



Institute of Finance Professionals New Zealand Inc.

18 October 2012

Australian Productivity Commission
New Zealand Productivity Commission

By Email

INFINZ Submission on Strengthening Trans-Tasman Economic Relations

Introduction

The Institute of Finance Professionals in New Zealand Inc (INFINZ) is the peak industry body for capital markets professionals in New Zealand. INFINZ has a membership of over 700 individuals drawn from across the capital markets and includes treasury professionals, investment analysts, fund managers, bankers, lawyers and students. One of the objects of INFINZ is “to promote the proper control and regulation of the New Zealand finance and capital markets.”

INFINZ is pleased to submit on the “Australian and New Zealand Productivity Commissions 2012, Strengthening Trans-Tasman Economic Relations, Discussion Draft, September”, (Discussion Draft). Our focus is solely on “Capital” matters and specifically in support of mutual recognition of franking credits (in Australia) and imputation credits (in New Zealand) [henceforth MRIC].¹

Importance of Trans-Tasman FDI

It is worth restating the significance of the strength of bilateral investment between Australia and New Zealand²:

- Australia is the largest foreign investor in New Zealand, with some A\$39 billion in FDI of a total investment portfolio of A\$74 billion; and
- New Zealand is Australia’s ninth largest source of foreign investment, with FDI amounting to NZ\$6.5 billion of NZ\$34 billion investments held by New Zealanders in Australia.

NZIER notes that “currently some NZ\$7.4 billion of trans-Tasman equity dividends could potentially be taxed twice – first via company tax in the destination country and secondly via personal tax regimes in the investor’s economy. Australian equity investors in New Zealand face an effective tax rate of some 60%, and New Zealand investors in Australia face an effective tax rate of 53%”.³

¹ “The costs & benefits of mutual recognition of imputation & franking credits.” NZIER and CIE final report, August 2012 (NZIER).

² Discussion Draft, Draft supplementary paper – Foreign direct investment, page 2.

³ NZIER, ii.

MRIC would increase post-tax dividends⁴ as follows:

- by some 39% for an Australian shareholder in a New Zealand company; and
- by some 43% for a New Zealand shareholder in an Australian company.

MRIC would remove the home bias in trans-Tasman investment with a resulting uplift in economic welfare. NZIER⁵ estimates that following introduction of MRIC, the trans-Tasman economy would grow by NZ\$5.3 billion (net present value) above baseline by 2030. This uplift is due to both countries facing a lower cost of capital as post-tax returns on trans-Tasman investments increase as well as higher household disposable income. These estimates are noted as conservative in that dynamic productivity gains are excluded, which include; increased competition and innovation and reduced management time spent on tax structuring.

Under MRIC, the capital markets of Australia and New Zealand would become more integrated and efficient. A deeper pool of capital would result. Vibrant competitive capital markets are essential if Australasia wishes to fully capture the opportunities arising from Asian growth. INFINZ held its annual conference on 5 September 2012 at which the Hon. Steven Joyce, the Minister of Economic Development spoke to these opportunities. He described the significant potential opportunities arising from the burgeoning middle classes in Asia, which are estimated to grow from 500m to 3bn over the next 20 years.

Conclusion

It is hard to see how Australia and New Zealand can secure a genuine single economic and investment market in the absence of MRIC. INFINZ therefore strongly supports introduction of MRIC and encourages the Australian and New Zealand Productivity Commissions to advocate a timeline for its introduction.

Regards

Jim McElwain

Executive Director
Institute of Finance Professionals New Zealand Inc.

Email: exec@infinz.com
Web: www.infinz.com

⁴ NZIER, pages 2 and 3.

⁵ NZIER,iii.