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To: Policy Webmaster
Subject: LTIB topics

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Thank you for the opportunity to submit on the proposed topic for Inland Revenue's long-term insights briefing (LTIB).

I agree tax and its impact on investment and productivity would be a worthwhile subject to investigate further through an LTIB.

However, in relation to suitable policy options I believe the direction the LTIB should take is not whether the corporate tax rate is too high, but whether the present tax settings encourage investment in less productive areas. In particular, the residential property market.

I also consider the LTIB should consider the impact of the tax treatment of savings in place for the past 30 years. Although I support the principle of no specific deductions for retirement savings as occurs overseas notably in the United Kingdom and the United States, I suggest that the current tax treatment of funds within KiwiSaver and superannuation funds is not appropriate and acts as a disincentive. This indirectly encourages investment towards residential property which is perceived as tax preferred.

The suggestion that the thin capitalisation rules should be changed to allow greater deductions for interest expense seems odd given the importance of limiting excessive deductions within the OECD's BEPS initiative. Given New Zealand's thin capitalisation regime is now over 25 years old, what evidence has emerged that it has restricted investment? Are thin capitalisation regimes generally perceived to be a brake on investment? In any case given the current low interest environment is it practically possible to use tax tools to lower the cost of capital to any significant degree?

As part of the LTIB the other global tax trends that are critical to this study which should be considered would include:

- the reassessment of the role of wealth taxes/estate taxes and changes to the future design of such taxes to minimise the impact of tax planning;
- research into the current tax treatment of debt compared with equity;
- the results of tax preferences for research and development.

I would be happy to discuss this submission with officials.

Yours faithfully,
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