

TEMPERZONE HOLDINGS LIMITED'S SUBMISSION
STRENGTHENING ECONOMIC RELATIONS BETWEEN AUSTRALIA AND NEW ZEALAND

Capital Flows – Mutual Recognition of Imputation Credits (MRIC)

1. Temperzone's Perspective

Temperzone has \$millions of tax paid profits locked up in Australia as these profits cannot be distributed to our New Zealand private shareholders without double taxation. Since no dividends are distributed from our Australian companies this amount increases by further \$millions each year. Since around 75% of the group's turnover is in Australia, these "locked up" tax paid profits far exceed the profits made in New Zealand, which can be distributed without further tax to the shareholders.

This leads to a lack of options available to the shareholders in terms of their re-investment of profits. It leaves them no choice but to further invest all Australian tax paid profits back into Temperzone's Australian company operations even though better investment opportunities may be available in NZ or elsewhere. This hampering of investment choice is harmful not only to the shareholders' investment portfolio (since it progressively becomes less and less diverse) but even more so to the long term growth of the New Zealand economy.

If Australian franking credits were made available to New Zealand shareholders, then as owners of the tax paid profits, those shareholders would be freely able to decide between competing choices for re-investment of the funds.

While Temperzone is a small part of the economy, by extrapolation to other companies that are similar in terms of structure, products and export markets, the sum of inefficiently utilised profits is enormous. We say this as, according to the Technology Industry Network's TIN100 Industry Analysis 2011, private companies make up over half of all technology based companies in NZ and have total revenues of NZ\$3.4 Billion. Their export revenues are NZ\$2.6Billion, i.e. 77% of total revenue (similar to Temperzone's exports which comprise 83% of total turnover).

As New Zealand investors and tax payers, in addition to the harm it does to New Zealand's economic activity, we find **the lack of MRIC is inequitable for the following reasons;**

- a. If our investments had been made wholly within NZ, the shareholders would not face double taxation on company earnings. So, the lack of MRIC is a disincentive to New Zealanders investing in Australia (a key export market for NZ manufacturers and technology companies).
- b. If our Australian investments had been by way of loan, or even by way of a Term Deposit in an Australian bank, the Australian (NRWT) tax paid would be available to reduce NZ tax payable. This raises the question: "Why are these dividends (being returns on active investments) treated inequitably by the Australian and New Zealand governments?"

The lack of MRIC is discouraging to Temperzone's efforts to expand the growth in its exports and the resultant inefficiency of capital investment decisions is detrimental to the New Zealand economy.

2. The Costs and Benefits of MRIC

Temperzone generally supports the cost/benefit analyses in the NZIER and CIE final report dated August 2012.

However since Temperzone distributes 0% of its Australian tax paid profits (and perhaps many other privately owned companies with significant trans-Tasman operations), we consider that the 50% dividend distribution scenario assumption is likely to be significantly overstated. By the same measure, the potential revenue lost by the NZ and Australian governments is likely to be significantly overstated.

We submit that, if more work is required, this is the area that should be determined more exactly.

3. The Concept of a Single Economic Market

Page 5 of the Issues Paper stated *“2004 The countries agree to the creation of a single economic market (SEM), and to commit to identifying and eliminating further obstructions to businesses and individuals operating in both jurisdictions”*.

The continuing lack of MRIC is in direct contravention of the above agreement.

In denying MRIC, the Australian government is ignoring the findings of their own Henry Tax Review (2010) and they are not fulfilling their commitment to the above SEM obligation.

4. The Stated Complexity of MRIC

At page 10 of the Overview (Discussion Draft) the following is stated:

“An issue of greater concern to most business participants is that companies are not allowed imputation credits on trans-Tasman investment..... The fact that this has been debated for more than 20 years, however, is a sign of the complexities and judgments involved in addressing the matter. Mutual recognition of imputation credits could expand investment across the Tasman and bring some efficiency gains. But this would involve sizeable fiscal losses as well as transfers of income between the two countries, which may or may not cancel out.”

From our perspective (and we have been vitally interested in this issue for more than 20 years) it seems that the fact that the debate has lasted more than 20 years is more down to “dragging of feet” than to any real attempt to investigate the so-called complexities or to assess the impacts.

Temperzone submits that the lack of effort put into this issue over the last 20⁺ years should be a spur to action now, rather than be used to justify the excuse for keeping this issue as a low priority matter.

While we are not economists, it seems to us that statement in Table 3 that “the economy wide and distributional effects are complex” is not borne out by the NZIER/CIE final report. We do accept that the respective Productivity Commissions (NZ & Australia) may not have had time to make a complete assessment of the report **and we submit that this investigation should proceed forthwith.**