FundSource™

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MEDIA RELEASE

New Tax Regime to Popularise Managed Funds

The new tax rules on investment income announced today by the Government heralds a new era for the savings and investment industry in New Zealand. Never in its often-beleaguered history has the managed funds industry been at the threshold of such a fundamental and radical change – creating a number of opportunities for a much larger and more vibrant future.

The Government today announced its proposal for introducing a fairer regime for taxing New Zealand investors – an integral part of its push to encourage an increase in overall savings levels, and an outcome of over two years of research and development, in conjunction with industry consultation.

While it's easy enough to be caught up in the vast amount of detail that would have to go into implementing the proposals it is worth stepping back and taking a longer-term and more expansive view of the unfolding scenario.

"The enormity of the proposed changes throws up more than a few challenges for fund managers, financial advisers, lawyers, tax consultants and a host of other related parties. Obviously it is likely to attract a lot of debate but it is worthwhile noting that 'change' itself is inevitable – might as well get ready for it! This is especially so when a change as radical as this throws up a number of opportunities for those who can see them", says Binu Paul, General Manager at FundSource Research.

Very briefly, the key points and implications of the new proposals include the following:

- **Investors in managed funds to be taxed on their marginal tax rate and not at a flat rate of 33%.**
  For savers in the 19.5% bracket this removes the current disincentive of a 33% tax on their savings in managed funds.
  The sweetener in the deal is that the tax rate would be capped at 33%, including for investors in the 39% tax bracket.

- **Capital gains tax to be removed on investments made into NZ and Australian listed shares by managed funds.**
  This removes the current disincentive for investors to invest in NZ and Australian equities through managed funds. More importantly, this means that both direct investors as well as managed fund investors in the sector will be treated equally for tax purposes.

- **The 'grey list' of 8 countries to be abolished.**
  This raises the tax burden on investors directly investing into offshore shares (not including Australia), creating a disincentive to invest offshore directly.

Notwithstanding the pros and cons of the proposals, the one assured outcome is the popularisation of managed funds as savings and investment vehicles. With the existing disincentives removed FundSource would expect to see far greater investor interest in managed funds, meaning larger fund inflows into the industry beginning in the next two years. Expect also to see a whole raft of new and innovative products and structures as providers, both existing and new, adapt to the new regime – on the whole a very positive environment for the industry! The announcement also removes the aura of uncertainty that has been hanging over the industry in recent years – with the regime slated to kick in on April 1 2007 it will be a busy year ahead for the New Zealand managed funds industry!

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