Tax Working Group Public Submissions Information Release

Release Document

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[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;

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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.

BRITANNIA
Financial Services Ltd
Personal Service, Worldwide Solutions

30 April 2018

Submission to the Tax Working Group

Introduction

We ask the Tax Working Group to address what we see as a significant failing in today's retirement income landscape, namely that over their lifecycle, retirement savings in well diversified investment portfolios are overtaxed in New Zealand.

Currently, superannuation in New Zealand is taxed under a TTE regime whereby contributions are made from post-tax income, investment gains are taxed in the scheme and then withdrawals are tax free. Effectively, this means that there is no tax incentive to save for retirement in a well-diversified superannuation fund. This creates outcomes where future retirees are either underfunded and reliant on state superannuation or, if they have other investments, these are likely to be disproportionally weighted to property (and therefore only available in one-off large amounts) which carry tax advantages compared to superannuation funds.

As you are aware, the differences in the effective tax rates between residential rental property investments and compound return retirement products such as KiwiSaver and superannuation schemes are a result of capital gains being included as annual income for compound return retirement products but not residential rental properties.

For superannuation scheme investors, all interest (earnings in general) is taxable and reduces the after-tax earnings that can be reinvested to earn compound returns.

The different tax arrangements, which encourage investment in residential rental property by higher income earners, also disadvantage first home buyers by putting them in direct competition with investors who benefit from such tax advantages. Arguably, this also discourages investment by investors in new productive capacity even when such investments would be equally profitable on a pre-tax basis.

Most retirees are on a 17.5% tax rate during retirement but are taxed while trying to establish retirement savings during their working lives at or nearer to 28%. A lower, more even, tax rate on such savings in superannuation schemes would seem more equitable and incentivise greater

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retirement savings – thereby potentially reducing the burden on the Government to provide for retirees via New Zealand Superannuation.

Submission

We submit that tax rates on income for investments held in locked in retirement savings schemes and products with annuity benefits should be reduced to encourage and assist New Zealanders to take more control of and save for their retirement.

Yours sincerely

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Gavin Dixon

Chief Executive Officer