of this.

It's important to stress that any increase in the market value of the ORA between residents is not retained in the long term by the operator, but is repaid to the exiting resident from the next incoming resident's capital payment, less the DMF. Because the ownership of the unit never changes hands there is no capital gain earnt by the operator from unit sales.

Diagram 1 below illustrates the point.



Around 95% of the RVA's members' village units are under the LTO model. The balance are held under a unit title tenure.

4. The Four Capitals

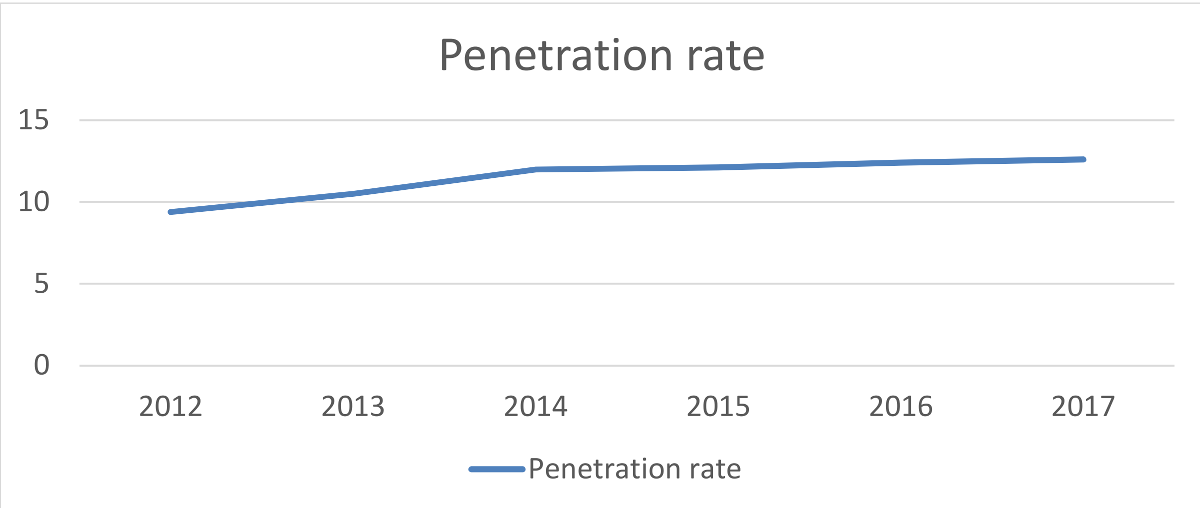
The Association notes the TWG's emphasis on the "Four Capitals" – Natural Capital, Social Capital, Human Capital, and Financial / Physical Capital. We understand the proposal that intergenerational wellbeing relies on the growth, distribution and sustainability of these four Capitals. We believe that the retirement village sector makes a direct contribution to each, and the balance of this submission links our work and outputs with the four Capitals.

SOCIAL CAPITAL

5. Impacts on an ageing population

Statistics New Zealand predicts that the population of New Zealanders who are in the 75+ age group will grow from 6% of the total population in 2016 (295,000 people) to 10% of the total population by 2033 (586,000 people), which means the demand for retirement villages is likely to grow substantially over the coming years. The rate of growth in retirement village units is forecast to outpace this growth in the 75+ age group through to 2026 (the end of the analysis period). This will be important to support the forecast growth in demand for retirement villages, as more people choose retirement village living. Penetration rates (i.e. the percentage of 75+ year olds choosing to live in a retirement village) have been consistently increasing year-on-year since 2012. [4]

Diagram 2 – retirement village penetration rate (market share).



The country will see a significant increase in the population aged over 85 as well as the population over 75. This older group is most likely to need some form of care services resulting in an increased health bill for the Government. The aged care sector is underfunded and the private sector, through the retirement village sector, is now and will continue to be a significant supplier of aged care beds, reducing the pressure on Government.

Of the 30,000 or so units, 25,000 are available as independent living and the balance, around 5,000 units, are occupied as "serviced apartments" in residential care facilities. Serviced apartments are designed to allow an older person who expects to need a higher level of care to purchase an ORA

[4] Data from Jones Lang LaSalle, RV White paper 2017; 2017 data from RVA

and receive that care in more comfortable surroundings than the standard 11m^2 rest home room. Serviced apartments for which an ORA exists are covered by the RV Act, Code of Practice and related regulations. They allow residents to contribute towards the cost of their care without the need for additional government financial assistance via the Aged Residential Care subsidy. This is important because the country's demographics demand more care rooms that will not be affordable, unless the resident contributes to their capital cost.

Government and TWG have recognised that New Zealand has an aging population. As such, there is a growing need for investment in infrastructure to provide the required aged care services to this growing demographic. The "continuum of care" model adopted by many retirement villages increasingly incorporates aged care facilities into their business model, which provides the required aged care services within the village if greater levels of assistance are required. These include peace of mind with on-call medical assistance and support services provided under contract from DHBs.

Reports indicate a shortfall of aged care beds within the next four years. In addition, analysis suggests the private sector will provide around 40% of rest home beds needed over the next 10 years. However, stand-alone rest home operators are struggling to stay in business and the commercially sustainable operations tend to be for aged care linked to a retirement village operation. As approximately 74% of retirement villages include an aged care facility, the retirement village sector will be critical in providing the aged care beds necessary for the demographic changes (193% growth in over 75s).

Furthermore, with the aging population, there will be an increasing amount of Government funding required for care services and home-based support. A benefit of integrated retirement villages is that care services can be provided more efficiently compared with aged care services provided to elderly people living at home.

In considering the tax system and potential changes, the TWG should consider the need for investment in both retirement village accommodation and aged care infrastructure, and consider the tax setting that will encourage this investment. We note that lack of private sector investment will inevitably lead to increased government costs in providing aged care service either within the home or in hospitals and other health facilities.

6. The sector's contribution to providing affordable housing

A primary economic driver of housing affordability is supply. The RV industry is a significant supplier of affordable housing which reduces upward pressure on housing prices. Accordingly, any changes to the taxation settings in relation to property should be made with a view to incentivise development rather than deter investment in housing infrastructure.

Generally, a retirement village unit will be priced at about 75 - 80% of the average local residential house price, but in some of the very high-value areas in Auckland, it can be much lower, around 50% to 60 % of what residents sold their house for. This means that there's a buffer before a fall in house prices impacts on retirement village ORA prices. Operators are reporting that they haven't seen material impacts on ORA prices, which is an important market protection against a dramatic price fall in residential prices.

The Government's desire to build 100,000 new homes across the country is well-understood, and the retirement village sector is part of the solution.

Table 1 shows the number of new units built across New Zealand over the last six years.[5]

Year to 31 December	Villages	Units	Estimated residents	Penetration rate 75+
2012	343	21,815	24,650	9.4%
2013	351	24,148	27,290	10.5%
2014	363	25,272	32,850	12.0%
2015	376	26,307	34,200	12.1%
2016	383	28,168	36,618	12.4%
Nov 2017	401	29,801 [6]	38,750	12.6%

Over the last six years the sector has built almost 8,000 units. Each new unit releases a family home back onto the market for a new family to purchase, renovate, and enjoy. The steady increase in resident numbers means the sector is now part of the mainstream housing options for older people. We appreciate that villages will not suit everyone, but we are pleased to note that not only is the number of 75 year olds in the population growing, but our market share is also steadily increasing, as diagram 2 shows.

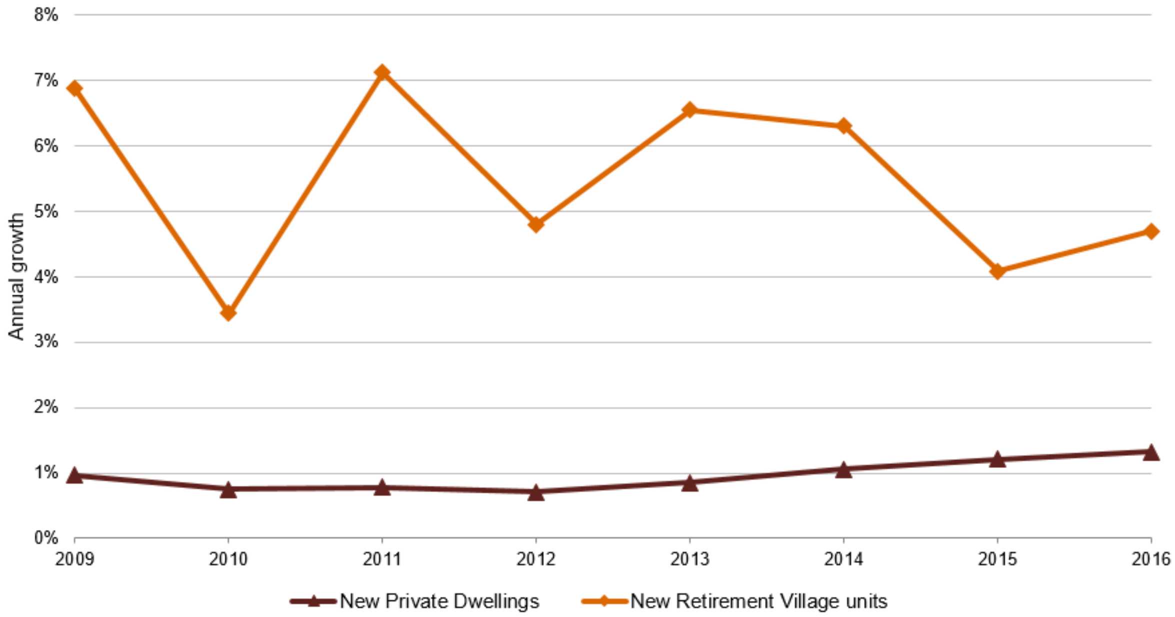
On average, a village's resale rate is around 10% of the available units annually. This means that in addition to the new builds noted above, a mature village with 250 units would add the equivalent of 25 new homes to the local market as new residents sell their family homes and move in. With an existing unit stock of 30,000 units, the average turnover rate means that there are 3,000 homes released back into the market.

A soon-to-be released report commissioned by the RVA from PwC shows that the retirement village sector has been building units at a faster rate than the general level of housing stock growth (see diagram 3, below). Since 2009 new private dwellings have been growing at around 1% (or slightly below) annually, while retirement village units have been growing at between 3.5% (2010) and slightly below 8% (2015 and 2016).

[5] Jones Lang LaSalle, *NZ Retirement Village White Paper*, February 2017, p.15

[6] CBRE, *NZ Retirement Village Capital Value Estimate*, October 2017 and extrapolations and Jones Lang LaSalle 2018 White Paper preview

Diagram 3 : Percentage growth in retirement village units vs percentage growth in residential dwellings (2009 – 2016)



The demand is driven by six key influencers:

- The ageing population aged 75+ will increase from around 6% of the general population in 2013 to 14% by 2043, which means that if the penetration rate remains constant, there will continue to be a significant demand for new village stock;
- The relatively low-risk nature of the asset class means that developers enjoy good access to capital;
- Lifestyle preferences means that older people want to realise the built-up equity in their homes and use it while they still can, while living in a secure, safe, age-appropriate environment;
- Villages provide a pathway to care if that's needed. 73% of retirement villages have an aged residential care facility on or near the campus;
- The community of like minds means that the scourge of social isolation is minimised. 66% of our residents report an improved social life after moving in;
- The regulatory regime is well-understood and accepted by all parties, and many City and District Councils are easing the paths to build new villages.

Reference to the housing stock impact has already been made in this paper, and we stress that the sector's contribution is both substantial and nationally-focused. Auckland, Canterbury, the Bay of Plenty and the Waikato have seen the greatest increases in RV housing stock over the last nine years (between 51% and 60%), the country as a whole has experienced a 53% increase in RV homes since 2008.

The development pipeline (i.e. units either planned, in the consent process or under construction) includes around 16,000 units across the country, which is a six to eight year horizon. By 2028 we expect the industry to have grown to almost 52,500 units if this development pipeline becomes a reality.

7. The sector's contribution to combatting social isolation

There is no question that some older New Zealanders experience isolation and loneliness. This isolation and loneliness is known to have a strong relationship with poor mental and physical health outcomes for these people. This is especially true for those older people who are living in regional or remote parts of New Zealand, or who may be living some distance from their families.

Retirement villages bring older people together. Villages often have shared facilities and other opportunity for interaction with peers. In doing so, they reduce the isolation and loneliness that would otherwise be felt by some of these people, thereby potentially preventing some of the negative physical and mental well-being impacts that would otherwise be experienced.

Research has found that three of the most common social advantages older people expect from transitioning into retirement village living are:

- greater opportunities for keeping active
- being around people the same age
- a better social life. [7]

Other research has found that the aged care environment can provide older people who are physically frail but cognitively intact with a better life than when they were living in their own homes. A study of residents in retirement villages confirmed what many people have long-suspected: living in a community where you can chat with friends, pursue hobbies and have a support network around you makes you happier and may even help you live longer. [8]

The factors have a positive impact on the country's health budget.

NATURAL CAPITAL

8. Eco-sustainable design and building

Some retirement village operators are aware of an increasing market demand for eco-sustainable developments and ensure their villages comply with these standards. For example, Metlifecare's village The Orchards in Auckland is one of the first – if not the first – retirement villages in NZ to achieve a 6-Homestar Design rating, which recognises a higher level of efficiency and sustainability that most NZ homes.

---

[7] Massey University, A study of the ageing in Aotearoa. 2014. Available online at: https://www.massey.ac.nz/massey/fms/Colleges/College%20of%20Humanities%20and%20Social%20Sciences/Psychology/HART/publications/reports/ICC_Summary_Report_2014.pdf?CC3F1B9AE2CE105B8A36E3DE735C7D81 accessed 20.11.17

[8] Whiteley Village study: Cass Business School, Faculty of Actuarial Science and Insurance, City, University of London

Key features in this rating include double glazing, energy-efficient heat pumps, LED lighting, rainwater harvesting, solar water heating, thermal insulation to a high level, water-efficient fittings throughout the village.

Others, such as Kerikeri Retirement Trust, have invested in a fleet of electric cars that will be available for their residents' use, thereby allowing them to replace their conventional petrol vehicle with a sustainable one.

Retirement village developments [9] can result in improved land use intensity and a higher housing density compared with other types of housing development. This is particularly true for mid to large-sized Auckland-based villages. These villages have a unit density of 1 per 164 m^2 (villages throughout the rest of NZ have an average density of 1 unit per 273 m^2). This compares favourably with the density in the Auckland Unitary Plan single house zone of 1 dwelling per 600 m^2, through to 1 dwelling per 250-300 m^2 in the mixed housing urban zone.

The objective of the Unitary Plan is to achieve high-density urban living that increase housing capacity. Retirement village developments deliver on this objective.

HUMAN CAPITAL

9. The sector's contribution to employment

On-going employment from the day-to-day operations of retirement villages is approximately 19,000 people, which includes both full and part-time employees. This ranks 25 out of the 42 sectors in Statistics New Zealand's Business Operations Survey 2016 (in terms of employee count). It is comparable with the real estate industry, or arts and recreation. [10]

Salary information collected through PwC's survey of retirement villages indicates that in 2017 almost $840 million was paid by the retirement villages to full and part time employees across New Zealand. This has increased steadily each year since 2013 when $513 m was paid in salaries.

Retirement villages also support employment during the construction of new villages. These jobs are predominantly locally-based, which offer employment opportunities for local residents. They cover a broad spectrum of construction-related tasks, which includes construction managers, designers, architects, engineers, builders, quantity surveyors, electricians, plumbers, labourers, heavy/civil labourers, painters, decorators, and landscapers.

PwC's analysis shows that every million dollars spent on retirement village construction supports the employment of 4.0 FTEs in construction and related industries. Once the indirect impacts are included, then every million dollars spent on construction supports the employment of 10.0 FTEs.

---

[9] Data in this section comes from the PwC report commissioned by the RVA "Retirement Village Contribution to housing, employment and GDP in New Zealand", March 2018, p. 16-18

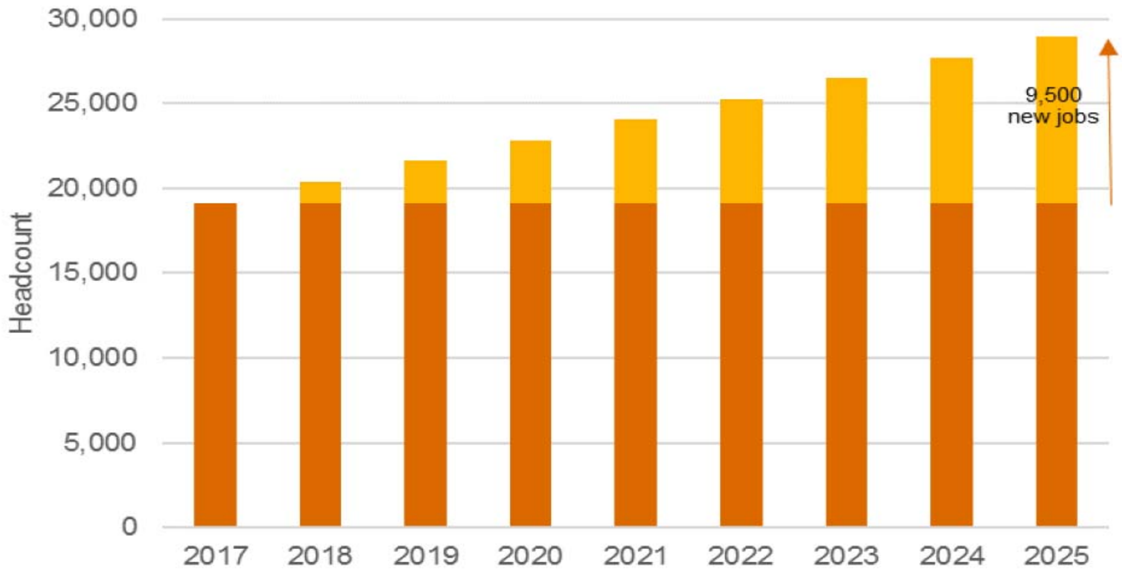
[10] Information from the PwC report into the retirement village's economic contribution to the economy, which will be released later this year.

Based on a total retirement industry construction spend of approximately $620 million in 2017, PwC estimates that approximately 2,300 FTEs were supported in construction and related industries. After including indirect impacts, a total of 5,700 FTEs are supported by building new villages each year and their supply chain impacts.

Our analysis also shows that the construction a retirement village of size 250 units directly supports the employment of 303 FTE, made up of :

- 44 engineers, quantity surveyors, architects, and other technical and business professionals
- 230 builders and other tradesmen, building managers, suppliers of building materials, and those involved in land subdivision and site preparation
- 15 heavy labourers delivering civil works including site drainage and road construction
- 14 people working in furniture, fittings, and equipment retailing and installation.

As indicated above, the forecast annual build of retirement village units is approximately 1,900 units per annum over the next 7-8 years. For every 100 retirement village units, on average, there are 64 people employed to support the retirement villages' operations. There are approximately 14,700 retirement village units in the pipeline, creating over 9,500 new jobs over that timeframe. By 2023, approximately 29,000 people will be directly employed by retirement villages in New Zealand to support their day-to-day operations, as the following table shows:



Source: CBRE, PwC analysis

FINANCIAL / PHYSICAL CAPITAL

10. The sector's contribution to GDP

In 2017, day-to-day operations in the retirement village sector added around $1.1b to New Zealand's GDP, accounting for roughly 0.4% of national GDP. This is approximately equivalent to the value-add from department stores, or the motor vehicle retailing industry in 2016. Economic activities supported by day-to-day operations of the industry include village management, administration, operations, marketing/advertising, maintenance and repairs, renovations, back office support, amongst other roles.

The industry has grown rapidly over the last few years. Between 2013 and 2017, the industry's value added has grown by just under two and a half times (in nominal terms).

PwC has estimated the total spend on retirement village construction across various types of retirement village development, based on data provided by RVA members who are also developing new villages. The average cost of construction of seven retirement village case studies ranged between $28m and $114m, and the size of the developments ranged between 69 units and 418 units.

Extrapolating from PwC's seven case studies to the total retirement village development pipeline gives a total retirement village construction spend in 2017 of approximately $620 million.

In 2016, the total value of gross fixed capital formation in the residential building industry was approximately $20 billion (the equivalent value for the total construction industry is $34 billion when non-residential building and infrastructure are included). Assuming a similar level in 2017, the spend on the retirement village construction above represents 3.1% of the total fixed capital formation in the residential building industry in 2017 (or 1.8% in the total construction industry).

PwC also estimated the value-added impact of retirement village construction. Value-added differs from expenditure (or gross output) as it considers the cost of intermediate inputs. They used the seven retirement village development project case studies and value-added multiplier tables from Butcher Partners.

For every million dollars spent on retirement village construction in 2017, the contribution to direct value added was $262,000. After including indirect impacts, value-added from construction was equivalent to $773,000 per million of construction spend.

In 2017, overall retirement village construction directly contributed approximately $162m to New Zealand. After including indirect impacts, value-added from construction activity and upstream impacts contributed a total of approximately $480m to New Zealand.

THE CURRENT TAX SYSTEM

11. Support for existing corporate tax structure

The current imputation system should be retained as in addition to reducing double taxation, the current system also ensures amounts which are untaxed at the company level are appropriately taxed when distributed to the shareholders.

In many situations, companies may have net profits in a particular period for financial reporting purposes, but a reduced income tax liability at the company level in that same period. Common examples of this situation arise when companies have brought forward losses from earlier income years, amounts are classified as revenue under the accounting standards which are not income for tax purposes or there are timing differences between when revenue arises for accounting purposes and when that revenue is subject to income tax. Due to the legal nature of the arrangements between retirement village operators and residents, many operators in retirement village industry experience differences between the level of accounting profit and taxable income resulting in lower income tax liabilities.

Despite the differences that arise at the company level between the accounting profit and the payment of income tax, the existing imputation system and its interaction with the resident withholding tax ("RWT") and Non-resident withholding tax ("NRWT") regimes ensure that an appropriate amount of tax is paid on the underlying profits. Specifically, where a company is not in a tax paying position and has no imputation credits to attach to its dividends, those dividends (in most instances) will be subject to RWT or NRWT. The overall effect is that the company tax rate is in effect a withholding tax and the final tax is collected on the accounting profits when it is distributed to the shareholder.

To the extent no dividends are paid and the profits are undistributed, these profits are re-invested into the operations of the company which will increase dividends in the future.

The imputation system therefore provides an appropriate mechanism to ensure differences in the accounting profit and taxable income are subject to income tax. For this reason, we submit that the current imputation system should be retained.

12. Conclusions

We are delighted to have the opportunity to comment on the TWG's discussion paper on the future of tax in New Zealand. This submission shows that the retirement village sector is making major contributions to alleviating serious public policy concerns around housing supply, especially age-appropriate housing for older people, the long-term provision for residential age care, employment, and combatting potentially serious health issues such as social isolation.

The sector's growth has been partly due to the demand for villages because of the benefits they offer, but also due to a stable and predictable regulatory regime. This includes the current taxation regime, which has been developed in conjunction with Inland Revenue over 15 or more years.

The RVA's principal submission is that the status quo should be maintained, so far as the capital gains tax, land tax and imputation systems are concerned. We have made some suggestions regarding GST.

We welcome the opportunity to discuss this submission in more detail when the opportunity arises.

John Collyns
Executive Director

30 April 2018