Inland Revenue
Te Tari Taake

POLICY AND REGULATORY STEWARDSHIP

TE TAI ŌHANGA
THE TREASURY

Tax policy report: GST treatment of services supplied to managed funds

Date:	12 April 2022	**Priority:**	Medium
Security level:	In Confidence	**Report number:**	IR2022/152 T2022/848

Action sought

	Action sought	Deadline
Minister of Finance	**Agree** to recommendations	4 May 2022
Minister of Revenue	**Agree** to recommendations **Refer** a copy of this report to the Minister of Commerce and Consumer Affairs	4 May 2022

Contact for telephone discussion (if required)

Name	Position	Telephone
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12 April 2022

Minister of Finance
Minister of Revenue

GST treatment of services supplied to managed funds

Executive summary

Purpose

1. This report seeks your decision on how GST should apply to services that fund managers and investment managers provide to KiwiSaver and other managed funds.

Context and background

2. The current GST treatment of management services supplied to managed funds is complex and inconsistent. It can differ depending on the type of manager which is supplying the service (a manager or an investment manager) or the type of fund (a retirement scheme, or other type of fund) which is receiving the service.

3. There are three different industry practices ranging from:

   - A full GST exemption (no GST charged) when the relevant services qualify for the GST exemption for management of a retirement scheme;
   - Treating 90% of their services as exempt, and effectively charging 1.5% GST on their fees (15% GST on 10% of their fees); and
   - Charging 15% GST on all their services.

4. The inconsistent GST practices mean there is an uneven playing field for pricing these services which may distort competition. It also leads to higher compliance costs, and less revenue.

5. Many of the current practices are not consistent with current GST laws, so a law change is necessary to either allow the current inconsistent practices to continue, or to set a certain and consistent GST treatment.

Legislative change is required but the affected parties disagree on the preferred policy option

6. The managed funds industry agrees that a legislative change should be introduced to provide certainty and reduce compliance costs.

7. However, there are two different stakeholder views as to what the GST treatment should be:

- **Option 1. Retain status quo.** This would legislate to allow current practices to continue. The Financial Services Council (who represent large, mature funds) prefers this option.
- **Option 2. Making services supplied by fund managers and investment managers subject to 15% GST.** This would legislate to require GST to be charged

on all services supplied to managed funds. This option is preferred by a group of boutique fund managers and is consistent with their current practice.

8. The main trade-off between the two options is that applying more GST to managed funds will ensure consistency across the industry, will raise revenue, and is less likely to create pressure for further exemptions. However, this will increase costs for managed funds, which is likely to increase fees and reduce returns from savings, and consequently reduce future balances in KiwiSaver and other managed funds.

Recommended policy option

9. Inland Revenue and Treasury recommend Option 2: Making services supplied by fund managers and investment managers subject to 15% GST. We consider that this will lead to a more consistent treatment and therefore an even playing field across the industry. It will also reduce compliance costs, improve integrity and be more sustainable. This option would raise revenue in a manner consistent with our GST frameworks.

10. We acknowledge that this would lead to higher fees for savers and transitional costs for the industry. However, we consider these costs can be mitigated by options considered further below and that the benefits of this option will outweigh these costs.

Additional GST revenue

11. Inland Revenue estimates that applying GST to the manager and investment manager fees would raise approximately $250 million to $300 million per annum of additional GST revenue.

Impact on fees charged to retail investors

12. We expect that applying more GST to managed funds would increase the fees charged to retail investors (such as KiwiSaver members). To the extent that fees increase, this will reduce after-fee returns and therefore the total amounts that are reinvested and, ultimately, future retirement balances.

13. If Ministers are concerned about the managed funds fees increasing because of applying GST, then we recommend considering non-GST options for supporting savers. This could include, for example, options such as an explicit fee subsidy or increasing the Government contribution. Such options could also be better targeted to benefit savers with smaller balances (as opposed to GST concessions, which would produce the most benefit for savers with large balances).

14. We consider that these non-GST options are preferable and are likely to be more direct and effective options than a GST concession. New Zealand’s GST system has not been previously used to reduce the price of specific goods or services (unlike other countries, which have concessions, for example, on food and education), so it would be an adverse precedent to provide GST concessions to reduce the price of managed fund fees.

15. The Treasury recommends that you consider these options alongside your wider fiscal and other objectives. The revenue from our preferred policy option (to make services supplied by fund managers and investment managers subject to 15% GST) could, for instance, be used to increase spending or reduce taxes in other areas and this should be compared alongside options to support savers.

Application date

16. To mitigate the transitional costs, we recommend providing an adequate transitional period between enactment and when the new rules would apply. For example, 24-36 months could provide time for the hundreds of affected taxpayers to amend their IT systems, adjust their business practices and replace or renegotiate commercial

contracts, to align with the new rules. A shorter transitional period, such as 12 months, would have a fiscal benefit of collecting GST revenue sooner, but we would recommend against this as it could impose much more disruption to the managed funds industry and associated implementation challenges and transitional costs.

17. We will provide updated advice on the application date and estimated fiscal implications when we report back in May 2022 with a draft Cabinet paper. We are currently seeking further information on transitional costs and more recent managed funds data is expected to be published soon.

Next steps

18. Officials are available to meet you, at your earliest convenience, to discuss this report.

19. Following your decision, officials will report back with a draft Cabinet paper and Regulatory Impact Statement seeking Cabinet approval of your decision. An indicative timeframe for this Cabinet paper would be:

9 May	Report back to the Minister of Revenue with a draft Cabinet paper and Regulatory Impact Statement
16 June	Lodgement of Cabinet paper for DEV (10am 16 June)
22 June	DEV consideration of Cabinet paper
27 June	Cabinet approval

20. This timeframe would allow the proposed legislative change to be included in the omnibus Taxation Bill which is scheduled for introduction in August 2022 and enactment in late March 2023. s 9(2)(f)(iv) [redacted]

Recommended action

21. We recommend that you:

22. **agree** to one of these two options:

22.1 Option 1 –Legislating to allow the current inconsistent GST practices to continue); OR

Agreed/Not agreed　　　　Agreed/Not agreed

22.2 Option 2 – Making services supplied by fund managers and investment managers subject to 15% GST (Inland Revenue and the Treasury's preferred option);

Agreed/Not agreed　　　　Agreed/Not agreed

23. **note** we expect that option 2 would increase fees for retail investors, such as KiwiSaver members. To the extent that fees increase, this would reduce after-fee returns and therefore the total amounts that are reinvested and, ultimately, future retirement balances;

Noted　　　　Noted

24. **agree** that if option 2 proceeds, an adequate transitional period, such as 24-36 months after enactment, be provided to ensure it is viable for funds and service providers to implement the new rules and to mitigate the transitional costs.

Agreed/Not agreed Agreed/Not agreed

25. **note** with a 1 April 2025 start date (24 months after enactment), the estimated fiscal impact of option 2 is the revenue gains shown in the following table;

	$m – increase/(decrease)				
Vote Revenue	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Crown Revenue and Receipts: Tax Revenue	**$0**	**$0**	**$0**	**$42.0**	**$275.0**
Total change in Revenue	**$0**	**$0**	**$0**	**$42.0**	**$275.0**

Noted Noted

26. **note** we will provide updated advice on the application date and estimated fiscal implications when we report back in May 2022 with a draft Cabinet paper;

Noted Noted

27. **refer** a copy of this report to the Minister of Commerce and Consumer Affairs for their information.

Referred/Not referred

s 9(2)(a)

[redacted]

Stephen Bond
Manager, Tax Strategy
The Treasury

Graeme Morrison
Policy Lead
Inland Revenue

Hon Grant Robertson
Minister of Finance
/ /2022

Hon David Parker
Minister of Revenue
/ /2022

Background

28. The current GST treatment of different types of management services supplied to managed funds is complex and inconsistent.

29. KiwiSaver funds and other types of managed funds purchase three main types of services from third parties:

- **Manager services.** A fund manager has overall responsibility for managing the fund. This includes offering and issuing units in the fund to investors, managing the fund's investments, reporting to investors, and procuring services from an investment manager and various administration service providers.

- **Investment manager services.** These involve an investment manager managing which assets (shares, bonds, cash) or other funds the fund invests into. When reporting to investors, manager services and investment manager services are both reported as "management fees" which are set as a very small percentage (typically between 0.2% and 2%) of the funds under management.

- **Various administrative services** such as legal, accounting, ICT (information and communications technology) or reporting services.

30. The providers of these services apply GST inconsistently and this results in an uneven playing field across the industry.[1]

[1] Unlike many other industries, any GST applied to these services represent a real cost for managed funds. This is because under New Zealand's GST rules managed funds are 'exempt' from GST. This means they cannot claim back GST charged to them, but at the same time do not need to apply GST to the fees they apply to consumers.

How the industry is applying GST to fees

The industry applies three main GST practices:

- **GST exempt**. There is a GST exemption which applies when management services are provided directly to a retirement scheme (such as a manager providing services directly to a KiwiSaver scheme). However, this exemption does not apply to most structures where a retirement scheme invests into a variety of underlying wholesale funds (NZ fixed interest, international shares etc.), as the managers and investment managers will be providing their services to the wholesale fund rather than to the retirement scheme.

For manager and investment manager services provided to other types of managed fund (including wholesale funds which other funds invest into), there are two different GST practices:

- **90% exempt.** The largest fund managers and investment managers typically treat ten percent of their services as being subject to 15% GST and the remaining ninety percent as exempt from GST (because they consider their services are mostly "arranging" the buying and selling of investment products and so should qualify for the GST exemption for financial services). This may allow them to charge lower fees to the wholesale funds (as they effectively only charge 1.5% GST on their management fees). This ratio was historically accepted by Inland Revenue since 2001, until a new draft interpretation was developed in 2017.

- **GST on all fees.** A group of boutique managers and investment managers apply 15% GST to all of their services (as in their view their services are providing investment "advice" or other types of services that are subject to 15% GST). This simplifies GST compliance and allows the fund manager or investment manager to claim GST deductions (refunds) on their purchases, such as commercial rent, research, software, ICT and administrative services etc.

Most non-management services supplied to managed funds, such as administrative services, are subject to GST.

31. Many of the current GST practices employed by the industry, such as the 90% exempt treatment, are not consistent with existing GST laws. This means that retaining the status quo would require a law change.

Problems with current GST practices

32. There are three main problems with current GST practices.

Competitive advantage

33. The current GST rules distort competition by favouring certain types of managed funds. The inconsistent GST practices have allowed some fund managers to structure themselves to develop a competitive advantage over others, though there is limited evidence of these impacts.

34. Some stakeholders have experienced the issue of funds 'shopping around' potential fund managers and enquiring about the GST treatment they would be subject to. If the fund manager cannot provide the GST treatment desired, this may result in them being unfavourably considered for supplying the service.

35. More generally, the current GST exemption for management services provided to retirement schemes may favour certain funds and business structures over others.

The distinction between retirement schemes and other funds does not reflect the fact that most retirement schemes invest into wholesale funds. Both types of funds can be used for long-term savings and apply the same income tax rules.

Compliance costs

36. The current GST rules also impose compliance costs of correctly identifying and applying different GST treatments depending on the type of service being provided. The compliance costs may include seeking specialist tax advice and the risks of errors or disputes.

In-source bias

37. The current GST rules may create a bias for performing certain services in-house where possible rather than outsourcing. This is because if a manager or investment manager's service is regarded to be GST exempt, they will be unable to recover GST on any inputs they purchase from outside their organisation (such as commercial rent, accounting, and ICT services) to deliver their own service. These GST costs would not arise if they provided the services within their own organisation (in-house).

Differing stakeholder views

38. Inland Revenue has been consulting with managed funds about the GST treatment of manager and investment manager fees. The issue and a range of policy options were publicly consulted on in a GST policy issues paper in 2020.

39. Inland Revenue had a further round of targeted consultation meetings with the Financial Services Council (which represents most of the large managed funds) and a group of boutique managed fund providers in November and December 2021.

40. There are two different stakeholder views on how the law should be changed:

- **Option 1: Retain status quo.** The Financial Services Council has expressed a preference on behalf of the large, mature funds it represents for legislating to allow the current, inconsistent GST practices to be able to continue.

- **Option 2: Making services supplied by fund managers and investment managers subject to 15% GST.** In contrast, the boutique fund managers consider that GST should apply to all manager fees. This would be consistent with these boutique fund managers applying GST to their fees currently. This allows these fund managers to claim GST refunds for GST charged on inputs, such as rent or administrative services, that they buy from external providers.

41. The advantages, disadvantages, and impacts of these two policy options are discussed below.

42. Some additional policy reform options and their impacts are also analysed in the attached draft Regulatory Impact Statement.

Options analysis

Option 1: Legislating to allow the current inconsistent GST practices to continue

43. Under this option, managed funds will be able to choose between one of three GST treatments. These three treatments are the range of current practices undertaken by the industry:

    - **Fully exempt.** This option includes retaining a GST exemption for when management services are directly provided to a retirement scheme (such as a manager providing services directly to a KiwiSaver scheme).
    - **90% exempt.** Treating 90% of their services as exempt and effectively charging 1.5% GST on their fees (15% GST on 10% of their fees). This practice is applied by most retail managed funds and by wholesale funds that other funds, such as retirement schemes, invest into.
    - **Full GST.** Charging 15% GST on all their services. This practice is applied by a small number of boutique funds.

44. One of the main stakeholders, the Financial Services Council, which represents large and mature managed funds, has expressed a preference for legislating that the current GST practices be able to continue.

45. Legislation is required if you prefer this option. This is because many of the current industry practices, such as the 90% exempt treatment, are not consistent with existing GST laws.

Advantages of option 1

No impact on savers

46. This option does not increase costs for managed funds. As a result, it will not lead to increased fees for savers and will avoid reductions in future balances (including retirement balances) that an increase in GST costs would cause.

No change costs

47. Another advantage of this option is that unlike the other policy options, it does not impose change costs on the managed funds industry. These change costs would include scheduling, building, and testing IT systems changes, updating reporting, communications and training staff for customer contacts relating to fee increases. MBIE and the Financial Markets Authority have noted that any GST change costs would occur at a time when the industry is implementing a lot of other regulatory changes, such as climate reporting disclosures and proposed changes to anti-money laundering rules.

48. This option is also likely to be supported by most of the affected funds and service providers as it does not require them to change their longstanding practices and allows each of them to continue with their preferred GST treatment.

Disadvantages

Complexity and inconsistency

49. The main disadvantage of this option is that it entrenches the complexity and inconsistency of the current practices and the associated impacts on competition, compliance costs and risks of errors (these impacts were further explained in paragraphs 33-37 above).

50. This option would also involve two different exemption rules – a full exemption for management of retirement schemes (such as KiwiSaver) and an optional 90%

exemption for managers and investment managers which provide services to other types of funds (including the wholesale funds that most retirement schemes invest into). These differing exemptions could be complex to apply which increases the risks of inconsistency, errors, and disputes.

Integrity

51. This option would introduce new integrity risks. This includes the risk of managers "cherry picking", which is where they may choose a taxable GST treatment to maximise GST deductions when they are starting up and later switch to an exempt treatment to minimise the GST they charge once they have a large amount of fee revenue.[2]

Precedent effects and boundary issues

52. More generally, tax exemptions tend to widen over time and become more complex and costly (both fiscally and for taxpayer compliance costs). This makes them difficult to maintain and administer.

53. An exemption creates boundary issues in determining whether a service is a management service or another type of service. For example, there could be incentives to bundle or reclassify some other types of services as being management services to further reduce GST costs for managed funds. This has been the experience in European Union countries where case law has found that the "management" of an investment fund has a broad meaning for European Union VAT/GST purposes and can include administrative services and advice. In contrast, administrative services and advice are subject to GST in New Zealand.[3]

Revenue impact

54. Because option 1 aligns with the current GST positions in the revenue baselines, it would be fiscally neutral.

Option 2: Making services supplied by fund managers and investment managers subject to 15% GST

55. Under option 2, all manager and investment fees will be subject to GST.

56. The other main stakeholder, the boutique funds, prefer this option. This is because it provides a level playing field with other funds and reduces some compliance costs (as all fees have the same GST treatment and it allows them to claim GST refunds for all their purchases).

Advantages of option 2

Competitive neutrality

57. This option would mean all providers of these services compete on a level playing field. All their relevant fees would become subject to 15% GST rather than some being treated as exempt or 90% exempt (effectively 1.5% GST). General managed funds and retirement schemes that invest into underlying wholesale funds would no longer be disadvantaged when compared to retirement schemes that procure management services directly.

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[2] One option to prevent this risk would be to require an irrevocable election for the GST treatment, but imposing such a rule could be a barrier to funds acquiring other funds to achieve efficiency benefits, such as economies of scale

[3] General accounting and record package services are excluded from the definition of exempt financial services, and advice is excluded from the exemption for arranging the supply of a financial service.

__Simplicity and compliance costs__

58. Applying GST to all services provided by fund managers and investment managers would simplify GST compliance as they would be able to claim GST deductions for all the GST charged on their external costs.

__Integrity and precedent effect__

59. We consider this option is more sustainable in the long term. It is less likely to lead to calls for further exceptions or put additional pressure on the boundary of the rules over time. Management services provided to funds would have the same GST treatment as administrative services and advice. This consistency removes pressure to define, bundle or reclassify these services and the associated risks of errors or disputes.

__Revenue__

60. Inland Revenue estimates that this option could raise approximately $250 million to $300 million per annum of additional GST revenue. The estimated revenue depends on the proposed application date and estimated values of the affected managed fund assets and fees at that time.

Disadvantages

__Impact on retail fees charged to investors__

61. We expect that the additional GST collected under this option will lead to higher fees for retail investors, such as KiwiSaver members. To the extent that fees increase, this will reduce after-fee returns and therefore the total amounts that are reinvested and the available balances at future dates (e.g., KiwiSaver members would have less available when they withdraw funds to purchase a first home, or at their retirement).

62. The extent to which GST will lead to higher fees for retail investors is uncertain. The economic literature for other types of GST increases and decreases has found they are more likely to affect the prices paid by consumers (in this case, retail investors) in more competitive markets[4] or if the GST reform is broader.

63. New Zealand's managed fund fees are regarded as being less competitive (higher fees) than other countries.[5] This could suggest that some funds may be able to offset or absorb some of the additional GST cost pressures by changing their commercial practices[6] or reducing their profit margins, rather than raising their fees by the full amount of added GST cost.

64. Feedback from submitters was mixed regarding how much they expected fees would increase. The boutique funds submitted that the additional GST costs may have little impact on fees charged to retail investors due to increasing pressures to compete on fees[7] and the proposed transitional period which would allow time to adjust. In contrast, other submitters, such as the Financial Services Council,

[4] In more competitive markets, businesses have lower profit margins so are less able to absorb cost increases as an alternative to increasing their retail prices.
[5] Morningstar analysis recently reported that "in a global environment of shrinking fees, the [NZ] industry risks falling behind global peers, given the improvements in fees and expenses that other markets are making." https://www.interest.co.nz/investing/115144/new-zealands-rating-drops-morningstar-analysis-fees-and-expenses-managed-funds
[6] For example, by reallocating assets into lower cost wholesale funds or appointing new service providers
[7] For example, in 2021, some large KiwiSaver funds announced fee reductions.

considered the full impact of the GST cost would be passed through to retail investors.

65. Because management fees are set as a percent of the member's total balance, retail investors (such as KiwiSaver members) with higher balances and those that invest into higher fee funds could face larger dollar increases in fees and reductions in future balances. This is illustrated by the following examples.

Illustrative examples of potential upper-limit impacts on fees and future balances

Assume the fund is purchasing management services which are currently treated as being 90% exempt, 10% subject to GST (GST is effectively 1.5% on management services) and that management fees comprise 90% of the fund's total fees (the other 10% are administration fees).

Also assume the retail investor's balance grows by 10% each year (before fees) as they continue to regularly contribute funds and reinvest returns.

Investor with $37,500 in a fund with a 0.8% annual fee

A retail investor with $37,500 invested in a fund that charged a 0.8% fee under the status quo (option 1) would currently pay a $300 annual fee. Under the proposed reform (option 2), and assuming the GST costs were fully passed through to the retail investor, their fee could increase by up to $36, to become $336 for the first year after the reform.

After 25 years of regular contributions and reinvesting, the investor would have had a $310,009 balance under the status quo and a $302,115 balance under the proposed reform, a reduction of $7,894.

Investor with $100,000 in a fund with a 1% annual fee

A retail investor with $100,000 invested in a fund that charges a 1% fee would pay a $1,000 annual fee under the status quo. Under the proposed reform, their annual fee could increase by up to $120, to become $1,120 for the first year after the reform.

After 25 years of regular contributions and reinvesting, the investor would have had a $791,108 balance under the status quo and a $765,323 balance under the proposed reform, a reduction of $25,785.

66. Fees can have a large impact on the financial wellbeing of investors as they directly contribute to the level of accumulated savings, including retirement savings for retirement schemes such as KiwiSaver. Generally, fees should decrease over time as the economies of scale benefits from a growing 'funds under management' sector are available to be passed onto consumers. For this reason, the Government (through the KiwiSaver default provider appointment process) and the Financial Markets Authority have focussed in recent years on ensuring KiwiSaver members receive value for money.

Transitional costs

67. This option would impose significant transitional costs for most managers and investment managers that are not already applying 15% GST. Making the services subject to GST is the least preferred policy option of the mature funds represented by the Financial Services Council. This is because it would require them to shift from a fully exempt or 90% exempt treatment to GST applying to all the relevant fees.

68. The type of transitional costs involved and how they can be mitigated by providing a transitional period are further discussed in paragraphs 75-79 below.

Recommended option

69. Inland Revenue and Treasury recommend Option 2: making services supplied by fund managers and investment managers subject to 15% GST. We consider that this would lead to a more consistent treatment and therefore an even playing field across the industry. It would also reduce compliance costs, improve integrity and be more sustainable. Option 2 would raise revenue in a manner consistent with our GST frameworks.

70. We acknowledge that this would lead to fees increasing and transitional costs for the industry. However, we consider these costs can be mitigated by options considered further below and that the benefits of this option will outweigh these costs.

There are other policy options to reduce managed fund fees

71. We note that recent measures, such as appointing new default KiwiSaver providers and improving fee transparency and comparison tools, are helping to place competitive pressure on fees. This highlights that there are a range of non-tax policy options to reduce fees.

72. If Ministers are concerned about the managed funds fees increasing because of applying GST, then we recommend considering non-GST options for supporting savers. This could include, for example, options such as an explicit fee subsidy or increasing Government contributions. Such options could also be better targeted to benefit savers with smaller balances (as opposed to GST concessions, which would produce the most benefit for savers with large balances).

73. We consider that these non-GST options are preferable and are likely to be more direct and effective than a GST concession. New Zealand's GST system has not been previously used to reduce the price of specific goods or services (unlike other countries, which have concessions, for example, on food and education), so it would be an adverse precedent to provide GST concessions to reduce the price of managed fund fees.

74. The Treasury recommends that you consider these options alongside your wider fiscal and other objectives. The revenue from our preferred policy option (to make services supplied by fund managers and investment managers subject to 15% GST) could, for instance, be used to increase spending or reduce taxes in other areas and this should be compared alongside options to support savers.

Application date

75. We are currently seeking further information from the Financial Services Council and other stakeholders about their expected transitional costs and will report back with further advice on the application date in May 2022 when we provide a draft Cabinet paper.

76. Many managed funds and service providers would face significant transitional costs in implementing the proposed change. There are currently 319 different KiwiSaver

funds (operated by 39 KiwiSaver schemes) and 727 non-KiwiSaver managed funds offered to retail investors. Nearly all of these funds will need to amend their IT systems, appoint new service providers, or renegotiate commercial contracts, update investor disclosure statements, and prepare communications and staff training to deal with increased contacts from customers.

77. Of the changes required, the changes to IT systems are likely to require the most time to prepare and implement. Many of the affected funds, such as those owned by banks, will have to plan, build, and test the IT changes around other significant IT projects. They will also be required to simultaneously implement a lot of other regulatory changes, such as climate reporting disclosures and proposed changes to anti-money laundering rules.

78. To ensure it is viable for funds and service providers to implement the proposed new rules and to mitigate the transitional costs, we recommend providing an adequate transitional period between enactment of the law change and when the new rules would apply. Our current best judgement, based on earlier submissions and discussions with stakeholders, is that 24 months should be sufficient. A shorter transition period, such as 12 months, would have a fiscal benefit of collecting GST revenue sooner, but we would recommend against this as it could impose much more disruption to the managed funds industry and associated implementation challenges and transitional costs.

79. The Financial Services Council have previously submitted that they require a 3 to 5-year transitional period and so we are seeking more information from them to help inform your decision.

Financial implications

80. Subject to Ministers deciding to apply GST to the fees (option 2), and assuming a 1 April 2025 start date (24 months after enactment), our current best estimates of the fiscal impact of the changes are the revenue gains shown in the following table.

	$m – increase/(decrease)				
Vote Revenue	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Crown Revenue and Receipts: Tax Revenue	**$0**	**$0**	**$0**	**$42.0**	**$275.0**
Total change in Revenue	**$0**	**$0**	**$0**	**$42.0**	**$275.0**

81. These estimates depend on the proposed application date. They are based on 30 September 2021 managed funds data and are sensitive to assumptions about future growth in management fees.[8]

82. We will provide updated advice on the application date and estimated fiscal implications when we report back in May 2022 with a draft Cabinet paper. We are

[8] The estimates assume a 10% per annum increase in the dollar value of management fees. This assumption is based on the dollar value of basic manager's fees on KiwiSaver and Non-KiwiSaver managed funds growing by an annualised average of 14% for the 3 years between 30 Sept 2018 and 30 Sept 2021. A more conservative 10% assumption is used as:
- the last 3 years have had historically high investment returns;
- the Sep 2021 data we use does not reflect recent reductions in fees from new lower fee default KiwiSaver providers being appointed and having assets transferred to them on 1 December 2021; and
- net contributions to KiwiSaver and other retirement schemes may reduce in future years as more of the population of investors reaches retirement age.

currently seeking further information on transitional costs which will inform the recommended application date and more recent data (for 31 December 2021) may have been published by then.

83. In May 2022, we will also seek your decision on how any additional revenue should be managed. In a recent instance, the fiscal impact of a tax change that was too large to be managed through the Tax Policy Scorecard was charged as a positive pre-commitment against Budget allowances. In other instances, the revenue impacts of large tax changes have been allowed to 'flow through' (i.e., to be reflected in forecasts but not allowances). Our initial view is that any additional revenue from this change should 'flow-through' to forecasts, but Ministers should take this into account when setting allowances at HYEFU later this year.

Consultation

84. The Ministry of Business Innovation and Employment (MBIE) and the Financial Markets Authority were consulted on this report.

85. MBIE supports the aim of having a consistent GST system and the benefits this may have for competitive neutrality and lower compliance costs. However, increased fees and lower net returns for retail investors as a result of additional GST will lead to decreased retirement savings being available to savers in the future, including KiwiSaver members. This outcome risks undermining the positive impacts of recent Government efforts to ensure value for money with KiwiSaver and that the benefits of economies of scale in the funds management sector are being passed to consumers in the form of lower fees.

Next steps

86. We recommend that you refer a copy of this report to the Minister of Commerce and Consumer Affairs.

87. Officials are available to meet you, at your earliest convenience, to discuss this report.

88. Following your decision, officials will report back with a draft Cabinet paper and Regulatory Impact Statement seeking Cabinet approval of your decision. An indicative timeframe for this Cabinet paper would be:

9 May	Report back to the Minister of Revenue with a draft Cabinet paper and Regulatory Impact Statement.
16 June	Lodgement of Cabinet paper for DEV (10am 16 June)
22 June	DEV consideration of Cabinet paper
27 June	Cabinet approval

89. This timeframe would allow the proposed legislative change to be included in the omnibus Taxation Bill which is scheduled for introduction in August 2022 and enactment in late March 2023. s 9(2)(f)(iv) [redacted]