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.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

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

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Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Dear Tax Working Group,

Thank you for asking for submissions on the Future of Tax.

You proposed 5 key questions for consideration. Our submission relates to 2 of these:

1. What is the purpose of tax?
2. Are we taxing the right things?

Milford Asset Management recommends that tax incentives be created to encourage people to save more for retirement.

Our enclosed research report titled *New Zealand's Savings Health Check* finds the median New Zealand household is not on track for a comfortable retirement because they are not saving and investing effectively.

Despite the success of KiwiSaver, more needs to be done to encourage New Zealanders to save effectively for their retirement. We know our current setting (saving only 6 per cent of our income to KiwiSaver) is not enough to fund a comfortable retirement.

Simply lifting the KiwiSaver contribution rates can be a blunt instrument because some of our population cannot afford to contribute more.

Given this, Milford believes that New Zealand's household savings rate would increase meaningfully if the tax system allowed people:

- to make tax-deductible contributions (or contributions out of pre-taxed income) to their KiwiSaver account, capped at a significant but reasonable amount each year (by way of example the UK's cap is £40,000); and
- to contribute over and above the annual cap on a non-tax-deductible basis.

  and:

- Reduce tax rates on investors' investment earnings in KiwiSaver funds

Similar incentives are used in Australia, the US, Canada and the UK. And these countries all have higher household savings rates than New Zealand.

The incentives would be applicable to all income earners. Having an annual contribution cap on the incentive, means it would have a proportionally larger positive impact on the savings of lower and middle-income earners.

Some may argue creating incentives would cause a substitution affect, where investors simply move money from one asset type to their KiwiSaver account. Even if this were the case, given the vast sums of money New Zealanders have in low yielding cash accounts, currently over $150b, the outcome for long-term investors would likely be a better one, as they would become invested in higher-returning and more diversified KiwiSaver funds.

Importantly, tax incentives tilting behaviour towards saving as opposed to spending, will increase people's ability to fund their own retirement, therefore relying less on NZ Super. This is a long-term win-win outcome for both the government and the individual.

You can see our report by clicking here, with a summary of key findings below:

- New Zealand's household savings rate has been negative the past few years, compared to positive savings rates in Australia, US, Europe and Canada. This means households are using their existing savings or increasing debt to fund current spending.
- Despite the generous NZ Super pension, the median New Zealand household is not on track for a financially comfortable retirement
- Current KiwiSaver contribution rates average about 6 per cent of income. However, to achieve a comfortable retirement, the median New Zealand household needs to save and invest roughly 11 per cent of their income into growth assets. If they're investing in conservative assets, their savings rate needs to increase to 17 per cent. These are roughly double and triple the current average KiwiSaver savings rate of 6 per cent.
- Most importantly - the median New Zealander is earning about $49,000 per year. Yet anyone earning over $35,000 per year has no tax incentive to contribute more than the minimum 3 per cent to KiwiSaver.
- Australia, the US, the UK and Canada all have stronger forms of tax incentives to encourage extra retirement savings – and all these countries have significantly higher savings rates than New Zealand.
- Also in the report is a recommendation that new KiwiSaver members who do not actively choose their KiwiSaver fund, should be defaulted to a fund based on their age. With younger investors tilted toward more growth oriented funds and older investors tilted to more conservative oriented funds. The current conservative fund default setting is costing KiwiSaver members who do not make an active decision many thousands of dollars at retirement.

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