CGT AND COMPLIANCE COSTS ARE A DOUBLE TAX ON NZ BUSINESSES

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- TWG didn't calculate the costs associated with CGT...administration, compliance and deadweight costs
- To double tax NZ businesses is to divert billions of dollars of capital away from investment in growth and productivity
- BIG RISK: CGT will lower net returns (IRR). Investors will not absorb this...the result will be lower asset prices
- A CGT will change the behaviour and decision making of thousands of investors / owners (Deadweight Effect)

FACTS YOU NEED TO KNOW



INDICATIVE COMPLIANCE COSTS OF \$1.6B OVER 5 YEARS

- Compliance costs are costs to the tax payer made up of Valuation Day costs and ongoing compliance costs
- The compliance cost for assets included in the TWG calculation are estimated to be \$1.6b
 - For the assets included in TWG calculations, the valuation costs are estimated to be \$0.8b
 - Based on evidence from Australia, CGT compliance costs could be as high as 16% of tax revenue, we have assumed 10% on the basis that NZ's CGT is less complex (cost of \$0.8b)
- This excludes the valuation cost for private businesses (not included in TWG calculations), estimated to be up to \$5.5b

INDICATIVE ADMIN COSTS OF \$210M OVER 5 YEARS

- Administration costs are the IRD's costs of collecting CGT
- CGT admin costs are estimated to be 2% 4%¹ of CGT revenue



INDICATIVE DEADWEIGHT LOSS OF \$1.5B - \$4.2B OVER 5 YEARS

- Increased taxation leads to deadweight loss (the value of lost output) by prompting people to switch from higher valued to lower valued economic activities.
- Studies estimate deadweight costs on all taxes at 18% 50% of Tax Revenue
- Every dollar a business incurs in compliance costs results in a dollar less to invest in growth and productivity

"Compliance costs are high and significant; compliance costs are regressive [will hit small business harder than big business]; and compliance costs are not reducing over time" PROFESSOR CHRIS EVANS, TAX ADVISER TO TWG

COMMON SENSE



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We can't ignore the material cost and complexity of a CGT on businesses

It does not make sense to examine the benefit of a Capital Gains Tax without also examining the significant costs



It will be counter-productive to increase the cost burden of New Zealand businesses

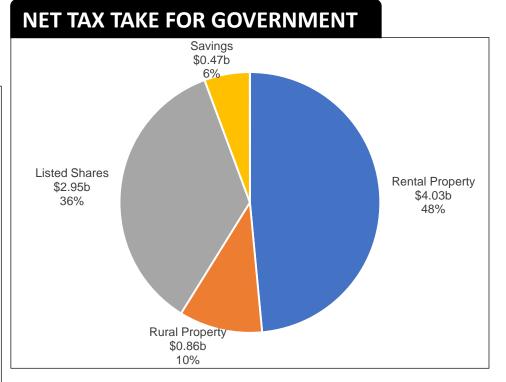
1

A LOT OF PAIN FOR LITTLE GAIN

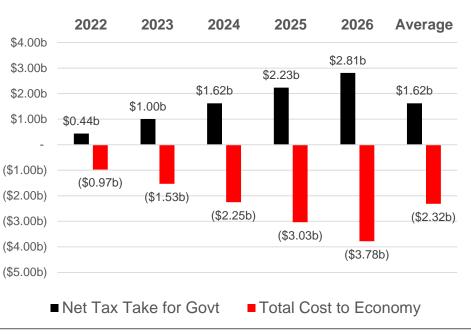
- Economic Drag over the first five years is estimated to be \$2.75b \$6.81b
- If it is not revenue neutral (i.e NO revenue recycling) total economic drag over the first five years is estimated to be \$10.9b \$14.8b
- Deadweight loss estimated to be \$1.5b \$4.2b

WHAT YOU NEED TO KNOW

TWG 5 YEAR FORECAST OF CGT REVENUE (Adjusted for Estimated Admin and Compliance Costs) 2022 2023 2024 2025 2026 Total Average **Govt Tax Take** Rental Property \$0.12b \$0.41b \$0.78b \$1.16b \$1.56b \$4.03b \$0.81b Rural Property \$0.08b \$0.10b \$0.23b \$0.30b \$0.17b \$0.15b \$0.86b Listed Shares \$0.64b \$0.80b \$0.92b \$2.95b \$0.16b \$0.43b \$0.59b Savings \$0.09b \$0.09b \$0.09b \$0.10b \$0.10b \$0.47b \$0.09b **CGT** revenue \$1.03b \$2.29b \$2.88b \$8.31b \$1.66b \$0.45b \$1.66b Indicative Admin Costs (\$0.01b) (\$0.03b) (\$0.04b) (\$0.06b) (\$0.07b) (\$0.21b) (\$0.04b) Low (\$0.01b) (\$0.02b) (\$0.02b) (\$0.03b) (\$0.04b) (\$0.12b) (\$0.02b) High (\$0.02b) (\$0.04b) (\$0.07b) (\$0.09b) (\$0.12b) (\$0.33b) (\$0.07b) **Net Tax Take for Govt** \$0.44b \$1.00b \$1.62b \$2.23b \$2.81b \$8.10b \$1.62b Cost to the Economy CGT paid (\$1.03b) (\$2.88b) (\$0.45b) (\$1.66b) (\$2.29b) (\$8.31b) (\$1.66b) Valuation Day Cost (\$0.39b) (\$0.19b) (\$0.10b) (\$0.06b) (\$0.04b) (\$0.77b) (\$0.15b) (\$0.32b) (\$0.16b) (\$0.08b) (\$0.05b) (\$0.03b) (\$0.64b) (\$0.13b) Low (\$1.00b) High (\$0.50b) (\$0.25b) (\$0.12b) (\$0.07b) (\$0.05b) (\$0.20b) **Compliance Cost** (\$0.17b) (\$0.05b) (\$0.10b) (\$0.17b) (\$0.23b) (\$0.29b) (\$0.83b) Low (\$0.14b) (\$0.17b) (\$0.50b) (\$0.10b) (\$0.03b) (\$0.06b) (\$0.10b) High (\$0.07b) (\$0.27b) (\$0.37b) (\$0.46b) (\$1.33b) (\$0.27b) (\$0.16b) Total compliance costs (\$0.32b) (\$0.43b) (\$0.30b) (\$0.26b) (\$0.29b) (\$0.33b) (\$1.60b) Net Direct Cost (\$0.88b) (\$9.91b) (\$1.98b) (\$1.33b) (\$1.92b) (\$2.58b) (\$3.21b) Deadweight Loss (\$0.33b) (\$0.09b) (\$0.21b) (\$0.33b) (\$0.46b) (\$0.58b) (\$1.66b) Low (\$0.08b) (\$0.19b) (\$0.30b) (\$0.41b) (\$0.52b) (\$1.50b) (\$0.30b) (\$0.83b) High (\$0.23b) (\$0.52b) (\$0.83b) (\$1.15b) (\$1.44b) (\$4.16b) Total Cost to Economy (\$0.97b) (\$1.53b) (\$2.25b) (\$3.03b) (\$3.78b) (\$11.58b) (\$2.32b) Low (\$1.44b) (\$2.14b) (\$2.89b) (\$3.60b) (\$10.94b) (\$2.19b) (\$0.88b) (\$14.79b) High (\$1.24b) (\$1.96b) (\$2.88b) (\$3.88b) (\$4.83b) (\$2.96b)



CGT COST vs BENEFIT



Notes to the indicative and preliminary estimates

5.

- We look solely at the gross costs of the gross CGT revenue; we do not consider how the revenue 1 may be recycled and any costs and benefits of that recycling.
- 2. CGT costs are relative to the \$8.31 billion CGT revenue from the TWG over 5 years, which covers residential property excluding the family home, commercial property and rural property. Full valuation of businesses is not included
- 3 Valuation costs are largely an up-front cost; over a longer time period these will become much smaller relative to revenue raised 4
- Deadweight loss is notoriously hard to estimate our central estimate uses 20%
 - A range of assumptions on valuation costs, administration and compliance costs and deadweight

losses are possible (see Appendix)

Appendix

A CAPITAL GAINS TAX COMES WITH MATERIAL COSTS

Year20222023202420252026TotalI	indicative and Preliminary estimates of Costs of a Capital Gains Tax										
Low \$0.08b \$0.19b \$0.30b \$0.41b \$0.52b \$1.50b Mid \$0.09b \$0.21b \$0.33b \$0.46b \$0.58b \$1.66b High \$0.23b \$0.52b \$0.83b \$1.15b \$1.44b \$4.16b High \$0.23b \$0.52b \$0.83b \$1.15b \$1.44b \$4.16b Low \$0.03b \$0.06b \$0.10b \$0.14b \$0.17b \$0.50b Mid \$0.03b \$0.06b \$0.17b \$0.23b \$0.29b \$0.83b High \$0.07b \$0.16b \$0.27b \$0.37b \$0.46b \$1.33b High \$0.07b \$0.16b \$0.27b \$0.37b \$0.46b \$1.33b Low \$0.01b \$0.02b \$0.02b \$0.03b \$0.46b \$1.33b Mid \$0.01b \$0.02b \$0.02b \$0.03b \$0.42b \$0.32b High \$0.02b \$0.04b \$0.07b \$0.03b \$0.42b \$0.77b	Year	2022	2023	2024	2025	2026	Total				
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	High	\$0.81b	\$0.97b	\$1.29b	\$1.68b	\$2.07b	\$6.81b				

Indicative and Preliminary estimates of Costs of a Capital Gains Tax

Indicative and Preliminary estimates of Costs of a Capital Gains Tax

- Costs of a CGT include deadweight loss, compliance costs, govt administrative costs and one-off valuation costs
- The tax distorts economic activity tracked by the overall deadweight loss
- Indicative and preliminary estimates suggest costs of \$3.47 billion over 5 years in our central scenario
- The costs are uncertain with significant variation depending on assumptions used

Notes to the indicative and preliminary estimates

- 1. We look solely at the gross costs of the gross CGT revenue; we do not consider how the revenue may be recycled and any costs and benefits of that recycling.
- 2. CGT costs are relative to the \$8.31 billion CGT revenue from the TWG over 5 years, which covers residential property excluding the family home, commercial property and rural property. Full valuation of businesses is not included.
- 3. Valuation costs are largely an up-front cost; over a longer time period these will become much smaller relative to revenue raised
- 4. Deadweight loss is notoriously hard to estimate our central estimate uses 20%
- 5. A range of assumptions on valuation costs, administration and compliance costs and deadweight losses are possible (see supporting slides)

ASSUMPTIONS ON DEADWEIGHT LOSS & COMPLIANCE AND ADMIN COSTS

- Deadweight loss estimates vary considerably
- Compliance costs range to 16% of revenue (e.g. Professor Evans advice to TWG based on Australian experience in the mid 1990s)
- Compliance costs are typically 2-6 times administrative costs (here we benchmark admin costs as 25% of compliance costs)

1. Deadweight loss										
Low	\$0.08b	\$0.19b	\$0.30b	\$0.41b	\$0.52b	\$1.50b	18%			
Mid	\$0.09b	\$0.21b	\$0.33b	\$0.46b	\$0.58b	\$1.66b	20%			
High	\$0.23b	\$0.52b	\$0.83b	\$1.15b	\$1.44b	\$4.16b	50%			

2. Compliance costs

Low	\$0.03b	\$0.06b	\$0.10b	\$0.14b	\$0.17b	\$0.50b	6%
Mid	\$0.05b	\$0.10b	\$0.17b	\$0.23b	\$0.29b	\$0.83b	10%
High	\$0.07b	\$0.16b	\$0.27b	\$0.37b	\$0.46b	\$1.33b	16%

3. Administrative costs

Low	\$0.01b	\$0.02b	\$0.02b	\$0.03b	\$0.04b	\$0.12b	1.50%
Mid	\$0.01b	\$0.03b	\$0.04b	\$0.06b	\$0.07b	\$0.21b	2.50%
High	\$0.02b	\$0.04b	\$0.07b	\$0.09b	\$0.12b	\$0.33b	4.00%

ASSUMPTIONS ON VALUATION COSTS FROM A CGT

- Costs driven by assumptions on price and coverage of CGT on second houses, commercial and rural property (see our assumptions below)
- Assumptions drive cost estimate (see right)

Valuation assumptions										
Cost of one-off valuation										
Houses:	703,114	\$50	\$500	\$800						
	Low	90.0%	5.0%	5.0%						
	Mid	80.0%	10.0%	10.0%						
	High	50.0%	25.0%	25.0%						
Commercial:	65,000	\$3,000	\$7,500	\$12,000						
	Low	90.0%	5.0%	5.0%						
	Mid	75.0%	12.5%	12.5%						
	High	60.0%	20.0%	20.0%						
Rural:	87,000	\$3,000	\$7,500	\$12,000						
	Low	90.0%	5.0%	5.0%						
	Mid	85.0%	7.5%	7.5%						
	High	80.0%	10.0%	10.0%						

4. Indicative and Preliminary Valuation Costs of a Capital Gains Tax											
Year	2022		202	23	2024	Ļ	2025		2026	Tota	I
Residential Property											
Low	\$0.	.08b	\$0.0	8b	\$0.08	b	\$0.08b	(,	\$0.08b	\$0.39	b
Mid	\$0.	.12b	\$0.1	.2b	\$0.12	b	\$0.12b	(1	\$0.12b	\$0.60	b
High	\$0.	.25b	\$0.2	5b	\$0.25	.25b \$0.25b		(,	\$0.25b	\$1.23	b
					Comm	ercia	al Property				
Low	\$0.	.24b	\$0.2	4b	\$0.24	b	\$0.24b	e T	\$0.24b	\$1.19	b
Mid	\$0.	.30b	\$0.3	0b	\$0.30	b	\$0.30b	ç	\$0.30b	\$1.52	b!
High	\$0.37b		\$0.3	7b	\$0.37	b	\$0.37b		\$0.37b	\$1.85	b
					Ru	ral P	roperty				
Low	\$0.	.32b	\$0.3	2b	\$0.32	b	\$0.32b	Ş	\$0.32b	\$0.32	b!
Mid	\$0.	.35b	\$0.3	5b	\$0.35	b	\$0.35b		\$0.35b	\$0.35	b
High	\$0.	.38b	\$0.3	8b	\$0.38	b	\$0.38b		\$0.38b	\$0.38	b
	٦	Total in	dicative	valua	ation cost	ts (in	put to tota	cost	s of CGT)		
Low	\$0 .	.32b	\$0.1	6b	\$0.08	b	\$0.05b	Ş	\$0.03b	\$0.64	b
Mid	\$0 .	.39b	\$0.1	9b	\$0.10	b	\$0.06b	Ş	\$0.04b	\$0.77	'b
High	_{gh} \$0.50b		\$0.2	5b	\$0.12	b	\$0.07b	Ş	\$0.05b	\$1.00	b
0/											
% valuations		20	22	2	2023		2024	20	025	2026	
By year		50.	0%	2	5.0%		12.5%	7.	5%	5.0%	