Tax Working Group Public Submissions Information Release

Release Document

February 2019

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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.

MJW Funds Management Ltd

[1]

31 October 2018

Submission to the Tax Working Group

Relationship of the Submitter

MJW Funds Management Ltd (MJWF) is a niche funds management business that provides discretionary investment management services (DIMS) to a range of wholesale clients. The focus of this submission is on factors that impact on individual New Zealand equity investors should tax legislation change.

Overview

MJWF acknowledges the Tax Working Group's (TWG) interest in the introduction of a capital gains tax (CGT) as outlined in the Interim Report. However, as the TWG recognises, a CGT is likely to introduce considerable complexity to the tax system. Complexity inevitably results in higher compliance costs for tax payers. It can also result in inefficient capital allocation, as taxpayers become more focused on tax concerns than on optimal asset allocation.

Direct equity investment is one way that New Zealanders can save for their retirement and/or provide for the future of their families. New Zealand savers are frequently criticised for over investing in residential property at the expense of other asset classes. In the view of MJWF, equity investment needs to be encouraged for the benefits it provides to both investors and those seeking capital to grow their businesses.

For equity investment to be supported as an opportunity for saving, a means of diversification and as a source of growth capital for New Zealand businesses, any tax changes need to be manageable and easy to comply with.

Taxing Share Price Gains

The TWG Interim Report assumes that gains from shares, in the absence of a CGT, are tax free whereas share prices over time reflect the net present values of discounted cash flows based on expected future tax paid earnings (not pre-tax earnings). In this way, share prices already reflect "after tax" values. The introduction of a CGT would therefore lead to double taxation of investor returns.

Taxing New Zealanders' Australian Listed Shares

MJWF notes that Australian held share investments are already subject to a double tax on distributions due to the lack of recognition of franking credits. The imposition of a third level of tax on Australian listed company holdings will clearly be a disincentive to invest in Australia. This would be unfortunate since the breadth of ASX listings presents excellent diversification opportunities for New Zealand investors that are not available through NZX.

Rollover Relief

If a standard CGT is to be introduced, MJWF believes that rollover relief would be a valuable provision that would reduce the disincentive to invest in equities. MJWF notes with concern, comment in the Interim Report that suggests that rollover relief might be considered for managed funds but not for individual investors. To avoid perverse incentives, and from the equity and fairness perspective, it is essential that individual investors are not treated differently from those who are in managed funds.

Risk Free Return Method (RFRM) Tax

Of the options available to introduce a capital tax, the RFRM is in our view the simplest to work with and the most equitable. It has the advantages of being easily understood, more predictable and, as a result, easier for investors to budget and plan for than a standard CGT on either realised or unrealised gains. A RFRM tax is also the tax form that, in our view, is least likely to lead to tax lead changes in investor behaviour.

In keeping with the idea of applying a simple tax change to share investment, MJWF believes that a RFRM based tax could be applied across both domestic and international share portfolios. For markets beyond Australasia, this could provide the opportunity for a RFRM based tax to replace the current FIF regime.

If the FIF regime is not replaced, we belief the option to use the "comparative value" method should be retained on fairness grounds.

Submission prepared by:

Martin Watson
Managing Director
MJW Funds Management Ltd