Tax Working Group
Te Awheawhe Tāke

# Tax Working Group Public Submissions Information Release

## Release Document

## February 2019

**taxworkingroup.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.

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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.

[1]

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**Tax Working Group submission**

I am a shareholder and superannuant and have invested for our retirement by purchasing shares in New Zealand and Australian Companies. I invested in the share market because we were not in any subsidized superannuation scheme. When we initially invested in NZ equities there was no intention of profit and our goal was to provide income to boost National Superannuation so that we will have reasonable quality of life at the end of our working life.

My wife and I object to paying capital gains tax (CGT) on unrealized gains as tax could be payable under the accrual regime. For mum and dad investors like ourselves, the necessity to provide annual tax accounts will involve additional annual compliance costs from a Chartered Accountant. Any losses either realized or unrealized must be permitted to be offset against any of these gains.

Ultimately, the outcome of the working group proposal will affect our net retirement savings, if the broadening of capital gains taxes is introduced to capture profits resulting in a greater tax take from households and businesses. We, as investors acquired shares with a genuine view to re-sell them to provide income in retirement not necessarily for profit.

In terms of Australian shares, there are no imputations credits or RWT attached to dividends paid, therefore NZ investors face double taxation from this type of investment through any CGT.

The working group does not provide an alternative for the fair dividend rate (FDR) that applies to shares in foreign companies. The income of foreign companies is not taxed unless the income is earned in New Zealand. The solution to tax, both the individual and the funds on the FDR basis may need to change if a CGT is introduced.

We also object to the CGT as it will introduce complexity as we may be unable to complete our tax returns ourselves and will require professional assistance. There is an element of unfairness where shares by portfolio investment equities (PIEs) are not taxable. Managed funds operating as (PIEs) also have a similar tax advantage.

Several Company's operate a dividend reinvestment plan (DRP) where the allotment of additional shares, rather than paying cash dividends apply. An investor who opts for a DRP scheme that does not generate regular streams of cash income and creates unrealized gains for longer term returns may be forced to dispose of these shares to meet cashflow and CGT liabilities. DRP will create some challenges for the average mum and dad investor with unrealized gains as there are complexities with accrual-based CGT and capital income.

If the Labour Government decides to introduce a capital gains tax, we prefer a realization-based CGT where the gain on the sale of shares is taxed only when shares are sold. Any losses on sale of shares must be offset against other income or losses may be carried forward.

C P Reynolds