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.

2 November 2018

Tax Working Group Secretariat
PO Box 3724
WELLINGTON

Dear Secretariat,

Tax Working Group Future of Tax: Interim Report

Thank you for the opportunity to provide feedback on the Tax Working Group's (TWG) *Future of Tax: Interim Report* ("the interim report").

Introduction

Contact appreciates the release of the interim report and the request for feedback on the comments within. Recognising the substantial amount of work to be done between the interim report and the final report in February next year, Contact has kept its comments below to those that it thinks most fundamental.

For completeness, Contact is a member of the Corporate Taxpayers Group (CTG) and will also be contributing to the submission made by CTG in respect of the interim report.

Submission Points

As outlined in our earlier submission, Contact considers that generally the tax system should be one where there is neutrality between taxpayers, and that tax should not incentivise or hamper investment decisions. This ensures the most efficient and effective use of resources, without risk of distortions being created by the tax system.

The interim report considers extending the taxation of capital income (EOTOCI). Given the breadth of these recommendations, Contact submits that;

1. Further work and research is undertaken to ensure that the design of an EOTOCI will result in the intended outcomes that are expected, primarily being the desire for greater investment in the productive sector.

    a. The design of any EOTOCI on shares in companies and equity investments needs to be done in a way that will ensure that investor neutrality remains between forms of and types of investments. For example, direct investment and indirect investment should have the same tax outcome for the investor.

b. Contact appreciates the TWG acknowledging in para 24 on page 33 of the interim report that it is necessary to understand how an EOTOCI might distort capital markets. Contact is very supportive of the need to work through this assessment viewed from a NZ Inc. perspective. For example, if an EOTOCI on NZ equity investments is greater than the fair dividend rate on foreign equity investments, there is a risk of capital investment moving offshore and or companies moving offshore – taking investment away from the productive sector.

2. Any proposed changes to extending the taxation of capital income from the TWG recommendations should be consulted on in accordance with the Generic Tax Policy Process (GTTP) to ensure that it is effective in achieving its intended goals.

   a. The current timeframes being proposed do not appear to allow for the EOTOCI recommendations to be thoroughly worked through and assessed with care. Adding to this, the further non-EOTCI recommendations being proposed requiring analysis in their own right, the comprehensive review that is required of each recommendation in the suggested timeframe seems to be an exceedingly demanding task.

   b. Contact supports an approach whereby each recommended "extension" is taken through the GTTP one-by-one. In essence, a staggered approach to the "extensions", which will ensure that the final product is fit for purpose.

3. If a comprehensive EOTOCI is recommended, this should only be applicable from 1 April 2022.

   a. A comprehensive EOTOCI with an application date of 1 April 2021 would put immense pressure on corporates to be compliant. The required process and system changes for businesses will require a significant investment of time and finances with the potential for this effort to be in vain depending on the results of the election in 2020.

   b. A deferred application date will give businesses more time to develop processes and systems knowing the significant investment will be utilised.

Should you wish to discuss any matter raised in this submission please do not hesitate to contact me.

Yours sincerely

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Saralaya Frost
Senior Tax Manager
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