

SUBMISSION

NEW ZEALAND
INSTITUTE OF
CHARTERED
ACCOUNTANTS

Submission

**To the Australian and
New Zealand Productivity
Commissions on
Strengthening trans-Tasman
Economic Relations: Joint
Study Discussion Draft**

26 October 2012

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New Zealand Productivity Commission
PO Box 8036
The Terrace
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Submitted online to transtasmanreview@productivity.govt.nz

Dear Commissioners

**Submission on the Australian and New Zealand Productivity Commissions' Joint Study:
Strengthening economic relations between Australia and New Zealand: Discussion Draft**

The New Zealand Institute of Chartered Accountants (NZICA) thanks the Commissioners for the opportunity to comment on the above Discussion Draft.

NZICA is the membership body of choice for more than 33,000 accounting and business professionals who work across New Zealand and the world. NZICA has a strong collaborative relationship with the Institute of Chartered Accountants in Australia (ICAA) and the NZICA and ICAA boards recently agreed to further explore the merits of merging NZICA and ICAA into one new membership body.

As a strong supporter of the single economic market (SEM) agenda, NZICA welcome the Commissions' joint work to identify policy initiatives that could further strengthen trans-Tasman economic relations.

In particular:

- NZICA agrees that the work regarding a single set of financial statements for private not-for-profits no longer seems to be necessary.
- Mutual recognition of occupational licensing is strongly supported by NZICA. We consider that NZICA members should be able to work seamlessly in Australia and are continuing to look at ways that mutual recognition of accountants in Australia and New Zealand can be facilitated.
- NZICA strongly supports the Government exploring mutual recognition of imputation credits with the Australian Government. In principle we believe that mutual recognition is likely to be of benefit to New Zealand.

More detailed comments are set out in the attached submission.

Yours sincerely

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NZICA's submission to the Australian and New Zealand Productivity Commissions on strengthening trans-Tasman Economic Relations: Joint Study Discussion Draft

Introduction

1. The New Zealand Institute of Chartered Accountants (NZICA) is the professional body for Chartered Accountants in New Zealand, representing around 33,000 members working locally and overseas.
2. Under the New Zealand Institute of Accountants Act 1996, NZICA's functions include to:
 - promote quality, expertise and integrity in the profession of accountancy by its members in New Zealand
 - promote, control and regulate the profession of accountancy by its members in New Zealand
 - promote the training, education, and examination of persons practising, or intending to practise, the profession of accountancy in New Zealand or elsewhere.
3. There are over 2000 members in Australia and NZICA has local leadership teams in Sydney and Melbourne.
4. NZICA has a strong collaborative relationship with the Institute of Chartered Accountants in Australia (ICAA). An example of this collaboration is the new Chartered Accountants program. This program, jointly created by NZICA and ICAA, will be launched in New Zealand and Australia in February 2013 and will be completed by all aspiring Chartered Accountants on both sides of the Tasman. The NZICA and ICAA boards have also unanimously agreed to further explore the merits of merging NZICA and ICAA into one new membership body.
5. NZICA is a strong supporter of the Single Economic Market (SEM) agenda and is or has been involved with the implementation of parts of the Trans-Tasman Outcomes Framework, particularly the Financial Reporting Policy Outcomes. NZICA is a member of the Trans-Tasman Accounting and Auditing Standards Advisory Group.

Proposals in the Discussion Draft

6. In the Discussion Draft, the Commissions identify a number of policy initiatives they consider could strengthen trans-Tasman economic relations in a way that might yield joint net benefits. The Commissions' proposals fall into three categories: completing some unfinished Closer Economic Relations (CER) business, some new initiatives, and policy areas that warrant further, more detailed investigations.
7. Set out below are NZICA's comments on some of these proposals.

“Unfinished business”

Implementation of the Standard Business Reporting program

The Commissions’ draft recommendation on unfinished business law reform (DR4.1) includes:

In order to advance remaining initiatives from the business law reform program of the single economic market agenda:

- The New Zealand Government should implement the Standard Business Reporting program

8. We understand that the Standard Business Reporting program outcome is for there to be a standard set of representations of electronic financial and business reporting data that businesses use when reporting to government in both Australia and New Zealand.
9. While we are not in a position to comment on the operational issue of how the various New Zealand government agencies involved prioritise and implement such reporting, NZICA broadly supports the electronic reporting of financial and business data.

Work on a single set of financial statements for private not-for-profits entities should not progress

The Commissions give the SEM outcome regarding a single set of financial statements for private not-for-profits as an example of work that should not be completed because it seems the net benefits are no longer evident.

10. NZICA agrees that this work no longer seems to be necessary. While the reporting standards for for-profit entities are mostly aligned between Australian and New Zealand, there does not seem to be a significant demand for having the same set of standards for private not-for-profits. Furthermore, New Zealand (under the auspices of the External Reporting Board) is now adopting an approach to reporting standards for public benefit entities (including not-for-profits) that may not be consistent with the approach preferred by standards setters in Australia.

Mutual recognition of occupational licensing

The Commissions recommend that Australian and New Zealand occupational regulators should share knowledge and lessons in developing efficient and effective occupational licensing systems. Relevant Australian and New Zealand regulators should be included in consultations around the development of national licensing systems in the other country (DR4.2)

11. A key SEM principle is that regulated occupations operate seamlessly between Australia and New Zealand. Mutual recognition of occupational licensing is strongly supported by NZICA. We consider that NZICA members should be able to work seamlessly in Australia and are continuing to look at ways that mutual recognition of accountants in Australia and New Zealand can be facilitated. Our close collaboration with the Institute of Chartered Accountants in Australia is an important aspect of this.

12. Trans-Tasman mutual recognition of licensed auditors has been achieved. As the Commissions' Discussion Draft notes (at page 94), the Auditor Regulation Act 2011 came into force in New Zealand on 1 July 2012. As part of the implementation process, Australian and New Zealand regulators have been working closely to enable auditors qualified in one jurisdiction to become licensed or registered in the other. The Australian Securities and Investment Commission (ASIC) and the New Zealand Financial Markets Authority (FMA) have recently issued guidance and application forms.
13. NZICA considers that, as part of the SEM agenda, the occupational liability regimes in Australia and New Zealand need to be more closely aligned and that any barriers to NZICA members operating in Australia should be removed. The framework governing professional liability is an example where further work is needed. In New Zealand, the liability in civil cases is determined on the basis of the joint and several liability rule. Under this rule, one defendant can be 100% liable for the actions of other defendants. Significantly, however, Australia has moved away from joint and several liability in favour of regimes that limit liability: proportional liability and statutory capping of liability. To ensure a level playing field with Australia and consistency for those dealing with accountants across both jurisdictions, NZICA's view is that New Zealand should also move away from joint and several liability.

Proposed initiatives

Governance

The Commissions recommend that:

The Australian and New Zealand Governments should create a clearer leadership and oversight role for CER, building on existing governance arrangements and the annual meeting of Prime Ministers (DR 5.1).

When significant new regulatory proposals or modifications arise at the national level, the responsible government agencies should examine opportunities for trans-Tasman and/or broader collaboration that would lower costs and deliver net benefits (DR 5.2).

14. NZICA agrees in principle with these draft recommendations on strengthening the governance of CER.

Policy areas requiring further investigation

Mutual recognition of dividend imputation/franking credits

The Commissions conclude that mutual recognition of dividend imputation/franking credits is a policy area that requires further investigation.

Mutual recognition of imputation credits

15. NZICA notes the discussion in the Discussion Draft on the mutual recognition of imputation credits. This is an issue that has been discussed for over twenty years between New Zealand and Australia.

16. It is commonly acknowledged that as imputation/franking credits are generally¹ not recognised in the other jurisdiction, this results in a significant impediment to capital flows between the two countries.
17. The most recent attempt at quantification of the cost is by NZIER and CIE². In their view:
- A system of mutual recognition of imputation and franking credits would be likely to deliver net benefits to both Australia and New Zealand. Under the central scenario modelled trans-Tasman GDP could rise by around NZ\$5.3 billion in Net Present Value terms by 2030. Trans-Tasman welfare is estimated to improve by NZ\$7.0 billion.*
18. Essentially, the lack of mutual recognition of tax credits is a form of tariff on trans-Tasman investment flows. As a result, resources are not allocated efficiently because of the incidence of double taxation on the same income flow, which results in the distortion of investment decisions.
19. If double taxation of investment flows were reduced, the amount of mutual investment from both sides of the Tasman would be increased, as investors would be neutral as to whether the proposed investment was either in an Australian or New Zealand company.
20. We strongly support the Government exploring this initiative with the Australian Government. In principle we believe that mutual recognition is likely to be of benefit to New Zealand as it:
- removes an additional layer of taxation, which acts as a barrier to efficient trans-Tasman investment
 - should lower the cost of raising equity to fund trans-Tasman investment
 - would allow a higher degree of integration of our capital markets and free up flows of capital trans-Tasman – supporting the overall objectives of CER (Closer Economic Relations) between Australia and New Zealand
 - may reduce incentives for Australian residents to thinly capitalise inbound investment from Australia or to limit the location of risk and functionality in New Zealand under transfer pricing protocols
 - remove motivation of Australian residents to purchase 100% of New Zealand companies shares, which reduces opportunities for New Zealanders to invest in local New Zealand enterprises
 - discourages migration of companies head offices to the other jurisdiction
 - preserves both Australia's and New Zealand's source taxation principles
 - will remove at least one significant tax issue as an incentive or impediment to the domicile of companies, meaning that location decisions will be driven by underlying economic and commercial factors and be less susceptible to being distorted by tax settings
 - it may drive New Zealand's tax policy to align more closely to Australia's in a co-operative fashion rather than on a competitive basis.

Mutual recognition of imputation and franking credits with Australia

21. Obviously, it would also be necessary to more closely align the functionality of our respective imputation systems to ensure that credits have an equal value. That is, that there be no preference between New Zealand imputation credits and Australian franking credits.

¹ There is limited mutual recognition of tax credits in the triangular tax situation, where there are tax credits in both directions.

² Refer "The costs and benefits of mutual recognition of imputation & franking credits" August 2012 NZIER & CIE. We note that there are assumptions as to the size and make up of trans-Tasman investment to allow a calculation of the potential benefits which mean the actual number derived is susceptible to those assumptions. However, we also note that the sensitivity analysis done suggests that the direction of the benefit should not change should those assumptions be further refined.