

20 June 2019

Committee Secretariat  
Finance and Expenditure Committee  
Parliament Buildings  
Wellington 6011  
New Zealand

BY EMAIL: [fe@parliament.govt.nz](mailto:fe@parliament.govt.nz)

Dear Sir/ Madam

**Submission on the Agreement between the Government of New Zealand and the Government of the People’s Republic of China for the Elimination of Double Taxation**

We are writing to submit on the Agreement between the Government of New Zealand and the Government of the People’s Republic of China for the Elimination of Double Taxation (“the Agreement”).

We submit in support of the Agreement.

**Background:**

The Guardians of New Zealand Superannuation as manager and administrator for the New Zealand Superannuation Fund (NZSF) appears annually in front of the Finance and Expenditure Select Committee and we refer you to our latest appearance on 20 February 2019 for further information on both institutions.

The Government’s income from its wholly owned NZSF is subject to tax in New Zealand and subject to foreign tax depending on the source of its foreign income.

NZSF will receive a tax credit against its New Zealand tax for foreign tax paid on dividends it receives from its global equities (share) investments and on interest it receives on global debt securities (bonds) investments.

Therefore New Zealand is a net loser where foreign withholding tax is paid on the Government's investments in foreign equities and debt securities.

NZSF's overall performance is measured on a pre NZ tax post foreign tax basis to recognise foreign tax leakage as a cost to New Zealand.

Some foreign jurisdictions offer exemptions from dividend and interest withholding tax where this income is paid to Sovereign Wealth Funds of other countries (sovereign tax immunity). This occurs under the foreign jurisdictions own law or pursuant to a double tax agreement (DTA) with the other country.

We are New Zealand's Sovereign Wealth Fund and work closely with foreign tax advisors to identify and secure sovereign tax immunity on offer by a foreign country.

In addition we also work closely with New Zealand tax policy officials to see if it is possible to secure sovereign tax immunity via DTA's with other countries.

DTA negotiations are time consuming and Officials have limited "band width" available to secure / modernise New Zealand's DTA's. Therefore we have encouraged Officials to focus on countries that are major trading and investment partners with New Zealand.

We agree with Officials that DTA's "reduce tax barriers to cross-border economic activity and thereby foster increased trade and investment".

China is one of New Zealand's largest trading partners and a significant source of capital for in-bound investment into New Zealand and increasingly important for out-bound investment by New Zealand investors into the second largest economy in the world.

### **Our submission**

We are very supportive of the Government's efforts to modernise and update the DTA with China, with the existing agreement having been in place since 1986.

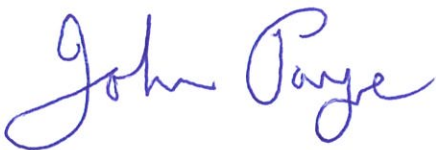
The Agreement will reduce the withholding tax on cross border investment returns for NZSF by over NZ\$1 million per annum and therefore increase the return to the New Zealand Government. This amount will increase as NZSF's investment portfolio grows and will be significantly larger when the investments of other Crown Financial Institutions in China are taken into account i.e. ACC and EQC who will also qualify for the sovereign tax immunity.

China is one of New Zealand's most significant economic partners we believe that the Agreement is a step forward in terms of attracting and retaining investment from China into New Zealand and from New Zealand into China.

We support the precedent the Agreement sets for future DTA negotiations i.e. sovereign tax immunity on dividend and interest flows being included as a starting point for negotiations. We note that this is the case for many other jurisdictions.

Thank you for the opportunity to submit a response to your consultation. Please advise if you require any further information or clarification in relation to our submission.

Yours sincerely

A handwritten signature in blue ink that reads "John Payne". The signature is written in a cursive, flowing style.

John Payne

Head of Tax