

# Taxation of investment

## The new landscape

David Carrigan  
Institute of Financial Advisors  
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POLICY ADVICE DIVISION

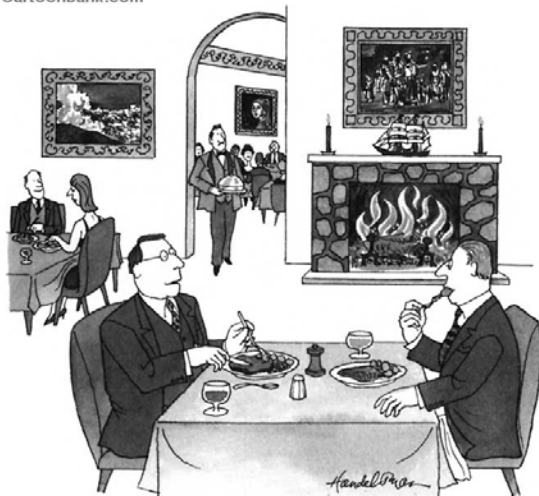
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## What I'll cover....

- Where we were
- Where we are now
- Why we got there
- Did the changes achieve original goal?
- Where does this leave investors?

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*"I've been thinking about the flat tax and how it would inflict hardship on the poor, and I can live with that."*

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# Policy background

- Previous rules operated unevenly:
  - Over-taxed some investors
  - Favoured direct investment over investment through managed fund
  - Favoured investments in some countries over investment in others
- Tax rules should not create investment distortions regardless of how, where and by whom investment is made
- KiwiSaver link

# Fixes to the problems

- Theme – level the playing field
  - Offshore – same treatment for direct and indirect - remove grey list and apply FDR
  - Tax managed funds investors at their marginal tax rate – “flow through” PIEs
  - Domestic – same treatment for direct and indirect – PIEs get capital gains exemption on NZ shares

# Did changes achieve original goal?





- Mostly
  - NZ and Aus shares – capital gains untaxed direct and indirect
  - Offshore (not Australia) – FDR for direct and indirect
  - Tax rate – 19.5% investors get 19.5% in managed funds
- But
  - 30% top rate in PIE – direct 33% or 39%

# What does this mean for investors?

## Direct investors





Investor/ investment type	Old world	New world	Happy?
Direct investment by individual in NZ/Oz	Generally taxed only on dividends	Generally taxed only on dividends (no change)	☹️
Direct investment by individual in grey list (not Oz)	Generally taxed only on dividends	Taxed on 5% (or lower amount depending on actual return)	☹️
Direct investment by individual in 'non-grey list' countries (eg China)	Taxed on 100% of unrealised gains every year	Taxed on 5% (or lower amount depending on return)	😊

# What does this mean for investors? Investors using managed funds (PIEs)

Investor/ investment type	Old world	New world	Happy?
Individuals investing via managed funds in NZ/Oz shares	<ul style="list-style-type: none"> <li>- Generally taxed on realised share gains and dividends</li> <li>- 33% tax rate too high for 19.5% investors</li> </ul>	<ul style="list-style-type: none"> <li>- Taxed only on dividends</li> <li>- 19.5% investors taxed at 19.5%</li> <li>- Other investors taxed at 30%</li> </ul>	 
Individuals investing via active managed funds in "grey list" (not Oz)	<ul style="list-style-type: none"> <li>- Taxed on realised share gains and dividends</li> <li>- 33% tax rate too high for 19.5% investors</li> </ul>	<ul style="list-style-type: none"> <li>- Taxed on 5%</li> <li>- 19.5% investors taxed at 19.5%</li> <li>- Other investors taxed at 30%</li> </ul>	 

# What does this mean for investors?

## Investors using managed funds (PIEs)

Investor/ investment type	Old world	New world	Happy?
Individuals investing via passive managed funds in "grey list" (not Oz)	<ul style="list-style-type: none"> <li>- Taxed only on dividends</li> <li>- 33% tax rate too high for 19.5% investors</li> </ul>	<ul style="list-style-type: none"> <li>- Taxed on 5% (FDR)</li> <li>- 19.5% investors taxed at 19.5%</li> <li>- Other investors taxed at 30%</li> </ul>	 
Individuals investing via managed funds in "non-grey list" (eg China)	<ul style="list-style-type: none"> <li>- Taxed on 100% unrealised gains every year</li> <li>- 33% tax rate too high for 19.5% investors</li> </ul>	<ul style="list-style-type: none"> <li>- Taxed on 5% (FDR)</li> <li>- 19.5% investors taxed at 19.5%</li> <li>- Other investors taxed at 30%</li> </ul>	 

## Summary of tax cuts

- To be phased in over three and a half years
- First stage applies from 1 October 2008
- Reduction in bottom personal tax rate
- Threshold change for each stage
- Consequential amendments as a result of personal tax rate/threshold changes

# New Tax Rates & Thresholds

Current rates		Rates from 1 October 2008	
Income to \$9,500	15%*	Income to \$14,000	12.5%
\$9,501 - \$38,000	21%*	\$14,001 - \$40,000	21%
\$38,001 - \$60,000	33%	\$40,001 - \$70,000	33%
\$60,001 and over	39%	\$70,001 and over	39%
*Includes the low income rebate. The statutory rate on income under \$38,000 is 19.5%. The low income rebate gave an effective rate of 15% for income under \$9,500 and 21% for income between \$9,501 and \$38,000.			
Rates from 1 April 2010		Rates from 1 April 2011	
Income to \$17,500	12.5%	Income to \$20,000	12.5%
\$17,501 - \$40,000	21%	\$20,001 - \$42,500	21%
\$40,001 - \$75,000	33%	\$42,501 - \$80,000	33%
\$75,001 and over	39%	\$80,001 and over	39%

# Current PIE rates and thresholds

Threshold	PIE rate
Look at either of previous 2 years. If: <ul style="list-style-type: none"><li>• non-PIE taxable income &lt;\$38,001 <u>and</u></li><li>• non-PIE taxable income plus PIE income &lt;\$60,001</li></ul>	19.5%
If breach threshold described above	30%

# What should the PIE rates and thresholds be?

Year	Threshold	Rate
1 Oct 2008 – 31 March 2010	Non-PIE taxable <\$14,001 and non-PIE taxable plus PIE <\$40,001	12.5%
	Non-PIE taxable <\$40,001 and non-PIE taxable plus PIE <\$70,001	21%
	If breach above	30%
1 April 2010 – 31 March 2011	Non-PIE taxable <\$17,501 and non-PIE taxable plus PIE <\$40,001	12.5%
	Non-PIE taxable <\$40,001 and non-PIE taxable plus PIE <\$75,001	21%
	If breach above	30%
1 April 2011 onwards	Non-PIE taxable <\$20,001 and non-PIE taxable plus PIE <\$42,501	12.5%
	Non-PIE taxable <\$42,501 and non-PIE taxable plus PIE <\$80,001	21%
	If breach above	30%