

5 May 2020

Mr M. P. Ross
fyi-request-12564-e0c6317a@requests.fyi.org.nz

Dear Mr Ross

Thank you for your request made under the Official Information Act 1982 (OIA), received on 8 April 2020. You requested the following:

- 1) *The total annual amount of tax paid (NZD) to the IRD for each of the past 5 years from all KiwiSaver contributions.*
- 2) *The total annual amount of tax paid (NZD) to the IRD for each of the past 5 years from all KiwiSaver investment income.*
- 3) *What was this tax in questions 1 and 2, used for and used by whom?*
- 4) *Was the tax collected in Q1 and 2) reinvested, and if so, what was its result(s)? (\$)*
- 5) *If a KiwiSaver account makes income and is then rightfully taxed at the correct level, then that KiwiSaver investments value reduces to below the level of contributions made. Then eventually (one day) goes back into a positive balance but not to the level of the first peak, are you taxed again (double dip tax) on that so-called income, which you have already paid for previously?*

I have answered each of your questions separately below.

Question 1. *The total annual amount of tax paid (NZD) to the IRD for each of the past 5 years from all KiwiSaver contributions.*

Employer Superannuation Contribution Tax is a tax deducted from all employer superannuation contributions. This includes superannuation schemes other than KiwiSaver schemes. Consequently, the figures reported here will overstate the tax related to KiwiSaver contributions. Additionally, contributions made by the member are made from post-tax income. As the information you have requested is not held by Inland Revenue, I regret that I must refuse this part of your request under section 18(g) of the OIA.

However, I can provide information on the Employer Superannuation Contribution Tax. Please find this information in the table below:

Year ending 31 March	Employer Superannuation Contribution Tax (\$m)
2015	1,098
2016	1,127
2017	1,191
2018	1,272
2019	1,309

Ref: 200IA1301

Question 2. *The total annual amount of tax paid (NZD) to the IRD for each of the past 5 years from all KiwiSaver investment income.*

Please find the requested information in the table below:

Year ending 31 March	Tax on KiwiSaver PIE investments (\$m)
2015	300.0
2016	178.3
2017	296.6
2018	356.0
2019	403.2

Tax on KiwiSaver portfolio investment entity (PIE) investments includes tax paid on investment income upstream of the PIE (e.g. imputation credits on dividend income or resident withholding tax paid on interest income) and tax paid by the KiwiSaver PIE on behalf of the investor.

Question 3. *What was this tax in questions 1 and 2, used for and used by whom?*

Tax collected from KiwiSaver investment income is receipted to the Crown's consolidated account along with revenue received from other sources. In this way, tax revenue from all sources comes together and forms a singular "pool" of funds. Once tax revenue from all sources has been combined, the origin of one dollar cannot be distinguished from another, making it impossible for money to be traced from source to expenditure.

As the information which you have requested is not held by Inland Revenue, I regret that I must refuse this part of your request under section 18(g) of the OIA.

However, if you wish to know more about the application of tax revenue, you can review the Government's Financial Statements. These are available on the Treasury website (treasury.govt.nz/publications/year-end/financial-statements-2019) and set out the destination of Government spending in some detail. For example, in the 2018/19 financial year, the three largest areas of total Crown expenditure were:

- social security and welfare (\$28.8 billion);
- health (\$18.3 billion); and
- education (\$14.3 billion).

Question 4. *Was the tax collected in Q1 and 2) reinvested, and if so, what was its result(s)? (\$)*

I regret that I must refuse this part of your request under section 18(g) of the OIA for the same reason as that given above; namely, that this information is not held by Inland Revenue. I refer you to my answer to question three (3) for further detail.

Question 5. *If a KiwiSaver account makes income and is then rightfully taxed at the correct level, then that KiwiSaver investments value reduces to below the level of contributions made. Then eventually (one day) goes back into a positive balance but not to the level of the first peak, are you taxed again (double dip tax) on that so-called income, which you have already paid for previously?*

It is first important to distinguish between income and capital. Income is typically defined as the product of capital, while capital is generally understood as the underlying asset which produces or generates income for the holder. This distinction is important for tax purposes as, unlike many countries, New Zealand does not have a comprehensive capital gains tax. This means that while income is taxable in the hands of the recipient, increases in the value of capital are (with some exceptions) not subject to taxation.

Typically, neither capital gains, nor the value of the capital at the beginning of the financial year, are taxed. However, the capital value of offshore investments which the portfolio investment entity (PIE) holds may be used for the purpose of calculating deemed income on foreign investments.

A KiwiSaver scheme is a PIE. A member of a KiwiSaver scheme will usually own units in the PIE which are linked to assets (e.g. shares, bonds, property, etc). There are exceptions, such as Kiwi Wealth, that do not assign units in a scheme. Instead, contributions are invested into the chosen investment fund(s).

Units can increase or decrease in value in line with market and company performance. Where these units generate income (for example, in the form of dividends), this income will be subject to tax at the KiwiSaver member's prescribed investor rate (PIR). However, any increase in the value of the underlying unit would represent a capital gain and would therefore not be subject to taxation.

As a simplified example, suppose the following:

A KiwiSaver member invests \$10,000 from employee and employer contributions through a KiwiSaver member's PIE scheme. These funds are used to buy units linked to a number of different assets. Following disruption in international markets, the value of these units goes down and the balance of the KiwiSaver account is now \$7,000. After 6 months the market has stabilised, and the value of these same units is now \$9,500. As it is the value of the underlying assets that has increased the member will not be liable to tax on the \$2,500 capital gain.

Suppose that after another 6 months, the value of the units held by the KiwiSaver member is now \$11,000. As before, because the value of the underlying asset has increased there is no tax due on this \$1,500 balance increase. As with the example above, tax is not levied on the value of the capital or on any increase or decrease in its value over the financial year.

At the end of the financial year one of the New Zealand companies which the KiwiSaver scheme has invested in pays dividends which contribute \$500 to the balance of the KiwiSaver account, bringing the total to \$11,500. As dividends are considered income, the \$500 will be assessed to tax at the KiwiSaver member's PIR rate.

Right of Review

If you disagree with my decision on your OIA request, you can ask an Inland Revenue review officer to review my decision. To ask for an internal review, please email the Commissioner of Inland Revenue at: CommissionersCorrespondence@ird.govt.nz.

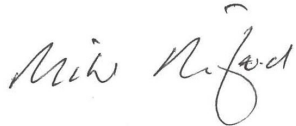
Ref: 200IA1301

IN CONFIDENCE

Alternatively, under section 28(3) of the OIA, you have the right to ask the Ombudsman to investigate and review my decision. You can contact the office of the Ombudsman by email at: info@ombudsman.parliament.nz.

Thank you for your request. I trust that the information provided is of assistance to you.

Yours sincerely

A handwritten signature in black ink that reads "Mike Nutsford". The signature is written in a cursive, flowing style.

Mike Nutsford
Policy Lead