

**Submission to the Inland Revenue Department on the  
Discussion Document GST & Financial Services**

**The Association of Superannuation Funds of New Zealand Inc.**

**13 December 2002**

## **Background**

### **The Association of Superannuation Funds of New Zealand Inc.**

This submission is made by The Association of Superannuation Funds of New Zealand Inc. (“ASFONZ”) on behalf of employer sponsored superannuation schemes. ASFONZ is a national non profit organisation whose membership of approximately 170 comprises the major employer/employee superannuation schemes as well as representatives of the superannuation schemes’ actuaries, legal advisors, insurers and investment and administration managers in New Zealand.

ASFONZ’s mission is to promote employment-related superannuation in New Zealand. It will achieve that mission by:

- Being the recognised voice;
- Representing the interests of trustees and employer/employee groups in areas such as economic, political and public education; and
- Supporting members through education and information on industry matters.

ASFONZ was established in 1969 at a time of considerable change. Although a variety of superannuation and pension schemes had been established many years before this they operated in isolation. The schemes, as such, had no real voice. The creation of the association provided an important vehicle for increasing understanding among sponsors and managers of schemes of the issues that they are facing. It enabled schemes to stand together with a representative voice to safeguard the interest of all concerned – members, beneficiaries, trustees and employers.

According to the Government Actuary's Newsletter No. 55 (November 2002) there were then 567 registered employer schemes with total assets of \$10 billion and 261,600 members. These figures include the National Provident Fund but exclude the Government Superannuation Fund. These figures also include the “multi-employer” superannuation schemes operated by life insurers and other institutions.

## **Submission**

### **Scope of the Definition of “Financial Services” (Chapter 6)**

#### **Management Services**

##### *Proposal*

The discussion paper proposes a review of the GST treatment of management services in relation to long-term investment vehicles with a view to an amendment to the definition of financial services.

##### *Submission 1*

That section 3(1)(j) of the Goods and Services Tax Act 1985 (the “GST Act 1985”) is not amended to remove the management of a superannuation scheme from within the definition of financial services.

##### *Submission 2*

That section 3(1)(j) of the GST Act 1985 is amended to include the management of other long-term investment vehicles (such as unit trusts and group investment funds) within the definition of financial services.

##### *Comment*

The management of a superannuation scheme is currently included in the definition of financial services under section 3(1)(j) of the GST Act 1985. The discussion paper identifies the different treatment of management services for other long-term investment vehicles, such as unit trusts and group investment funds. The management of unit trusts and group investment funds is not included in the definition of financial services. The discussion document makes no recommendation as to whether management of a superannuation scheme should be treated as taxable services or as financial services and invites comment.

ASFONZ is unaware of any problem with the current GST treatment of management fees for superannuation schemes and considers that there is no policy reason to change the GST treatment.

Employer sponsored superannuation schemes vary in respect of the terms and conditions contained in the trust deed and management arrangements. Changing the basis of the management services from an exempt supply to a taxable supply would create problems. During the inevitable transition phase, the supplier of management services to the superannuation scheme may contractually not be able to add the required GST to the charges to the superannuation scheme and as a result will be required to account for GST out of the existing management fee received. On the other side if the supplier of

management services contractually is able to add GST then this will be an immediate additional cost to be borne (typically) by the employer sponsor and/or the members of the superannuation scheme. According to ASFONZ's 2001 survey of employment-based and multi-employer schemes, schemes' administration costs are met from either member account or scheme investment earnings (rather than being paid by the employer) in around 60% of schemes.

Any change in the GST treatment of management of superannuation schemes would result in many of the existing management service arrangements no longer being suitable. As a result there would need to be renegotiation of terms and conditions and possible amendment to trust deeds. ASFONZ considers that these are unnecessary costs to impose on superannuation schemes, which already operate in a very difficult environment involving disincentives in terms of both compliance costs and lack of tax neutrality.

As a general indication the level of management and administration fees in relation to superannuation schemes is approximately 1% of total assets (of this amount approximately 45 basis points would relate to investment management and the remainder to other administration). If say, 80% of the costs of providing investment management and administration services relates to human capital (i.e. salaries), the change in GST treatment will simply transfer \$10 million from individuals' savings to the Government coffers by way of GST.

ASFONZ considers that changing the management of superannuation schemes to taxable services runs against the promotion of long term investment for retirement. Any change that negatively interferes with the current environment for retirement savings and which may create a disincentive for investors must be clearly justified on sound policy grounds. ASFONZ is unaware of any such justification.

Any change away from the exempt status of management fees for superannuation schemes will probably create a GST bias towards self-supply in relation to these services, in an environment where specialist expertise is becoming increasingly important in order to comply with a growing range of reporting, accounting and disclosure requirements.

The discussion paper suggests that there is a distortion between the treatment of superannuation schemes and the treatment of life insurance. ASFONZ does not consider that there is any distortion between the GST treatments.

## **The Reverse Charge Mechanism (Chapter 8)**

### ***Proposal***

The government proposes that international charges for imported services will be subject to the GST reverse charge but salaries and interest will be excluded from internal charges for imported services.

### ***Submission 3***

That the reverse charge only applies to services performed for New Zealand recipients that would be subject to GST at 12.5% if supplied by a New Zealand resident supplier. A supply of imported financial services that would be an exempt financial service should not be subject to the GST reverse charge.

### ***Comment***

The discussion paper GST and Imported Services (June 2001) proposed that the reverse charge would generally apply to supplies of imported services that would be taxable if made in New Zealand and that were acquired by a person other than in the making of taxable supplies.

ASFONZ considers that imported financial services (such as management services or certain re-insurance) that would be an exempt supply if provided by a New Zealand supplier should not be subject to the reverse charge.

Under the current GST legislation there is no bias towards either New Zealand or international supply of management services for superannuation schemes. Imposing a GST reverse charge on imported financial services will create a bias towards New Zealand supply. Suppliers of management services to superannuation schemes should be able to operate on an equal footing.