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.

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(Sent via email: submissions@taxworkinggroup.govt.nz)

Dear Sir/Madam

Tax Working Group Submission

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1. Introduction

Mercer (N.Z.) Limited (Mercer) welcomes the opportunity to provide a submission to the Tax Working Group (Group).

Mercer has operated in New Zealand since 1957, providing investment and funds management services, primarily in the areas of workplace savings and KiwiSaver schemes. In addition to providing advice and services to nearly 100,000 Mercer KiwiSaver members, we perform administration and related services for approximately 100 corporate client schemes.

Mercer's ultimate owner is Marsh & McLennan Companies (NYSE: MMC), a global professional services firm offering clients advice and solutions in the areas of risk, strategy, and people. MMC's 57,000 colleagues worldwide provide analysis, advice, and transactional capabilities to clients in more than 130 countries.

2. Taxation System Comments

a. General
It is well recognised that tax is a significant lever for prompting changes to individual retirement savings behaviour. The Future of Tax Submissions Background Paper notes that the treatment of investments under the current taxation system would appear to disproportionately favour certain assets classes. This asset class treatment disparity would not appear to produce beneficial outcomes with respect to enhancing savings rates, particularly retirement savings and associated retirement incomes.

We are of the view that this treatment disparity should be addressed through the appropriate alignment of taxation of asset classes, with concessions for retirement savings applied.

Additionally, any changes to the current taxation system should focus on encouraging a long-term savings habit and asset accumulation by individuals. This would help to increase individuals' well-being and financial independence, particularly in retirement, and to provide retirement benefits. We are strongly of the opinion that changes to the current taxation regime should not be made on a piecemeal basis but that any taxation changes should be considered in conjunction with the current KiwiSaver and broader savings regime.

b. Specific
Our suggestions with respect to more specific tax treatments are as follows:

- We support maintaining capital gains tax exemptions for portfolio investment entities as the current methodology is relatively well understood and further changes may have adverse impacts on any objective to enhance savings rates;

- We support the current Foreign Investment Fund tax rules and would not want to see an increase in the FDR rate; and we also support the current Prescribed Investor Rate (PIR) regime and would regard any proposal to increase the top PIR rate of 28% as counter-productive;

- We support the continued treatment of the supply of financial services being generally exempt from GST, as removal or reduction of this may have an adverse impact of retirement savings.

3. Mercer Global Pension Index

In support of our general and specific comments, we would like to draw the attention of the Tax Working Group to research undertaken within the Mercer group, regionally and globally, including in relation to superannuation. Of particular relevance to the Tax Working Group's remit, is the Melbourne Mercer Global Pension Index (MMGPI) published jointly by Mercer Australia and the Australian Centre for Financial Studies. MMGPI receives funding from the State Government of Victoria.

MMGPI provides powerful insights into global pension trends and international comparisons and benchmarks a number of countries, with New Zealand included in the 2017 survey. MMGPI methodology entails a detailed review of the core components of any sustainable retirement savings regime, namely *adequacy, sustainability and integrity:*

- *Adequacy* relates to the provision of adequate retirement incomes including the base (or safety-net) level of income provided as well as the net replacement rate for a median-income earner.
- *Sustainability* includes components such as the economic importance of the private pension system, the level of funding, length of expected retirement both now and in the future, labour force participation rate of the older population, current levels of government debt and the rate of real economic growth.
- *Integrity* is comprised of three general areas (a) regulation and governance; (b) protection and communication for members; and (c) costs. Private sector plans are noted as important components because without them the government would be the only provider. This is not a desirable or sustainable long-term outcome. They therefore represent a significant component of a well-governed and trusted pension system, which has the long term confidence of the community.

Countries with the highest MMGPI Overall Index Scores were Denmark, Netherlands and Australia.

Two of the key deficiencies identified by MMGPI in relation to the New Zealand environment appear to be directly linked to tax, the other potentially indirectly linked. These factors negatively impacted how New Zealand performed in the Adequacy sub-index of the MMGPI.

These deficiencies are noted below:

- a negative household savings rate - of the 30 countries surveyed, New Zealand had the worst score in relation to the net household saving rate component (- 6.1%) – This was one of the key deficiencies of New Zealand in the MMGPI;
- a deficient score in relation to the tax treatment of superannuation investment income compared to other countries; and
- tax incentives to encourage New Zealanders to take up income streams were noted as minimal.

As noted above Mercer is of the view that changes to the current taxation system should focus on encouraging a long-term savings habit and asset accumulation by individuals.

4. Contact for Submission

Mercer's contact for any further information in respect of this submission is Ms. Sarah Whitelock.

Yours sincerely,

Sarah Whitelock

[1]

Consumer Wealth Leader
For Mercer (N.Z.) Limited