

The Financial Services Council (FSC) has lobbied publically to reduce the tax obligations for Kiwisaver savings and some term deposits. The Council is extremely well funded through the investment and life insurance companies it represents. These companies have a clear commercial interest in paying less tax.

The council has produced an extensive marketing campaign to sell its ideas and obtain signatures for its petition. They have also told people that the NZ Government imposes "the worlds harshest tax regime on long term savings" and set up a website encouraging people to bombard Government with emails and postcards.

The councils rationale for savers being taxed less is that over time, inflation reduces the buying power of their investment. They argue that part of the interest they receive for their savings is to compensate for inflation, yet Government taxes them for this compensation portion of the interest they receive.

The NZPIF view is that term deposits have always been treated in this way and yet depositors continue to use them. This is because savers look at more than just tax and inflation when deciding how to invest. Key benefits that term deposits have over other investments are a lower level of risk and higher liquidity.

This implies that they are happy with the return as if they were not, they would place their funds in another type of investment.

While it is bad practice to use tax as an influence on peoples investment decisions, Co-director of the Retirement Policy and Research Centre, Michael Littlewood, says that "there is no international evidence that tax concessions for retirement savings actually increase savings". Therefore the only reason to apply such a policy is to increase the return for existing depositors.

The Council also propose that commercial borrowers benefit from inflation and therefore they should only be able to claim the net inflation interest cost of their borrowings as a tax deduction.

Essentially this transfers the cost of their tax deduction onto businesses, including farmers and rental property owners.

To conclude, the NZPIF is against the Financial Services Councils proposal and requests that it does not receive any favourable attention from the Government.