Tax Working Group Public Submissions Information Release

Release Document

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

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Submission on the Tax Working Group Interim Report

1. Solander Maritime Limited ("**Solander**") is a family owned fishing company with a long history in New Zealand and the Pacific. As a significant employer in regional New Zealand and a supplier in the globally competitive seafood industry, Solander is extremely concerned about the imposition of additional costs on New Zealand businesses.

2. As a nation reliant on revenue derived from the export of primary products, many businesses cannot pass on additional costs without jeopardizing competitiveness. Solander opposes the addition of any further taxes that will impact businesses in a negative way. Furthermore the passage of policy for the sake of revenue alone is far from "fair" and economically disadvantageous.

3. As the Tax Working Group turns its mind to the preparation of a final report, Solander implores it to fully consider the true impact that such further costs will have on New Zealand's businesses.

4. In Solander's view the following factors all point towards the imposition of any new capital against tax being a significant step backwards for New Zealand businesses:

   4.1. **Distortion of individual and business decision-making:** The inclusion of any capital gains tax will reduce investment returns and distort decision-making going forward. Rather than focusing on the best use of available investments or capital, there will be an incentive to invest in methods that avoid a capital gains tax.[1]

   4.2. **Taxing inflation:** Capital gains are a factor of inflation. Placing a tax on inflation hinders the economic power of individuals and businesses.

   4.3. **Discourages entrepreneurism and innovation:** Capital gains taxes have a significant impact on the re-allocation of capital, the stock of capital, and the levels of entrepreneurship. Evidence shows that they lead to less investment and less economic activity.[2]

[1] Kugler, P. & Lenz, C. (2000) *Capital Gains Taxation: Some Experience from Switzerland*. Basel: WWZ/Universitat Basel.
[2] Clemens, J., Lammam, C. & Lo, M. (2014) *The Economic Costs of Capital Gains Taxes in Canada.* Vancouver: Fraser Institute.

4.4. **Lock in:** It is inevitable that investments and capital will be retained in order to avoid the imposition of a capital gains tax. Capital that remains in suboptimal investments rather than being reallocated to more profitable opportunities hinders economic output.

4.5. **Reducing business reinvestment capacity:** If businesses face a tax bill when they restructure or sell an asset, this limits the capacity of businesses to grow and improve. Government should be supporting the growth of businesses, not reducing their capital pool and ability to reinvest in themselves.

4.6. **Capital losses:** If a tax is imposed on capital gains, corresponding recognition must be given to capital losses.

4.7. **Encourages inefficient spending:** Lawyers and accountants will stand to profit from the inefficient allocation of resources on professional advisers fees spent by those who can afford to do so looking to structure around the imposition of a capital gains tax.

5. In addition to the above, Solander is concerned that the imposition of any form of new capital gains tax would have a particularly damaging effect on the New Zealand fishing industry:

5.1. **High capital, low returns:** The fishing industry will face a greater burden than other industries as the sector demands significant capital investment to compete but delivers relatively low returns on that investment. Without even considering the assets required to harvest and process fish, before a business can participate it must purchase quota. The value of quota in New Zealand is already prohibitive to the growth of fishing businesses, and there are annual levies in place. Adding an additional tax to a non-passive asset like quota will make an already marginally economic activity less economic.

5.2. **Active Assets:** The assets utilised by participants in the fishing industry are "active assets" (as opposed to passive) in that they are utilized in the conduct a business which drives export and (largely regional) employment in New Zealand. Creating additional taxes on active assets will have a dampening effect on the fishing industry and in doing so have a negative effect on export and employment in New Zealand.

5.3. **Family run businesses:** Similar to farming businesses, many smaller fishing operators are family run businesses. Any capital gains tax that became payable upon the death of an owner or the restructuring of a fishing company could potentially give rise to a liability that will require sale of the entire business to satisfy.

6. Finally, Solander notes that the Tax Working Group is considering the merit of providing exemptions to Maori authorities (many of whom are large commercial entities) and potentially broadening those exemptions to include entities which are majority (but not wholly) owned by Maori authorities. Providing different rules and exceptions for Maori authorities creates an un-level playing field for New Zealand businesses. Expanding the entities that are eligible for Maori exceptions will hurt other New Zealand businesses and will see lawyers and accountants further profit from the inefficient allocation of resources on professional advisers fees spent looking to structure around the imposition of a capital gains tax.

7. Solander would be happy to elaborate further on this submission.

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Yours Sincerely

Paul Hufflett

Solander Group

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Paul Hufflett
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