Submission

By

BusinessNZ

The voice of business

To The

Finance & Expenditure Select Committee

On The

Taxation (Annual Rates, Business Taxation, KiwiSaver & Remedial Matters) Bill

12 JULY 2007

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TAXATION (ANNUAL RATES, BUSINESS TAXATION, KIWISAVER & REMEDIAL MATTERS) BILL
SUBMISSION BY BUSINESS NEW ZEALAND[1]
12 JULY 2007

1. INTRODUCTION

1.1 Business New Zealand welcomes the opportunity to comment on the Taxation (Annual Rates, Business Taxation, KiwiSaver & Remedial Matters) Bill (referred to as 'the Bill'). While Business New Zealand supports many of the measures contained in the Bill, we only wish to make comments on a few aspects of the Bill that we believe will have a significant effect on all employers – primarily the proposal to introduce compulsory employer contributions to KiwiSaver.

2. SUMMARY OF RECOMMENDATIONS

2.1 Notwithstanding Business New Zealand's overall recommendation that the Bill should proceed, we also recommend that:

(a) The provision for employers to make any type of compulsory contribution to an employees' KiwiSaver scheme should not proceed;

Without prejudice to the above recommendation, if compulsory employer contributions were to proceed, Business New Zealand recommends that:

(b) The Government examines the effect of not adjusting for inflation the employer tax credit contributions, with a view towards regular adjustments for inflation starting in 2008;

(c) A clause is introduced in the Bill that provides that any required employer contribution to the KiwiSaver scheme will be recognised as coming from any employee's total employment package, whether or not the employee initially opts to join the scheme.

(d) Clause 33 of the Bill remains as currently stands, and that there is no amendment to include good faith discussions between an employer and employee(s) involving any and all superannuation policies;

(e) Clause 203 of the Bill that ensures casual employees are not subject to the automatic enrolment rules of KiwiSaver proceeds;

(f) Provisions to ensure total employer contributions for all employees' work based superannuation schemes are not required to total more than 4% of an employee's gross earnings proceed; and

(g) SOP 119 does not proceed until there is meaningful and considered consultation with the business community, including those most likely to be affected by the legislative changes. Also, existing transactions that will be affected should be grandfathered.

[1] Background information on Business New Zealand is attached in the appendix.

3. KIWISAVER

Compulsory Employer Contributions

General Views

3.1 Business New Zealand's submission is written against a backdrop of strongly supporting a voluntary approach to work based superannuation schemes, both from an employer and employee perspective. With that in mind, we are very disappointed to see the proposed introduction of compulsory contributions by an employer to an employees' KiwiSaver account, starting at 1% by April 2008 and rising to 4% by April 2011 (as outlined in table 1).

Table 1: Employee and Employer Contributions (2008-2011)

	Minimum employee contribution (% of gross salary)	Employer contribution (% of gross salary)	Total employee & employer contributions (% of gross salary)
1 April 2008	4	1	5
1 April 2009	4	2	6
1 April 2010	4	3	7
1 April 2011	4	4	8

3.2 During initial discussions about a generic work-based scheme and through to the development of the KiwiSaver package, Business New Zealand has had substantive conversations with the Government, both at a Ministerial and department level to ensure the scheme had a high level of buy-in from employers and did not involve a significant compliance cost in terms of its implementation. Since the scheme is primarily run via the workplace, employers are a key element for its success.

3.3 One of the main features of KiwiSaver that Business New Zealand approved of was that it was a truly voluntary scheme, in that an employee did not have to join and the employer did not have to co-contribute. There will be stages of life where it would be a better financial decision by an employee to allocate income to other areas, such as debt repayment or funds to start a business. By making contributions to the scheme voluntary for both employers and employees, it provided a pathway in which both parties could engage in a constructive and sensible dialogue regarding contributions from both parties.

3.4 Business New Zealand is extremely disappointed that the Government did not seek in any way to discuss the proposal of compulsory employer contributions before the Bill was introduced with New Zealand's largest business organisation that represents around 76,000 employers throughout the country. These changes will affect every employer, and as previous dialogue had been open for discussion on KiwiSaver, the goodwill that had been built has now been severely weakened. We believe there are crucial outcomes that the Government has simply not considered by forcing employers to contribute, which will have negative consequences for the success of the scheme.

Business Reaction to the Announcements

3.5 We note that the Government has taken on board the results of a ShapeNZ poll by stating that *"The business community is coming in behind KiwiSaver…The latest ShapeNZ poll of 228 business people shows 68% support for the employer contributions to KiwiSaver"*. Business New Zealand strongly asserts that these results are in no way a true view of what employers think about the proposed changes. Apart from the questionable way in which the ShapeNZ is conducted (there is no quality control in terms of an individual identifying who they claim to be), the survey makes a fundamental error in failing to distinguish between the views of <u>employers/business owners</u> versus <u>staff</u> (i.e. business managers) and the <u>self-employed</u>. The latter two groups would obviously have a biased view of whether compulsory employer contributions should proceed, because they do not have to pay the end cost. Therefore, a clear distinction needs to be made between what the Government has referred to as the business community, and the views of employers/business owners who are the key group having to bear the increased costs.

3.6 The views of a few large companies versus the bulk of SMEs in New Zealand is also an important distinction to make, otherwise it can give an incorrect picture of overall business views. An example of this is the Mood of the Boardroom (MOTB) 2007 survey, which asked both CEOs of major companies and SME owners whether they intended to contribute to their employees' KiwiSaver scheme (this question was asked before the 2007 Budget announcements). Only 32% of large companies said 'no', while 85% of SMEs answered 'no'. Therefore, the compulsory employer contributions were an unwelcome surprise for employment costs for the majority of enterprises that make up New Zealand's business demographic (typically SMEs), as most had made a conscious decision not to contribute.

3.7 Follow-up surveys of CEOs after the budget announcements also showed that 56% of the CEOs of major companies surveyed agreed with the budget decision to make compulsory superannuation contributions for employees who join KiwiSaver. Such results based only on the major CEOs does not reflect the overall picture and implications of compulsory employer contributions, compared with the outcome for SMEs.

3.8 This situation is typified by the Minister of Finance stating that the decision by Air New Zealand to offer the full value of employer contributions immediately once KiwiSaver officially begins is another sign the business community is coming strongly behind KiwiSaver[2]. While Air New Zealand is certainly free to make that decision which they believe is in the best interests of their business, it is worth pointing out that Air New Zealand is in no way a typical New Zealand business, based on most variables examined, such as overall size, turnover or number of employees. Air New Zealand already has a work-based superannuation scheme running, whereby the company contributes up to 7.5%. Therefore, they are in a prime position to be able to afford the instant contribution of 4% for KiwiSaver. This shows that while there will be some businesses that either can or are actively willing to afford the additional

[2] Hon Dr Michael Cullen: National Votes Against KiwiSaver, 24 May 2007.

employment cost of the 4% contribution, there are a large number of businesses that cannot.

3.9 Another issue is the compulsory employer contributions and the cut in the company tax rate (CTR). It goes without saying that while Air New Zealand will benefit from the cut in the company tax rate from 33% to 30%, well over half of New Zealand businesses will not. Also, the Government has not provided or signaled any reduction in personal tax rates (in fact, for businesses on the personal tax rate the 2007 Budget has made those businesses even worse off by withdrawing the intended change to thresholds marked for 2008). This means that for many businesses, the positives to come out of the cut in the CTR have been negated by the compulsory employer contributions, while those businesses on the personal tax rate have effectively felt the full force of a payroll tax in drag.

3.10 Lastly, anecdotal evidence from the seminars Business New Zealand's Regional Associations have run throughout the country also point to dissatisfaction with employers having to co-contribute, which was clearly not what employers intended to do. The EMA Northern submission on this Bill expresses the general reaction received, which was not favourable.

Officials' Response to the Enhanced KiwiSaver Scheme

3.11 As part of the Business Taxation Review (BTR), the associated discussion document released stated that the Government had looked into the possibility of introducing a payroll tax (under the section entitled 'Other Initiatives Considered and Rejected'). While having some attractions in principle that the Government considered, a payroll tax was considered much less attractive in practice to implement. Business New Zealand, along with other business organisations, soundly rejected the notion of a payroll tax, and we stated in our submission that we were pleased to see that the Government had not considered it as part of the BTR going forward.

3.12 However, as stated above, compulsory employer contributions are in effect a payroll tax. This view was basically backed by officials as paragraph 36 of the joint Treasury/IRD report[3] stated that *"Over the longer term, research on payroll taxes suggest that the majority of the incidence of compulsory employer contributions will be passed on to the employee through a combination of higher inflation from increases to the cost of production and lower nominal wage growth"*.

3.13 The joint report also highlighted some further alarming considerations. Regarding the impact on national saving, paragraph 30 of the report stated that *"…although the enhanced KiwiSaver package is designed in a way that raises the likelihood of an improvement in private savings, and a change in the composition of national savings, this on its on may not lead to an improvement in national savings"*. This adverse outcome could be further compounded by a substitution effect by KiwiSaver members as they simply transfer their saving from one vehicle into the KiwiSaver scheme (which has appeared to be the

[3] Overview of Enhanced KiwiSaver Package.

case in Australia). Therefore, there is the potential for an overall decrease in national savings via the enhanced KiwiSaver changes.

3.14 The enhanced elements of KiwiSaver may also lead to three separate outcomes, all of which have unintended consequences. Firstly, the lower paid who often have lower levels of private saving which KiwiSaver is designed to increase, may still not be able to save 4% of their gross income (which in terms of net pay is obviously more). Therefore, they completely miss out on the enhanced features. Secondly, the middle-higher income earners experience a substitution effect by diverting savings/investments from other areas into KiwiSaver. Lastly, high income earners who are often already saving adequately for retirement and have the most leeway in terms of being able to join sign up, enjoy a further top up for their saving via a tax free member credit from the Government.

3.15 Also, table 2 of the joint report examined the additional cost of the enhanced KiwiSaver package using different take-up rates. If we were to take the mid estimate of a 50% take-up rate, by 2011/12 the additional cost would be $1.3 billion. At the higher estimate (a 65% take-up rate) the cost rose to $1.8 billion. While predicting the take-up rate 4-5 years out can be difficult, we are alarmed at the statement that *"accommodating the enhanced KiwiSaver package within the Government's current fiscal objectives will therefore require considerable fiscal discipline, including expenditure growth than would have otherwise been the case"*. While Business New Zealand strongly advocates restraint of Government spending within certain parameters to ensure smaller government and a smaller tax burden, we are concerned that the overall cost of KiwiSaver may become so great that it inhibits spending in other areas (for example infrastructure) that may provide a stronger economic return to the country. Also, it may further inhibit any moves towards a broad based, low tax structure that Business New Zealand also advocates, as room for lower tax rates become squeezed by the increasing outlay by the Government on KiwiSaver.

3.16 Lastly, paragraph 25 of the joint report states that *"ongoing monitoring of take up levels will help to ensure that appropriate adjustments to spending growth can be made if take up is higher than expected, particularly in early years. This will assist the government in maintaining sufficient fiscal headroom to cope with an adverse shock".* Therefore, the Government is in effect placing KiwiSaver as the centre-piece of policy in which expenditure in other areas has to accommodate, even though officials have expressed concern that national savings may remain completely unchanged.

Employer Tax Credits for KiwiSaver

3.17 As a way to lessen the employment cost on all businesses, the Government has provided a tax credit of up to a maximum of $20 per week to partially reimburse employers for the added cost. However, the partial reimburse ment realistically comes nowhere near the true cost to the employer.

3.18 During the announcement, the Minister of Finance stated that *"the employer tax credit makes it much easier for employers to provide matching* *contributions. In the first year, it will meet the full cost of the contributions for 95% of the workforce. Overall, the net additional costs to employers by 2011/12 should overall be no more than one per cent of the national wage and salary bill at that point"*.

3.19 While technically the above statement appears robust from the Minister of Finance, the second part of the statement is likely to reflect the fact that only around one half of employees or around 50% are likely to take up the Kiwi-saver option (although this is widely open to debate). Certainly, the make-up of that 50% may be quite different to that initially envisioned by the Government, with costs far higher than considered. It is important to point out that the cost of KiwiSaver in terms of an employees' contribution is higher than the 4% typically mentioned, as the real cost is near 5% when taken out of net pay. As the Census 2006 income statistics show, around two-thirds of those earning income from wages and salaries earn less than $35,000 per year. Given the relative high opportunity cost for these employees in terms of their contribution to the scheme, it may steer many away from joining at all. At the same time, there is the possibility of providing another opportunity for those on higher pay who can afford the 4% gross pay contribution to simply save even more towards their retirement. In addition, there is the real potential that KiwiSaver could fuel wage pressures at the bottom end as employees demand higher wages so that they can afford their 4% gross pay contribution, which creates further costs for employers, as well as inflationary pressures.

3.20 If 50% of employees took up the Kiwi-saver option, then by 2011/12 it would likely be that the impact would only be about 1% of the national wage and salary bill. However, for the subset of employees that take up the offer of KiwiSaver, the increased cost for an employer in terms of their wage bill would be around 2% for that group. The "1% net impact" could therefore be considered to be misleading, particularly when dealing with individual employers whose employees take up KiwiSaver. Obviously this gets even more complicated when employers have a large number of employees earning beyond $100,000 per annum, who would be in a better financial position to join KiwiSaver as mentioned above. For employers with employees' earnings over $100,000 per annum, the net impact would likely be around 3% per annum[4].

3.21 If we take the <u>estimated</u> average wage of $52,000 in 2011/12 and the <u>estimated</u> total wage and salary bill of $82.6 billion (2011/12), then the net cost to <u>all</u> employers would likely be around 1% per annum of $82.6 billion (i.e. over $800 million per annum) and about 2% of the net cost to employers whose employees join KiwiSaver (assuming only 50% of all employees join).

3.22 It could be argued that the nature of the Government's tax package is such that the reductions in the company tax rate from 33% to 30% (at a direct cost of $2.1 billion, effective 2008/9) and other tax credits provided for (e.g. in the case of the 15% provided for in respect to R&D expenditure - $630 million

[4] For employees earning less than $26,000 per annum, the net cost for employers of their 4% contribution would be zero. (i.e. $26,000 multiplied by 4% equals $1,040 (the tax credit). For employees earning $52,000, the net cost to employers providing 4% contribution would be 2% of salary. For employers earnings $104,000, the net cost would be approximately 3% of salary.

over four years), offset any additional costs imposed through the decision to provide for compulsory contributions from employers towards the Kiwi-saver scheme. However, this assumption should be approached with a significant degree of caution.

3.23 Unlike, the changes in the company tax rate and R&D tax credits (which are specifically "targeted"), employer contributions to Kiwi-saver will impact on every employer. Therefore to state that employers will be better off as a result of the tax package would be misleading. Some employers will be significantly better off (particularly companies with large R&D budgets) which will benefit from both a reduction in the company tax rate and through the R&D tax credit. On the other hand, those individuals who operate as sole traders or who are not incorporated will effectively lose out.

3.24 Therefore, in light of the adverse reaction by the majority of businesses towards compulsory employer contributions, the increased costs associated with the contribution, and the negative sentiments the proposal will likely create, Business New Zealand recommends that the compulsory contributions by employers does not proceed.

Recommendation: That the provision for employers to make any type of compulsory contributions to an employees KiwiSaver scheme should <u>not</u> proceed.

3.25 Notwithstanding the fact that Business New Zealand strongly opposes compulsory employer contributions, if such contributions were to proceed, we believe that there needs to be clearer guidelines in regards to a few key issues.

Employer Tax Credits and Inflation

3.26 In addition to an increased wage bill, the positive effect for employers of the employer tax credit under its current proposal will certainly lessen over time. The tax credits the Government is providing for KiwiSaver comes to a total cost of $1.6b over the next four years. The removal of the personal income tax thresholds means revenue saving to the Government of $1.44b over the same time period. One of the key differences between the two decisions is that the personal tax rate thresholds were to experience ongoing inflation adjustment, while there has been no attempt by the Government to inflation adjust the KiwiSaver tax credit contributions. Therefore, the relative cost to the Government <u>lessens</u> over time, while the cost to business continues to <u>increase</u> over time. Therefore, we would expect that the Government should take into consideration what this likely long term effect would mean, and take practical steps to inflation adjust the employer tax credit contribution.

Recommendation: That the Government examines the effect of not adjusting for inflation the employer tax credit contributions, with a view towards regular adjustments for inflation, starting in 2008.

Future Bargaining Issues

3.27 Deciding not to include business organisations such as Business New Zealand in meaningful consultation regarding compulsory employer contributions appears to indicate a serious lack of Government understanding of the full implications in terms of the future bargaining process, and the potential for additional costs on business. There is a strong likelihood of more industrial action and litigation as the Bill currently stands. One of the key concerns is that as KiwiSaver is a voluntary scheme, it leads to uncertainty around how industrial bargaining will play out.

3.28 To illustrate this, take a situation where two workers in the same business, say John and Fred, each earn $40,000 and John opts in to KiwiSaver and Fred does not. This will create a relativity problem for the future. They have each negotiated a salary package, where John's $40,000 includes the employer contribution and Fred's does not. If, later on, Fred decides to opt in to KiwiSaver, will the employer's contribution be part of, or on top of, the $40,000 package?

3.29 Moreover, if Fred agrees to a clause in his contract saying that the wages received will reduce by the amount of the employer contribution if he later opts in to KiwiSaver, will it be possible to attack this at a later date (agreeing in advance of something happening that could be to the employee's detriment)? This could be an illegal 'contracting out' under the Act.

3.30 Obviously, this creates significant uncertainty amongst employers and employees. While one could argue that overseas schemes have compulsory employer contributions without these consequences (such as that in Australia), the critical difference there is that the scheme is compulsory for all employees. Therefore, the problem of being in or out of the generic work based scheme does not apply.

3.31 However, it is important to point out that any decision to rectify this problem by making KiwiSaver compulsory severely misses the key point of the problem, and would instantly take away one of the few redeeming pillars of the scheme in that individuals still have a choice to make a judgment whether enrolling in KiwiSaver is the best financial decision for them at that stage in their lives. Making KiwiSaver compulsory simply seeks to solve the problem with yet another one.

3.32 Business New Zealand believes that whatever employment package is provided, it should be possible, in negotiating the package, to agree that it will constitute the total package, whether or not the employee opts to join the KiwiSaver scheme. Then, should an employee later choose to join the scheme, he or she will do so in the knowledge that the employment package has been agreed with this possibility in mind. In other words, while the total employment package remains the same, it will be recognised that the negotiated package already meets the requirement for an employer contribution.

3.33 The outcome proposed could be achieved by inserting an appropriate clause into the current Bill. Two possible clauses are given by way of example (the second a variation of the first), namely:

Proposed Clause 1
'An employer and employee may agree on a total employment package of which the employer's contribution to the KiwiSaver scheme is a component part.

Where a total employment package has been agreed with an employee who has not joined the KiwiSaver scheme, the employer will be entitled to treat the employer contribution as part of the agreed employment package if the employee subsequently chooses to join the KiwiSaver scheme.'

or

Proposed Clause 2
'An employer and employee may agree on a total employment package of which the employer's contribution to the KiwiSaver scheme is a component part.

If the employee has chosen not to join the KiwiSaver scheme but subsequently chooses to do so, the employer will be entitled to treat the employer contribution to the scheme as part of the previously agreed employment package.'

3.34 Either of the two clauses in paragraph 3.33 would apply whether the particular employment agreement was a collective or an individual agreement. A clause (section) of this kind would enable employers to provide separate schedules, one setting out the employment package applicable to KiwiSaver scheme members, and the other applicable to someone not in the KiwiSaver scheme.

3.35 The practical outcome of the inclusion of either of these two clauses would mean that an employee who is not in a KiwiSaver scheme would receive the forgone compulsory employer contribution to KiwiSaver as part of their take-home pay. If an employee decided to join KiwiSaver, the equivalent funds would be removed from their gross pay, and be part of their employer contribution to the scheme.

Recommendation: That a clause is introduced in the Bill that provides that any required employer contribution to the KiwiSaver scheme will be recognised as coming from any employee's total employment package, whether or not the employee initially opts to join the scheme.

Financial Advice Offered by Employers to Employees

3.36 Business New Zealand was pleased to see a change in the KiwiSaver Bill that was reported back from the select committee that specifically required the KiwiSaver information packs to include a statement that people should seek financial advice from a professional financial advisor, rather than an employer, regarding various financial issues that may affect their primary decisions about KiwiSaver (included as d(a) of Clause 33 of the Bill).

3.37 Some may argue that because of the enhanced changes to KiwiSaver, employers and employees should now be able to have a more open discussion in good faith on such financial matters. However, Business New Zealand strongly sits on the side of caution on this matter, as there are particular areas where employees should always seek independent advice away from their employer.

3.38 The two primary areas where independent advice by an employee should always be sought are employment advice and financial advice. One would never expect an employee to seek advice from their employer regarding a proposed employment contract because of the extreme conflict of interest. Likewise, an employee should not seek advice from their employer regarding how they should allocate their discretionary pay. By doing so, there is a considerable potential for future complications in the employer-employer relationship, especially if say a work based superannuation scheme provides negative returns, or worse the relevant provider goes into receivership. Despite all the good will in the world, any form of discussion initially entered into are often forgotten once monetary losses mount or there is a perceived view that in hindsight the best financial decisions were not made.

3.39 Therefore, Business New Zealand recommends that clause 33 of the Bill remains as currently stands, and that there is no amendment to include good faith discussions between an employer and employee(s) involving any and all superannuation policies.

Recommendation: That clause 33 of the Bill remains as currently stands, and that there is no amendment to include good faith discussions between an employer and employee(s) involving any and all superannuation policies.

Casual Employment

3.40 Business New Zealand is pleased to see the proposed KiwiSaver amendment of *Part 3: clause 203* regarding the expansion of temporary employment to include casual employment that is “intermittent or irregular” in nature, which will not be subject to automatic enrolment rules. The inclusion of casual employees for the automatic rules requirements of KiwiSaver has caused a considerable number of issues for employers, placing them in an uncertain position given the intermittent nature of such employees’ work. Making their inclusion optional removes much of this concern and alleviates the compliance problem for many employers (particularly those sectors where casual employees are a prominent feature of those employed).

Recommendation: That clause 203 of the Bill that ensures casual employees are not subject to the automatic enrolment rules of KiwiSaver proceeds.

Allowing Employer Contributions to Existing Schemes to Count toward the Compulsory Amount for KiwiSaver

3.41 Business New Zealand is pleased to see the proposed KiwiSaver amendments (*Part 3, clause 203, section 101D*) preventing employees from obtaining employer contributions from their KiwiSaver scheme, on top of contributions they may receive from their employer from their existing superannuation scheme (effectively 'double-dipping' from their employer). As officials have rightly pointed out[5], double dipping could result in the employer winding up the existing scheme.

3.42 For example, John is in a private work based scheme and contributes 5%, and his employer matches his contributions at 5%. John should not be able to then also join KiwiSaver, and expect his employer to eventually contribute 4% by 2011, on top of the 5% contribution by his employer.

3.43 To minimise the impact of compulsory employer contributions, the Government has proposed that it will allow employer contributions to all non-KiwiSaver schemes to count towards compulsory contributions for:

- Employers who provide access to a superannuation scheme as of 17 May 2007; or
- Existing scheme members (i.e. members prior to 1 April 2008), or where the employment contract of existing employees (i.e. employees prior to 1 April 2008) provides access to the scheme; or
- Existing employment (i.e. employment as at 1 April 2008).

3.44 Therefore, it appears that this would mean total employer contributions for all employees' work based superannuation schemes are not required to total more than 4% of an employee's gross earnings.

3.45 Business New Zealand strongly endorses this view that the overall employer contribution is taken into account, to eliminate any instances of double dipping by an employee.

Recommendation: Provisions to ensure total employer contributions for all employees' work based superannuation schemes are not required to total more than 4% of an employee's gross earnings proceed.

4. Supplementary Order Paper 119

4.1 Supplementary Order Paper (SOP) number 119 involves tax changes to shut down tax schemes involving leases on overseas assets that result in a loss to the tax revenue base. While Business New Zealand is not in a position to discuss the finer details of the SOP, we do wish to point out the poor consultative process that has preceded the SOP, with a view that it does not proceed until proper consultation with the business community has taken place.

[5] IRD Tax Policy Report, Enhanced KiwiSaver Package: Impact on Existing Schemes.

4.2 Business New Zealand has typically found IRD to be one of the most proactive government departments in terms of consultation with business regarding proposed changes to tax legislation. However, there appears to have been little if no proper consultation in this instance, let alone using the typical channels of discussion papers and review of submissions to reach a practical outcome.

4.3 Also, there appears to have been no attempt to examine the overall economic costs and benefits of the proposed amendments. One needs to compare the increase to the revenue base and the negative effects on not only new leases but also existing leases as the legislation will be retrospective. We understand that the loss to the tax base under the current rules is around $10 million per annum for the next ten years, which in respect to the entire tax revenue base over a decade is insignificant. However, the negative economic effects on existing leases that will be affected may be significantly more, thereby leading to a possible net economic loss for the country.

4.4 On the issue of retrospective legislation, we note that the Government has previously taken the general policy viewpoint of not enacting such legislation concerning tax issues. However, the SOP goes against this viewpoint, and is clearly unjust against transactions that have been entered into under existing law. Therefore, in accordance with the Government's typically held view, existing transactions that will be affected by the SOP should be grandfathered if the current SOP or any future variation proceeds.

Recommendation: That SOP 119 does not proceed until there is meaningful and considered consultation with the business community, including those most likely to be affected by the legislative changes. Also, existing transactions that will be affected must be grandfathered.

APPENDIX

5. About Business New Zealand

5.1 Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 67-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

5.2 In addition to advocacy on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

5.3 Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.