Tax Working Group
Te Awheawhe Tāke

Tax Working Group Public Submissions Information Release

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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.

From: Graham Knowles [1]
Sent: Friday, 21 September 2018 3:35 PM
To: TWG Submissions
Cc: grant.robertson@parliament.govt.nz; amy.adams@parliament.govt.nz
Subject: Response to TWG interim report

Response to Tax working group (TWG) interim report

Personal financial examples are probably not the best to inform policy. However, I hope you appreciate feedback from the public. I am retired and receive New Zealand super and income from investments based in New Zealand and the United Kingdom. I do not receive any other pension. Last year I received [1] in income and paid [1] in tax; a rate of 28%. The normal tax on earned income of this amount would be about [1] . My high tax rate for the level of income is because I incur the fair dividend rate (FDR) of 5% on the value of my overseas investments and am therefore taxed on unrealised gain. However, because I didn't receive 5% cash dividend on my overseas investments I didn't have enough cash to meet my tax liability and had to sell investments.

I note in the TWG interim report the recommendation to retain the FDR on overseas investments. If that is implemented, then to meet my tax obligations I may be forced to sell investments which will attract a capital gain. To meet my liabilities I incur more liabilities. It seems that in my circumstances the TWG is proposing a tax on capital, followed by a tax on capital gain. I consider this to be unfair tax policy.

There are of course some apparently simple solutions. Review the basis for setting the FDR at 5%. After all, in 2018 is 5% a fair dividend rate of return especially in the current climate of low interest rates? Please note the use of the word dividend in the abbreviation FDR. The FTSE 100 yield is 4%, our own NZX top fifty yields 3.69% and the Dow Jones about 2.5%. Where in the current climate can you get a risk free return of 5%? An alternative is to give individuals a threshold of capital gain before tax is levied. In the UK this is set at around $20,000 per year and in Ireland about $4000; both countries where I have been tax-resident.

My final comment. There are no numbers in this report. How much revenue does the TWG think can be raised with capital-based taxes, or needs to be raised?

Graham Knowles