Corporate Taxpayers Group

6 September 2021

LTIB topics
c/o David Carrigan
Inland Revenue Department
PO Box 2198
WELLINGTON 6140

Dear David

"TAX, INVESTMENT AND PRODUCTIVITY: CONSULTATION ON THE SCOPE OF INLAND REVENUE'S LONG-TERM INSIGHTS CONSULTATION DOCUMENT"

Introduction

1. The Corporate Taxpayers Group ("**the Group**") supports Inland Revenue scoping its current Long Term Insights Briefing ("**LTIB**") on how tax policy settings could best support raising of productivity in New Zealand, as raised in the *Tax, investment and productivity: Consultation on the scope of Inland Revenue's long-term insights* consultative paper ("**the Consultative Paper**"). A focus on tax and its impact on investment and productivity does seem a subject worthwhile investigating. The question being posed is whether or not New Zealand's business tax settings have been part of the reason for New Zealand's relatively poor productivity performance.

2. The Consultative Paper suggests scoping the paper based on OECD international comparative data on effective tax rates. The Group agrees that there is value in such comparative studies. However, the Consultative Paper seems (at page 13) to accept any study needs also to have a broader perspective. The Group supports a broader view, as there are a number of different tax implications depending on the different situations, which cannot all be assessed the same. For example there is a difference between inbound versus outbound investment, direct investment versus portfolio and domestic investment, and their corresponding tax implications.

3. Effective tax rate analysis in essence tries to measure the tax wedge a country's policy settings imposes between post-tax and pre-tax returns by measuring the tax levied on a hypothetical standardised investment. This determines how easily an investment can meet an investor's pre-New Zealand tax hurdle rate of return. However, tax policy settings can also increase an investor's hurdle rate of return. This is by increasing costs and risks involved with an investment, noting that recent complexity in tax changes appears to have increased such costs and risks.

4. Costs are increased by complexity of rules and associated compliance costs. For New Zealand such costs can be significant. Our size means any investment is likely to be small by international standards but the compliance costs for an investor (including costs of gaining internal investment approvals) have a high fixed cost element. We have, in other words, diseconomies of scale.

5. Perceptions of tax risk increases an investor's hurdle rate of return. For a long term investment (the type most likely to lead to increased productivity) uncertainty as to the long term tax rules increases investment risk. Both expected and unexpected tax risks increase the hurdle rates of return. An expected adverse tax change

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should be factored into an investor's calculations with the hurdle rate of return increasing to offset it. A history of unexpected adverse tax policy changes will be viewed as an increased risk of further such measures. Neither will be reflected in New Zealand's effective tax rate data. A stable, low surprises tax environment for investors seems important to New Zealand given the nature of our economy. Our view is that in recent years the perception has been that New Zealand has moved from being a stable, low surprises tax environment; instead the risk of potential adverse tax policy is now a significant factor in the eyes of potential investors.

6. For the proposed study to add real value therefore the Group considers that there is a need to take a broad picture and try to understand fully how tax policy settings are likely to impact on international investment flows for New Zealand. As a related matter, the LTIB should research what tax settings have resulted in positive increases in productivity in other countries, particularly Australia. Members of the Group have had extensive experience with international investment and their experience and perspectives should be drawn upon to give depth and a reality check to the proposed comparative data analysis. This broad view should also take into account other developing issues, such as the Tax Principles Act (and perhaps a tax principle about tax laws not negatively impacting productivity).

7. Consideration should also be given to tax measures that have occurred overseas that appear to have had success. Examples of these are included in appendix 1 to this letter.

8. In addition, when considering the successful tax measures introduced by other countries an additional lens should be applied to that process which allows for the perspective that New Zealand is already considered 'tricky' or marginal for foreign investment due to:
    a) Border restrictions due to COVID-19, and uncertain immigration settings and other flow-on consequences for businesses needing to get people into New Zealand (which could remain an issue for some time)
    b) Overseas Investment Office requirements and settings and
    c) Perceived risk of unexpected policy changes (for example the ban on new oil and gas exploration permits, which has made the environment less predictable for that sector)
    d) investment opportunities are limited given geographic isolation and our relatively small economy.

If you have any questions in relation to the above, or would like to meet with the Group again to discuss these matter please do not hesitate to let us know.

For your information, the members of the Corporate Taxpayers Group are:

1 AIA New Zealand Limited
2 Air New Zealand Limited
3 Airways Corporation of New Zealand
4 AMP Life Limited
5 ANZ Bank New Zealand Limited
6 ASB Bank Limited
7 Auckland International Airport Limited
8 Bank of New Zealand
9 Chorus Limited
10 Contact Energy Limited
11 Downer New Zealand Limited
12 First Gas Limited
13 Fisher & Paykel Appliances Limited
14 Fisher & Paykel Healthcare Limited
15 Fletcher Building Limited
16 Fonterra Cooperative Group Limited
17 Genesis Energy Limited
18 Heartland Bank
19 IAG New Zealand Limited
20 Infratil Limited
21 Kiwibank Limited
22 Lion Pty Limited
23 Mercury NZ Limited
24 Meridian Energy Limited
25 Methanex New Zealand Limited
26 New Zealand Steel Limited
27 New Zealand Superannuation Fund
28 Oji Fibre Solutions (NZ) Limited
29 OMV New Zealand Limited
30 Pacific Aluminium (New Zealand) Limited
31 Powerco Limited
32 SkyCity Entertainment Group Limited
33 Sky Network Television Limited
34 Spark New Zealand Limited
35 Summerset Group Holdings Limited
36 Suncorp New Zealand
37 T & G Global Limited
38 TAB New Zealand
39 The Todd Corporation Limited
40 Vodafone New Zealand Limited
41 Watercare Services Limited
42 Westpac New Zealand Limited
43 WSP
44 Xero Limited
45 Z Energy Limited
46 ZESPRI International Limited

We note the views in this document are a reflection of the views of the Corporate Taxpayers Group and do not necessarily reflect the views of individual members.

Yours sincerely

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John Payne
For the Corporate Taxpayers Group

cc **Hon David Parker**
Hon Grant Robertson

International Tax Policy and Productivity **APPENDIX**

The Corporate Taxpayers Group have identified the following examples of initiatives around Asia Pacific which have had a purpose of:

1. increasing investment
2. encouraging infrastructure investment; or
3. encouraging saving

Country	**Comments**
Australia	Initiatives highlighted were regular reductions of the small business tax rate including a rate of 25% from the 2021-22 income year onward, immediate deductions for start-up costs, early-stage investor tax incentives, accelerated depreciation by increasing low value asset thresholds, review of efficiency and effectiveness of superannuation system, creating a greater alignment between tax and accounting, reducing FBT compliance costs. In addition, Australia has recently released its consultation materials (including exposure draft legislation for both the tax and corporate law amendments) on its corporate collective investment vehicle regime. This is another example of a close trading partner to New Zealand (and competitor to foreign investment) making it less complex for foreign investment into their country.
India	Tax initiatives for capital investment through accelerated depreciation, weighted deduction for inhouse R&D and weighted deductions for employing additional workers. It was noted that while the above can be implicitly linked to productivity, as productivity is not a stated goal of the Indian government, there has not been any specific initiatives.
Singapore	Productivity and Innovation Credit Scheme – Inland Revenue Authority of Singapore 2010 - 2017 Activities included: R&D, additional tax deductions for registration of intellectual property, acquisition of intellectual property, design activities, automation through technology or software; and Training of employees. Other incentives include deductions for industrial building acquisition or construction (now phased out) and various tax exemptions which can be applied for.