Tax Working Group
Te Awheawhe Tāke

Tax Working Group Public Submissions Information Release

Release Document

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Key to sections of the Official Information Act 1982 under which information has been withheld.

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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.

[1]

Date 12.10.2018

To The Tax Working Group
c/o Tax Working Group Secretariat
P O Box 3724
Wellington 6140

[1]

Submission To The Tax Working Group

I wish to make the submission outlined below concerning the proposed tax on unrealised capital for equity investments made through the New Zealand stock exchange.

I do not wish to speak to my submission

Background

I am a trustee for a family trust which owns a portfolio of company shares, property shares and fixed interest investments.

This portfolio is not large but forms an integral part of providing retirement income in addition to national superannuation entitlements for the beneficiaries of the trust.

My understanding from the draft report recently produced, is that there is a proposal to introduce a variety of tax changes including the introduction of tax on different forms of capital gain.

Within this area of taxation, there is a proposal to include a tax on shares and other financial entities where the tax is to be calculated on any increase in value for each entity over each financial year. That is, a tax on improved theoretical or book value rather than realised value.

The portfolio I am talking about has been established to provide income, which is already taxed, and not particularly for capital gain. Any capital gain should and usually reflects inflation and this allows for changes to income levels (usually by way of dividends) and so provides some inflation proofing to the income received.

Submission

I am against any form of capital gains tax on unrealised capital of any form.

While I am not averse to paying income tax on any capital realised on the sale of share equity, I feel that where a capital loss is made on the sale of share equity, there should equally be a tax claim on the loss value.

Also there should be some allowances made for inflationary influences on money values so any tax should be made after adjustments for inflation.

The share market has been reasonably buoyant over the last few years and many shares have gained in value but there are others that have lost value.

For example, at present, the Reserve Bank has placed a firm CBL under administration and it looks likely that all shareholders will lose their investment.

Could this result with a tax claim for the loss?

A few years ago, the Commerce Commission carried out an exercise to try and determine what Chorus would be able to charge for its ultra fast broadband services. It's first directive was fraught with errors and Chorus was placed in a financial crisis. As a consequence, the share value plummeted but eventually recovered.

There are many examples of situations where businesses have had difficulties and the share price has plummeted and then in some cases recovered. Examples include Chorus, Fletcher Building, A2 Milk, Sky Television.

Share values are also affected by exchange rates and global events.

The value of a portfolio varies daily according to share market trading so to take an arbitrary date such as 31st March to value a portfolio or each entity that makes up that portfolio for the purpose of determining any capital gain is very unfair if there is not a converse situation allowing tax claims for losses made as well.

The only true way to determine capital gain is to take the sale price and subtract the purchase price taking into consideration charges and cost associated with the purchase and sale and inflation over the period between purchase and sale.

If the tax working group is to target the share market and tax unrealised capital gains, then it should also target business balance sheets and tax their changes in book value of business assets.

The government introduced legislation which disallows rental property to be depreciated.

In my view, this contravenes long established accounting practices. Usually with depreciation on assets, any tax saved by way of this accounting entry must be paid back on sale of that asset.

In the same way, I can see that once more, the government is considering screwing commonly accepted accounting principles that have been developed over many centuries by working on theoretical values rather than historical real values.

Summary

I am against any form of capital gains tax on unrealised capital of any form.

Bill Cromwell

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