
**Submission to the Finance & Expenditure
Committee on the Taxation (Annual
Rates, GST, Trans-Tasman Imputation
and Miscellaneous Provisions) Bill 2003**

from

The Association of Superannuation Funds of New Zealand Inc.

15 August 2003

Background

The Association of Superannuation Funds of New Zealand Inc. ("ASFONZ")

ASFONZ is an independent national, non-profit organisation founded in 1969. Its current membership comprises over 110 major employer-based superannuation schemes and over 50 organisations and individuals representing the various product and service providers for employment-related superannuation.

The mission of ASFONZ is to promote employment-related superannuation in New Zealand.

ASFONZ will achieve that mission through:

- 1 **Advocacy** – being the recognised voice for all employers and trustees involved in employment-related superannuation, through:
 - (i) advocating legislative and public policy initiatives beneficial to the industry;
 - (ii) making submissions and commentary on existing legislative and public policy initiatives;
 - (iii) issuing regular press releases and other public commentary on matters of wider concern or interest to members; and
 - (iv) staying in regular contact with responsible Ministers, regulatory and industry bodies, the Retirement Commissioner and Government Departments to protect, promote and advance members' interests.
- 2 **Education** – promoting trustee, employer and member education through dedicated training programmes, newsletters and special interest seminars.
- 3 **Networking** – providing trustees, employers and service providers involved in employment-related superannuation with a regular forum for sharing ideas and information on industry matters.

According to the Government Actuary's latest annual report (prepared as at 30 June 2002) employer-sponsored schemes covered just 14.6% of the workforce at the end of December 2001, down from 22.5% in 1990 (when the regime had just moved from tax incentives to a "tax neutral" level playing field).

Over this same period the number of employer-sponsored schemes on offer had fallen from 2,242 to just 625. Active membership numbers had fallen by 20% (from 273,065 to 218,284) while accumulated savings had increased by just 10% in aggregate (from \$9.5b to \$10.4b).

We understand from more recent discussions with the Government Actuary's office that the number of employer-sponsored schemes remains in steep decline, with the number of those schemes (after taking into account pending wind-ups) having dropped to 522 - a reduction the, since 1 January 2002, of 103 schemes. Given the objective difficulty in justifying the establishment or continuation of schemes, compounded by the effect on scheme funding levels of three consecutive years of negative investment returns, ASFONZ believes that employment-related superannuation in New Zealand is at crisis point, and in fact risks extinction.

Submission

Proposal

The Bill includes proposals to provide for employers to elect that progressive rates of specified superannuation contribution withholding tax shall apply. The Compliance Cost Statement in the Bill includes the following sentence:

“Progressive rates will necessarily be more difficult to administer than the current flat rate and will therefore increase employers’ and superannuation funds’ compliance costs. Employees’ potential benefits are of the order of \$29 million”.

ASFONZ welcomes the intent of the proposed changes, as they will address the longstanding issue of over-taxation of employer superannuation contributions made with respect to those earning less than \$38,000 per annum.

That said, ASFONZ wishes to register its disappointment that the regime as proposed may impose additional compliance costs on employers, and is concerned that this further layer of compliance cost may enhance the rate of decline of employer participation in superannuation savings.

The relevant clause in the Bill is Clause 58, which would introduce into the Income Tax Act 1994 a new section NE 2AB.

We have the following comments in relation to the wording of the clause.

- i) Subsection (1) provides for employer “estimates” of salary or wages and of specified superannuation contributions to be made in respect of employees who have been employed for less than a year. Subsection (2) then prescribes how these “estimates” must be made. We believe that the wording of subsection (2) is too prescriptive and does not adequately take into account the seasonal nature of some people’s employment and the variability that can

occur in employer contribution rates over time. We would like to see an option for an employer to use best estimates if it is considered, on reasonable grounds, that the prescriptive formulae will produce a poor “estimate”.

- ii) The wording refers to contributions “on behalf of an employee”. It is not entirely clear how this wording should be applied in respect of employer contributions to defined benefit schemes. The Government Actuary’s 2002 report included the following statistics:

	Defined Benefit	Defined Contribution
Number of schemes	197	421
Total assets	\$5,501 m	\$4,615 m
Total members	72,178	174,947

From these figures it is clear that defined benefit schemes are still a significant component of the New Zealand market. We believe it is imperative that employers sponsoring these schemes are able to take advantage of the progressive rates. We understand that the New Zealand Society of Actuaries has been working in this area to recommend appropriate mechanisms for this to occur.

- iii) In crafting the final legislation, drafters need to be aware that the trust deeds of schemes vary in relation to the way in which employer contributions are expressed. These differences will result in different outcomes for members and employers.

Take a member for whom the progressive SSCWT rate is to be 21%. Say the employer contribution is expressed in the trust deed as a gross rate, say 5% of the member’s salary. In this situation the following applies:

	Current Regime	Proposed Regime
Credited to member	3.35%	3.95%
Paid to IRD	1.65%	1.05%
Total cost to employer	5.00%	5.00%

However, if the employer contribution is expressed in the trust deed as a net rate, say 3.35% then the impact is:

	Current Regime	Proposed Regime
Credited to member	3.35%	3.35%
Paid to IRD	1.65%	0.89%
Total cost to employer	5.00%	4.24%

Under the first scenario the proposed change increases the amount credited to the member, and under the second the cost to the employer is reduced.

ASFONZ wishes to appear before the Commerce Committee to speak to this submission.

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