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INVESTMENT MANAGERS SUPPORT TAXATION CHANGES FOR SAVINGS

"The investment and savings industry support the policy objectives of the Tax Bill, currently before the Finance and Expenditure Committee, designed to remove tax distortions and improve returns to savers in managed fund products", said Vance Arkinstall, CEO of the Investment Savings & Insurance Association (ISI).

"Reform of the taxation system is essential to increase the low level of personal savings that exists in New Zealand", said Vance Arkinstall.

"For many years ISI has been urging various governments to remove the distortions in tax treatment between different savings products. Currently, savers are taxed differently depending on whether they invest directly or through collective investment vehicles and also whether they invest locally or offshore. Savings decisions should be driven by the value of the investment proposition and not by tax considerations", Vance Arkinstall said.

"Overall, fund managers consider the general thrust of the tax reforms to remove the long standing distortions and create a level playing field for taxation to be on the right lines", Vance Arkinstall said.

"The proposal for removing tax on capital gains on equity investment in a domestic market, including NZ and Australia, has been very well received by the market. This is a major change in taxation policy for the benefit of investors in managed funds and superannuation schemes that will directly improve investment returns for savers. Regrettably this positive aspect has received little media attention", said Vance Arkinstall.

"To date media attention has been focussed on the international tax proposals and has ignored the many good parts of the Tax Bill. It is my belief that when we look behind the "noise" that has been created a workable solution emerges by extending the exemption from tax on capital gains to qualifying International equities in a modified grey list", said Vance Arkinstall

"Whilst this proposal will carry a revenue cost, possible up to $200m, this is not great when compared with the advantages of increasing personal savings through making KiwiSaver more attractive, defusing much of the current criticism levelled at the Bill, eliminating the diversification skewing problem, eliminating compliance concerns and taking away the criticism that a capital gains tax is being introduced," Vance Arkinstall said.

"Our industry acknowledges that Open Ended Investment Companies (OEICs) are seen as a particular problem in that they often pay little tax in any jurisdictions and rely on capital growth to provide the return. This industry promotes OEICs but would be prepared to see these excluded from the regime in order to achieve resolution. We would expect investment in equities outside an approved grey list and investment in non-distributing investment vehicles to be relegated to a 'black list' and be subject to tax on capital gains", said Mr Arkinstall

"A further serious disadvantage of the proposed International tax changes is simply the complexity. The reality is that keeping track of the complicated proposals for direct international equity investors will be so difficult that many investors may simply not bother. No tax reform should start from a position that so strongly risks driving non-compliance. Even for an investor attempting to comply the risks will be huge", said Vance Arkinstall.

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