Tax Working Group
Te Awheawhe Tāke

Tax Working Group Public Submissions Information Release

Release Document

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Submission

By

New Zealand Private Equity and Venture Capital Association

To the

Tax Working Group

On the

Future of Tax – Interim Report

1 November 2018

Contact details:

The NZVCA would be happy to discuss the issues raised in this paper.

To engage further, please contact Colin McKinnon, Executive Director on [1] or email [1]

INTRODUCTION

The New Zealand Private Equity and Venture Capital Association ("NZVCA") welcomes the Working Group's review of the NZ tax system and acknowledges the release on 20 September 2018 of the interim report on the Future of Tax.

Following the recommendation by the Tax Working Group ("TWG") in the interim report to extend the taxation of capital income, the NZVCA wishes to reiterate submissions originally made to the TWG in relation to developing a system which is internationally competitive.

However, it is first useful to provide the context and principle behind which this submission is made. At its simplest level, the NZVCA is here to support:

> ***the availability of capital, both monetary and human, to New Zealand's growing businesses, to encourage confidence and increase investment.***

KEY SUBMISSION

The NZVCA makes the following submission:

Recommendation: If New Zealand is to adopt a tax on capital income it must be competitive internationally

The NZVCA believes that one of the key considerations when reviewing our tax system is to ensure that our tax system is competitive internationally. NZ struggles to attract capital investment particularly in the venture capital area and while venture capital investment in NZ has been growing it is still below the OECD median. For NZ ensuring that our tax system is competitive with Australia in particular is important given how easy it is to transfer capital from NZ to Australia.

We consider any system which taxes capital income should be designed with international capital gains tax ("CGT") systems in mind to ensure NZ is competitive, particularly with Australia where a number of specific investment regimes and vehicles encourage investment. Minimising the impact of any leakage of available cash to the already constrained growth capital environment through the taxing of capital income should be paramount to any policy.

We note the recommendation of the TWG to tax income from realisation of any of the following assets:

- interests in land (other than the family home). This includes all other residential property, commercial, agricultural, industrial and leasehold interests not currently taxed;
- intangible property, including goodwill;
- all other assets held by a business or for income producing purposes that are not already taxed on sale (such as plant and equipment);
- shares in companies and other equity interests.

Looking internationally we believe one of the key features that a competitive tax on capital income should have is roll-over relief.

Most CGT systems around the world have some form of roll-over relief. A study by EY has confirmed that of 16 major countries with a capital gains tax regime, all have a form of relief. The effect of a roll-over relief is essentially to defer or disregard the arising capital gain where the capital is used to purchase a replacement asset (which would ultimately still be subject to a capital gains tax). This means that the capital gain is not taxed until the point the gain is actually realised by the asset holder.

These provisions encourage capital to be reinvested into business instead of paid out to shareholders which is beneficial to growth and business development. In Australia the roll-over provisions also provide relief in scenarios where a capital asset is legally transferred but no real change in economic ownership occurs – for example where assets owned by an individual are transferred to their wholly owned company or where shares are swapped as part of a business restructure but the shareholders underlying interest remains the same. These types of provisions are extremely important as they allow flexibility for business restructures as businesses grow and develop.