Tax Working Group
Te Awheawhe Tāke

Tax Working Group Public Submissions Information Release

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New Zealand Shareholders Association Inc.
NZSA
Many Investors, One Voice

30th April 2018

Submission to The Tax Working Group

The New Zealand Shareholders Association is the only body that represents retail investors in New Zealand.

This submission covers areas of interest to retail investors as follows;

1. Appendix 2 Design Issues with a Capital Gains Tax (Share)
2. Appendix 3 Questions for Submitters Chapter 5 Tax and Business

1. Capital Gains Tax on Shares.

The Association believes the current provisions in the Income Tax Act 2007 regarding capital gains tax on shares are adequate to capture those whose prime purpose in buying and selling shares is for a capital profit. Retail investors in general buy and hold shares long term for the dividend income either to supplement their other income or to provide for their retirement. Any capital gain is incidental to their primary purpose.

We note that successive governments and their agencies such as the Reserve Bank have exhorted citizens to invest in other than residential or commercial property. A capital gains tax on shares regardless of the holding period would be yet another disincentive for retail investors to invest in shares. We note New Zealand already has a low direct investment in capital markets.

In addition, most of the 2.2 million citizens enrolled in KiwiSaver will be indirect holders of New Zealand equities. Only those invested in a solely cash fund will not be affected by a wide-ranging capital gains tax. The long-term impact on their final KiwiSaver balance would be significant and substantially reduce the capital and income they have to live on in retirement.

New Zealand doesn't produce its capital requirements internally so has to rely on capital inflows to meet its needs. Capital is an internationally mobile commodity so the New Zealand taxation regime has to be competitive if it is to attract the level of capital required to produce the standards of living for all citizens referenced by the Group at page 17 Taxes and Wellbeing.

A capital gains tax could impede liquidity in the market by disrupting normal trading patterns and prevent capital being utilised for its maximum return.

We note the overseas experience regarding capital gains taxes are as follows;

- Capital Gains Taxes are complex and complicated.
- They are difficult to administer.
- They are costly to administer.
- As a result, they often don't raise the tax revenue anticipated.

The Association is opposed to any further provisions regarding a capital gains tax on the purchase and sale of shares.

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2. Chapter 5 Tax and Business

(a) Company tax rate.

We note and agree with the statements in the paper as follows;

- Falling company tax rates around the world (page 4).
- New Zealand's company tax rate is relatively high, and the proportion of company tax revenue to GDP is high (page 5).
- New Zealand has reduced its rate in recent years (in 2007 it was 33%), but other OECD countries have reduced their rates by a greater margin than New Zealand, resulting in New Zealand climbing up the OECD rankings of corporate tax rates (page 14).

Company tax is a cost of doing business. Companies that export must compete against companies in lower tax environments. Those companies can deliver cheaper goods and services and/or retain more net income for research and development or to reward their shareholders with higher dividends.

Capital is an internationally mobile commodity and will flow where it gets the best returns. Our company tax rate must be competitive to attract and retain the capital to grow the economy and result in the wellbeing of all citizens referred to at page 17.

The Association believes the company tax rate must be reduced to a level that is internationally competitive.

(b) Imputation System.

We note the comments at page 28 regarding the imputation system. The Association believes it would be inequitable to disallow an imputation regarding dividend income. This would tax the distributed profit twice, once as profit to the company and again as a dividend to the shareholder. As a matter of principle, we would point to Double Tax Agreements that are designed to avoid a tax payer being taxed twice on the same income. Shareholders are in effect owners of a company so the profit the company makes are their profits and should only be taxed once as they are now at the shareholders marginal tax rate.

Any diminution in the current imputation system would also impact significantly on KiwiSavers especially over the long term. It would significantly alter the current actuarial calculations regarding the amount a saver would have to accumulate from their own resources to achieve a given retirement balance.

In addition, we note Figure 21 on page 40 that shows the marginal effective tax rate on savings regarding companies' distributions at 55.7% at the highest level and point to our earlier statement that successive governments and their agencies have indicated a strong preference for citizens to invest in other than residential and commercial property.

The Association believes Imputation System should continue with no changes.

(c) Foreign Investment Fund (FIF) Rules and Fair Dividend Rate (FDR) System

We agree with the statement at page 39 "Foreign shares are relatively highly taxed under the foreign investment fund (FIF) rules and the fair dividend rate (FDR) system, whereby income is calculated at 5% of the opening value of the shares each income year. If real returns are only 3% (as assumed), this will overtax foreign shares."

We also note Figure 21 page 40 Marginal Effective Tax Rates on Savings that shows FDR at 55% at the top of the range.

The Association believes the FIF and FDR are arbitrary, inequitable, complex and complicated to the point that many tax payers don't understand the tax and are compelled to employ expensive professionals to calculate the tax.

The Association believes the FIF and FDR Systems should be scrapped and replaced with a system that taxes foreign dividends in the same way domestic dividends are taxed.

(d) Base Erosion and Profit Shifting (BEPS)

We note and agree with the statement at page 44 "The issue of some multinational corporations paying little or no tax anywhere in the world by way of exploiting inconsistencies and mismatches in countries' domestic tax rules – a practice known as BEPS – is an issue that has received significant comment and concern worldwide."

This has the effect of increasing the tax paid by domestic taxpayers to make up the desired revenue shortfall. We are aware of the mechanisms multinational companies use and suggest one way to counter this is to impose a flat rate tax based on their revenue as reported for Goods and Service Tax. This would be administratively simple and difficult for the companies to avoid.

We acknowledge the work that is currently underway to address this issue and that the Terms of Reference for the Group state that the technical aspects of New Zealand's BEPS agenda are not their focus

The Association believes multinational companies must be taxed at no lesser rate than domestic companies.

The Association asks the Group to carefully consider the consequences of any changes to the tax regime that could have a negative impact on the future requirements for capital to achieve the objective of improving the wellbeing of the nation's citizens.

Yours sincerely,

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Michael Midgley
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