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Mr Rory Tait
Senior Policy Advisor
Inland Revenue Department
55 Featherston Street
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New Zealand

Email: policy.webmaster@ird.govt.nz

Dear Rory,

Reducing tax barriers to retaining and attracting highly skilled people – technical consultation paper

Thank you for the opportunity to comment on the consultation on **Reducing tax barriers to retaining and attracting highly skilled people – technical consultation paper**.

CPA Australia represents the diverse interests of more than 175,000 members, including over 3,300 members in New Zealand, working in over a 100 countries and regions supported by 19 offices around the world. We make this submission on behalf of our members and in the broader public interest.

We make the following comments for your consideration:

Under the Revenue Account Method (RAM), gains made on the disposal of eligible foreign investment fund (FIF) investments are discounted by 30%, and the discounted gain is then taxed by the relevant marginal tax rate. This produces an effective tax rate of 27.3% for a taxpayer who is on the highest marginal tax rate of 39%. Dividends are taxed at the person's marginal tax rate, although without any discount, in the tax year in which the dividend is paid. Losses on disposal of eligible FIF investments are discounted by 30%. The discounted losses are ring-fenced so that they can only be set off against gains on disposal under the RAM. Excess losses on disposal can be carried forward. That seems quite high for what is essentially a capital gains tax.

Further to the above, we have the following comments:

1. The introduction of the RAM from 1 April 2025 is a step forward in easing the harsh and often unfair outcomes for migrants holding pre-existing foreign equity, particularly in non-dividend-paying entities.
2. An adjustment to include indexing the $50,000 de minimis threshold is timely to reduce compliance costs for smaller investors. We note that the $50,000 de minimis was last set in legislation for effect from the 1999-2000 income year. The threshold should be increased to $100,000.
3. Investment restrictions (e.g., applying only to pre-migration acquisitions) limit their scope, urging more comprehensive reviews of international tax settings to encourage local investment.
4. Exit taxes on deemed disposals when leaving residency could still pose hurdles.
5. The method's effective marginal tax rate (EMTR) on realised gains, which is notably higher than comparable capital gains tax (CGT) schemes in many peer jurisdictions. This disparity could undermine the reforms' retention goals, as skilled migrants (e.g., executives or founders with diluted shareholdings below 10%, as noted in the paper's attributable FIF income expansion) might still perceive New Zealand's tax

treatment as uncompetitive, particularly when combined with the lack of a general CGT (taxing notional income annually). We believe the RAM discount should be 50%.

6. The FIF rules could potentially exacerbate a conundrum for long-term investors who do not receive dividends, forcing sales to cover tax bills.

If you have any queries about this submission, please contact me on jenny.wong@cpaaustralia.com.au or Bill Leung, Tax Technical Advisor on bill.leung@cpaaustralia.com.au.

Yours sincerely,

Jenny Wong
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Acknowledgements

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- Mr Angus Ogilvie FCPA (Aust.), Chair of Tax Committee – New Zealand
- Mr Peter Loerscher, CPA (Aust.), Tax Committee – New Zealand
- Mr Jeffrey Owens FCPA (Aust.), Tax Committee – New Zealand
- Mr Darshana Elwela – Tax Committee – New Zealand
- Mr Richard Ashby CPA (Aust.), Tax Committee – New Zealand
- Mr Jamil Eldar, CPA (Aust.), Tax Committee – New Zealand
- Professor Adrian Sawyer, FCPA (Aust.), Tax Committee – New Zealand