Getting closer to becoming a place where talent wants to live

Comments on *Effect of the FIF rules on immigration: proposals for amendments*

NZIER submission to the Inland Revenue Department

27 January 2025

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New Zealand Institute of Economic Research (NZIER) is an independent, not-for-profit economic consultancy that has been informing and encouraging debate on issues affecting Aotearoa New Zealand, for more than 65 years.

Our core values of independence and promoting better outcomes for all New Zealanders are the driving force behind why we exist and how we work today. We aim to help our clients and members make better business and policy decisions and provide valuable insights and leadership on important public issues affecting our future.

We are unique in that we reinvest our returns into public good research for the betterment of Aotearoa New Zealand.

Our expert team is based in Auckland and Wellington and operates across all sectors of the New Zealand economy. They combine their sector knowledge with the application of robust economic logic, models and data and understanding of the linkages between government and business to help our clients and tackle complex issues.

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Key points

This submission responds to the proposals set out in Inland Revenue Department (2024), which seeks to address a fundamental disconnect between New Zealand immigration and international tax policy objectives outlined in Wilson and Fry (2024).

We begin by assessing why New Zealand's current tax and regulatory system has not kept up with evolving international practice in this space. Using this framework, we examine where the existing proposals will address these shortcomings and where further work will be needed.

Looked at from a broader efficiency perspective, current policy settings have high economic costs because they deter talented individuals from moving here. Appropriate reforms to the international tax regime will reduce those costs.

We support the Inland Revenue Department's overall approach, as it addresses immediate barriers to talent living in New Zealand with minimal changes to the Foreign Investment Fund (FIF) regime.

Within the general approach, there are several aspects of the proposals which we consider could be improved. These include:

- Many of the proposals add additional complexity by making fine distinctions between different types of taxpayers (migrants versus returning expatriates), between different types of assets (illiquid shares versus other investments), and between source country tax rates. Officials risk introducing unnecessary complications that detract from the underlying objective, which is to make New Zealand a more attractive place to live. We suggest simpler rules that could achieve that goal without exposing the tax base to undue risk.
- Our first-best preference would be for all assets acquired by covered people (first-time migrants and returning expatriates) to be ring-fenced and not subject to any New Zealand tax at all on the grounds that New Zealand has no legitimate interest in taxing such income. This is justified on efficiency grounds, as removing a real barrier to talented people moving to New Zealand.
- As a second-best option, if the government is of the view that horizontal equity requires some New Zealand taxation on the income from those assets, then they should be taxed on realisation.
- We do not support the fine distinction officials are proposing in various options or a 15 per cent effective source country rate test. Allowing all qualifying taxpayers (migrants and returning expatriates) the option of electing realisation for their interests is a much simpler way to achieve horizontal equity.
- Given the recent global increase in migration of highly-skilled entrepreneurs and investors, the proposed ten-year absence required before expatriates can qualify for the new approach might now be too long. We consider that a shorter period, say five years, might be a more appropriate threshold and that the one-time restriction on qualification should be removed.

- Rather than subject all the gains on realisation, if that is the approach adopted, to full marginal tax rates (which for most people would be 39 per cent), one simple, if essentially arbitrary approach would be to subject half the gain to tax, which would mean an effective rate of 19.5 per cent.
- An "exit tax" is unwarranted. New Zealand does not currently have any such system for people who cease to be residents with New Zealand assets held on revenue account, let alone overseas assets.

If our recommendation to ring-fence existing assets is not accepted, then we support the proposal that all US citizens who become New Zealand tax residents should be subject to tax on a realisation basis on all overseas holdings, regardless of the date of acquisition. Officials should work with the IRS to clarify whether the US provides foreign tax credits for those subject to the current accrual FIF regime and the proposed realisation tax. The starting position of the New Zealand government should be that, under the current double tax agreement and US law, those credits are available.

We also disagree with some key assumptions and rationale underlying the proposals. It is important that the government pursues good policies and also important that it does so for the right reasons. We make a number of suggestions regarding this.

Achieving Sir Paul Callaghan's challenge of becoming a place where talent wants to live will require additional changes to tax and regulatory policy to reflect evolving ways of doing business. Ensuring these changes do not undermine the integrity of the tax base and are consistent with underlying broad-base, low-rate policy principles will be a longer-term project.

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1 Introduction

A group of interested parties has commissioned NZIER to prepare this submission on the Inland Revenue Department's paper *Effect of the FIF rules on immigration: proposals for amendments* (Inland Revenue Department 2024). That paper responded to a report NZIER prepared for the American Chamber of Commerce in New Zealand, the Auckland Business Chamber, the Edmund Hillary Fellowship and the NZUS Council (Wilson and Fry 2024).

Our focus here is on the economic policy underlying the proposed reforms and how they can meet the late Sir Paul Callaghan's challenge of making New Zealand a place where talent wants to live. We test the IRD's proposed reforms against the circumstances of some of the people we interviewed when preparing our earlier report and conclude with a series of specific recommendations on how the government and its advisers should proceed. We also note areas where further reform is needed.

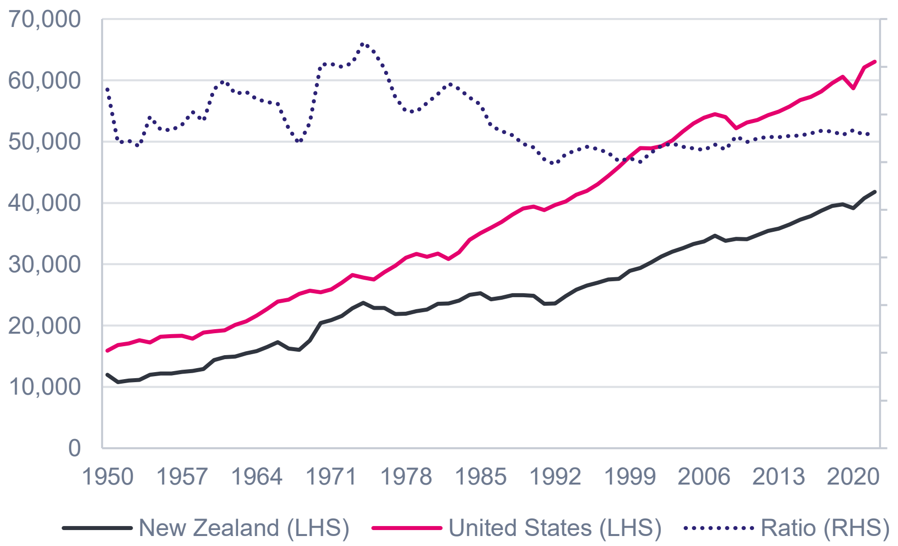
1.1 The first of many reforms needed

Officials have been asked by ministers to explore options to address the issues raised in Wilson and Fry (2024).

There are other reforms in tax and other policy areas that will be required to ensure that New Zealand truly becomes a place where talent wants to live. Figure 1, which was included in Wilson and Fry (2024), shows that New Zealand's economic performance has stabilised, but has still not caught up with high income countries. There is more work to do.

Figure 1 A long decline, followed by stabilisation

GDP in $US per capita, adjusted for inflation and exchange rates



Source: Feenstra et al. (2015)

Changes to international tax rules are urgently needed because a four-year transitional provision in those rules is negatively impacting people who came to New Zealand during the COVID-19 pandemic.

Some of our original interviewees have already left New Zealand. More are poised to do so if these issues are not addressed.

Proceeding with these changes on a stand-alone basis is both possible and warranted. The problem to be solved is clear, and officials and others have identified relatively simple solutions that are consistent with the tax policy principles underlying the Foreign Investment Fund (FIF) regime.

Other barriers to talent wanting to come to and stay in New Zealand involve more fundamental questions about the applicability of New Zealand's policy settings in a changing world where people with the skills needed to develop innovative businesses are in very short supply and highly sought-after. For example, some New Zealand regulatory and tax settings are based on conventional business models that are familiar to policy makers and advisers, while international technology businesses use newer models with very different cultures and norms. New Zealand residents who have never left the country becoming subject to the FIF regime because overseas investors require a company to move its headquarters to the United States is an example.[1]

Finding fit-for-purpose responses to these wider issues will require careful policy development based on a sound understanding of global business practices. This will take time.

Many other jurisdictions are also looking to attract talent (Baier et al. 2024). New Zealand faces the twin economic disadvantages of size and distance, which means that it is unlikely to ever be a global economic centre.[2] But material reforms to the FIF would be a good first step. The government should, however, make clear that this is not the only change needed to address the real and pressing barriers to talent wanting to live in New Zealand, which will remain once the more immediate FIF issues are resolved.

2 Context

2.1 The Callaghan challenge

In March 2011, Sir Paul Callaghan, a renowned New Zealand physicist, issued an ambitious challenge:

1 We understand that some large US tech companies will only invest in companies that are incorporated in the US, as this reduces the risk if they need to take legal action to protect their investments. They are, however, willing to allow the companies which they have invested in to have their business operations overseas. There are a number of examples where the New Zealand employees of such companies, who own shares in their employer, have become subject to the FIF regime as a result of the required business restructuring that accompanies overseas investment. Some relatively low-paid New Zealand residents are liable to pay tax on deemed income, including while the company is still in start-up mode.

2 There are many small economies in the world, and there are many countries distant from the world's major economic and financial centres. New Zealand is unique among OCED countries in being both small and distant.

We need to create a place where talent wants to live.

At the heart of his vision was a call for New Zealand to establish 100 global technology companies led by inspired entrepreneurs. Achieving this goal would require making New Zealand a destination of choice for such talent – a place where they would choose to live and thrive.

At first sight, New Zealand already appeals to many talented individuals. Immigration policies encourage skilled migration, and the country consistently performs well on global benchmarks. It ranks highly for ease of doing business (World Bank 2019), has a trusted government (OECD 2023), is recognised as one of the world's least corrupt nations (Transparency International 2024) and is considered the most democratic country globally (The Economist 2024).

Wilson and Fry (2024) examined why, despite what looks like a strong basis for fulfilling Sir Paul's vision, New Zealand's relative economic performance has, at best, barely kept pace with the rest of the developed world.

The report concluded that New Zealand is not yet a place where talent wants to live. Surprisingly, a key part of the reason lies in obscure New Zealand international tax provisions, such as the Foreign Investment Fund (FIF) rules.

While its immigration system welcomes talent, New Zealand's tax system is far from inviting, especially for people who have achieved success abroad and amassed significant investment portfolios. Interviews with current and prospective migrants and returning expatriates, as well as their local advisers, revealed that existing tax policies are discouraging talented individuals from living in New Zealand. Despite their deep love of the country and personal desire to contribute to building its prosperity, many people feel unable to stay here for financial reasons.

By discouraging talented people from coming to New Zealand, the current tax settings are also creating a negative feedback loop. Absent the sort of people Sir Paul was focusing on, the New Zealand economy is not hosting enough world-leading technology firms, meaning that people wanting to invest in New Zealand are limited to a pool of globally small firms, which are pushing against the headwinds of a low productivity economy, trying to export from a distance.

Before responding to the proposals set out in Inland Revenue Department (2024), we provide a brief overarching assessment of why New Zealand's tax and regulatory system has not kept up with evolving international practice. This framework enables us to examine where the current proposals will address these shortcomings and where further work will be needed.

2.2 The economics of turning good ideas into profitable businesses

We begin with a discussion of the standard business model used in the sectors Sir Paul saw as the future for a prosperous New Zealand. This way of turning good ideas into profitable global businesses is radically different from the approach upon which much of New Zealand's regulatory and tax systems are based. Understanding these types of arrangements and the wider business environment in which they operate is crucial background for the development of tax and other regulations that will make New Zealand an attractive place for talented people to live and work.

There are many people with good ideas, many people with the skills and experience needed to rapidly turn good ideas into profitable businesses operating at a global scale, and many people with the capital and appetite for risk needed to finance that development.

Few people have all three.

Developing ideas into large-scale profitable businesses is expensive and is often well beyond the financial resources of the person who has the ideas. The process is risky, and success is far from guaranteed. But the returns on successfully developing ideas can be truly staggering, and many people – entrepreneurs, early-stage employers and initial funders – will require some equity in the venture rather than being prepared just to work for the going wage rate or accept bank interest rates on loans.

Given the high risks involved and the enormous potential gains to be had from developing good ideas, a system of bringing together people with the necessary skills and assets has developed over centuries of economic progress (Lerner and Nanda 2020, 239).

This system overcomes a series of what economists call 'principal-agent' or incentive problems. The central point is that turning ideas into profitable businesses is the work of many people who will normally be motivated to focus on their own interests rather than those of the whole enterprise.[3]

The economic purpose of this system is to resolve fundamental conflicts of interest between agents – for example, an entrepreneur with a venture that needs money – and principals, say the investor providing that money (Kaplan and Stromberg 2001, 426). Other important principal-agent relationships are between the owners of a firm and its senior managers and between managers and staff.

There are three main ways in which these conflicts are resolved in practice:

- Financial contracts create incentives for an agent to behave in the interest of the principal (Jensen and Meckling 1976). For example, a contract can specify the timing and amount of capital contributions and the distribution of governance rights between the founders and later funders.[4]
- Investors assess early-stage ideas and screen potential investments before committing funds.
- Principals gather information after they become involved, to monitor progress.

Participants manage the upside and downside risks of developing ideas into companies that can stand alone through a staged approach. Table 1, over the page, shows that there are five possible stages in the funding of a venture.

3 Adam Smith commented on this issue in the founding work of modern economics, the *Wealth of Nations*:

> *The directors of such [joint-stock] companies, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private [partnership] frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company.* (Smith 1977, vol. II, page 229)

4 See Hart (2001) for a survey.

Table 1 Funding stages

Stage	What it is	Funding sources	Purpose
Pre-seed funding	The earliest funding round, often raised when the startup is still an idea or prototype.	Founders' savings, family and friends, angel investors,[5] startup accelerators,[6] crowdfunding platforms[7] and grants.	Funds are typically used to develop a prototype, conduct market research, or validate the idea.
Seed funding	The first official funding round, usually after the concept has been validated.	Angel investors, micro-VCs,[8] early-stage venture capital funds, and crowdfunding platforms.	Seed capital is used to build a minimum viable product (MVP),[9] acquire initial customers, and prepare for scaling.
Series A funding	The first major round of venture capital funding, meant to scale a product and grow operations.	Venture capital firms, strategic investors, and corporate VCs.	Series A capital typically funds marketing efforts, product development, and key hires.
Series B and beyond	Later-stage funding rounds that support rapid scaling and market expansion.	Large venture capital firms, private equity investors, and institutional investors.	These funds are often used to expand into new markets, launch additional products, or make acquisitions.
IPO or acquisition	Once a startup has matured, it may either go public through an Initial Public Offering (IPO) or be acquired by a larger company.	Public markets or acquirers in the industry.	To provide liquidity to investors and founders, and secure capital for continued growth.

Source: Nasser (2024)

One particular feature of this model is that it focuses on when the various parties (entrepreneurs, early-stage, specialist employees and the various types of funders) can exit the venture, take their gains and potentially move on to other opportunities. Not all of

5 Angel investors, who are often themselves former entrepreneurs, invest their own time and money in startups to which they have no direct connection. In return, they receive ownership equity. Angel investors can act as individuals or via a network (Tenca, Croce, and Ughetto 2019, 183).

6 A startup accelerator is a "mentor-based program that provides guidance, support and limited funding in exchange for equity" (Silicon Valley Bank 2025).

7 Crowdfunding "involves an open call, mostly through the Internet, for the provision of financial resources either in form of donation or in exchange for the future product or some form of reward and/or voting rights." (Belleflamme, Lambert, and Schwienbacher 2011, 5). Equity-based crowd funding by companies is regulated in New Zealand (Financial Market Authority 2024).

8 Venture capitalists "are institutional investors who provide private capital and equity investments to new ventures (or start-ups). By making such an investment, for-profit VCs expect exponential returns when entrepreneurs successfully scale up new ventures in a few years. To facilitate the scale-up of the new ventures in which they invest, VCs not only provide financial capital, but also act as coaches and business partners." (Blume and Hsueh 2024, 2119. Internal citations omitted.)

9 The idea of building a minimum viable product or MVP is an idea from the lean start-up model of business development, which has become a popular framework for thinking about how to convert ideas into successful businesses (Shepherd and Gruber 2021). Key architects of the approach are Steve Blank (Blank 2013), his student Eric Ries (Ries 2011) and French academics and business strategists Alexander Osterwalder and Yves Pigneur (Osterwalder and Pigneur 2013) . This approach "favors experimentation over elaborate planning, customer feedback over intuition, and iterative design over traditional 'big design up front' development." (Blank 2013). The core of the lean start-up model is a 'build-measure-learn' feedback loop, where firms constantly test their ideas and adjust their approach, rather than follow a pre-set business plan. The MVP is the "version of the product that enables a full turn of the build-measure-learn loop with a minimum amount of effort and the least amount of development time" (Eric Ries quoted in Shepherd and Gruber 2021, 978).

these people want to stay involved in a company once it is mature, and there are a variety of exit paths to facilitate this. Successful start-ups may eventually become subsidiaries of large conglomerates or float on a stock exchange.

Another feature of this model is speed. Getting to market with a disruptive idea before the competition is vital. Organic growth is generally not fast enough: firms often need capital to expand well in excess of what current revenues can finance. The result can be a company that is growing sales revenue quickly and making accounting losses at the same time (Srivastava 2023).

Each stage comes with its own set of contractual arrangements between the various parties. For example, an entrepreneur can be contractually bound to stay with a venture until it is sufficiently developed to allow the funders to exit the firm.

New Zealand's current regulatory and tax arrangements were established in a world where bank lending and pre-seed funding were the dominant models of financing business development and expansion. In section 3, we discuss how the current Inland Revenue Department proposals could be modified to address some of the resulting issues. In section 4, we identify several areas where longer-term work will be needed.

2.3 The economics of taxing mobile factors

Although there are large clusters of innovative firms in specific locations (Moretti 2021), there has been a marked increase in the mobility of people with the skills, experience, and funding to contribute to the success of such enterprises in recent decades. This trend, combined with the effect of the FIF regime on mobile, talented individuals and teams, meant that New Zealand was not yet a destination of choice for most of the people Sir Paul Callaghan wanted to attract (Wilson and Fry 2024).

Understanding the economic policy effects of the FIF regime is important when considering the impact of proposed reforms. These effects go much wider than the revenue that the FIF regime may or may not raise.

2.3.1 Tax reform to lift living standards

We now consider what the rationale for the FIF regime should be today and what needs to change to enable that rationale to be achieved.

Section 3.3 of Wilson and Fry (2024, 28) provided an outline of the economic principles underlying the current FIF rules. It explained that the introduction of the FIF regime was part of a much wider programme of reform designed to open the economy to trade, investment and people and remove barriers to people pursuing their economic goals.

By the mid-1980s, the need for major reform to address New Zealand's ongoing slow relative economic decline had become impossible for governments to ignore. The traditional consensus-seeking, reactive policy style of successive governments (Easton 2021, 40) was not going to lift living standards relative to other countries, especially Australia, the UK and the emerging 'Asian Tigers' of Japan, Singapore, South Korea and Taiwan.

Reforms proceeded on four fronts (Belich 2001, 408):

- financial deregulation (removing exchange controls and reducing restrictions on banking, foreign investment, and interest rates)
- state-sector reorganisation and reduction (state trading departments were first converted into commercially focussed State-owned Enterprises, and many were then sold)
- decisions across a wide range of functions were removed from political control and handed to technocrats (the Reserve Bank was made independent, and heads of Government departments were granted considerable freedom to manage their departments to achieve outcomes set by ministers)
- state support for industry (including through explicit and implicit subsidies) ceased.

These wider reforms, while necessary, exposed the New Zealand tax base to new forms of planning and avoidance activity. As a result, the government also introduced significant tax reforms to cross-border taxation as part of a major restructuring of the wider tax system.

2.3.2 The broad-base, low-rate approach

Since 1984, a broad-base low-rate approach has underpinned tax policy in New Zealand. This principle is the result of asking the fundamental tax policy question: how to raise a given amount of revenue at the least cost. In this context, costs are given a wide meaning and include equity, efficiency, administration, and compliance elements.

While the drivers of these costs can sometimes conflict, they are not always in opposition to each other. For example, it is not always necessary to trade off efficiency and equity: the 1980s and later reforms sought to increase both.

The pre-1984 New Zealand tax system, taken as a whole, had high efficiency costs, was costly to administer and comply with, and failed most tests of equity. Most importantly, it was failing at its most fundamental task: raising the revenue need to finance the government's operations.

Consistent with a more market-based economic system, where individuals and firms could choose what they did, how and why, with significantly less government regulation, the role of the tax system was transformed to one of raising revenue (and delivering some cash-based social assistance), instead of being an instrument of wider economic policy.

A key objective of the tax reform programme was the idea of neutrality. Influenced by developments in the international literature,[10] officials and academics in New Zealand

[10] Two highly influential studies were a report by the United States Treasury (US Treasury 1977) and the work of a committee on tax reform commissioned by the Institute for Fiscal Studies in the United Kingdom (Meade 1978). While developed independently, both studies recommended that taxes should, in general, be non-distorting. These reports were early examples of the application of what is known in the tax economics literature as 'optimal tax theory', which seeks to answer the question "how should we tax ourselves?" (Slemrod 2010, 843). Ground-breaking work by the Nobel Prize-winning economists James Mirrlees and Peter Diamond (Mirrlees 1971; Diamond and Mirrlees 1971a; 1971b) established a rigorous framework for thinking about optimal taxation, which has subsequently matured into a bedrock of public finance economics. For general reviews of the literature, see Slemrod (1990), Mankiw et al. (2009), Piketty and Saez (2013), Fleurbaey and Maniquet (2018) and Kaplow (2024). Textbook treatments are in Kaplow (2011) and Atkinson and Stiglitz (2015).

recommended the removal of provisions that favoured one economic activity over another.[11]

2.3.3 Reducing the costs of taxation

Taxes transfer money from taxpayers to the government: this is the 'fiscal burden' of a tax, which reduces the welfare[12] of the taxed party. At a national level, this fiscal burden is matched by the spending that taxes finance, meaning that they generally offset each other. But taxes also take welfare from the economy and transfer it to nobody. This effect is variously called the excess burden, the efficiency cost, or the deadweight loss of taxes.[13] These costs arise because taxes change behaviour.[14]

Different taxes, while raising the same amount of revenue, can change behaviours in different ways, leading to different excess burdens. The broad-base, low-rate approach is designed to minimise the deadweight loss of the tax system, thereby maximising welfare.

In an open economy, the behavioural change that taxes can induce includes changes to the location of people, capital, and finance. The more mobile these factors, the higher the behavioural change that can result from any given tax.[15]

While initially motivated by concerns about protecting the tax base from tax planning, the FIF regime was eventually designed as a core element of the broad-base, low-rate neutral approach:

> *A fundamental aim of the Government's policy will always be, consistent with meeting other policy objectives, to ensure that, whatever the location of investment or the source of finance, all investment decisions make the most efficient use of New Zealand's resources. Policy that achieves this objective will make the greatest possible contribution to economic growth and consequentially improving living standards for all New Zealanders.* (Birch and Creech 1995, 8)

That is, the role of the FIF regime is to reduce the deadweight cost of a tax system in an economy that is open to investment and people.

When the FIF regime was being designed, there was an expected hierarchy of responsiveness to changes in taxation (Slemrod 1992, 253). The greatest change was anticipated in the timing of transactions, especially in taxes where the liability for tax was crystallised by an event like the sale of an asset. The second greatest change was expected

11 Tax reform had been discussed in New Zealand in official and academic circles for some time. In 1981, the then government announced the establishment of a task force on tax reform, charged with undertaking a thorough and systematic review of all aspects of central government taxation. The idea of a comprehensive review had been recommended to the Government by the New Zealand Planning Council earlier that year (Jefferies, Thompson, and Snively 1981). The Task Force issued its report in 1982, calling for a wide range of reforms, almost all of which would be subsequently enacted (The Task Force on Tax Reform 1982). A central theme of the report was to move to a more neutral tax system. The Treasury's 1984 *Briefing to the Incoming Government* also proposed fundamental tax reform (The Treasury 1984, 201–33).

12 Economic welfare refers to the overall well-being and quality of life of people in a society, based on factors like income, employment, education, health status and housing. It exists at the level of the individual, but also at the national level. At this level, it is a wider concept than national income, as measured by gross domestic product (GDP). For a general discussion of the difference between GDP and national welfare, see Coyle (2015). More technical discussions are in Fleurbaey (2009) and Fleurbaey and Blanchet (2013).

13 Regulations also involve deadweight loss (de Boer et al. 2016; Hemel 2023).

14 See Saez, Slemrod, and Giertz (2012) for a discussion of the efficiency effective of behavioural change due to taxes on labour income. Auerbach and Hines (2002) is a general review.

15 Joel Slemrod makes the important point that mobility is different from movement. Mobility is the **ability** to change location, while movement is actual change in location. We might observe little movement of activity at any point of time, but this is after the forces influencing location have all played out (Slemrod 2010, 844).

in financial and accounting responses, where people, for example, would rearrange their portfolios in response to changes in the way different assets were taxed. Finally, there were expected to be what economists call changes to real decisions of individuals and firms, including the types of businesses they were operating, the location of businesses, and where employees or owners would live.[16]

Developments in the international labour market for skilled individuals, particularly in high-tech sectors, have resulted in an increase in the mobility of talented people over the last 20 years at least (OECD 2024, 7).[17] Dany Bahar and his co-authors state that the number of inventors moving across a border in their careers has increased tenfold in the past two decades (Bahar et al. 2024).

The development of the business models used in tech start-ups also has important implications for how they should be taxed, both domestically and in cross-border settings. The distinctions between the roles of founders, employees and various funders and returns that they earn from those roles test the boundaries of typical tax administration and compliance. As Louis Kaplow recently noted:

> *[Tax] schemes may require the observability of investments, returns, or valuations that, with privately held companies, are exceedingly difficult for tax authorities to measure,* ***particularly given that the firms' financiers themselves often have trouble doing so.*** (Kaplow 2024, 655, emphasis added.)

This all means that the deadweight costs of taxing mobile factors have likely increased significantly since the FIF regime was first proposed.

2.3.4 Addressing the policy mismatch

Wilson and Fry (2024) identified a mismatch between New Zealand's immigration policy, which seeks to attract talented individuals to New Zealand, and the FIF rules, which impose tax regardless of the underlying economic performance of those people's investments. We presented case studies that demonstrated how the FIF regime is now discouraging a wide range of talented migrants and returning expatriates from living in New Zealand.

While the wider issue of whether the deadweight costs of the whole income tax are increasing due to increases in mobility to an extent that requires a policy response is something that New Zealand governments should consider, that is a longer-term project.

In the short term, the high deadweight costs of taxing immigrants and returning expatriates on the income they earn from pre-arrival investments provide a strong case for reform. Using this economic framework, we now consider the Inland Revenue Department proposals.

3 The proposals

Inland Revenue Department (2024) presents some options for addressing the issue of the impact of the FIF rules on immigrants and returning expatriates.

16 Real in the sense that they result in changes in the post-tax income and consumption patterns of people.

17 In New Zealand, for example, there has been a significant shift away from permanent, or settler, migration to short-term stays in the country (New Zealand Productivity Commission 2022, 17).

Here, we make some general comments, focussing on high-level policy issues. Our answers to the specific questions raised by officials are included in Appendix A.

3.1 Overall approach

Paragraph 3.1 Inland Revenue Department (2024, 10) states that officials consider the most appropriate solution would be to allow certain FIF interests held by 'migrants' to be taxed on a realisation basis or for taxpayers to be able to use the attributable income method.

3.1.1 Strengths of this approach

Wilson and Fry (2024) recommended that the simplest way to address the issues created by the mismatch between immigration and tax policies was to ring-fence pre-existing investments in FIFs and subject them to taxation on a realisation basis (with dividends subject to tax).

We therefore support this overall approach, as it addresses some of the fundamental issues with the FIF regime being a barrier to talent living in New Zealand with minimal changes to the regime. In particular, the proposal will address the following core issues with the current regime:

- The treatment of illiquid holdings, with tax being able to be deferred to realisation, as opposed to the current accrual taxation on deemed income under the FDR rules
- The inability to claim tax losses unless the taxpayer has holdings above a 10 per cent threshold will be addressed by making the attributable income method more widely available.

3.1.2 An area for further consideration

Within the general approach, there are several aspects of the proposals which we consider could be improved. We discuss these below.

United States capital gains treatment

In discussing the options for reform with affected people, we have been made aware of the Qualified Small Business Stock (QSBS) provisions of the US Tax Code.[18] These provisions exclude from capital gains tax the proceeds from the sale of shares in certain qualified small businesses (Internal Revenue Service 2024, 95). For shares acquired after 27 September 2010, 100 per cent of gains can be excluded if the shares are held for more than five years. The amount that can be excluded is capped at the greater of ten times the taxpayer's basis[19] in the stock or $10 million **per taxpayer per company**.[20]

For people eligible for this exclusion who become New Zealand tax residents, FIF taxation on realisation, as proposed, would therefore be the only tax they pay on the realisation of their investments.

18 26 USC § 1202.

19 Basis is a way of measuring an investment in property for US tax purposes. For most purposes, the basis for the QSBS exclusion is the cost of acquiring the relevant shares (Internal Revenue Service 2024, 58).

20 This concession can therefore be multiplied by gifting shares to family members, although there are limits in the US gift tax provisions that apply to stop unlimited expansion.

Given the generosity of these exclusions, officials will need to come to a view regarding whether **any** realisation-based FIF taxation would be a continuing barrier to migrants coming to New Zealand. From our discussions with affected parties, it would appear that it would be. If this is a serious barrier to people moving to New Zealand, then our preferred approach is to carve out all existing investments from the FIF regime entirely. We discuss this issue further in section 3.1.7.

As a second-best option, realisation-based taxation should not be imposed at full marginal rates. While a matter of judgement as to what level of realisation-based taxation might not deter talented people from coming to New Zealand, our current thinking is that excluding half of any gains from tax, giving an effective top rate of 19.5 per cent might still be attractive compared to the status quo.[21] This number is, we acknowledge, somewhat arbitrary, and we do not suggest that it is based on any analysis that indicates that it is demonstrably superior to, say, 19 per cent or 20 per cent. Further details of our reasoning are in section 3.2.2.

The length of the qualifying period and one-off nature of the transitional residence test

Officials propose to use the current transitional residency exemption as the qualifying criteria for the changes they propose.

Former residents need to be outside New Zealand for at least ten years and never have been a transitional resident before. We are concerned that these combined tests will mean that some talented New Zealanders will not want to return to New Zealand. We propose that the length of the qualifying period be reduced to five years and the one-time exemption be removed. See section 3.1.2 for further discussion.

3.1.3 Effective date

Paragraph 1.8 of Inland Revenue Department (Inland Revenue Department 2024, 5) states that:

> *[The proposals] would only apply to migrants who become subject to the FIF rules after a specified date. The Government could apply the changes retrospectively from 1 April 2025.*

In Wilson and Fry (2024, 37) we said:

> *Many detailed policy decisions would need to be made, including whether the new regime applies only to people who enter New Zealand after the date of effect or whether it should apply to some existing or returned tax residents. There is a case for subjecting people who have become tax residents since the onset of COVID-19 to the new regime on fairness grounds (since many made the decision to locate in or relocate to New Zealand very quickly without the opportunity to undertake normal amounts of due diligence regarding the possible tax implications beforehand).*

We suggested that one possible date would be 16 March 2020, the date upon which COVID-19 travel restrictions were imposed on New Zealand citizens.

[21] We do note, however, that a 19.5 per cent tax rate on realisation would involve higher taxation than under the proposed deferral method.

We recommend that there be two stages to the commencement:

- All individuals who became residents after 16 March 2020 would be eligible for the proposed changes
- Those changes would apply for income years commencing after 1 April 2025.

3.1.4 Processes

We recommend that the government commit to passing any amending legislation through all stages by the end of calendar year 2025, after consideration by select committee. This will allow a further round of consultation on the detailed legislative changes while giving affected taxpayers greater certainty that reforms are at hand.

Officials have suggested that some changes could apply to taxpayers more generally rather than being targeted at globally mobile talent (Inland Revenue Department 2024, 10). We agree that there are some aspects of the FIF regime that could be improved within current policy settings. And there are other areas of tax and regulatory policy that are impeding the economic development of New Zealand.

We propose a three-stage reform agenda:

- The first tranche of legislation should only include the following immediate reforms to the FIF regime necessary to make New Zealand more attractive to globally mobile talent:
  - Carve out of pre-arrival assets or move to realisation (including limiting FIF taxation to half the gains on realisation)
  - Definition of eligible taxpayers (migrants and returning expatriates)
  - Reduction in qualifying period for returning expatriates to five years and removal of the one-time restriction on qualification
  - Removal of the 10 per cent threshold for the attributable income approach
  - Other consequential amendments
  - Date of effect.
- At the time the legislation is introduced, the government should also announce a work programme with a timeline to address other aspects of the current international tax regime, including its application to people who have always been residents of New Zealand, that it will progress over the rest of the current parliamentary term.
- The government should make a firm commitment to develop a detailed work programme across portfolios to truly make New Zealand a place where talent wants to live. We appreciate that this is not a matter solely for Inland Revenue and that other ministers and departments will be involved.

3.1.5 Scope

Chapter 3 of Inland Revenue Department (2024, 10) discusses the scope of any reforms. It covers issues of:

- who should be in scope
- what should be in scope

- investments made after migration
- setting the scope
- people facing double taxation.

As a general comment on the issues raised in this chapter, we note that many of the proposals involve making even finer distinctions between classes of taxpayers and their investments than in the already detailed FIF regime.

An alternative approach is to stand back and ask whether there is simply a class of investments which, even within a broad-base, low-rate approach, should simply always be outside the scope of the New Zealand tax regime. That is, the policy should be that New Zealand should not attempt to impose residence-based taxation, at least on an accrual basis, on all the assets that migrants and returning expatriates acquired while they were not residents of New Zealand, regardless of the precise nature of those investments. Given this policy intent, the task would then become designing low-compliance and administrative cost rules for putting it into effect.

Conceptually, the simplest approach would be to ring-fence all pre-arrival minority interests and exempt them from any New Zealand taxation in perpetuity.[22]

3.1.6 Who should be in scope?

Officials propose that any changes to the FIF regime should generally only apply to people who become residents for New Zealand tax purposes (Inland Revenue Department 2024, 10). For people who have once been residents and then lost that status, the proposal is that the provisions of the definition of ‘transitional resident’ in the current FIF rules should apply.[23]

Strengths of this approach

Given the level of emigration of talented people from New Zealand, we agree that former residents should be included within the scope of reforms.

Further support for this can be found in the commentary to the Bill that introduced the transitional resident provisions in 2006 (emphasis added):

> *The amendments will apply to new **and returning** residents who are natural persons and have not been tax-resident for at least 10 tax years. Returning New Zealanders can be as sensitive to New Zealand taxes as new migrants in making their decision about where to seek future employment. The 10-year non-residence rule is required to target those New Zealanders who have emigrated from New Zealand on a permanent basis and have, therefore, become as sensitive as a new migrant to New Zealand’s taxes on foreign-sourced income.* (Cullen 2005, 75)

22 Like all such rules, this proposal can create further issues when the investor alters their portfolio. In a world of fungible investments, what is to be ring-fenced: only the actual interests held on the day of arrival, or should subsequent rearrangements of portfolios also be ring-fenced; proved that they remain in FIFs? Such ‘roll-over’ provisions are often a feature of taxes on realisation, but they do increase complexity and can increase deadweight losses by locking in investments.

23 A ‘transitional resident’ is a person who, while being a resident of New Zealand, is treated as a non-resident for certain purposes. The term is defined in Section HR 8 of the Income Tax Act 2007. Essentially, to be a transitional resident, you must not have been a resident for a continuous period of ten years. Thus, people who have never been a resident and New Zealanders who ceased to be residents at least ten years before returning to New Zealand are transitional residents. Generally, the transitional period is four years.

Areas for further consideration

Officials have suggested that if the existing policy settings applying to transitional residents are unproblematic, then those settings should be appropriate for any move to realisation-based FIF taxation (Inland Revenue Department 2024, 10). Given the recent global increase in migration of high-skilled entrepreneurs and investors, the ten-year absence required to attain transitional residence status might now be too long in terms of the time taken to achieve the knowledge and experience needed to contribute to the development of businesses back in New Zealand.

Having such an arbitrary waiting period could result in the unintended consequence of providing an incentive for people who might otherwise be ready to return to delay their return until the ten years have expired.

We consider that a shorter period, say five years, might be a more appropriate threshold.

Our discussions with affected parties have also suggested that the current limitation restricting eligibility to being a transitional resident to once in a lifetime does not recognise the reality of modern, mobile, talented individuals. It is based on a 'settler immigrant' model, where migration occurs once and lasts forever.[24] We, therefore, recommend that this aspect of the definition of transitional resident not apply to returning expatriates with investments in FIF interests.

3.1.7 What should be in scope

Officials have suggested that it may be appropriate to limit any reforms to illiquid investments. They note that if assets are easily traded, then taxpayers can alleviate the cash-flow issues of deemed taxation by readjusting the portfolio to produce sufficient cash income to cover any FIF taxation.

Strengths of this approach

This approach is appropriate if the cash-flow issues of the FIF regime's deeming approach is the only problem to be addressed.

Areas for further consideration

Adding further fine distinctions within the FIF regime will inevitably increase compliance costs. When it comes to enforcement, the very reason the FIF regime was enacted is that New Zealand cannot directly tax the overseas investment of residents due largely to the high cost of gaining information to enforce taxation. It is a real question whether IRD could confirm the proposed fine distinctions between illiquid and liquid assets.[25]

An alternative, therefore, would be to accept that the issue to be addressed is the behavioural change induced by the FIF regime applying to all pre-arrival assets, regardless of the particular nature of the individual investments. If this is the case, then no distinction based on liquidity or any other nature of the investments should be determinative of their tax treatment.

[24] However, as we note in section 3.2.2, even short-term migration is not costless, and some people will stay in one location for some time.

[25] Listing on a stock exchange will not always be determinative of liquidity, as contractual obligations between founders and funders may still limit the ability of an individual to sell their interests. At the same time, there may be a ready market within a pool of funders for shares of unlisted companies.

Carving out all pre-arrival interests from the FIF regime entirely from New Zealand tax would, in our view, be the simplest and most effective approach to defining what is within scope. This approach would mean that New Zealand would not seek the right to tax returns on assets that were acquired before a person became a resident (or regained residency[26]). It would acknowledge that the fixed concept of a single, permanent place of residence is becoming superseded by greater personal mobility.

3.1.8 Investments made after migration

Inland Revenue Department (2024) suggests that the proposed changes should only apply to investments made before a person becomes a resident (or transitional resident) of New Zealand.

The rationale put forward for this aspect of the proposals is a combination of:

- the knowledge that new residents have of the New Zealand tax system before and after migration
- following 'international norms'
- horizontal equity.

In the end, officials suggest that taxing-post arrival investments is an appropriate compromise between the aim of the proposals (presumably to remove a barrier to talent wanting to live in New Zealand) and the taxation of residents who have never lived overseas, who are always subject to the FIF regime on all their overseas interests.

Strengths of this approach

We agree that horizontal equity is always an important issue in tax design and is a key aspect of voluntary compliance: taxpayers should feel that they are not subject to arbitrary rules that do not have regard to their circumstances. We appreciate that there is a challenge in communicating with taxpayers who have always been residents about why they should be subject to different rules than others.

Areas for further consideration

We are not convinced that the stated rationale for limiting differential taxation to pre-arrival investments, however, is as sound as it could be.

As we noted above, we consider that the issue to be addressed is the mismatch between New Zealand immigration policy and FIF rules designed in a previous era, where the fundamental drivers of behaviour were different.

Within this framework, the question is, what degree of taxation by New Zealand will deter a person who can contribute to the economic development of New Zealand living here? As we noted in section 3.3 of Wilson and Fry (2024, 28), we do not consider it appropriate for New Zealand to engage in harmful tax competition and succumb to the temptation to drive tax rates to the bottom. The fundamental policy objective should still be to raise the revenue the government needs to fund its programmes in the face of ongoing demographic changes that are placing increasing fiscal burdens on the economy (Stephens 2024).

[26] It is theoretically possible that a particularly mobile New Zealand-born person could have several periods of New Zealand tax residency and thus under the logic of this approach, New Zealand would be carving out different tranches of assets acquired during each period of non-residency. But again, given migration is not costless, the likelihood of this being a common occurrence is, in our view, relatively low.

There may be some people who would be deterred from moving to New Zealand by any level of taxation on their worldwide income and, indeed, on their New Zealand-sourced income. However, attracting such people would come at too high a fiscal cost, even if it was in some way possible to ring-fence such people from others who are willing to pay some level of New Zealand tax as the natural consequence of being a resident.

While not disagreeing with the proposal to limit any changes to pre-arrival assets, we would encourage officials to carefully consider how the justification for any new boundaries in the FIF regime is stated. This will, in part, allow any new economic developments that impact on the attractiveness of New Zealand to be considered as time goes by.

3.1.9 Setting the scope

Officials' preferred approach is to propose amendments that only apply to migrants (defined to include some returning expatriates) and then limit those amendments to illiquid assets (although officials do note that there is the potential to apply the deferral method to both liquid and illiquid holdings and all residents, not just migrants and returning expatriates).

They acknowledge, however, that some of the proposed detailed solutions might have wider application to residents and that these considerations should be taken into account when deciding the scope of any amendments.

Strengths of this approach

We reiterate that horizontal equity is always important in tax design. If there are improvements possible to the way New Zealand taxes worldwide income, then the case for extending those improvements to all taxpayers may be strong.

Areas for further consideration

We are concerned, however, that expanding the scope of any reforms from the immediate issue of attracting talent to New Zealand may delay much-needed reform.

As we note below, many other reforms are needed to meet the Callaghan challenge. Some of those will undoubtedly apply to current residents as well as future arrivals.

We recommend that, for now, officials focus on the least comprehensive changes that will address the immediate issue of tax barriers to talent coming to New Zealand and defer wider considerations to future policy rounds.

3.1.10 People facing double taxation

Because the United States taxes its citizens on their worldwide income even if they are residents for tax purposes in another country, US citizens who move to New Zealand face a potential tax situation that is different from those of other countries.[27] In particular, they may face both US and New Zealand taxation on US-based investments. New Zealand tax will arise under the FIF regime if they become tax residents of New Zealand, and they will be subject to US tax on a realisation basis if they dispose of those interests.

[27] Our investigations suggest that the US is alone in taxing its citizens on their worldwide income, regardless of place of resident. (Cabezas 2016). The Philippines used to use this system, and while Eritrea does purport to tax its citizens, there are doubts about its enforcement. (Avi-Yonah 2022, 5).

Inland Revenue Department (2024) raises two separate but related issues regarding US citizens:

- Whether a US foreign tax credit would be available for FIF taxation
- Whether all US citizens should be taxed under a realisation based by New Zealand on all their FIF interests, not just those acquired prior to moving to New Zealand.

Foreign tax credits

On the issue of foreign tax credits, our discussions with IRD, interested parties, and their tax advisers suggest that there is some disagreement on this issue.[28] As far as we are aware, no New Zealand resident has sought an official ruling from the Internal Revenue Service on this matter.

If New Zealand moves to tax migrants from the US on a realisation basis, this issue will remain. There will be a New Zealand tax liability on realisation (and dividends will be taxed when they are received), and there may be US capital gains taxation (subject to the QSBS concession).

We recommend that Inland Revenue should raise this issue with their counterparts in the Internal Revenue Service to seek clarification.

Realisation basis for US Citizens

Moving to a realisation basis for all FIF interests of US citizens who become New Zealand tax residents will remove one impediment to immigration. We therefore support this proposal.[29]

3.2 Methods

Inland Revenue Department (2024) has identified three possible methods that could be applied to calculate the New Zealand tax liabilities of qualifying immigrants and returning expatriates.

From a policy perspective, the aim of the FIF is to replicate the tax treatment that applies to the domestic investments of residents, with the company tax being used to tax the underlying income of the entity and then the imputation system applying to any distributions. However, recognising that some taxpayers may not have access to sufficient information to calculate their income to this degree of accuracy, a variety of proxy methods have been applied in the various incarnations of the FIF regime.[30] There are currently six calculation methods. Taxpayers are required to choose which calculation method to apply, subject to various specified conditions.[31]

28 We have seen compelling legal analysis regarding whether foreign tax credits are available. This is, however, an area outside our particular expertise.

29 It is unclear from their paper if officials are suggesting that US citizens should automatically be able to elect into a realisation regime or if other eligibility criteria, like an effective overseas tax rate of 15 per cent, should apply. We support the approach being automatic without further qualification.

30 The FIF regime was initially enacted by the Income Tax Amendment Act (No. 5) 1988, to apply from 1 April 1988. That regime was progressively deferred, and a second regime was enacted by the Income Tax Amendment (No.2) Act of 1993. Following consideration by the Tax Review 2001, an officials review (supported by the publication of a discussion documents (Inland Revenue Department and The Treasury 2003), the current regime was enacted by the Taxation (Savings Investment and Miscellaneous Provisions) Act 2006.

31 See sections EX 44-EX 58 of the Income Tax Act 2007.

3.2.1 Attributable income method

Officials have proposed that the current 10 per cent interest threshold for being able to use the attributable FIF income method could be removed. They suggest that this would address the issues of cash flow and double taxation that they are focussing on.

Strength of this approach

Consistent with the self-assessment approach, we would suggest that taxpayers should be given the opportunity to select any method that is closest to the economic income of the entity.

Areas for further consideration

The attributable FIF income method requires taxpayers to have access to detailed accounting and other information to first satisfy the 'active income test' and then calculate their FIF income if the FIF does not meet that test.

While some minority shareholders may have access to the information available, many will not. If they do not, then making this change will not address the underlying issue of the mismatch between tax and immigration policies. It should be one of the options available to migrants and returning expatriates. However, having only this option would not always be sufficient to remove the barriers for some talented individuals. Other calculation methods will be necessary.

3.2.2 Revenue account method

The second option is that in-scope shares in FIFs would be taxed on revenue account.

In paragraph 4.8, officials state that this approach would be concessionary (Inland Revenue Department 2024, 17). This is the wrong framework for considering this issue. In Wilson and Fry (2024, 34), we proposed a number of principles that should guide reform. One was:

- Immigrants and returning New Zealanders should make a fair contribution to New Zealand by paying taxes on their existing investments in a way that is not punitive or so unattractive that they choose to live elsewhere.

As we explained above, the appropriate framework for considering reforms is one of raising revenue at least cost, where, due to increased mobility, seeking to impose FIF taxation on immigrants and returning New Zealanders has a high deadweight cost. That is, what we have proposed is an application of the rationale behind the broad-based, low-rate approach to a class of highly mobile, talented individuals who wish to contribute to New Zealand. We would, therefore, not describe this approach as 'concessionary', as this framing may give the impression that the proposals are an ad hoc reaction to a specific problem rather than a principled approach. As an example, the move from a classical tax system that taxed companies and then dividends to the imputation system was not a concession to shareholders but rather involved the removal of a distorting layer of tax.

Strength of this approach

From our discussions with many of the people for whom the FIF regime is a barrier to living in New Zealand, one particular concern is the assumption under the FDR method that all FIF interests earn positive economic income every year. This is simply not the case for a number of reasons, including:

- Early-stage companies are often loss-making by design, as they spend capital on growth
- Start-ups are risky, and not all, indeed most, never make a return.

Moving to a realisation-based approach provides a better match between tax treatment and underlying economic reality.

Realisation-based taxation has well-known defects from an economic efficiency perspective standpoint. One particular concern is the 'lock-in effect':

> *Under a typical capital gains tax system with a constant tax rate, realization of a net gain is discouraged—the investor is "locked in"—because there is a deferral advantage to delaying, without interest, the taxation of gains. Put another way, the investor is willing to accept a lower before-tax rate of return on the asset than is available on other assets, because the tax on additional returns is effectively reduced by the eroded tax liability on gains already accrued*quah(Auerbach and Bradford 2001, 3)

There is an argument, therefore, that moving from the current accrual-like approach of the FIF regime, especially the FDR method, to a realisation-based approach would reduce efficiency. However, looked at from a wider efficiency perspective that considers all the costs of the current approach, this is not the case. The current system imposes high deadweight costs because it deters talented individuals from moving here. Making New Zealand more attractive will reduce those costs.

Areas for further consideration

Because they view the move to realisation as concessionary, officials are proposing that it should only apply to migrants and then only to illiquid shares acquired before migration.

This is the wrong approach.

The issue being addressed is the attractiveness of New Zealand as a place for talent to live. In seeking to make fine distinctions between different types of talent (migrants versus returning expatriates), between different types of assets (illiquid shares versus other investments), and between New Zealand and source country tax rates, officials risk introducing unnecessary complications that detract from meeting the underlying objective.

In paragraphs 5.11 to 5.13 of Inland Revenue Department (2024, 19–20), officials discuss the possible rate of tax to be applied. They note that under the usual approach to taxing assets on revenue account, the gains are included in income and subject to tax at the individual's marginal rate. For many of the migrants and returning expatriates within scope, this will be 39 per cent.

We consider that this rate is unlikely to make New Zealand attractive, especially in the case of US taxpayers eligible for the QSBS concession.

Setting the appropriate tax rate is a matter of judgement. It needs to be low enough to make New Zealand attractive, yet not so low as to create issues of horizontal equity with other taxpayers being taxed on revenue account on domestic assets.

We recommend that rather than subject all the gains on realisation to full marginal tax rates, half the gain should be subject to tax, which would mean an effective rate of 19.5 per cent.

Paragraphs 5.20 to 5.23 of Inland Revenue Department (2024, 22) discuss the issue of an 'exit tax'.

The proposal is that if a taxpayer who elects to use the proposed revenue account method again ceases to be a tax resident, then they would be deemed to have disposed of their FIF interests at market value on the date they cease to be a resident.

Officials note that section EX64 currently imposes a deemed disposal rule when people cease to be residents. As we read this provision, what it does is relieve some people of their FIF liability, not impose a liability. So, it is not an exit tax and thus not a precedent for the proposal. [32]

We do not support this proposal for a number of reasons.

First, New Zealand does not, as we understand it, have a general exit tax, despite taxing a number of classes of assets on realisation. Given this, why single out people with FIF interest?

Second, we recommend that pre-arrival assets should be carved out of the FIF regime entirely. If this recommendation is accepted, there would be no need for an exit tax.

Third, ceasing to be a New Zealand tax resident is not costless (and, under the proposals, a person can only be a transitional resident once — although we also recommend elsewhere that this rule be relaxed). While escaping realisation events will have considerable benefits, giving up the ability to ever regain access to the proposed reforms will keep some people here.

Finally, the status quo is economically equivalent to accrual taxation on FIF interests under the FDR method. This is a clear barrier to people coming to New Zealand. The proposal is that this will be replaced with realisation-based taxation for continuing residents but deemed disposal at market value for those who subsequently leave. The question, therefore, is: would this replace one unattractive regime for another? How many people will come to New Zealand if they know that they will have a deemed realisation event if they subsequently leave? The worst outcome would be that the practical effect of these changes is that talent still does not want to live in New Zealand, but now for different reasons.

3.2.3 Deferral method[33]

A third possibility suggested by officials is to apply the FDR method retrospectively on realisation (Inland Revenue Department 2024, 24).

Under this method, the liability to pay tax is deferred until realisation, but the amount of the tax is adjusted to account for the deferral advantages of realisation-based taxation.[34] The approach officials have suggested is based on the current provisions for taxing offshore superannuation funds in section CF 3 of the Income Tax Act 2007.

32 More generally, we are not sure that section EX64 has any real effect. If a person ceases to be a tax resident of New Zealand, then they will not be subject to tax under the FIF regime on their overseas interests anyway. Put another way, New Zealand does not tax non-residents on their foreign-sourced income.

33 We note that officials have referred to this as a 'deferral' method, because compared to the current accrual-like approaches in the FIF regime, it defers tax liability until realisation. Economically, however, it is actually removing the advantages of deferral that occur under a realisation approach. A different name might therefore be appropriate. Perhaps 'compounding liability' might be better.

34 See the discussion in section 3.2.2 above.

Because of compounding interest effects, the benefits of deferral under realisation versus accrual taxation increase with time. Thus, officials proposed an increasing scale of taxation, based on the period the FIF interest is held. The longer the holding period, the higher the tax liability.

Conceptually, the deferral method is an elegant solution to the lock-in problem of realised-based taxation. It finds support in the academic literature (Auerbach and Bradford 2001). We are, however, not aware of it having been introduced in any jurisdiction.

If the government does not accept our recommendation to carve out pre-arrival FIF interests, the deferral method does have efficiency advantages over a simple realisation approach. That said, apart from the offshore superannuation example, New Zealand does not generally take into account the timing advantages of realisation over accrual for other assets held on revenue account. So again, the FIF regime would have a novel feature added to it. Acceptance of the FIF regime has always been hampered by what some see as the imposition of an apparently heavier burden compared to domestic assets.[35] As we recommend that the government move swiftly to make the amendments to the FIF regime required to remove barriers to talent moving here, there may not be sufficient time to test the acceptability of this approach. We suggest that more consideration of this option be undertaken, with a view to introducing it as part of the next round of review of the wider FIF issues that we recommend below.

4 Meeting the Callaghan challenge

Making New Zealand a place where talent wants to live will require changes beyond addressing the immediate barriers created by the FIF rules. In this section, we outline a framework that can be used to analyse these broader issues and identify some areas for further work.

4.1 The wider problem

New Zealand appears to be trapped in a low-wage, high-employment equilibrium that is stifling growth in living standards. There are no magic wands that can lead to instant transformation, but there is a consensus in the economic literature that an essential precursor to improved living standards is improved productivity. Paul Krugman has said that productivity isn't everything, but in the long run, it is almost everything:

> *A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.* (Krugman 1994)

Improving firm-level productivity requires the owners and managers of firms to take hard decisions and embrace the opportunities open to them.

Increased competition and investment, more research and development and entrepreneurial activity, and better skills are needed to drive convergence to global productivity benchmarks.

35 'Apparent', because domestic companies are subject to the New Zealand company tax, while FIF interests are not. See section 3.4.1 of Wilson and Fry (2024).

Governments can help by building trust in institutions and supporting people impacted when markets reallocate resources to higher-value activities. This should not extend to indefinitely supporting low-productivity business models.

Governments also need to support an enterprise culture, where risk-taking is rewarded and fundamental economic forces are allowed to play out as a necessary pre-condition for increasing productivity and living standards.

Using this framework, there is a great deal more that can be done to help New Zealand meet the Callaghan challenge.

In the same way that the development of a broad-base, low-rate model for tax cleared the way for business decisions to be driven by economic fundamentals, rather than being distorted by the tax system, a more neutral, fit-for-purpose regulatory policy can support productivity growth. The challenge is to ensure the inevitable deadweight costs of regulation are kept to a minimum while still achieving the relevant policy objectives (de Boer et al. 2016; Hemel 2023).

4.2 How did we get here?

Why New Zealand's relative economic performance has not been better is still a matter of much debate.

Suggestions include distance from markets, low capital intensity, and our slow adoption of productivity-enhancing innovation from the global frontier[36] (The Treasury 2023); that New Zealand has insufficient capital (Nolan, Fraser, and Conway 2018); that the government needs to focus on building strong innovation systems in a small number of areas of high economic potential (New Zealand Productivity Commission 2023); that further wide-scale reform is required (New Zealand Initiative 2023); and that the absence of strong competition pressures, limited integration into the global economy, weak innovation and knowledge transfer, high qualification and skills mismatches, and high corporate taxes limit investment opportunities (OECD 2022). The New Zealand Treasury has previously highlighted poor management capability (Durbin 2004), but does not appear to have looked seriously at this issue for some time, despite indications that it remains a problem.[37]

In an influential paper, Paul Conway, then Director of Research at the New Zealand Productivity Commission, argued that (Conway 2018):

- Much of the increase in output in the New Zealand economy in the early 21st century was the result of an increase in the labour supply rather than being driven by increased productivity.[38]
- New Zealand's economic challenge, therefore, involves transitioning from a growth strategy based on more labour inputs to one focused on productivity improvements.

36 In economics, the term global frontier refers to the leading edge of technological, economic, and productivity advancements on a global scale. It represents the highest level of efficiency, innovation, and output that can be achieved by the most advanced economies, industries, or firms. Countries, sectors, or companies at the global frontier are typically characterized by their ability to adopt, develop, and implement cutting-edge technologies and best practices, setting benchmarks for others to follow.

37 Others argue that when measured correctly, New Zealand's relative economic performance is actually quite good (Grimes and Wu 2023; Galt 2023).

38 The three main sources of this increase in the labour force were net migration, more women entering the workforce and older workers deferring retirement.

- Limited integration into international markets, low investment in knowledge-based assets, and firms seeking to sell to small local markets are key causes of low productivity.

Conway's analysis is an example of the widespread 'size and distance' view of New Zealand's economic geography: that because New Zealand is physically isolated and has a small population, local firms cannot achieve economies of scale by only serving local markets. They must, therefore, seek to export locally produced goods.[39]

Conway is optimistic and sees rapid changes in technology and global trade creating opportunities for New Zealand firms to engage internationally.[40] He suggests that policymakers could leverage developments in export diversity and high-tech sectors to boost productivity.[41]

In a separate article, Conway and his colleagues suggest that the key to understanding New Zealand's productivity performance could be found in the behaviour of firms (Nolan, Fraser, and Conway 2018). They conclude that:

- The processes of diffusing good ideas and reallocating resources generally do not work as well as they could.
- Many of the best-performing domestic firms are disconnected from the international frontier, laggard firms tend not to catch up to the domestic frontier, and a significant proportion of local employment and capital is stuck in a tail of small and unproductive firms.
- Too few New Zealand firms are employing productivity-enhancing technologies and ideas developed at the global frontier.

The result is that the New Zealand economy is largely made up of many small, old and relatively unproductive firms that neither grow rapidly nor exit the market.

A step change in policy thinking is required. Rather than protecting incumbents from global economic forces, policy needs to focus on providing opportunities for all firms, including ones that have yet to start up.

This is where migrants and returning expatriates who have experience with alternative business models have the potential to make a significant difference by bringing new ways of doing business to New Zealand.

4.3 Growing what we do and doing new things

Much of New Zealand's export strategy revolves around the production and sale of primary products and their derivatives. Agricultural products dominate New Zealand's goods exports and have influenced the mix of local services and manufacturing in certain regions. Companies like AllBirds and Icebreaker have developed international reputations based on innovative uses of raw materials.

39 Examples of reports focusing on economic geography include Skilling (2011), O'Conner et al. (2012), New Zealand Productivity Commission (2021), and Krieble and Kaye Blake (2022).

40 A more pessimistic view adds that New Zealand's distance from overseas markets creates a barrier to this export-led approach. See for example McCann (2009) and Saunders, Dalziel, and McCallum (2021).

41 We note that the international trading and investment environment has changed since Paul Conway wrote this paper. Enthusiasm for free trade has lessened in some countries, with protectionism on the rise.

However, there are limits to the extent to which products of agricultural origin can drive improvements in national productivity due to their small contribution to total output in the economy.

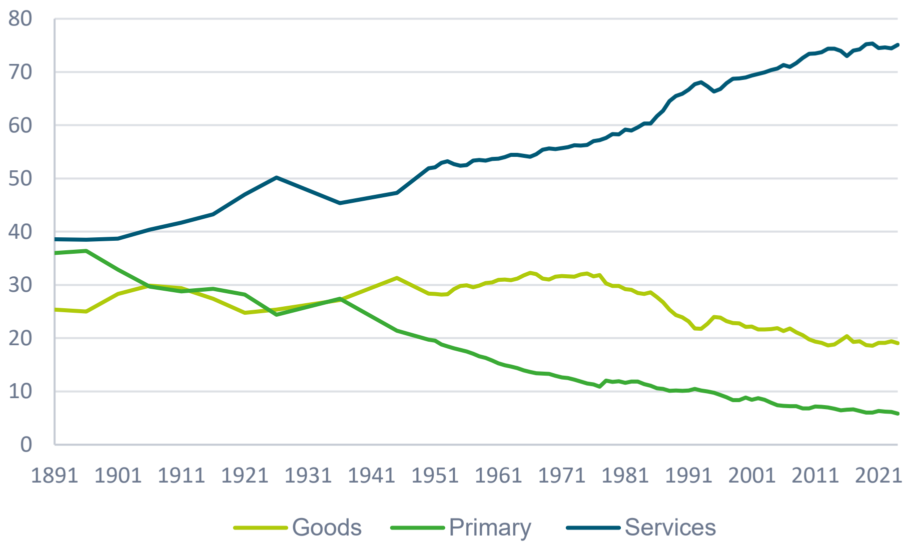
A prosperous New Zealand will, in future, produce more of the things that we are currently good at, like agriculture, tourism and export education, but it also needs to expand into new areas where we can have an international advantage.

4.4 The growing dominance of services

Consistent with worldwide trends, the production of services dominates the New Zealand economy. This is reflected in employment patterns as well. As Figure 2 shows, since the end of the nineteenth century, the share of New Zealanders employed in the services sector has almost doubled and now comprises around three-quarters of the workforce.

Figure 2 The New Zealand primary sector workforce is falling

Employment as a proportion of total



Source: NZIER Data 1850

4.5 Lessons from economic development

This pattern reflects more than 5,000 years of economic development. As technology advances, the share of primary production in the Gross Domestic Product of advanced countries falls progressively, and employment options for former farm workers expand dramatically (Martin and Taylor 2003; Taylor 2010; Charlton 2019).

Over time, it becomes increasingly likely that someone with the physical capacity and skills to undertake farm work will have opportunities to gain employment in other industries that pay more and offer better working conditions. People with the cognitive skills for knowledge-based work will move out of fields and factories and into offices, research facilities and universities.

These trends greatly incentivise the ongoing evolution from primary economic activities to more productive, higher value-added, often weightless services. An added benefit is that these newer economic activities help overcome the challenges of economic geography that have been a brake on those parts of the New Zealand economy that produce goods. They can have other advantages, too, with many producing significantly less environmental harm and lower carbon cost.

Given these apparently inexorable developments, policymakers have two broad choices. So far, New Zealand has put considerably more effort into resisting the inevitable than it has into supporting real change. Policies across a range of areas are supporting low-productivity models.

4.6 What now?

It is hard to replicate approaches that have worked elsewhere. Fry and Glass (2016) note that many attempts to re-create aspects of Silicon Valley have failed in part because only some of the elements that contributed to its success – such as welcoming highly skilled migrants – are transferrable. Others, such as the research expertise accumulated partly as a result of large-scale military spending, rely on a combination of time, investment and serendipity (Senor and Singer 2009).

Rather than trying to copy and paste ideas that have worked in other places, it is better to provide an environment where specific New Zealand approaches can emerge and flourish.

This will require an honest assessment of:

- What New Zealand needs to do to create and sustain a tax base that can support the infrastructure and services the country needs to thrive.
- Where current regulatory and tax settings are helpful and where they simply support low productivity firms.
- Areas where a more principled approach to policy may lead to fundamental misalignments with what is done elsewhere, and where New Zealand may need to make exceptions as part of participating in bilateral and multi-lateral reforms. The QSBS situation outlined earlier may be an example.
- The effectiveness of existing efforts to support entrepreneurship, with a view to identifying gaps and changes needed.
- How to communicate the benefits of this approach to existing residents to ensure their buy-in and support.
- How to ensure changes are consistent with the Crown’s obligations under Te Tiriti o Waitangi and that iwi/Māori are involved as partners.

This is fundamentally a “build it and they will come” argument: if New Zealand becomes a place where talent wants to live, more people will come and stay here. We have already encountered many people who will choose to live in New Zealand if the conditions are right.

4.7 How New Zealand can overcome the curse of size and distance

At its core, the Callaghan challenge involves turning ideas into profitable business opportunities. While a business model has been developed in the technology sector to address the particular principal-agent problems that it has encountered, there are valuable lessons to be learned generally about how to develop businesses at a global scale.

Three spring to mind.

First, one form of success for the founders, early-stage employees and initial funders of start-ups is being able to exit a business and realise substantial gains that they can potentially invest in other ventures. Overseas buyers who can finance further expansion and possibly incorporate a New Zealand-based start-up into their global operations will likely pay a higher price than a New Zealand-based buyer. New Zealand should not see the sale of a start-up to overseas interests as a lost opportunity when the proceeds of that sale can be used again locally.

Second, start-ups, particularly in the technology sector, often have an acute focus on developing and applying up-to-date business models that can be successfully applied in other sectors.

Finally, while computer-aided design and manufacturing have greatly increased the productivity of many goods-producing industries, perhaps the greatest contribution that technology can make to the economic development of New Zealand is in the area of 'weightless' products.[42] Such products, which both use knowledge-based production techniques and actually resemble knowledge (they are infinitely expandable and physical distance is irrelevant to their use[43]), include computer software, new media, electronic databases and libraries, and the delivery of goods and services via the internet.

> *Put succinctly, most notable about the very newest technologies is not just greater quantities at higher qualities of the same old stuff. Instead, it is that the economic properties of what is consumed differ importantly from those earlier.* (Quah 1999, 1)

Increasing the proportion of national output that involves the production of knowledge has the potential to overcome the barriers of size and distance that have made the development of frontier manufacturing firms in New Zealand so difficult.

Successive New Zealand governments have been aware of the benefits of a knowledge-based economy. In 2001, the then government organised a major conference at the University of Auckland on "Catching the Knowledge Wave" (Clark and Hood 2001) and, two years later, released its "Growing an Innovative New Zealand Strategy" (Clark 2003). The Key government's approach was eventually encapsulated in its "Business Growth Agenda" (2012–2017), which included initiatives that targeted the high-value manufacturing and services, health, food, and primary sectors (Ministry of Business, Innovation & Employment 2012). In 2019, David Parker, the then Minister for Economic Development, released a strategy focused on moving "From the Knowledge Wave to the Digital Age" (Parker 2019).

42 The Federal Reserve Chairman Alan Greenspan, in a speech in 1996, observed that late twentieth century economic progress had been marked by a significant fall in the physical size and mass of many products. Examples he gave where vacuum tubes being replaced by transistors and then microchips; huge amounts of copper wires being first replaced by fibre-optic cable and then wireless broadband (Greenspan 1996). Of greater impact on physical character of economic output has been the switch to the production of service in all developed economies. As Diane Coyle noted: "This switch includes not only the 'knowledge' economy, the growth of services ranging from management consultancy to the music industry that make extensive use of computer technologies, but also low-technology services like fast food restaurants" (Coyle 1997, 8).

43 To give an example, an apple cannot be copied, and it can only be consumed once it is moved from a farm to a consumer. But knowledge about how to grow an apple can be shared widely, each sharing does not impact on the knowledge and distances can quickly be overcome by multiple forms of instantaneous communication, most of them based on the internet. What this means is that production capability – the number, size and productivity of orchids, in our apple example – is not the constraint, it is the number of consumers of knowledge that determine a firm's success. Think about the code for a computer game. It is often made once, copyrighted and then sold. Success depends on the number of users of the game.

While some New Zealand firms are producing knowledge-based products, too much attention is being placed on the role that technology and innovation can play in increasing the output of existing industries, and too little is being paid to expanding the role of such products in the New Zealand economy.

4.8 Addressing other problems raised during consultation

If it is serious about meeting Sir Paul Callaghan's challenge, the government needs to commit to addressing the wider issues that are getting in the way of making New Zealand a place where talent wants to live.

This commitment needs to go beyond mere platitudes. It cannot undermine the tax base and may, therefore require a fundamental rethink of the role of the income tax in a globalising world.

We are in the process of discussing the issues that need to be addressed with impacted parties, and we welcome further input.

5 Recommendations

We set out recommendations across three broad areas: process, personal scope, and types of investments.

5.1 Process

We recommend that:

1 Amending legislation be introduced this year, to come into effect from 1 April 2025, to reform the taxation of the pre-arrival FIF interests of new migrants and returning expatriates.

2 The government commit to passing this legislation through all stages by the end of calendar year 2025 after consideration by select committee.

3 The first tranche of legislation should only include the following immediate reforms to the FIF regime necessary to make New Zealand more attractive to globally mobile talent:

   a Carve out of pre-arrival assets or move to realisation (including limiting FIF taxation to half the gains on realisation)

   b Definition of eligible taxpayers (migrants and returning expatriates)

   c Reduction in qualifying period for returning expatriates to five years and removal of the one-time restriction on qualification

   d Removal of the 10 per cent threshold for the attributable income approach

   e Other consequential amendments

   f Date of effect.

4 At the time the legislation is introduced, the government should also announce a work programme with a timeline to address other aspects of the current international tax

regime, including its application to people who have always been residents of New Zealand, that it will progress over the rest of the current parliamentary term.

5 The government should make a firm commitment to develop a detailed work programme across portfolios to truly make New Zealand a place where talent wants to live.

5.2 Personal scope

We recommend that:

6 The reforms apply to individuals:

   a who have never been a resident of New Zealand for tax purposes (migrants)

   b who have ceased to be a resident of New Zealand for a continuous period of five years (a reduction from the current ten years).

7 The current requirement in section HR8(2)(d) that a person can only be a transitional resident once no longer applies to individuals subject to the reforms. We acknowledge that currently, transitional residents are exempt from a number of provisions of the Income Tax Act, not just the FIF rules. We are not proposing that this change to the transitional resident provisions apply across the board, just to people with pre-arrival FIF interests.

5.3 Types of investments

We recommend that:

8 All FIF interests acquired before the person (most recently) became a New Zealand resident be exempt from the FIF rules in perpetuity – the carve-out approach (primary recommendation).

9 If the ring-fencing we recommend is not introduced, then taxpayers should be allowed to select a further option of having their pre-arrival FIF interests taxed on revenue account (secondary recommendation).

10 The rate of tax applied to FIF interests taxed on revenue account should be a flat rate of half the current top 39 per cent marginal tax rate (meaning that the effective tax rate would currently be 19.5 per cent).

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Appendix A Answering IRD's questions

In the appendix, we provide answers to the specific questions posed by officials.

A.1 Do you agree the proposal should only apply to migrants?

No. The proposal should also apply to returning repatriates.

A.2 What do you think would be a good test for determining whether someone is eligible for having their FIF interests taxed on a realisation basis?

Taking up residence in New Zealand should be the test.

A.3 If you think some test based on the number of years spent as a non-resident is more appropriate, how many years do you think would be appropriate?

All people who have never been residents should be covered by the proposals.

For people returning, the conceptual test should be whether being subject to New Zealand tax on FIF interests is a deterrent to return.

Some minimum period of absence is required to prevent people from taking intended or unintended advantage of any changes. We do note, however, that ceasing to be a resident of New Zealand is not just a matter of being absent for a period. A person must also sever sufficient connections with New Zealand so as not to have a permanent place of abode here. It is, therefore, not a cost-free exercise.

We would recommend that a minimum period of five years would be appropriate.

A.4 Do you think the proposal should be limited to illiquid shares?

No.

The issue being addressed is barriers to movement. While cash flow is part of this, we consider that a better approach is to focus on all pre-arrival investments, regardless of form.

A.5 Do you agree that being unlisted is a good proxy for being illiquid? If not, what is a better way to target illiquid shares?

No.

Listing is one aspect of liquidity, but it is not sufficient to cover all circumstances. For example, contractual barriers to sale can still exist when shares are listed.

A.6 Do you agree the proposal should only apply to investments acquired before migration (unless the migrant would otherwise suffer double taxation on any gain from sale)?

No.

There is a case for extending the proposals to additional investments in FIF interest interests acquired before arrival, for example, taking up a share issue by a FIF.

A.7 Do you have any views or experience on whether US citizens are entitled to a credit against their US taxes for New Zealand tax imposed under the FIF regime?

This is outside our area of expertise.

A.8 Do you agree that people who would otherwise suffer double taxation on their foreign investments even after becoming a New Zealand resident should be able to have all their foreign share investments taxed on a realisation basis?

Yes.

A.9 Do you agree that any rule targeted at avoiding double taxation should be subject to the existence of a minimum foreign tax rate? If so, do you agree that 15% is a reasonable minimum rate? If not, what rate would you suggest?

While there is a conceptual case for such a threshold, the US capital gains tax, for example, includes a zero rate for gains under a certain sum, and the much more generous QSBS concession for large gains on the disposal of small businesses means that for some people in the target group, their effective US tax rate could be as low as zero.

Further consideration of this issue is required in consultation with affected taxpayers.

A.10 Do you think that removing the 10% threshold for accessing the attributable FIF income method is a viable solution? If so, should it apply to everyone or just migrants and to liquid investments as well as illiquid ones?

Yes. The 10 per cent threshold seems arbitrary. If taxpayers have access to verifiable information that allows taxation closer to branch equivalent, then it is hard to see why they should not be able to elect that method.

A.11 Do you agree the revenue account method should be available in relation to all investments owned by migrants facing double taxation at an effective tax rate of 15% or higher?

As noted above, the threshold needs to be considered further, but in principle, the methods should always be available.

A.12 Do you agree that this method should be elective?

Yes

A.13 Do you agree that the method should apply on a portfolio basis?

Yes.

A.14 Do you think that electing into this method should be irreversible?

Yes.

A.15 Do you agree that a migrant who would no longer suffer double taxation should align how they treat their foreign shares with migrants who were not subject to double taxation?

No. The justification for going to this level of complication is hard to see. Ultimately, it would be a major deterrent for talented people to move to New Zealand.

A.16 Do you agree with the suggested approach to deem a disposal for market value in this case?

N/a.

A.17 Do you think a lower tax rate or discount would be appropriate under the revenue account method?

While applying the taxpayer's marginal tax rate would be consistent with the uniform rate approach followed in the New Zealand income tax, this case may be an exception.

This question should be posed within the context of what rate would continue to be a deterrent for a significantly large proportion of the target group.

Setting out to align New Zealand taxation with overseas practice is always fraught, given the multiplicity of rates imposed. For example, for a significant proportion of the target group, the US QSBS concession can reduce the US capital gains tax to zero. Other countries have lower taxes in their realisation-based capital taxes. Including half the gains as taxable income is the approach followed in the Australian capital gains tax.

A.18 Can you explain what tax rate or rate of discount would be appropriate and why?

This is a judgement call based on balancing horizontal equity with efficiency. It is clear that zero taxation is probably too low if a realisation method is preferred over carve out, but full marginal rates would be too high.

Half the marginal rate is essentially an arbitrary choice, and it is difficult to say that it would be superior to, say, 45 per cent or 55 per cent.

A.19 Do you think it would be better to establish the opening value of shares for New Zealand tax purposes with a valuation requirement or to use a pro rata time-based apportionment?

We recommend that a simple approach would be to have a rebuttable presumption that any interest was acquired at zero cost, meaning the full proceeds on sale would be taxed, but that a taxpayer could refute this assumption on presentation of verifiable evidence that they were acquired for some positive value.

A.20 Do you think we should allow other cost methods in addition to, or in place of, FIFO? If so, what other methods would you suggest and why?

No.

A.21 What information do you think taxpayers who elect to apply the revenue account method should disclose?

Consistent with the self-assessment approach, we do not think that special disclosures are required. Taxpayers should, as is usual, be required to retain sufficient records to allow verification of their self-assessment.

A.22 Do you agree that an exit tax should be implemented alongside the revenue account method to shore up the integrity of the regime?

This seems an unnecessary complication to mitigate a small risk.

A.23 Do you agree that transfers on death or under relationship property procedures generally should not constitute a disposal event?

N/a.

A.24 Do you agree that transfers on death or under relationship property procedures should constitute a disposal event if the transferee is a non-resident?

N/a.

A.25 Do you agree that loss on sale from investments taxed under the revenue account method should only be allowed to be used against other FIF income arising under this method?

New Zealand generally adopts a global gross approach to income and deductions. It is hard to see why a departure is required here.

A.26 Do you agree that loss on sale from investments taxed under the revenue account method should be able to be carried forward into future years?

Yes.

A.27 Do you think the deferral method is a viable solution to the problems identified in Chapter 2?

Conceptually, the deferral method is an elegant solution to the lock-in problem of realised-based taxation. It finds support in the academic literature (Auerbach and Bradford 2001).

A.28 Do you agree that the deferral method could resolve the double taxation issue faced by some migrants?

Yes.

A.29 If you do not favour the deferral method, can you explain why and what would be a better solution?

N/a.

A.30 Do you think a formula for calculating actual gains would be a viable alternative to using a schedule?

Complex versus accuracy is endemic in the tax system. As it is proposed that moving to realisation with deferral would be an option, we support allowing taxpayers the option of using an accurate formula.

A.31 If the deferral method was adopted, do you agree with the proposed treatment of dividends set out above? If not, what treatment would you suggest and why?

Yes.

A.32 Do you agree that the deferral method should be elective?

Yes.

A.33 Do you think that the deferral method should be available to everyone?

Yes.

A.34 Do you think the decision to elect into the deferral method should be reversible?

No.

A.35 What information do you think individuals who elect to apply the deferral method should have to disclose?

None, consistent with self-assessment. Record retention should apply.