# Inland Revenue

## Information Release

## Public submissions received on the scope of Inland Revenue's Long-term Insights Briefing

## March 2022

### Availability

This information release is available on Inland Revenue's tax policy website at https://taxpolicy.ird.govt.nz/publications/2022/2022-ir-ltib-scope-submissions

### Documents in this information release

| Submission number | Submitter |
|---|---|
| 1 | Individual submitter – name withheld |
| 2 | BusinessNZ |
| 3 | KPMG |
| 4 | PwC |
| 5 | Chartered Accountants Australia and New Zealand |
| 6 | CPA Australia |
| 7 | Corporate Taxpayers Group |
| 8 | Baucher Consulting Ltd |

### Additional information

Inland Revenue released a consultation document on the scope of Inland Revenue's long-term insights briefing in August 2021.[1][2]

Submissions closed in September 2021, and 8 public submissions were received.

Inland Revenue's draft long-term insights briefing was released for feedback in February 2022.[3]

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[1] Inland Revenue. (2021). *Consultation on scope of Long Term Insights Briefing*. Tax policy announcement - 13 August 2021. https://taxpolicy.ird.govt.nz/news/2021/2021-08-13-consultation-ltib

[2] Inland Revenue. (2021). *Tax, investment and productivity – consultation on the scope of Inland Revenue's long-term insights briefing*. https://taxpolicy.ird.govt.nz/publications/2021/2021-other-scope-ird-ltib-tax-liability-productivity

[3] Inland Revenue. (2022). *Tax, foreign investment and productivity – draft long-term insights briefing*. https://taxpolicy.ird.govt.nz/publications/2022/2022-other-draft-ltib

## Information withheld

The Official Information Act 1982 (the Act) was used to decide what information was withheld.

Sections of the Act under which information was withheld:

| | |
|---|---|
| 9(2)(a) | to protect the privacy of natural persons, including deceased people |
| 9(2)(b)(ii) | to protect the commercial position of the person who supplied the information or who is the subject of the information |

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**From:** s 9(2)(a) [redacted]
**Sent:** Sunday, 5 September 2021 3:23 PM
**To:** Policy Webmaster
**Subject:** Consultation on Long-Term Insights Briefing



To whom it may concern,

I wanted to make a brief submission on your consultation. Because of limited capacity (other work), I will not be able to engage in too much further correspondence.

I have carried out work on economic policy as a consultant for the United Nations Development Programme between 2014 and 2016, and as a political advisor in the UK Parliament in 2019-2020. s 9(2)(a) [redacted]

In brief:

(1) The relationship between tax and productivity is an important question.
(2) I am not persuaded by the briefing that within that line of inquiry, the question of whether company tax rates should be cut is the most pressing tax issue relevant to NZ's productivity problems.
(3) I am surprised that the IRD does not seem to be paying more attention to a different question about tax and productivity: namely, whether the under-taxation of finance and real estate stifles long-term productive investment by encouraging investment in finance and real estate rather than elsewhere in the economy. (Financial services are exempt from GST, and it is widely acknowledged that property is lightly taxed, for example because of the absence of a capital gains tax.)
(4) I would like to see the IRD consider other ways of taxing property, for example the "fair economic return" method proposed by Terry Baucher and Susan St John, as well as whether finance should be taxed more fairly (including through a financial transaction tax, as exists in the UK via stamp duty, or through the removal of the GST exemption for finance).
(5) If the IRD does focus on taxing capital or company tax rates, I suggest a much more critical approach needs to be taken to the question of foreign direct investment (FDI). In recent years commentators and economists alike have highlighted that FDI can be associated with tax avoidance, is not necessarily linked to the creation of jobs, and may not support productivity. A far more nuanced, disaggregated approach should be taken to the question of the merits of FDI.
(6) I would also like to see the IRD take a more serious look at the question of whether distributions from trusts are fairly taxed at present. This may have links to productivity.
(7) I agree with the point in the consultation document that the shifts in company tax rates in the UK and US suggest that NZ would be bucking company tax rate trends in relevant jurisdictions if it were to proceed with cutting its company tax rates.

Thank you for your ongoing work. I admire the work you do but I think it is important that the topics for Long-Term Insights Briefings are carefully selected. I'm not convinced the lowering of company tax rates is the issue of most pressing concern from the perspective of the public or the long-term interests of the economy.

Ngā mihi,

s 9(2)(a)

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21 February 2022

LTIB topics
c/- Deputy Commissioner, Policy and Regulatory Stewardship
Inland Revenue Department
PO Box 2198
Wellington 6140

Dear Sir/Madam

**Re: Tax, investment and productivity: consultation on the scope of Inland Revenue's long-term insights briefing**

I am writing to you regarding the consultation document entitled *'Tax, investment and productivity'* (referred to as "the Document").

The Document outlines IRD's proposal to focus its 2022 Long Term Insights Briefing (LTIB) on tax and its impact on investment and productivity. Overall, BusinessNZ agrees on this focus given investment and productivity are important factors affecting long-term living standards in New Zealand.

We also believe it is useful to get a better understanding of how taxes are likely to be affecting costs of capital and the likely implications for inbound investment, productivity, and economic performance. Such assessment will be critical if evidence shows New Zealand may not be maximising its tax policy settings compared with other countries that also seek to improve their economic performance and well-being.

## 1. Background

BusinessNZ believes that following the major reforms of the 1980s, New Zealand's tax system has generally worked well in meeting the overall needs of the economy. In no small part this has been due to ongoing collaborative efforts between the public and private sectors to ensure the system remains internationally competitive. However, this does not mean improvements cannot be made. Also, future technology changes, offshore developments and the changing face of New Zealand life may dictate the use of different levers to ensure the continuing competence of the New Zealand tax system.

The most obvious risk is of a sudden decrease in key tax takings placing pressure on areas of government expenditure. Equally, however, BusinessNZ would be concerned if new taxes, popular with some members of the public, were introduced but were poorly thought through from a public policy perspective. As history shows, it is relatively easy to tax something, but whether it should be taxed in the first place and what unintended consequences will stem from taxing it need to be taken into account.

Also, we would not want to see taxes collected for specific purposes, become 'general taxation,' morphing into a general slush fund for projects unrelated to what was originally intended.

We believe the main challenge for New Zealand will be to ensure that as a small country, it is sufficiently internationally competitive and that the full suite of taxes, on both individuals and business, is not onerous, curtailing growth and/or risk taking. While we obviously have an interest in taxes affecting the business community, we are also very cognisant of New Zealand's tax system in general, taking into account that taxes fall on both individuals and entities. A tax system that works well as a total system, with minimal distortions, has the best chance of improving economic growth.

The main aim is for New Zealand to continue its journey towards achieving a broad-based, low-rate tax system, collecting taxes in the most optimal way possible, and creating minimal disruption for the general population.

## 2. Trends and scope of the LTIB

The Document outlines some sobering statistics in terms of New Zealand's current investment and economic path. This highlights to us the need for a deeper examination of the country's investment and productivity challenge.

Figure 3 in the Document that shows Foreign Direct Investment (FDI) as a percentage of GDP underlines the increasing importance New Zealand needs to place on policies that look to increase FDI in this country. At worst, it shows New Zealand's flat to declining pattern is in stark contrast to other OECD countries, including Australia and the United Kingdom. Figure 4 that outlines Outbound Direct Investment (ODI) is equally damning, with no increase whatsoever going back to 2009. Last, the Document rightly points out that our relative levels of GDP per capita examined in figure 5 look better than they would otherwise look because of hours of work increasing in New Zealand relative to the United States.

Considering the relatively poor trends New Zealand is showing with key international metrics, to that end paragraph 33 of the Document states that *the aim of the briefing is to open up the question of whether or not New Zealand's business tax settings have been part of the reason for New Zealand's relatively poor productivity performance*. Therefore, in terms of the proposed scope of the LTIB, BusinessNZ wishes to pick up on a few points that we believe are relevant to what the LTIB should examine.

*The Company Tax Rate*
Paragraph 36 of the Document points out that the briefing will be seeking feedback on the pros and cons of various approaches which might lower costs of capital and whether these are likely to be improvements on the status quo. Among the seven likely areas outlined, the first seeks to examine lowering of the company tax rate (CTR).

Within that context, paragraph 23 of the Document notes that there may be some movement back towards higher CTRs internationally, as countries consider how best to repair their fiscal positions after having responded to COVID-19. At the very least, this may reduce the downward pressure on the CTR.

There will undoubtedly be pressure in some countries to increase taxes, including their CTR. However, we believe New Zealand needs to be nimble in its tax policy decisions to ensure it covers every competitive position possible. Alignment is an important factor to consider, but this does not automatically mean increases and decreases in the CTR should be viewed equally. Therefore, if some countries that New Zealand typically compares itself with raise their CTR, there is an argument to be had that we could look to lower ours for competitive purposes. Analysis could determine if the loss in revenue from the decrease would be outweighed by the overall increase in new business investment.

Paragraph 24 of the Document also points out that the CTR is only one of a much broader set of tax considerations that can influence incentives to invest, with the six other possible measures which might lower costs of capital mentioned in paragraph 36. Overall, BusinessNZ agrees. Other measures such as tax depreciation provisions, other tax incentives such as New Zealand's R&D Tax Incentive and thin capitalisation rules can all impact on hurdle rates of return and affect investment.

However, the only additional point we would make here is that the CTR is still considered a 'headline' rate when initial comparisons across countries are made. Obviously, we would expect any company that is looking to run operations in another country to do their due diligence, which would include examining the wider tax system of a country. Nevertheless, the setting of the CTR can often provide the first 'look in the room' regarding competition for foreign investment, with a favourable rate warranting further examination by the company.

The document also points out that that IRD is *also interested in the impacts on other New Zealand firms including companies listed on the NZX and small and medium enterprises (SMEs) which may have little or no foreign shareholding*. BusinessNZ supports a wider examination of such areas, especially since for many SMEs it is not the CTR, but the top personal tax rate that has the greatest relevance.

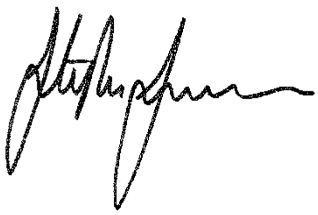
*Connection with Personal Taxes*

We believe any further examination through the LTIB also requires personal tax rates to be taken into consideration. Until 2000, the CTR was aligned to the top personal tax rate (PTR), but an increase of the top PTR in 2000 to 39% brought a 6-percentage point gap between the two rates. While this gap was closed to 5-percentage points by 2010 with a revised PTR set at 33% and CTR at 28%, the current Government's decision to again increase the top personal tax rate to 39% now means New Zealand has the largest percentage point differential for some decades. Historically, a gap between the company and the top personal rate can cause distortions and encourage avoidance.

The above point is recognised in paragraph 35 of the Document which states *there are many ways of lowering costs of capital which can have different distributional effects. For example, lowering the company tax rate by itself could make it harder for the Government to levy as progressive an income tax on individuals (because high income earners may be able to shelter their income in companies and have this taxed at the company rate rather than at higher personal tax rates).* With the top personal tax rate at 39%, and the current company tax rate at 28%, we would argue that some of this may already be occurring given the significant differential. Therefore, we believe it is important that the LTIB also considers New Zealand's recently increased top PTR, especially since New Zealand's tax policy settings have centred around a broad-based low-rate structure.

Overall, we believe that tax and its impact on investment and productivity is a worthwhile subject to investigate further through an LTIB, and we look forward to further developments.

Kind regards,



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Our ref: LTIB – September 2021

Deputy Commissioner
Policy and Regulatory Stewardship, Inland Revenue
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Wellington

6 September 2021

Dear Sir

**Long Term Insights Briefing**

Inland Revenue is proposing to focus on tax, investment and productivity for its first Long Term Insights Briefing (LTIB) due in 2022. Specifically, it will consider:

— How taxes are likely to be affecting the cost of capital and the likely implications for inbound investment;

— Whether New Zealand is out of line with the tax treatments in other countries; and

— Views on the merits of reducing (tax) costs of capital and making these more uniform as well as the pros and cons of different ways of achieving this.

**Is this a worthwhile topic?**

We make some observations before answering this specific question.

The universe of possible topics of interest for the tax system is vast. For example, the Treasury's draft 2021 Long Term Fiscal Position ("Draft LTFP") raise two questions:

— The role of the tax system. Is it to raise revenue to fund Government's spending commitments, influence behaviour, or some combination thereof? If the former, one approach which the Draft LTFP raises as an alternative is to control (i.e. limit or reduce) the Government's spending track. We note that the Tax Working Group considered and ultimately rejected a role for the tax system in influencing behaviour (other than in specific areas relating to environmental outcomes). However, we note that neither of these are an "official" statement of the policy principles for the tax system.

— The applicable rates of taxation on capital income. The Draft LTFP uses, as a starting point, an average tax rate on capital income of 30%. We assume this is the rate on capital income that is subject to tax. As you will be aware not all capital income is presently taxable. You will also be aware the Tax Working Group lamented the lack of data on tax rates applicable to different types of capital income. Inland Revenue has on its work programme the taxation of high net worth individuals, but this is only one data point. It will not provide a general determination of the average tax rate on capital income.

This particular topic has apparently been chosen because investment and productivity are important factors affecting long-term living standards in New Zealand (paragraph 17). The scoping document also notes that MBIE is consulting on: *The future of business for Aotearoa*

*New Zealand*, which includes productivity issues. We also note the Productivity Commission's ongoing focus on New Zealand's poor productivity performance (most recently in its 2021 inquiry benchmarking New Zealand's frontier firms against those in peer countries). We understand Inland Revenue's work is intended to be complementary to these other studies.

Productivity is a measure of how efficiently "inputs", such as labour and capital, are being used to produce "outputs". Higher productivity means the ability to produce more output for less input. At an economy-wide level, however, an increase in national output could also be achieved by:

— Selling the same product (however efficiently produced) at a higher price; or

— Reducing the cost of labour or capital (either fixed assets or funding costs) for producing the same product. This does not necessarily require those inputs to be more efficiently used.

Of course, a combination of all of the above may be possible, and preferred, for any particular product.

Although tax policy settings may influence productivity, of equal, if not greater importance, are likely to be factors such as:

— What comparative advantage does New Zealand have in terms of its economy? Tourism and primary production are two sectors which are highlighted as areas we excel at. International tourism was a large part of our pre-COVID economy. We have location advantages but our ability to "produce" from that has capacity constraints and also price constraints. In relation to the latter, we are still a price "taker" in the global market. As a simple example, producing a cup of coffee for tourists has both price and capacity constraints. There is a market price limit and, although we may have not reached the maximum production level, there is a physical limit to how many a barista can make in any given hour. Primary production is similar, in that while a significant export contributor, there are both capacity and price constraints (again, NZ is a price taker). This can be contrasted to economies which have comparative advantages in sectors where, given the size of the global market (demand) and/or limited supply, mean they are price "makers". The point here is that New Zealand's inability to affect price and/or capacity constraints in the economy (due to our small size) may have as much a bearing on our long run economic performance as productivity gains. Conversely, this suggests that New Zealand cannot be a laggard, from a productivity perspective, lest we fall further behind.

— Managing the domestic and export economy through non-fiscal policy settings (e.g. monetary policy). If we recall correctly, an analysis we saw a few years ago showed that New Zealand had produced and sold more dairy product in a period but had received less in NZD. Higher interest rates, because of domestic pressures on the housing market and inflation, led to a higher exchange rate and therefore a lower return for exports. Despite productivity increases, more was being physically produced, the sales price in NZD did not hold up. This illustrates to us that productivity gains may be limited by the impact of other policies, which may reduce the overall return to New Zealand.

— Productivity is a measure of the efficiency of output, which is a financial metric. The Living Standards Framework takes a more holistic view of wellbeing. While greater productivity will boost livings standards, the source of productivity gains needs to be carefully evaluated. For example, to see if it is detrimental to the natural and social capitals – that is, is the productivity gain made at the cost of environmental degradation or mass unemployment?

Although the topic is a worthwhile one, given other topics are available and other agencies are also considering productivity, it is not clear that it is a topic which should take priority. To us, it makes more sense for New Zealand's "productivity problem" to be considered holistically.

However, we assume that Inland Revenue will proceed with its chosen topic and therefore provide further comments.

**Comments on the key trends and issues section**

***The current FDI framework***

Implicit in the topic is consideration of New Zealand's current framework - the 2016 draft *New Zealand's taxation framework for inbound investment* (https://taxpolicy.ird.govt.nz/publications/2016/2016-other-nz-framework-inbound-investment and which does not appear to have been finalised.).

In brief, we describe this framework as "if you are prepared to pay tax in New Zealand, you are welcome." The LTIB needs to describe the policy and its implications for New Zealand tax policy.

***The company tax rate***

We agree that the headline rate is important for New Zealand. In our experience, if there is a choice of location, the headline rate can act as a gateway, or barrier, for further analysis.

***Effective marginal tax rates***

*Generally*

However, the effective marginal tax rate is what actually applies. The overseas company rate reductions have generally been accompanied by tax base changes (for example, the Base Erosion and Profit Shifting changes). The overall result may not be an actual tax reduction. This contrasts with New Zealand's approach which has widened the base while retaining the rate.

We note the OECD's calculations of effective marginal tax rates (EMTRs) are limited. This is surprising. The OECD has access to member states' revenue authorities (and with the Inclusive Framework, many more countries). It could, for example, have each country determine the EMTRs for a number of standardised company examples. (We are mindful that the BEPS project may make this type of analysis sensitive however.)

The risk for New Zealand is that it does this work in isolation. If this produces a high EMTR, along with a high headline rate, this may make New Zealand less attractive.

Any EMTR work should be done with an encouragement to the OECD to do this work more broadly.

*Specific items*

We note there are stated to be high EMTRs for non-residential buildings and inventory. We have not reviewed the OECD work but note, for buildings, the high EMTR may not take into account the likely nil EMTR on sale.

***FDI and Outbound investment***

For FDI, we note that disinvestment, as a result of the global financial crisis (as multi-nationals "retreated" home), and potentially tighter overseas investment rules, particularly with relation to land, may have had an in impact. Controlling for these factors, so the effect of tax can be isolated, may be difficult.

We are also aware that Inland Revenue has previously argued that the presence of "economic rents" may justify a comparatively higher company rate, as New Zealand company tax is effectively a final tax for non-residents. In contrast, cost of capital arguments have typically justified lower rates on debt (e.g. the Approved Issuer Levy). We assume both of these positions will be tested in the LTIB.

***Economic performance***

New Zealand's economic performance has been much studied. A solution to the "productivity problem" is not apparent. We expect there are many relevant studies but our comments regarding productivity suggest that there is a "what can we sell and to who" constraint.

Statements of Australia's position, albeit from a geo-political perspective, (and found at https://arena.org.au/the-rules-based-order and Greenfields, cash cows and the regulation of foreign investment in Australia (aph.gov.au), illustrate possible analyses we have in mind. (Note the references are simply illustrative, we should not be taken to accept the analysis as correct.) An equivalent analysis for New Zealand is likely to suggest that taxation is less instructive as an explanation of New Zealand's performance.

With some hesitation, we also suggest that the performance of the housing market may have an impact. It has an effect on interest rates and therefore on the exchange rate. However, tax settings for residential housing are part of another stream of work and so, we assume, can be excluded from the LTIB.

***Other global tax trends***

We suggest that global trends, per se, are likely to have more impact than global tax trends.

However, we consider an important determinant that should be taken into account is the prevalence of classical corporate tax systems globally.

In New Zealand, we tend to think of company taxation as a withholding tax for shareholders because of the imputation system. This is true for domestic investors.

It is also true for non-resident investors from a New Zealand tax perspective. However, it is not true from a "home country" tax perspective.

New Zealand tax is an expense for them (assuming the shareholders receive no underlying foreign tax credit). If the home country provides no foreign tax credit for New Zealand company tax paid, there is a potential for at least double taxation of New Zealand profits for non-residents.

In a New Zealand context, we see imputation as producing a home country investment bias (which may be of interest for the analysis of outbound investment). In a classical tax system, the bias is to have tax apply at the shareholder level as that is a single tax. (Even better if the shareholder's return can be received by a tax preferred vehicle.)

Accordingly, the global tax trend that we consider is important is the general absence of imputation systems.

**Suggested outline and possible response**

***Work to be done***

The outline seems reasonable. We consider that it is best for comments on the work to be done, apart from comments already made above, to wait for the draft briefing. We would of course be happy to discuss.

***Possible responses***

We consider the possible responses identified appear appropriate issues. This does not mean we support any particular response at this point. In our view, it is important to know why a particular path has not been chosen as well as why another has been. Considering the available options will help with this.

We make two specific comments:

— The present value of capital write offs has another aspect. If it encourages greater capital investment this will generally be at the cost of labour. That obviously has revenue and societal impacts that need to be considered.

- A present value approach would also consider the tax effects of termination values of FDI for a New Zealand business. Generally, tax on the sale of capital equipment is limited to taxing depreciation recovered. A wider focus would also consider the tax effect of goodwill and other capital assets sold. It may also include consideration of exit taxes. The lack of such taxes may explain reductions in FDI (as there is limited tax penalty for extracting assets from New Zealand). As with some of our other comments, this is not support of such taxes but consideration of them may:
  - Confirm why they should not apply; and/or
  - Provide information to investors when they compare EMTRs for New Zealand with other countries.

**General**

We are happy to discuss our comments. Please do not hesitate to contact John Cantin (04) 816 4518 or Darshana Elwela (09) 367 5940.

Yours sincerely

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LTIB Topics
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6 September 2021

## Submission on Inland Revenue's Long-Term Insights Briefing

Dear LTIB team

Thank you for the opportunity to comment on the proposed scope of Inland Revenue's long term insights briefing (LTIB). We are available to discuss our comments below if that is helpful.

***Key question to consider:*** *Is tax and its impact on investment and productivity a worthwhile subject to investigate further through an LTIB?*

We believe that tax and the impact on investment and productivity is a worthwhile subject to investigate further through an LTIB.

***Key question to consider:*** *Are there other global tax trends that are critical to this study which should be considered?*

We believe that there are other global tax trends that are critical to this study that should be considered. One global trend is the increasing role that environmental taxes play in other OECD nations. A long-term study of the impact of taxation on investment and productivity should consider the increasing use in the OECD of environmental taxes to change behaviour, raise targeted revenues to offset environmental harm and to raise general revenues to fund Government.

New Zealand makes limited use of environmental taxes compared to most of the OECD, officially around 6% of total tax revenue could be considered environmental taxes.[1] However, these taxes are mainly transport charges and fuel taxes, and they are raised not for environmental purposes but as a revenue source to fund transport and the operation of Government.

The use, design and introduction of environmental taxes is particularly important in terms of the impact of taxation on investment and productivity. It is no longer sufficient to examine investment and productivity solely from a cost of capital perspective.

***Key questions to consider:*** *Are these sensible policy options to consider?*

We agree that the topics set out in the paragraph 36 of the LTIP scoping document are sensible policy options to consider, being:

- reductions in the company tax rate
- measures which increase the present value of capital write offs for capital expenditure
- measures to take account of inflation to reduce overstatements or understatements of capital income

[1] Interim Report of the Tax Working Group, 2018, Chp 9, para 18.

- changes to thin-capitalisation rules which might allow multinational firms to claim greater deductions for interest expense
- changes to allow multinational firms or other firms with foreign shareholders a notional interest deduction on their equity
- specific incentives for particular types of investment or specific types of business, and
- more fundamental changes in the tax base such as the dual income tax structure adopted in Nordic countries with a relatively low flat marginal tax rate on capital income with higher progressive tax rates on labour income.

However, in evaluating the measures above, in addition to other analytical frameworks, we submit that you should consider the following factors:

1. In general, New Zealand's broad base low rate (**BBLR**) philosophy has served us well in the design and maintenance of our tax system and has a broad consensus of support across stakeholders in our tax system. The BBLR philosophy was developed in response to an unbalanced tax system that evolved in the late 1970’s and early 1980’s where very high tax rates (e.g. 66% top marginal personal rate and 48% company tax rate) were mitigated with dozens of ad hoc incentives and exemptions. This resulted in a narrowly based, high-rate tax system that struggled to deliver efficiency, equity, and adequate revenue. Based on this historical experience, there remains a strong consensus in New Zealand that the BBLR approach is, in practice, more successful than a tax system that has large numbers of incentives or exemptions.
2. On that basis of that history and the BBLR consensus, we propose that the future consideration of tax incentives must be evaluated against a clear framework where there is specific market failure identified (e.g. under investment), the market failure is not driven by other regulatory settings, and a well-designed and administered tax incentive is considered the best policy tool to address the issue when compared to other possible policy interventions.
3. We do not see strong anecdotal evidence that New Zealand tax rates are reducing the interest of foreign direct investors (**FDI**) in New Zealand (although see our later point on coherence of the tax system). In our experience it is other regulatory settings such as Overseas Investment Office criteria that can have a more significant impact on FDI.
4. We note the Tax Working Group’s view that New Zealand’s imputation credit regime means that the company tax rate for domestic investors is largely a withholding tax while it acts as a final tax on non-resident investors, and therefore the case for a significant reduction in support of additional investment has a relatively high bar to cross. Notwithstanding that, our company tax rate needs to remain competitive with Australia.
5. The key tax distortion in New Zealand that remains is that certain types of economic income that arise in the form of capital gains are, in certain circumstances, not taxed leading to the loss of economic efficiency and a lack of horizontal and vertical equity that puts pressure on the social capital that underpins our successful tax system.
6. Looking further forward into the future it is valuable to test more fundamental tax base changes and evaluate their suitability for New Zealand. But in doing so, the risks and costs of transition from the current system need to be carefully evaluated against the potential benefits of a new system.

***Key questions to consider:*** *Are there other reforms which should also be considered?*

A key principle in a balanced and effective tax system that does not discourage investment and supports productivity growth is coherence. In our view, the relative coherence of the current New Zealand tax system risks being undermined by recent tax policy developments in two key areas as set out below. A key reform to consider is to focus on keeping the tax system coherent. This is not easy work and the threats to coherence are often not obvious and compound over time. But in our view, it is vital for a tax system that does not wish to discourage investment and productivity.

## i) Turning policy into law.

New Zealand's participation in and contribution to international tax reform such as the Base Erosion & Profit Shifting project (**BEPS**) led by the OECD and the current OECD/G20 Inclusive Framework two pillar solution to address the tax challenges arising from the digitalisation of the economy is positive, highly regarded, and valuable for New Zealand. However, in supporting those global initiatives and operationalising the policy into our own domestic legislation, we believe that we over complicate the policy design and resulting legislation which, from a New Zealand perspective, applies to a relatively small number of taxpayers.

If this trend continues, we will see more and more highly prescriptive and detailed legislation that is drafted in a style that makes it very difficult to discern the policy intent, hard to follow, and increases the risk of drafting errors, is very difficult for all but small number of deeply experienced officials to administer and therefore risks undermining the coherence of the tax system.

## ii) Compounding impacts of different policy choices

New Zealand's relatively coherent tax system continues to experience policy pressure due to a lack of political consensus to support a comprehensive capital gains tax. As a result, this drives second or third best policy solutions such as the extended Brightline test and the removal of interest deductibility for residential rentals. These policy tools are deployed to address specific and worthwhile objectives in terms of moderating housing cost growth and encouraging new supply. But because they are not well founded in tax policy design, they interact with other existing settings in unexpected ways and damage coherence, leading to a lowering of investment and productivity.

**[Commercially sensitive: to be withheld under section 9(2) of the Official Information Act 1982]**

s 9(2)(b)(ii)

[redacted]

While there are several pre-existing boundary issues between commercial and residential raised by this example, further issues were introduced by the extension and amendment of the Brightline test and the denial of interest deductibility.

The upshot of this lack of coherence is that the foreign capital and expertise that could have been deployed to expand our dwelling stock has been diverted to other jurisdictions.

Please do not hesitate to contact us if you would like to discuss our submission.

Yours sincerely

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6 September 2021

Deputy Commissioner
Policy and Regulatory Stewardship
Inland Revenue Department
PO Box 2198
Wellington

By email: policy.webmaster@ird.govt.nz

Dear Sir / Madam

# Tax, investment and productivity: Consultation on the scope of Inland Revenue's long-term insights briefing

Thank you for the opportunity to provide feedback on the proposed scope of Inland Revenue's long-term insights briefing (LTIB). Chartered Accountants Australia and New Zealand (CA ANZ) is supportive of this project and related workstreams.

In summary our comments are as follows:

- We agree that the impact of tax on investment and productivity is a worthwhile subject to investigate further.
- Several of the suggested options for consideration have been considered previously and it would be preferable to take a broader approach.

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- We recommend that the work also consider whether an increase in Foreign Direct Investment (FDI) would increase New Zealand's productivity.
- The work should consider the role of the tax system in:
    - Reducing the cost of capital into New Zealand;
    - Addressing New Zealand's infrastructure deficit;
    - Adapting to the changing nature of work; and
    - Attracting "frontier firms" to New Zealand.
- We suggest that the outcomes be used as a framework for future policy work.

## General comments

As the consultation document notes, New Zealand's productivity is lower than comparable economies and this remains a concern to the business sector as well as Government.

We are supportive of work undertaken to assist New Zealand’s international competitiveness and productivity. We agree that it will be useful to consider whether the tax settings are a contributing factor.

## Productivity in New Zealand

New Zealand's productivity has been the subject of much investigation.

In 2017, the Tax Working Group considered New Zealand's productivity as part of its work. The group investigated a number of options for tax reform that could advance productivity and boost investment. In particular, it considered[1]:

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[1] https://taxworkinggroup.govt.nz/resources/future-tax-final-report-vol-i-html.html#child-47, Chapter 6 and Summary at

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- Changes to the loss continuity rules;
- An expansion of black-hole deductions;
- Reinstatement of building depreciation deductions;
- Removal of residential rental loss ring-fencing rules; and
- Tax concessions for nationally significant projects.

The first three of these have been addressed to some extent although further work is needed to extend the scope of deductible feasibility expenditure. We hope that the introduction of the residential property interest denial rules may bring with it a repeal of the residential rental loss ring-fencing rules. To our knowledge, the last measure is the only one that has not been progressed in any form.

It may be too early to tell whether the changes have affected New Zealand's productivity. However, to date, there have not been any headline changes. It is likely that something bolder is needed.

## Proposed topics for consideration

The proposed scope suggests the following as possibilities:

- Reductions in the company tax rate;
- Measures which increase the present value of capital write offs for capital expenditure;
- Measures to take account of inflation to reduce overstatements or understatements of capital income;
- Changes to thin-capitalisation rules which might allow multinational firms to claim greater deductions for interest expense;

- Changes to allow multinational firms or other firms with foreign shareholders a notional interest deduction on their equity;
- Specific incentives for particular types of investment or specific types of business, and
- More fundamental changes in the tax base such as the dual income tax structure adopted in Nordic countries with a relatively low flat marginal tax rate on capital income with higher progressive tax rates on labour income.

All of these would be useful to consider. However, many have been considered already as part of the Tax Working Groups in 2009 and 2017. Again, it is likely that something bolder is needed.

## Foreign Direct Investment

A key question is whether an increase in FDI would increase New Zealand's productivity. According to the scope document, New Zealand's FDI is low compared to other countries.

Ultimately a non-resident investor will view the New Zealand tax cost as another cost that will impact return on investment or increase the cost of goods and services it charges to New Zealand customers. The lower the taxes the lower the charges to New Zealand customers and the increased likelihood the investment will occur.

The key issues will be the level of tax, the certainty that these taxes will remain constant and above all the predictability of the direction of tax changes. Recent periods have suggested that non-residents have faced increased NZ tax obligations.

## Cost of capital

We believe the cost of capital will be key to increasing New Zealand's productivity over the medium to long term. New Zealand is going to need an enormous amount of capital to:

- address the infrastructure deficit;
- invest in New Zealand businesses to grow and/or become "frontier firms"; and
- encourage frontier firms to locate themselves here.

It is unlikely that all infrastructure needed can be funded exclusively from the Government balance sheet. The LITB should be considering

- where the additional capital will come from; and
- how the tax system should be designed to allow the desired capital flows.

If the work concludes that the capital will come from overseas, we recommend the LTIB consider how best to attract investment into New Zealand. This will include broader considerations such as:

- cost of capital;
- cost of engagement;
- ease of engagement; and
- ability to link up with the rest of the world;

and the tax system has a role in them all.

The LTIB work should look at what more can be done in the tax system to achieve each of these, including any changes to tax administration through further leveraging the START system. At the time of introduction, the START system was seen as "billion dollar investment" and should be an asset to be leveraged for medium and long term benefit. The return on investment should not be limited to additional tax collected and reducing head count at Inland Revenue. The LTIB should consider how the START system can contribute to ease of doing business in New Zealand.

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Another important component will be how non-residents are taxed compared to New Zealand residents under our current system, whether the differences remain appropriate and what changes could be made to the tax settings to attract foreign capital into New Zealand. At that point, it would be appropriate to consider measures such as thin capitalisation or notional interest deductions, but we recommend that a broader enquiry is undertaken first.

A foreign investor will have a choice of entities and structures to use as it looks to put capital into New Zealand. The tax system includes specific regimes for many different tax entities and it is often difficult to see the reasons for the differences. It would be easier for a foreign investor to invest into New Zealand if the structures could be chosen for commercial reasons, with tax being neutral across all equivalent structures. A key part of the work should be to articulate the reasons for the differences or establish tax neutrality across all structures.

## New Zealand infrastructure

Concerns have been raised regarding New Zealand's infrastructure and the difficulty faced by Government in delivering large scale infrastructure projects; for example, Transmission Gully and Kiwibuild.

There is a growing need for additional infrastructure in New Zealand including:

- housing;
- roading (including bridges and tunnels);
- public transport;
- water infrastructure (the Three Waters project).

The work should also consider whether an increase in FDI or a change in tax settings could assist to address New Zealand's infrastructure deficit.

Many foreign investors and investment consortiums incur large up-front costs, including due diligence, scoping and tendering for significant infrastructure projects. These costs are not recoverable nor are they tax deductible in the event that the bid is unsuccessful.

It is important that foreign investors have certainty of tax outcome from investigation of viability, financing and construction if successful and potentially operation. Costs can be reduced if tax outcomes are neutral as between similar investment structures. At present there is a heavy reliance on private rulings to provide tax certainty. Changes in factual position or key assumptions add to these costs as often a new ruling is required.

## The future of work

As you are aware, the nature of work is changing. Covid-19 has demonstrated that business can be conducted from home and individual employees can work from home. Many now have more than one income source. Technology continues to improve. This has implications for where people are likely to locate in future and therefore our infrastructure need. This should be considered in prioritising infrastructure projects and developing the tax settings needed to achieve them.

The changing nature of work also has implications for the way people structure their business affairs. It would be useful to look at the way businesses are taxed and whether the settings are appropriate. A person in New Zealand may choose to go into business as a sole trader, or through a partnership, a company or an LTC. Should tax settings be neutral across all structures? If not, why should the treatments be different? Articulating the reasons for the differences will be key in deciding which policy settings to retain or change going forward.

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The study should also consider personal tax rates. Businesses operating as a sole trader or through a partnership or LTC will equally be affected by personal tax rates. This includes those in the "gig economy". For SME companies that are predominantly New Zealand owned, the personal tax rate may influence investment decisions.

The interaction between the tax and social policy systems is important. The Welfare Expert Advisory Group (WEAG) made a range of recommendations in 2019, many of which have not been adopted. Work undertaken on how to increase New Zealand's productivity should additionally take into account care required for the most vulnerable members of society and how they can transition to generating income/further income if and when appropriate.

The WEAG's report highlighted that the rules for benefit abatement could lead to extremely high effective marginal tax rates for people moving into work. It recommended increases to the level at which Working for Families credits were abated, and a reduction in the rate at which they were removed. There are currently well-publicised labour shortages, which is having a significant effect on New Zealand's productivity. The LTIB should consider whether the interaction between tax and social policy systems has a role to play.

## Frontier firms

The consultation document states that the LTIB work will be done in conjunction with the Treasury and other Government agencies. We note the importance placed on "frontier firms"[2] in the Productivity

[2] https://www.productivity.govt.nz/assets/Documents/Final-report-Frontier-firms.pdf

Commission's report. If frontier firms are the best pathway to growth, then it would be worthwhile to explore which tax settings would attract frontier firms to New Zealand, including any changes as appropriate to our R&D regime.

## Outcome of the LTIB

The scope document is silent on how the outputs from the study will be used.

In the event that the tax system is shown to impact productivity, we believe that as a minimum the output should be used as a foundation for a policy framework or terms of reference against which to evaluate all future policy work.

Ideally more detailed policy work should then be undertaken to develop a suite of tax changes that may be adopted by Government to increase productivity. The work should be done in conjunction with other areas of Government to play a part in a whole-of-Government response to leverage productivity in New Zealand.

Page 36 of the consultation document notes that possible measures which might lower costs of capital are likely to include:

- changes to allow multinational firms or other firms with foreign shareholders a notional interest deduction on their equity;
- specific incentives for particular types of investment or specific types of business ...

Recent policy projects in the short term have moved to restrict multinationals interest deductions, rather than ensure they are allowed (for example restricted transfer pricing/changes to thin capitalisation and the work on hybrids). While we are not against New Zealand being broadly in step with other comparable countries to do business, the cost of belonging needs to be evaluated against the long term good of New Zealand's economy and it may be that a more muted response is appropriate.

Other projects have added to the tax cost of inbound investment such as the work on thin capitalisation and changes to AIL and NRWT. If tax cost of FDI is a barrier to productivity, Government should take that into consideration in deciding whether to progress future policy projects.

We would be happy to discuss our submission further with you. Please contact Jolayne Trim.

Yours faithfully

John Cuthbertson FCA
**CA ANZ NZ Tax and Financial Services Leader**

Jolayne Trim CA
**CA ANZ Senior Tax Advocate**

# Reponses to specific questions

- Is tax and its impact on investment and productivity a worthwhile subject to investigate further through an LTIB?
  Yes

- Are there other global tax trends that are critical to this study which should be considered?
  Yes - the tax settings they have used to attract frontier firms and foreign capital

- Are these sensible policy options to consider?
  Yes

- Are there other reforms which should also be considered?

We recommend that the work also consider whether an increase in FDI would increase New Zealand's productivity.

The work should also consider the role of the tax system in:

- Reducing the cost of capital into New Zealand;
- Addressing New Zealand's infrastructure deficit;
- Adapting to the changing nature of work; and
- Attracting "frontier firms" to New Zealand.

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6 September 2021

LTIB topics
c/- David Carrigan
Deputy Commissioner, Policy and Regulatory Stewardship
Inland Revenue Department
New Zealand

By email: **policy.webmaster@ird.gov.nz**

Dear David,

## Inland Revenue's long-term insights briefing - tax, investment and productivity – consultation paper

CPA Australia represents the diverse interests of more than 168,000 members, including over 2,700 members in New Zealand, working in over 100 countries and regions supported by 19 offices around the world. We make this submission on behalf of our members and in the broader public interest.

We support the Inland Revenue's (**IRD**) proposed focus on tax, investment and productivity in its Long-term insights briefing (**LTIB**) **Consultation Paper** (**the Consultation Paper**). As acknowledged in the consultation paper, the causes of lower productivity and poor economic performance are complex, and the IRD's focus on the cost of capital and effective marginal tax rates is a practical approach to an issue that goes far beyond the tax system. Consideration could also be given to the composition of the overall tax base with New Zealand being more reliant on income and profit taxes rather than more efficient consumption-based taxes, and the question of whether the imputation system remains appropriate.

We also note that, in addition to the tax system settings (i.e., tax base and rate), the cost of complying with, and the administrative burden imposed by, the tax system can also give rise to reduced productivity. The overall regulatory burden on businesses is high and diverts resources away from high value-add activities. Potential opportunities exist in relation to designing tax laws to align with accounting systems and to reducing the cost of complying with tax obligations through business digitalisation.

Our responses to the key questions in the Consultation Paper are contained in the Attachment.

If you have any queries about this submission, contact Rick Jones, Country Head, New Zealand on +64 21 190 1039 or **rick.jones@cpaaustralia.com.au** or Elinor Kasapidis, Senior Manager Tax Policy on +61 3 9606 9666 or **elinor.kasapidis@cpaaustralia.com.au**.

Yours sincerely,

| | |
|---|---|
| Dr Gary Pflugrath<br>Executive General Manager,<br>Policy and Advocacy | Mr Rick Jones<br>Country Head,<br>New Zealand |

**Proposed scope of the LTIB**

***Is tax and its impact on investment and productivity a worthwhile subject to investigate further through an LTIB?***

Yes. Tax settings should be reviewed regularly to evaluate whether they are achieving the desired outcomes and to identify unintended consequences.

The impact of taxes on investment and productivity is a worthwhile topic because settings need to support the Government's broader policy goals with sufficient revenue to fund public goods and services, while maintaining a competitive and efficient economy.

Earlier OECD research[1] identified a number of areas for productivity improvement in New Zealand, including:

- Lowering the corporate income tax rate
- Reducing the reliance on income and profit-based taxes
- Better aligning tax rates between entity types to reduce arbitrage and tax planning.

We expect the findings of the LTIB will help inform the public debate on such potential reforms and identify areas for further policy discussions.

**Key trends and issues**

***Are there other global tax trends that are critical to this study which should be considered?***

The OECD's work on base erosion and profit shifting (BEPS), including the progression of Pillars One and Two, should have an impact on reducing the effect of tax differences between jurisdictions on investment decisions. This could result in a level of tax rate harmonisation across jurisdictions and a shift away from the use of tax policies to gain a competitive advantage.

The increasingly global nature of business and employment also brings international tax issues to the fore, such as non-resident withholding tax (**NRWT**), tax agreements and tax residency.

For example, inbound investors see the corporate tax payable in New Zealand as an expense. Only if the double-tax agreement (**DTA**) imposes an NRWT obligation will the investor benefit via the foreign investor tax credit (**FITIC**) regime. Overall, this might reduce the tax cost to 15 per cent as the remaining tax is allowable as a tax credit for the New Zealand company. If there is no tax imposed on dividends paid offshore under the DTA, then the cost of capital will increase, as the non-resident investor will lose all imputation credits.

The LTIB could also consider the impact of tax on labour productivity in a global market for labour. As technology enables businesses to easily employ people across the globe, higher personal income tax rates can reduce the price competitiveness of New Zealand labour. Insights into the extent to which personal income tax rates may influence the price of labour and domestic employment would assist in determining whether there is a likely impact on tax revenues, thus enabling potential responses to be considered.

**Suggested outline**

***Are these sensible policy options to consider?***

We support the exploration of the policy options proposed for the LITB, noting that changes to the rate and structure of income taxes are far more significant than policies such as inflation adjustments or targeted tax incentives.

Our preliminary observations, informed by feedback from our members, are:

- Company tax should align with other countries, particularly Australia, which is New Zealand's nearest trading partner and largest source of foreign direct investment (**FDI**). The analysis could explore the productivity and investment benefits across a range of reduced tax rate settings down to 15 per cent
- Depreciation rates need to be revised and simplified as the time over which laws require an asset to be depreciated in New Zealand is too long
- Consideration should be given to raising the GST, as necessary, to reduce the reliance on personal income tax and marginal income tax rates. GST is by far the most efficient tax and with its minimal carve outs is contributing over 30% of all tax revenue in New Zealand

[1] OECD, 2009. Guillemette, Y., 2009. Structural policies to overcome geographic barries and create prosperity in New Zealand, PECD Economics Department Working Papers No. 696 ECO/WKP(2009)37, OECD https://dx.doi.org/10.1787/224223031816

- Potential changes to thin-capitalisation rules should be evaluated to lower the cost of capital. This could include allowing interest deductions in New Zealand, a reduction in the complexity of the rules and permitting a deemed interest deduction for equity as a mechanism to attract inbound investments.
- The adoption of a dual income tax structure for capital income and labour income may not necessarily impact the cost of capital for New Zealand resident shareholders. Countries that have adopted this dual income structure abolished their imputation credit systems, tax domestic dividends and capital gains under the dual system. The introduction of a dual tax system would likely require additional reforms such as the adoption of a capital gains tax for onshore equity investments and the removal of the imputation credit system
- Tax incentives may assist in supporting innovation and start-ups and may be more efficient than transfer payments. For example, in Australia, the proposed introduction of a targeted patent box regime and digital games tax offset complements the existing research and development tax incentive (RDTI). Consideration should be given to the design and effectiveness of such programs in other jurisdictions and their suitability for New Zealand
- Remaining internationally competitive is important for New Zealand, both in its tax settings as well as ease of administration and alignment with other jurisdictions' rules.

***Are there other reforms which should also be considered?***

The Consultation Paper acknowledges potentially different distributional effects and the need to consider tax neutrality. It is likely that potential reforms identified in the LTIB may lead to the need or opportunity to consider other changes in order to compensate for distributional impacts, or to raise tax revenue from alternative sources. These should also be identified in the LTIB to reflect the trade-offs that may be required.

Corporate Taxpayers Group

6 September 2021

LTIB topics
c/o David Carrigan
Inland Revenue Department
PO Box 2198
**WELLINGTON 6140**

Dear David

## "TAX, INVESTMENT AND PRODUCTIVITY: CONSULTATION ON THE SCOPE OF INLAND REVENUE'S LONG-TERM INSIGHTS CONSULTATION DOCUMENT"

### Introduction

1. The Corporate Taxpayers Group ("**the Group**") supports Inland Revenue scoping its current Long Term Insights Briefing ("**LTIB**") on how tax policy settings could best support raising of productivity in New Zealand, as raised in the *Tax, investment and productivity: Consultation on the scope of Inland Revenue's long-term insights* consultative paper ("**the Consultative Paper**"). A focus on tax and its impact on investment and productivity does seem a subject worthwhile investigating. The question being posed is whether or not New Zealand's business tax settings have been part of the reason for New Zealand's relatively poor productivity performance.

2. The Consultative Paper suggests scoping the paper based on OECD international comparative data on effective tax rates. The Group agrees that there is value in such comparative studies. However, the Consultative Paper seems (at page 13) to accept any study needs also to have a broader perspective. The Group supports a broader view, as there are a number of different tax implications depending on the different situations, which cannot all be assessed the same. For example there is a difference between inbound versus outbound investment, direct investment versus portfolio and domestic investment, and their corresponding tax implications.

3. Effective tax rate analysis in essence tries to measure the tax wedge a country's policy settings imposes between post-tax and pre-tax returns by measuring the tax levied on a hypothetical standardised investment. This determines how easily an investment can meet an investor's pre-New Zealand tax hurdle rate of return. However, tax policy settings can also increase an investor's hurdle rate of return. This is by increasing costs and risks involved with an investment, noting that recent complexity in tax changes appears to have increased such costs and risks.

4. Costs are increased by complexity of rules and associated compliance costs. For New Zealand such costs can be significant. Our size means any investment is likely to be small by international standards but the compliance costs for an investor (including costs of gaining internal investment approvals) have a high fixed cost element. We have, in other words, diseconomies of scale.

5. Perceptions of tax risk increases an investor's hurdle rate of return. For a long term investment (the type most likely to lead to increased productivity) uncertainty as to the long term tax rules increases investment risk. Both expected and unexpected tax risks increase the hurdle rates of return. An expected adverse tax change

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**We note the views in this document are a reflection of the views of the Corporate Taxpayers Group and do not necessarily reflect the views of individual members.**

should be factored into an investor's calculations with the hurdle rate of return increasing to offset it. A history of unexpected adverse tax policy changes will be viewed as an increased risk of further such measures. Neither will be reflected in New Zealand's effective tax rate data. A stable, low surprises tax environment for investors seems important to New Zealand given the nature of our economy. Our view is that in recent years the perception has been that New Zealand has moved from being a stable, low surprises tax environment; instead the risk of potential adverse tax policy is now a significant factor in the eyes of potential investors.

6. For the proposed study to add real value therefore the Group considers that there is a need to take a broad picture and try to understand fully how tax policy settings are likely to impact on international investment flows for New Zealand. As a related matter, the LTIB should research what tax settings have resulted in positive increases in productivity in other countries, particularly Australia. Members of the Group have had extensive experience with international investment and their experience and perspectives should be drawn upon to give depth and a reality check to the proposed comparative data analysis. This broad view should also take into account other developing issues, such as the Tax Principles Act (and perhaps a tax principle about tax laws not negatively impacting productivity).

7. Consideration should also be given to tax measures that have occurred overseas that appear to have had success. Examples of these are included in appendix 1 to this letter.

8. In addition, when considering the successful tax measures introduced by other countries an additional lens should be applied to that process which allows for the perspective that New Zealand is already considered 'tricky' or marginal for foreign investment due to:
   a) Border restrictions due to COVID-19, and uncertain immigration settings and other flow-on consequences for businesses needing to get people into New Zealand (which could remain an issue for some time)
   b) Overseas Investment Office requirements and settings and
   c) Perceived risk of unexpected policy changes (for example the ban on new oil and gas exploration permits, which has made the environment less predictable for that sector)
   d) investment opportunities are limited given geographic isolation and our relatively small economy.

If you have any questions in relation to the above, or would like to meet with the Group again to discuss these matter please do not hesitate to let us know.

For your information, the members of the Corporate Taxpayers Group are:

1 AIA New Zealand Limited
2 Air New Zealand Limited
3 Airways Corporation of New Zealand
4 AMP Life Limited
5 ANZ Bank New Zealand Limited
6 ASB Bank Limited
7 Auckland International Airport Limited
8 Bank of New Zealand
9 Chorus Limited
10 Contact Energy Limited
11 Downer New Zealand Limited
12 First Gas Limited
13 Fisher & Paykel Appliances Limited
14 Fisher & Paykel Healthcare Limited
15 Fletcher Building Limited
16 Fonterra Cooperative Group Limited
17 Genesis Energy Limited
18 Heartland Bank
19 IAG New Zealand Limited
20 Infratil Limited
21 Kiwibank Limited
22 Lion Pty Limited
23 Mercury NZ Limited
24 Meridian Energy Limited
25 Methanex New Zealand Limited
26 New Zealand Steel Limited
27 New Zealand Superannuation Fund
28 Oji Fibre Solutions (NZ) Limited
29 OMV New Zealand Limited
30 Pacific Aluminium (New Zealand) Limited
31 Powerco Limited
32 SkyCity Entertainment Group Limited
33 Sky Network Television Limited
34 Spark New Zealand Limited
35 Summerset Group Holdings Limited
36 Suncorp New Zealand
37 T & G Global Limited
38 TAB New Zealand
39 The Todd Corporation Limited
40 Vodafone New Zealand Limited
41 Watercare Services Limited
42 Westpac New Zealand Limited
43 WSP
44 Xero Limited
45 Z Energy Limited
46 ZESPRI International Limited

We note the views in this document are a reflection of the views of the Corporate Taxpayers Group and do not necessarily reflect the views of individual members.

Yours sincerely

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**John Payne**
**For the Corporate Taxpayers Group**

**cc** **Hon David Parker**
**Hon Grant Robertson**

**International Tax Policy and Productivity** **APPENDIX**

The Corporate Taxpayers Group have identified the following examples of initiatives around Asia Pacific which have had a purpose of:

1. increasing investment
2. encouraging infrastructure investment; or
3. encouraging saving

| Country | Comments |
|---|---|
| Australia | Initiatives highlighted were regular reductions of the small business tax rate including a rate of 25% from the 2021-22 income year onward, immediate deductions for start-up costs, early-stage investor tax incentives, accelerated depreciation by increasing low value asset thresholds, review of efficiency and effectiveness of superannuation system, creating a greater alignment between tax and accounting, reducing FBT compliance costs.<br><br>In addition, Australia has recently released its consultation materials (including exposure draft legislation for both the tax and corporate law amendments) on its corporate collective investment vehicle regime. This is another example of a close trading partner to New Zealand (and competitor to foreign investment) making it less complex for foreign investment into their country. |
| India | Tax initiatives for capital investment through accelerated depreciation, weighted deduction for inhouse R&D and weighted deductions for employing additional workers.<br><br>It was noted that while the above can be implicitly linked to productivity, as productivity is not a stated goal of the Indian government, there has not been any specific initiatives. |
| Singapore | Productivity and Innovation Credit Scheme – Inland Revenue Authority of Singapore 2010 - 2017<br>Activities included: R&D, additional tax deductions for registration of intellectual property, acquisition of intellectual property, design activities, automation through technology or software; and Training of employees.<br><br>Other incentives include deductions for industrial building acquisition or construction (now phased out) and various tax exemptions which can be applied for. |

**From:** Terry Baucher <terry@baucher.tax>
**Sent:** Monday, 6 September 2021 9:15 PM
**To:** Policy Webmaster
**Subject:** LTIB topics



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 practicably 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,
Baucher Consulting Ltd

Terry Baucher
Director

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www.baucher.tax

**Covid-19:** We are monitoring the Covid-19 pandemic and assessing the risk to both staff and clients in line with current Ministry of Health guidelines. We continue to provide our services through remote working arrangements and do not anticipate any material disruption to our work with clients. We can address all client enquiries via e-mail and phone in the first instance.

Mailing address: PO Box 32-582, Devonport, Auckland 0744, New Zealand