

6 October 2012

Australian Productivity Commission and
New Zealand Productivity Commission
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Dear Commissioners,

Re: Strengthening Trans-Tasman Economic Relations – A Joint Study - Discussion Draft - September 2012. Mutual Recognition of Imputation Credits.

The intent of this letter is to outline my concerns regarding recommendations made in the Discussion Draft, on the matter of Mutual Recognition of Imputation Credits. You will note that my current address is in Canada, however I am a dual-citizen of both Australia and New Zealand and I intend to return down-under to live, work, and conduct business again in the near future.

Mutual Recognition of Imputation Credits is an issue most deserving of implementation. In particular, I wish to point out that prior submissions from a broad range of industry bodies on both sides of the Tasman have overwhelmingly recommended adopting a Mutual Recognition system. This includes submissions from such reputable organisations as the Australian Bankers Association, the New Zealand Bankers Association, ANZ Bank, CPA Australia, and Business NZ.

While reports from the investment and business community may have been largely anecdotal to date (although these should not be underestimated), the ANZ Leadership Forum also submitted to the Discussion Draft authors an excellent, empirical investigation report (prepared by NZIER and CIE Australia) specifically aimed at measuring the costs and benefits of Mutual Recognition. Their report demonstrated that the net benefits to both countries' economies would outweigh the costs, by eliminating the distorting effects of double-taxation of cross-Tasman dividends. The current system therefore clearly does not fit within the intent of the desirable mandate for Closer Economic Relations and a Single Economic Market.

At some point previously, it was independently decided by both governments that elimination of double-taxation is desirable overall, through the adoption of imputation credit systems. By extension – why would the same compelling reasons that lead to those decisions, not equally apply in the context of a cross-Tasman Single Economic Market? It is inconsistent and contradictory to argue otherwise.

I do not attempt to again spell out in this letter all of the significant benefits that Mutual Recognition would bring – this has already been extensively addressed by others. My concern is that although there seems to be no significant argument for not mutually recognizing imputation credits other than politically inconvenient, short-term revenue loss (from what ultimately amounts to an exorbitant double-taxation of

income), the Discussion Draft avoids recommending the adoption of a Mutual Recognition system.

Furthermore, I believe the Discussion Draft somewhat down-plays the reasons and extent of support for Mutual Recognition within the business community, and in relative comparison has overblown the complexities to be resolved with pursuing implementation of such a system. "Right" recommendations and decisions should be made, regardless of whether or not they are politically unpalatable in the short-term.

Despite the Discussion Draft recognizing; "for a number of participants, the biggest concern was the absence of recognition of imputation credits across the Tasman", and detailing several of the numerous problems with the current system, the Draft ultimately concludes; "the economy wide and distributional effects are complex and require further assessment."

While that may be true, what must also be recognized is that the current system has economy wide and complex effects too (*all of which are negative from a real-economy business perspective*). This matter has been discussed for over twenty years, with no superior recommendation emerging other than to adopt cross-Tasman Mutual Recognition of Imputation Credits, so I am led to wonder how much more analysis is really required, and how much longer will this be delayed and avoided?

I encourage the Productivity Commissions on both sides of the Tasman to remain politically neutral and to provide advice to our leaders with the mission of promoting economic growth within a Single Economic Market - even when it requires brave action.

Accordingly, I implore the Australian and New Zealand Productivity Commissions to alter the Final Report to **recommend** mutual recognition of imputation credits.

As a less-desirable, secondary option, in case Australia alone decides to delay pursuing the first proposal of Mutual Recognition, I would also encourage the Final Report **recommend** that New Zealand unilaterally recognize Australian imputation credits. It would still be greatly beneficial to New Zealand businesses and citizens (with positive spill-over effects to Australia too).

Yours sincerely,

[signed]

Peter Ferguson