
Tax and Superannuation Literacy: Australian and New Zealand Perspectives

TONI CHARDON, MARK BRIMBLE AND BRETT FREUDENBERG

Toni Chardon is a Lecturer in the School of Law and Justice, University of Southern Queensland. Mark Brimble and Brett Freudenberg are Associate Professors in the Department of Accounting, Finance and Economics, Griffith Business School, Griffith University.

The Australian and New Zealand governments both recognise the economic and social importance of building a financially capable population. In Australia this is recognised through the National Financial Literacy Strategy and in New Zealand through the National Strategy for Financial Capability.¹ Both strategies define financial literacy (or capability) as the ability to make informed judgements and effective decisions regarding the use and management of money. One of the main aims of increasing the overall financial literacy of populations is creating an environment where consumers have the knowledge, skills and confidence to protect themselves from financial risk. It is argued that taxation consequences often play an important role in investment decisions and are also a major reason why people seek assistance and advice from professionals. Australian research has found that there are basic concepts of tax and superannuation that are important in the context of overall financial literacy and that there are specific aspects that potentially affect financial decision making which are poorly understood.²

There are a number of fundamental differences in tax and retirement policy between Australia and New Zealand, including that New Zealanders with only salary and wage income are not required to lodge a tax return, that the main superannuation scheme (KiwiSaver) is optional, and that there is broadly no capital gains tax. However, in the context of financial decision making, there are also a number of similarities, particularly in relation to the availability of particular tax concessions for families, those with children, on lower incomes and also in relation to Government provisions for retirement. Much like Australian research, financial capability measures in New Zealand have previously found there may be gaps in the understanding of particular aspects of superannuation but that the targeted approach to building capability appears to be increasing this understanding, particularly in relation to New Zealand superannuation.³

This article will explore the extent to which tax and superannuation literacy are considered important in the context of the New Zealand National Strategy for Financial Capability and the extent to which aspects of tax and superannuation have been measured as part of previous financial capability research.⁴ Using recent Australian measures of financial and tax literacy research as comparisons, it will be argued that

¹ Australian Securities and Investments Commission *National Financial Literacy Strategy – Australia’s National Financial Literacy Strategy* (Canberra, August 2014); and Commission for Financial Capability *National Strategy for Financial Capability June 2015* (Wellington, June 2015).

² Toni Chardon “Taxation and Superannuation Literacy in Australia: What do people know (or think they know)?” (2014) 1 JASSA 42.

³ Commission for Financial Literacy and Retirement Income *Financial Knowledge and Behaviour Survey 2013: Full Report* (Wellington, June 2013).

⁴ Commission for Financial Capability, above n 1.

irrespective of differences in tax policy between the two countries, having an understanding of basic tax and superannuation concepts is important in terms of building overall financial capability of citizens in both countries.

1.0 FINANCIAL LITERACY OVERVIEW

The complexity of taxation law and policy is an area of much academic research, particularly in the context of its role in taxpayer compliance.⁵ An aspect of compliance that has not been previously explored in detail is people's understanding of the tax system and whether that has an impact on the financial and tax-related decisions they make. Levels of understanding of the tax system and the potential effects this can have on individual wealth, the broader economy, financial decision-making and, indeed, compliance can be explored in the context of financial literacy research. This article compares the financial literacy context in both Australia and New Zealand, focusing specifically on the extent to which tax and superannuation literacy are considered important in the context of the New Zealand National Strategy for Financial Capability.⁶ The article will explore whether differences in tax and retirement policy between the two countries impact specific outcomes of financial literacy in those areas and provide further argument for the importance of tax and superannuation as part of overall financial literacy.

The term "financial literacy" is defined in both Australia and New Zealand as "the ability to make informed judgements and to make effective decisions regarding the use and management of money".⁷ To date, taxation issues and, to a lesser extent, superannuation have largely been excluded from financial literacy measurements and education programs in Australia. Chardon has previously argued that tax and superannuation should be incorporated into the broader notion of financial literacy (also known as financial capability).⁸ This was in part based on arguments that tax can be a critical influence on investment options and returns, as well as the global trend in western countries toward self-funded retirement, which requires citizens to be more active and knowledgeable about their retirement savings.⁹ If tax literacy is similar to financial literacy, then surveys measuring adult financial literacy in Australia as well as other academic research suggest there are certain at-risk groups that have low levels of literacy, particularly in relation to financial products and superannuation.¹⁰ For example, the Australian and New Zealand Banking Group Ltd's (ANZ) surveys of adult financial literacy in Australia have consistently reported that people

⁵ See, for example: Chris Evans and Jason Kerr "Tax reform and 'rough justice': is it time for simplicity to shine?" (2012) 27(2) Australian Tax Forum 387; Chris Evans and others *A Report into Taxpayer Costs of Compliance* (Australian Government Publishing Service, Canberra, 1997); Chris Evans and Binh Tran-Nam "Controlling Tax Complexity: Rhetoric or Reality?" in Chris Evans, Richard Krever and Peter Mellor (eds) *Australia's Future Tax System: The Prospects After Henry* (Thomson Reuters, Pyrmont, 2010) 437; Chris Evans and Binh Tran-Nam "Managing tax system complexity: Building bridges through pre-filled tax returns" (2010) 25 Australian Tax Forum 247; and Philip Lignier and Chris Evans "The rise and rise of tax compliance costs for the small business sector in Australia" (2012) 27 Australian Tax Forum 615.

⁶ Commission for Financial Capability, above n 1.

⁷ Australian Securities and Investments Commission, above n 1; Australian Securities and Investments Commission *Financial literacy and behavioural change* (Report 230, March 2011); Commission for Financial Literacy and Retirement Income, above n 3; and Consumer and Financial Literacy Taskforce "Preliminary Recommendations to Government" (31 August 2004) Australian Government The Treasury <<http://cfltaskforce.treasury.gov.au>>.

⁸ Toni Chardon "Weathering the Storm: Tax as a Component of Financial Capability" (2011) 5(2) AABFJ 53.

⁹ Simon Kelly "Self-Provision In Retirement? Forecasting Future Household Wealth" (conference paper, National Centre for Social and Economic Modelling, 2003).

¹⁰ Andrew Worthington "Knowledge and perceptions of superannuation in Australia" (2008) 31(3) Journal of Consumer Policy 349.

find superannuation aspects more difficult than basic banking.¹¹ In contrast, the most recent New Zealand financial knowledge and behaviour survey reports that understandings of New Zealand superannuation have improved significantly since 2009, despite overall financial literacy remaining constant.¹² In Australia, Worthington has argued that knowledge of superannuation was varied with good understanding in some areas and poor understanding in others.¹³ The context and strategies implemented that may have resulted in this improvement in understanding in New Zealand will be discussed later in the article.

In Australia and overseas there is little academic research that focuses on the design of financial literacy models, the elements (including knowledge, behavioural and attitudinal) that should form part of measuring a person's level of financial literacy and which of those elements are most likely to result in financial success. Recent research, however, is beginning to draw positive links between early increases in financial knowledge and wealth outcomes in retirement.¹⁴ There is also inconsistency globally in how financial literacy is measured, despite work by the Organisation for Economic Co-operation and Development (OECD) in producing good practice guidelines and establishing the International Network on Financial Education (INFE). For example, the ANZ surveys in Australia have shifted focus since 2011 and now measure financial literacy in terms of five broad indicators — keeping track of finances, planning ahead, choosing financial products, staying informed and financial control — with financial knowledge and numeracy seen as types of demographic factors that can explain differences in financial literacy.¹⁵ However, in New Zealand, the financial knowledge and behaviour survey measures financial literacy in terms of financial knowledge, financial behaviour, and attitudes toward financial matters and retirement. This means that New Zealand results can be more readily comparable against other OECD countries that similarly use the INFE model for measuring financial literacy.¹⁶

It is also important to note that the community is not a homogeneous group when it comes to financial knowledge and skills. Thus, another key element is to acknowledge and design policy and education responses to financial literacy that are tailored to a range of cultural, religious and value perspectives. It is also important to consider enabling knowledge and skills such as general and information literacy, numeracy and participant life stage.

Despite these inconsistencies in terms of measuring financial literacy across jurisdictions, there is some consistency in the sense that taxation concepts are generally absent in most measures. Though, as will be seen, it appears New Zealand has incorporated one aspect of taxation knowledge in its measures. In terms of why understandings of taxation and superannuation are important, it is argued that taxation is something that impacts on the majority of individuals and businesses and therefore can impact on a person or business's overall financial position. For example, aspects that can impact on financial position

¹¹ ANZ and AC Nielsen *ANZ Survey of Adult Financial Literacy in Australia* (Melbourne, November 2005); ANZ and The Social Research Centre *ANZ Survey of Adult Financial Literacy in Australia* (Melbourne, October 2008); ANZ and The Social Research Centre *Adult Financial Literacy in Australia: Full Report of the results from the 2011 ANZ Survey* (Melbourne, December 2011); and ANZ and The Social Research Centre *ANZ Survey of Adult Financial Literacy in Australia: Full report of the results from the 2014 ANZ survey* (Melbourne, May 2015).

¹² Commission for Financial Literacy and Retirement Income, above n 3.

¹³ Worthington, above n 10.

¹⁴ Annamaria Lusardi, Pierre-Carl Michaud and Olivia Mitchell *Optimal Financial Knowledge and Wealth Inequality* (National Bureau of Economic Research, Working Paper 18669, January 2013).

¹⁵ ANZ and The Social Research Centre *Adult Financial Literacy in Australia: Full Report of the results from the 2011 ANZ Survey* (Melbourne, December 2011).

¹⁶ Adele Atkinson and Flore-Anne Messy *Measuring Financial Literacy: Results of the OECD / International Network on Financial Education (INFE) Pilot Study* (OECD Working Papers on Finance, Insurance and Private Pensions, No 15, March 2012).

or financial decision-making include paying tax liabilities on time, accurate preparation of returns, understanding available entitlements and communicating effectively with one's financial or tax advisers. Also, governments can use the tax system to deliver social policy goals, such as benefits or concessions for children and child minding. Furthermore, citizens with low financial literacy may be more susceptible to becoming part of mass-marketed schemes, which regularly purport to have tax advantages.

This article examines whether tax literacy is considered a component of financial literacy in New Zealand frameworks and to what extent there is evidence in the current literature that it should be included as a component. Areas where there are similarities and differences in Australian and New Zealand tax policy will be explored when determining whether tax should be seen as an important aspect of financial literacy in New Zealand. This research is important to the taxation disciplines of both countries as it provides a perspective on tax policy that has not been researched previously. The article makes a contribution to the national financial literacy strategies of both countries (in terms of continued research) as well as a contribution in terms of tax policy, taxpayer/adviser relationships and compliance.

Previous research in the tax discipline has suggested that non-compliant behaviour was not necessarily intentional and that taxpayers who completed their own tax returns were the most likely to be unintentionally non-compliant.¹⁷ This research also found "evidence of a high commitment to compliance".¹⁸ This link between unintentional non-compliance, complexity and levels of tax literacy is important to further explore, particularly in the New Zealand context where the unique self-assessment system means salary and wage individuals who change their circumstances may be required to engage with a tax system they have had little engagement with previously. If individuals have low levels of tax literacy, it is understandable that they may be more likely to unintentionally non-comply.

As stated earlier, aspects of tax and superannuation knowledge have, to date, generally fallen outside the financial literacy agenda. This is despite governments using the tax system to influence financial and investment decisions through tax expenditure programs. However, taxation is something that every individual is assumed to understand when engaging in the workforce or making financial decisions. Given that financial literacy research suggests a financially capable person is more likely to take an active and responsible role in the financial arena, it is argued that a more tax literate person is more likely to take an active and responsible role in the taxation arena. This argument has potential benefits for the consumer, government and the wider economy, especially given the government push for self-funded retirees.

The remainder of this article is organised as follows. The next section provides an overview of financial literacy measures and specific areas and demographics at risk in Australia. This is then followed by an overview of findings in relation to a recent study by Chardon et al, which measured tax and superannuation literacy in Australia.¹⁹ Next, an overview of the financial literacy context and measures of financial literacy in New Zealand will be provided. Finally, the article explores some of the differences in the tax and superannuation context that may be driving both outcomes of financial literacy in these areas as well as strategic focus. Then recommendations as a result of these outcomes will be made for both the Australian and New Zealand financial literacy strategies going forward, before the article concludes.

¹⁷ Margaret McKerchar *The Impact of Complexity upon Unintentional Non-Compliance for Australian Personal Income Taxpayers* (PhD Dissertation UNSW, 2002) at 284–285.

¹⁸ McKerchar, above n 17, at 289.

¹⁹ Toni Chardon, Brett Freudenberg and Mark Brimble "Tax literacy in Australia: not knowing your deduction from your offset" (2016) 31(2) *Australian Tax Forum* 321.

2.0 FINANCIAL AND TAX LITERACY IN AUSTRALIA

ANZ's survey of adult financial literacy in Australia is the most comprehensive and widely-cited broad measure of financial literacy in Australia.²⁰ Despite support from the Federal Government and a range of programs being implemented over the years, findings have remained broadly consistent. That is, Australians are broadly financially literate, but there are certain groups that remain at risk of low financial literacy and there are certain specific aspects of financial literacy that remain less well understood than others.²¹ Those groups at risk of lower financial literacy are those with lower levels of education, unemployed persons, those on lower incomes, females, single persons, and those in the youngest and oldest age categories.²² It has also been consistently found that all population groups find superannuation issues more difficult than basic banking. Interestingly, despite the push for the importance of financial literacy since the inception of the National Financial Literacy Strategy, the 2014 survey found that one in five people (20 per cent) were poorly equipped to make superannuation decisions.²³

The ANZ surveys have reported some significant findings in the past in relation to financial numeracy. For example, in the 2005 survey, half of those in the lowest financial literacy score categories were unable to calculate 50 per cent of \$1,400.²⁴ If financial numeracy is a potential area of concern for certain demographic groups, then it follows that understandings of basic elements of the tax and superannuation system (such as marginal rates of tax and superannuation guarantee rates) may also be poorly understood.

Similarly, in past surveys there have been concerning findings in relation to superannuation. The most recent survey found that most superannuation fund members were aware that they can make superannuation payments additional to those made by their employer, though at 88 per cent it is at the lowest level since the surveys began (91 per cent in 2002).²⁵ It was also reported that one-third of those who receive superannuation statements find them difficult to understand.²⁶ A specific tax question was posed in the 2011 ANZ survey, asking whether the respondent knew if superannuation was taxed at higher, lower or the same rate as other investments. The result was that 59 per cent of respondents that were under 65 years of age, employed and with superannuation knew that superannuation was taxed at a lower rate than other investments (similar to 58 per cent in 2005).²⁷ However, three per cent thought that superannuation was taxed at a higher rate, 11 per cent thought the same rate of taxation applied and 27 per cent said that they did not know.²⁸ The report therefore asserted that there was uncertainty about the tax treatment of superannuation. Given this finding, it is unfortunate that this specific question was not again posed in the most recent survey.

²⁰ This survey has been undertaken in 2003, 2005, 2008, 2011 and most recently in 2014.

²¹ ANZ and The Social Research Centre *ANZ Survey of Adult Financial Literacy in Australia* (Melbourne, October 2008).

²² ANZ and AC Nielsen *ANZ Survey of Adult Financial Literacy in Australia* (Melbourne, November 2005); ANZ and The Social Research Centre *ANZ Survey of Adult Financial Literacy in Australia* (Melbourne, October 2008); ANZ and The Social Research Centre *Adult Financial Literacy in Australia: Full Report of the results from the 2011 ANZ Survey* (Melbourne, December 2011); and ANZ and The Social Research Centre *ANZ Survey of Adult Financial Literacy in Australia: Full report of the results from the 2014 ANZ survey* (Melbourne, May 2015).

²³ ANZ and The Social Research Centre *ANZ Survey of Adult Financial Literacy in Australia: Full report of the results from the 2014 ANZ survey* (Melbourne, May 2015).

²⁴ ANZ and AC Nielsen *ANZ Survey of Adult Financial Literacy in Australia* (Melbourne, November 2005) at 2.

²⁵ ANZ and The Social Research Centre, above n 23, at 4.

²⁶ ANZ and AC Nielsen, above n 24, at 73.

²⁷ ANZ and The Social Research Centre *Adult Financial Literacy in Australia: Full Report of the results from the 2011 ANZ Survey* (Melbourne, December 2011) at 54. Unfortunately, this question was not asked in the 2014 ANZ survey (reported in 2015) so no longitudinal comparisons can be made.

²⁸ At 54.

In terms of superannuation as an investment vehicle, the survey found that 75 per cent of respondents were members of a superannuation fund, compared to 47 per cent having a high-interest savings account and 19 per cent with an investment property.²⁹ The report also highlighted some potential confusion over understandings of what is a self-managed superannuation fund (SMSF). Despite the Australian Taxation Office (ATO) statistics indicating around six per cent of adults are members of an SMSF, the ANZ survey found that 11 per cent of adults reported having an SMSF.³⁰ Interestingly, overall, those with an SMSF were found to have higher financial literacy scores, higher financial knowledge, and a more positive attitude in relation to financial self-efficacy and aspiration and impulsivity.³¹ Further, it has been found that increasing financial knowledge early and at key points in people's lives can have an effect on wealth outcomes in retirement.³² In terms of the importance of further measuring aspects of basic superannuation understanding, these results make it clear that improving the understanding of superannuation in the population can have positive outcomes, particularly given the Australian Government's preference for self-funded retirement.

The way citizens perceive the funding of their retirement is also important as it has been argued that members' disengagement from superannuation fund selection poses a significant problem for the Australian retirement system.³³ Australian research has found that the way members of superannuation funds perceive themselves can influence the investment decisions made through their superannuation.³⁴ In particular, passive superannuation members (referred to as "consumers") had different strategies and engagement towards their superannuation compared to those superannuation members who saw themselves as "investors".³⁵ In particular, consumer (passive) superannuation members were more likely to accept the default fund offered by their employers rather than considering the returns.

The 2005 ANZ survey found that seven per cent of respondents identified taxation as one of the areas where they felt they needed further education.³⁶ This was mirrored in 2008 where it was found that taxation information ranked as the most desired type of information that participants wanted further advice on from government bodies.³⁷ Around 59 per cent of respondents had consulted either an accountant or financial adviser/planner, but there was an increase in the 2014 survey from 14 per cent to 19 per cent in the number of persons reporting the use of tax specialists, though this was less likely among women over 60 years of age.³⁸ Also, the use of the Australian Securities and Investments Commission's (ASIC) MoneySmart website (when accessing financial information digitally) was relatively low with 10 per cent of respondents reporting having used it and higher proportions preferring to use financial institution websites or Choice magazine's website.³⁹

²⁹ ANZ and The Social Research Centre, above n 23, at 61.

³⁰ At 61.

³¹ At 70.

³² Lusardi, Michaud and Mitchell, above n 14.

³³ Sarath Delpachitra and Schumann Rafizadeh "The Switching Decision: Are Members of the Superannuation Funds Rational and Informed Investors?" (2014) 8(4) AABFJ 45.

³⁴ Delpachitra and Rafizadeh, above n 33, at 60.

³⁵ Delpachitra and Rafizadeh, above n 33, at 60.

³⁶ ANZ and AC Nielsen, above n 24, at 254.

³⁷ ANZ and The Social Research Centre *ANZ Survey of Adult Financial Literacy in Australia* (Melbourne, October 2008) at 113.

³⁸ ANZ and The Social Research Centre, above n 23, at 4.

³⁹ At 5.

The 2005 ANZ survey argued that three core factors emerged from the study as causes of people suffering financial difficulty: unhealthy ways of thinking about finances, circumstances or events outside their control, and lack of skills and knowledge.⁴⁰ It was further asserted that this lack of skills and knowledge was evidenced in people not understanding how products worked, not recognising when they should seek advice, and being unable to identify a financial scam.⁴¹ A survey by the Financial Literacy Foundation which explored Australian's attitudes and behaviours to money found that people's self-assessed ability to protect income was overstated; therefore, they may be at risk of being caught by these investment scams.⁴² Purported tax advantages are often used as incentives or sales tactics for many investments (such as for share and rental property investments), particularly for risky investment scams. Poor financial knowledge has been highlighted by several researchers as a potential issue in many aspects of the global financial crisis (GFC).⁴³ Seeking advice and being able to identify scams are both practices that the ATO encourage. The findings therefore support the argument that there may be important taxation aspects of investing that need to be considered and measured as part of financial literacy in order to potentially prevent people being caught by investment scams.

From the above discussion, it has emerged that taxation and superannuation literacy are areas where there are potentially low levels of understanding that could be further explored by determining specific levels of taxation literacy. It is argued that improving tax literacy would potentially raise taxpayer confidence and limit miscommunications between advisers and clients. It is important for tax administrators and tax agents to know what their clients already understand or, alternatively, to be confident that taxpayers have a base knowledge that can be assumed.

3.0 OVERVIEW OF TAX AND SUPERANNUATION LITERACY IN AUSTRALIA

Recently, Chardon et al. undertook a survey of adult taxation and superannuation literacy in Australia. Overall, the survey results show that 81 per cent of Australians have a tax literacy score (TLS) at a basic or higher level.⁴⁴ This in turn means that 19 per cent of Australians have a TLS classified as either poor or low. However, when taking the mean TLS as a percentage of the maximum score, it can be seen that the mean score falls at 52 per cent of the maximum score. When compared against the 2008 ANZ survey, the mean financial literacy score (FLS) as a percentage of the maximum score was 71.3 per cent.⁴⁵ So, although Australians are broadly tax literate, they are less literate when it comes to specific tax and superannuation issues than financial issues more broadly. This is consistent with other financial literacy measures both in Australia and overseas, which suggest that while populations may be broadly financially literate, there are some specific aspects or specific demographics where there are potential risks.

Chardon et al. found the relationship between TLS and demographic variables was strongest in those categories that related to the workplace and income (employment hours, employment category and total income).⁴⁶ The results were broadly in line with the results of the ANZ survey of adult financial literacy,

⁴⁰ ANZ and AC Nielsen *Understanding Personal Debt & Financial Difficulty in Australia* (Melbourne, November 2005) at 3.

⁴¹ At 4.

⁴² Financial Literacy Foundation *Financial literacy: Australians understanding money* (Commonwealth of Australia, Canberra, 2007).

⁴³ Lusardi, Michaud and Mitchell, above n 14; and Gerry Gallery and Natalie Gallery "Rethinking financial literacy in the aftermath of the Global Financial Crisis" (2010) 19 *Griffith Law Review* 30.

⁴⁴ Chardon, Freudenberg and Brimble, above n 19, at 351.

⁴⁵ Chardon, Freudenberg and Brimble, above n 19, at 351.

⁴⁶ Chardon, Freudenberg and Brimble, above n 19, at 351.

which found that their FLS tended to increase with age, education, occupation and income. The most interesting result was that those relationships with TLS to age and education were less significant than those relationships to employment hours and employment category. It is argued that it is exposure to the workforce and employment that appears to have a stronger significant impact on increased tax literacy than gender, age or general education level. This is an important finding in the context of measures to increase tax literacy and financial literacy more broadly. Also when we consider tax and superannuation literacy in the specific New Zealand context where there are different obligations in terms of tax return lodgement and compulsory superannuation, this could mean that there are low levels of tax literacy in New Zealand.

The specific areas in the survey which were found to have the lowest levels of understanding were:

- calculating taxable income;
- identifying the effect of deductions;
- classifying expenses correctly as deductible;
- offsets and the difference between offsets and deductions;
- capital gains tax; and
- Medicare levy.⁴⁷

Overall, women were less likely to understand all of the knowledge questions tested (apart from the rate of Medicare levy). It was also found that, overall, those on lower incomes were less likely to understand all of the knowledge questions tested (apart from the rate of capital gains tax). Other Australian research has demonstrated that tax literacy in terms of Australia's regulation of self-managed superannuation funds (SMSF) is likely to be higher for trustees of complying SMSFs, compared with those who are not complying.⁴⁸ This research could support notions that improved tax literacy could increase overall compliance behaviour by taxpayers. The extent to which tax and superannuation literacy has been measured and/or should be measured in the New Zealand context will be explored in the following sections of the article.

4.0 FINANCIAL LITERACY IN NEW ZEALAND — AN OVERVIEW

As indicated earlier, responsibility for the financial literacy agenda in New Zealand falls to the Commission for Financial Capability (the Commission) and the Retirement Commissioner.⁴⁹ The Commission's key activities are stated as "providing financial education and carrying out regular reviews of retirement income policy" as well as being responsible for the implementation of the National Strategy for Financial Literacy.⁵⁰ These activities are stated to have a number of overarching goals:⁵¹

- New Zealanders are better educated and motivated to make informed financial decisions throughout their lives.
- New Zealanders have more trust in the financial services sector.

⁴⁷ Chardon, Freudenberg and Brimble, above n 19, at 352–353.

⁴⁸ George Mihaylov and others "Tax Compliance Behaviour in Australian Self-Managed Superannuation Funds" (2015) 13 EJTR 740.

⁴⁹ The Commission for Financial Capability was re-branded from the Commission for Financial Literacy and Retirement Incomes in December 2014 and is an autonomous crown entity (ACE).

⁵⁰ Commission for Financial Capability "Key activities and goals" (2016) <www.cffc.org.nz>.

⁵¹ Commission for Financial Capability, above n 50.

- New Zealand's retirement income policy is stable and effective.
- The legislative framework for retirement villages is effective in protecting residents and meets societal expectations, and the sector is compliant with the Retirement Villages Act 2003.

In terms of implementation, the Commission outlines in its statement of intent that implementing and improving financial literacy as part of the New Zealand National Strategy is an important aspect of achieving those abovementioned goals. Improving New Zealanders' understanding of financial issues is seen as important because "being in control gives individuals greater financial freedom, creates resilient communities and builds a more prosperous and productive economy".⁵²

It has been argued that there continues to be a gap in financial literacy research in the New Zealand context, and that this is particularly true in relation to evidence-based research that evaluates the outcomes of the Commission's activities.⁵³ Over the past decade, research has argued there is a growing need to improve financial literacy in New Zealand, particularly given the unique retirement scheme,⁵⁴ and earlier studies showing potentially poor levels of financial literacy in specific groups, particularly in relation to skills required for small business owners.⁵⁵ It has been argued by Crossan, Feslier and Hurnard in the post-GFC era that there has been:⁵⁶

growing mistrust of parts of the financial sector, a flight back to the security of bank deposits, a more cautious approach to borrowing and debt on the part of households, and a rapid increase in the number of KiwiSaver retirement savings accounts.

This post-GFC financial cautiousness, coupled with the Canterbury earthquakes has been argued to have impacted both positively and negatively in terms of the financial literacy context in New Zealand.⁵⁷ It has been submitted that there has been some loss of public confidence in the financial sector generally, as well as higher than usual unemployment. Nevertheless, at the same time there has also been some improvement in the perceived importance of personal finance matters as well as an improvement in the take-up of KiwiSaver.⁵⁸

Financial literacy in New Zealand is measured through the Financial Knowledge and Behaviour Survey, which has been undertaken in 2006, 2009 and most recently in 2013.⁵⁹ The survey measures financial knowledge, financial behaviour and attitudes toward financial matters. The most recent survey also incorporated a number of knowledge questions as used by the OECD INFE in an international pilot study.⁶⁰ This enabled New Zealand to make comparisons in terms of the financial knowledge of the population to

⁵² Commission for Financial Literacy and Retirement Income *Statement of Intent 2014–2018* (Wellington, 2014) at 7.

⁵³ Sharon Taylor and Suzanne Wagland "Financial Literacy: A Review of Government Policy and Initiatives" (2011) 5(2) AABFJ 101 at 108.

⁵⁴ Taylor and Wagland, above n 53, at 101; and David Feslier "Financial Education and Financial Literacy in New Zealand" (paper presented to the OECD Conference on Financial Education, New Delhi, September 2006).

⁵⁵ Grant Samkin, Elizabeth Pitu and Mary Low "Identifying the Financial Literacy Skills Necessary to Run a Small New Zealand Business" (2014) 8(1) e-JBEST 44.

⁵⁶ Diana Crossan, David Feslier and Roger Hurnard "Financial literacy and retirement planning in New Zealand" (2011) 10(4) PEF 619 at 620.

⁵⁷ Commission for Financial Literacy and Retirement Income, above n 3, at 2; and Diana Crossan "Need for Financial Education Highlighted by Crisis" *InFinance: The Magazine for Finsia Members* (Sydney, August 2010) at 26–27.

⁵⁸ Commission for Financial Literacy and Retirement Income, above n 3.

⁵⁹ Similar to Australia the survey is sponsored by ANZ Bank and conducted by Colmar Brunton.

⁶⁰ Commission for Financial Literacy and Retirement Income, above n 3.

the other 13 participating countries. Australia did not participate in the pilot and, as described previously, uses a slightly different overall model of financial literacy. Notwithstanding the strengths of each approach by the two countries, it nevertheless makes comparisons difficult.

One of the key differences between Australia and New Zealand in the financial literacy context is the structure of the retirement and pension system. As planning for retirement is considered a key aspect of overall financial literacy (“planning ahead” is a key financial literacy outcome in Australia), a comparison of the two is necessary. Unlike Australia, where the age pension is means-tested, in New Zealand, a universal, flat-rate pension is paid to all residents aged 65 and above, irrespective of assets, income or employment status.⁶¹ Furthermore, in terms of superannuation, New Zealand has been stated to be somewhat unique in that it is one of only two OECD countries that do not have a compulsory retirement savings scheme.⁶² It should be noted that the KiwiSaver scheme was introduced in 2007 as a voluntary publicly subsidised employment superannuation scheme. In terms of the effect on financial decision-making, it has been argued that these two unique features may result in higher investment risks being taken and reduced understanding of the importance of long-term savings, particularly in certain demographic groups.⁶³ Consequently, it could be that retirement planning and knowledge of superannuation and the taxation of superannuation may be perceived as less important in the context of financial literacy in New Zealand.

As will be discussed further, another notable difference between Australia and New Zealand in terms of basic tax structure is that in New Zealand individuals who earn only salary and wage income are not required to lodge tax returns in the same manner as in Australia. In New Zealand, the self-assessment context is unique (and somewhat inconsistent with other jurisdictions) in that many salary and wage taxpayers may not have necessity to engage with Inland Revenue in any way. However, many individual taxpayers⁶⁴ can elect for their tax to be assessed (finalised) in accordance with a personal tax summary (PTS) without the need to lodge a tax return.⁶⁵ The 2014 Inland Revenue statistics indicated the number of PTSs and full income tax returns (IR3) lodged was almost equal at 1.188 million and 1.126 million respectively.⁶⁶ Consequently, there are still many individual New Zealanders engaging with Inland Revenue. Since those with any income other than salary, interest, dividends or Māori authority distributions would be required to lodge an income tax return, there remains the argument that an understanding of basic concepts of the tax system is necessary in order to avoid making poor financial and tax decisions and to ensure all obligations are met and entitlements received.

⁶¹ Crossan, Feslier and Hurnard, above n 56.

⁶² Lisa Marriott “Taxation of retirement savings: New Zealand - the extreme social experiment” (2007) 22(1) Australian Tax Forum 93.

⁶³ KiwiSaver is the name given to the optional New Zealand retirement saving scheme.

⁶⁴ For example, those with Working for Families Tax Credits, those with interest from investments over certain thresholds and those wishing to claim certain available expenses.

⁶⁵ Ern Chen Loo, Ann Hansford and Margaret McKerchar “An international comparative analysis of self-assessment: what lessons are there for tax administrators?” (2005) 20(4) Australian Tax Forum 669.

⁶⁶ Inland Revenue “Returns filed 2005 to 2014” (3 December 2015) <www.ird.govt.nz>. The Inland Revenue statistics show that in 2014 there were 3.765 million “active individuals”, defined as:

“A customer has an active relationship with Inland Revenue if they:

- have had any financial transactions with Inland Revenue in the last 12 months, or
- are a salary and wage earner whose only relationship with Inland Revenue is having PAYE deducted and paid on their behalf by their employer.”

Consequently, it appears that the remaining 1.451 million taxpayers are those that haven’t lodged an individual return or a PTS: see Inland Revenue “Active customers by entity type 2006 to 2015” (3 December 2015) <www.ird.govt.nz>.

The following section will explore some of the broad findings in relation to financial literacy measures in New Zealand and whether any of those highlight a need for further research.

4.1 Financial Literacy in New Zealand — Specific Findings

The 2013 Financial Knowledge and Behaviour Survey found from an overall perspective that financial knowledge had not increased since 2009, but that there had been an overall increase since 2005.⁶⁷ Similar to Australia, there are some demographic groups at risk of low financial knowledge. In New Zealand these groups are: women, the younger and older age categories, those not in paid employment, and Māori and Pacific Islander groups.⁶⁸ The 2013 survey combined the financial knowledge data and financial behaviour data using multiple logistic regression to determine whether any financial knowledge factors were found to be associated with, or drivers of, particular aspects of financial behaviour. Numeracy, budgeting and saving, minimising costs of debts, and home loans were all found to be knowledge factors associated with many positive financial behaviours, including whether someone had received financial advice in the last 12 months.⁶⁹ Further, having an understanding of New Zealand superannuation was found to be an important predictor of whether people invested somewhere other than KiwiSaver and also whether people had access to an emergency fund.⁷⁰ These findings should be considered significant in the context of the absence of a compulsory employee superannuation scheme.

As highlighted earlier, where there are indigenous populations within countries, it is important to examine whether there are disparities in financial literacy in particular groups that puts them at risk of poor financial decision-making. In both Australia and New Zealand, indigenous persons have been found to have lower levels of financial literacy than other demographic groups.⁷¹ The importance of improving financial literacy in the Māori population has been recognised in the National Strategy for Financial Capability where one of the goals is that “100% of Māori and Pasifika learners can access appropriate financial education programmes”.⁷² Also, the Commission for Financial Capability has a commitment to research specific indigenous groups, such as Ngāi Tahu members,⁷³ as well as specific strategies for improving Māori financial literacy.⁷⁴ In Canada, it has been found that designing policy and education responses to financial literacy that are tailored to a range of cultural, religious and value perspectives has been successful in delivering outcomes.⁷⁵

In terms of international comparisons, New Zealand had the highest financial knowledge average score (78 per cent) when compared with the 13 other countries that participated in the OECD INFE financial literacy pilot study.⁷⁶ While Australia did not participate in the pilot study there are some questions that

⁶⁷ Commission for Financial Literacy and Retirement Income, above n 3.

⁶⁸ Commission for Financial Literacy and Retirement Income, above n 3; and OECD *Women and Financial Education: Evidence, Policy Responses and Guidance* (Paris, 2013).

⁶⁹ Commission for Financial Literacy and Retirement Income, above n 3, at 162.

⁷⁰ Commission for Financial Literacy and Retirement Income, above n 3, at 110.

⁷¹ Commission for Financial Literacy and Retirement Income, above n 3; see also n 22.

⁷² Commission for Financial Capability, above n 1, at 5.

⁷³ ANZ and others *ANZ Ngāi Tahu Financial Knowledge Survey* (Auckland, November 2010).

⁷⁴ Te Māngai Penapena Pūtea – Financial Literacy and Savings Partner Working Group *Goal 3: Financial Literacy and Savings: Snapshot of financial literacy services for Māori* (Wellington, 2010).

⁷⁵ Mark Brimble and Levon Blue “Tailored financial literacy education: An Indigenous perspective” (2013) 18(3) *Journal of Financial Services Marketing* 207.

⁷⁶ Atkinson and Messy, above n 16.

are comparable between the two countries. The comparison made in the New Zealand report with the 2011 Australian ANZ survey demonstrates that New Zealanders scored higher on both the calculation of interest plus principle question (77 per cent correct v 65 per cent correct), the compound interest question (60 per cent correct v 59 per cent correct), as well as the understanding risk and return question (90 per cent correct v 87 per cent correct).⁷⁷

In New Zealand, there has been a reported improvement in attitudes to financial matters and retirement through increases in the importance of shopping around, financial responsibility and working out amounts needed for retirement.⁷⁸ However, there has been an overall decrease in the extent to which participants have thought about financial planning for retirement (54 per cent in 2013 down from 59 per cent in 2005).⁷⁹ There has also been a marked increase in the number of New Zealanders opting-in to the KiwiSaver superannuation scheme. In the 2013 survey, 52 per cent of participants reported having a KiwiSaver account, which was up from 29 per cent in 2009.⁸⁰

In terms of specific questions relating to understanding superannuation, the New Zealand survey poses a number of questions. This is unlike in Australia, which now only asks whether participants know that employer contributions are compulsory and whether they know they can make additional contributions. The superannuation knowledge questions centre on understanding New Zealand Superannuation (NZ Super), which is the pension provided by the Government to all New Zealand residents reaching a certain age regardless of assets and income. The first question posed is whether participants know the age people are entitled to NZ Super (correct answer is 65 years of age). The result was that 87 per cent of participants scored correctly (up from 84 per cent in 2009), with knowledge increasing as age increases.⁸¹ The second question is about the amount of NZ Super that is paid. The specific question is posed as:⁸²

Do you know which of these amounts is closest to the after-tax amount of NZ Super for a single person living alone? [Correct answer is \$18,200 or \$350 per week]

There was an increase in New Zealanders who scored correctly on this question, with 43 per cent correct in 2013, which was up from 31 per cent in 2009.⁸³ The final question posed is whether NZ Super is income or asset tested, with the correct answer being neither income nor asset tested. The survey found that 48 per cent of participants knew NZ Super is not income tested (up from 38 per cent in 2005).⁸⁴ Further, 51 per cent of participants knew it is not asset tested (up from 45 per cent in 2005).⁸⁵ Similarly, it was found that knowledge of these concepts increases with age.⁸⁶ However, those aged 45 to 54 years are significantly less likely than average to be able to identify the correct amount of NZ Super.⁸⁷

⁷⁷ Commission for Financial Literacy and Retirement Income, above n 3, at 37.

⁷⁸ Commission for Financial Literacy and Retirement Income, above n 3, at 168.

⁷⁹ Commission for Financial Literacy and Retirement Income, above n 3, at 169. The percentage figures include both “a lot” and “a fair amount” responses.

⁸⁰ Commission for Financial Literacy and Retirement Income, above n 3, at 166.

⁸¹ Commission for Financial Literacy and Retirement Income, above n 3, at 89–90.

⁸² Commission for Financial Literacy and Retirement Income, above n 3, at 91.

⁸³ Commission for Financial Literacy and Retirement Income, above n 3, at 91.

⁸⁴ Commission for Financial Literacy and Retirement Income, above n 3, at 94.

⁸⁵ Commission for Financial Literacy and Retirement Income, above n 3, at 94.

⁸⁶ Commission for Financial Literacy and Retirement Income, above n 3, at 94–96.

⁸⁷ Commission for Financial Literacy and Retirement Income, above n 3, at 92–93.

The only specific question relating partly to income tax was in relation to the difference between gross and net salary. In this question, participants were asked the following:⁸⁸

Is a person's gross salary before or after tax? [Correct answer is before tax]

The results were that 87 per cent knew that gross salary was before tax (down from 89 per cent in 2009, but the same as 2005).⁸⁹ Given the fact that New Zealanders with only salary and wage income are not required to lodge income tax returns, there may have been an argument that understanding this basic tax concept might be poorly understood. Although this finding may be more about understanding the difference between "gross" and "net" rather than tax itself. In any event, this finding demonstrates a relatively high understanding. There is no corresponding question in Australian surveys that can be used as a comparison here. In a separate study it was found New Zealand small business operators found cash flow problems associated with paying provisional tax, Accident Compensation Corporation (ACC) premiums and GST of concern.⁹⁰

In terms of investments, in 2013 it was reported that 18 per cent of participants identified that they had investments in property other than the one they lived in (up from 10 per cent in 2009) and 16 per cent reported having investments in shares (other than in a business they owned).⁹¹ In Australia, the results are comparable in terms of property, with 19 per cent reporting owning an investment property, whereas 29 per cent reported owning shares (though this may be as a result of not clarifying whether these shares should be other than those of a business being conducted).⁹²

There is some uptake of financial literacy strategy products and materials in New Zealand. For example, the 2013 New Zealand survey found 37 per cent of respondents indicated they had read a Sorted booklet (the Commission for Financial Capability's branded products), visited the website or attended a seminar that used Sorted material.⁹³ New Zealanders appear much more likely to gain information and advice from banks (47 per cent) and family/relatives/friends (37 per cent) rather than a financial adviser (15 per cent).⁹⁴ This evidence is also mirrored through recent qualitative research about New Zealand small businesses, which found there was often a tension between recognising the need for quality and relevant professional advice and prioritising running their business.⁹⁵ In terms of seeking advice from family/relatives/friends, it is important to consider that the current retiring generation are really the first generation that has been part of a push by governments to be self-funded retirees. What this may mean for this retiring generation is that they will find it difficult to seek advice from older family and friends to learn from their experience about which strategies could be effective for self-funded retirement.

Previous research has questioned why New Zealand was slow to implement a national strategy compared to Australia.⁹⁶ However, given the overview presented in the preceding sections, it seems that, notwithstanding

⁸⁸ Commission for Financial Literacy and Retirement Income, above n 3, at 46.

⁸⁹ Commission for Financial Literacy and Retirement Income, above n 3, at 46.

⁹⁰ Samkin, Pitu and Low, above n 55.

⁹¹ Commission for Financial Literacy and Retirement Income, above n 3, at 149.

⁹² ANZ and The Social Research Centre, above n 23, at 64.

⁹³ Commission for Financial Literacy and Retirement Income, above n 3, at 156.

⁹⁴ Commission for Financial Literacy and Retirement Income, above n 3, at 150.

⁹⁵ Samkin, Pitu and Low, above n 55, at 56.

⁹⁶ A directive to improve financial education was made in 1993 and first measurements occurred in 2006. The national strategy was not implemented until 2008: see Taylor and Wagland, above n 53.

this, there has been an element of “catching-up”, in that national surveys, curriculum in schools and the national strategy are relatively current. In terms of taxation and superannuation in particular, the evidence presented in this article indicates that in New Zealand determining the level of understanding of retirement planning, retirement investing and superannuation has been given greater attention in a financial literacy context than in Australia. This is evidenced by the continued inclusion of superannuation questions in the national survey in New Zealand, whereas in Australia they have been removed. However, there is similarly a lack of focus on understanding of the basic tax system in the financial literacy measurements used in both countries.

5.0 TAX CONTEXT COMPARISONS — AUSTRALIA AND NEW ZEALAND

The previous sections have explored the financial literacy context in both Australia and New Zealand, and established that taxation and superannuation literacy are areas that have largely been ignored in financial literacy measures in both countries. Despite earlier surveys consistently showing people find superannuation and the taxation of superannuation challenging, Australian financial literacy surveys no longer test superannuation knowledge in any detail. New Zealand surveys largely ignore tax knowledge, though they focus on superannuation knowledge in more detail. The recent tax literacy survey findings reported highlight that there are areas of tax and superannuation literacy in Australia where there are gaps in understanding and these gaps could impact on a person’s overall financial literacy and financial decision-making. These areas of lower understanding were in relation to understanding the tax effect of deductions, the difference between offsets and deductions, basic superannuation, the Medicare levy and negative gearing. It is therefore important to look at the context of the New Zealand taxation system and whether there are any differences that could lead to the conclusion that tax literacy is either more or less important for New Zealanders’ overall financial literacy.

As stated, the New Zealand self-assessment system is quite unique and different from Australia, with a greater reliance on the withholding of tax at payment. Therefore, instead of lodging tax returns, like in Australia, most salary and wage earners may not have any obligation to lodge an income tax return or request a PTS. However, taxpayers who meet certain criteria may be issued with or request the details of their PTS in order to receive refunds or pay any outstanding taxes.⁹⁷ However, much like in Australia, there are specific tax expenditure measures available through the tax system which may result in an overall higher tax burden for individuals who don’t fully understand the basic system, or who are unable to access relevant information from the right sources. In New Zealand, these specific measures could include the independent earner tax credit (IETC), donations and limited income exemptions for income not taxed at source. In Australia, these measures have been identified as the education tax offset (replaced by the Schoolkids Bonus), general deductions, the medical expenses offset, a 50 per cent capital gains discount and the prevention of the Medicare Levy Surcharge.

Despite the differences in lodgement requirements for personal taxpayers, for those taxpayers lodging tax returns there is a large number of taxpayers using tax agents to manage their tax affairs in both jurisdictions (73 per cent in Australia and 66 per cent in New Zealand).⁹⁸ As discussed earlier, there was also equally as many taxpayers in New Zealand using the PTS system as there were lodging IR3 returns. It has been argued that one of the pillars of a successful self-assessment system is for tax authorities to develop a good

⁹⁷ Marriott, above n 62.

⁹⁸ Loo, Hansford and McKerchar, above n 65; Australian Taxation Office “Taxation statistics 2012–13” (4 May 2015) <www.ato.gov.au> at Table 4; and Inland Revenue “Use of return filing channels - 2014 tax year” (3 December 2015) <www.ird.govt.nz>. Sixty-six per cent of all IR3 (individual tax returns) in New Zealand are lodged using eFiling (the tax agent/employer portal).

relationship with the public and to promote tax education.⁹⁹ Therefore, irrespective of the actual specifics of a self-assessment system and whether certain individuals need to file returns or not, an understanding of the basics of the tax system and the promotion of tax education may provide positive outcomes for tax authorities as well as taxpayers. Furthermore, given that effective communication and relationship building with an adviser is a key part of overall financial literacy in both Australian and New Zealand studies, it is argued that having a basic understanding of tax rules is equally important in New Zealand as it is in Australia. If there are over one million New Zealanders not lodging tax returns, it is important to further explore their levels of tax and superannuation literacy given their low engagement with the tax system. This is especially important since Chardon et al.'s findings that engagement with the tax system through employment appears to be related to increased tax literacy.¹⁰⁰

Another area of concern is the potential for New Zealanders to fall victim to mass marketed schemes that can include purported tax benefits. Having low levels of financial and tax literacy may mean that some New Zealanders will be more prone to not appreciate the risks they are taking when participating in such schemes. New Zealand's Inland Revenue had such concerns about the impact of mass marketed schemes that they undertook a review in 2002 and formulated legislative changes to address them.¹⁰¹ The policy paper identified that for New Zealanders this represents a number of risks:¹⁰²

For investors in the schemes, the consequences can include exposure to use-of-money interest and penalties on any resulting unpaid tax, as well as the unexpected expense and stress of being part of an Inland Revenue audit. For the Government, there is a potential loss of revenue and an inefficient use of Inland Revenue's resources.

While the policy paper recommended legislative changes to address the use of deferred deductions, it is suggested here that part of the solution may include improving the financial and tax literacy of the population so they are not as susceptible to such schemes and have the knowledge, skills and confidence to be protected from these risks.

In terms of other tax context differences that may influence tax as a component of financial literacy, tax rates should also be considered. The fact that there is a large difference between the top marginal personal income tax rates in New Zealand (33 per cent) compared to that of Australia (47 per cent) may mean there is added incentive (or risk to overall financial wealth) for Australian taxpayers to ensure that their tax obligations and entitlements are correct. Due to the marginal rate differences being greater, the potential tax cost is also greater. Chardon found that increased income levels appear to (in part) relate to increased tax literacy levels.¹⁰³ This higher tax literacy for those on higher marginal rates may be related to the opportunity costs/benefits of decreasing their overall tax burden. Another significant difference between Australia and New Zealand in terms of taxation is the absence of a capital gains tax in New Zealand. This potentially influences a number of aspects of tax literacy. In Australia, understanding the tax effects of capital gains tax, the fact that it is not a separate tax, the application of the 50 per cent discount, and the main residence exemption were all seen as important aspects of the tax system that could influence financial decision-making if poorly understood.¹⁰⁴ As outlined earlier, surveys show congruence between

⁹⁹ Marriott, above n 62.

¹⁰⁰ Chardon, Freudenberg and Brimble, above n 19.

¹⁰¹ Policy Advice Division, Inland Revenue and the Treasury *Mass-marketed tax schemes: An officials' issues paper on suggested legislative amendments* (Wellington, January 2002).

¹⁰² Policy Advice Division, Inland Revenue and the Treasury, above n 101, at [1.7].

¹⁰³ Toni Chardon (nee Brackin) "Taxation as a component of financial literacy – How literate are Australians in relation to taxation?" (PhD Dissertation, Griffith University, 2014).

¹⁰⁴ Chardon (nee Brackin), above n 103, at 182.

participants who had property investments other than their own home and improved literacy. However, given the absence of a comprehensive capital gains tax in New Zealand, there may be less argument about the need to understand the basics of taxation on property than there is in Australia. Although, a counter argument is that this is important knowledge because tax on capital growth in New Zealand is largely concessionally taxed (at zero per cent) and so can be an effective investment strategy.

In terms of the taxation of superannuation and retirement income as components of overall financial literacy, a number of aspects can be explored. Earlier it was stated that tax complexity can lead to unintended non-compliance and that one of the ways this could be reduced is to improve tax and superannuation literacy as part of financial literacy. Another observation is that in a comparative study exploring the perception of small business tax law complexity, it was found in both Australia and New Zealand that the frequency of law changes were amongst the top areas of complexity for small business advisers.¹⁰⁵ In this study, retirement planning was listed as the third most complex area in Australia, yet outside of the top 15 areas in New Zealand. This finding highlights the substantial difference between the taxation of superannuation in Australia and New Zealand.

It should be noted that two of the reasons for the lower levels of retirement savings in New Zealand are likely to be the provision of the universal NZ Super (not means or income tested) to all individuals reaching the age of 65 and the absence of a compulsory retirement savings scheme. These two factors combined make New Zealand's retirement savings context unique among OECD countries.¹⁰⁶ Unlike the heavily concession-based tax system for superannuation in Australia, the New Zealand retirement system is based around neutrality, in the sense that retirement savings are taxed in the same manner as other investments.¹⁰⁷ It has been argued that since there is a low proportion of assets in superannuation in New Zealand (compared to other jurisdictions, such as Australia), the approach used for the taxation of these assets has tended to reflect their lower perceived importance.¹⁰⁸ However, with the introduction of KiwiSaver in 2007, and its growing popularity, it is argued that having an understanding of the tax consequences of retirement income is growing in importance in New Zealand.

Marriott argues that a compulsory and concessionally taxed superannuation system has certain advantages with locked-in superannuation potentially ensuring funds are available for their intended purpose as opposed to being consumed beforehand through allowing early access to funds.¹⁰⁹ For this reason, the findings on the importance of retirement planning and positive behaviours around superannuation are highly important. In terms of making contributions to superannuation, the 2013 New Zealand survey found that 41 per cent of participants were currently making contributions to KiwiSaver, 15 per cent were making contributions to a non-KiwiSaver work-based superannuation scheme and 21 per cent were making contributions to a non-KiwiSaver personal retirement super/saving scheme.¹¹⁰ This 2013 reporting of 41 per cent being a member of KiwiSaver is an increase from the 2009 survey, where only 29 per cent reported being members

¹⁰⁵ Brett Freudenberg and others "A comparative analysis of tax advisers' perception of small business tax law complexity: United States, Australia and New Zealand" (2012) 27(4) Australian Tax Forum 667.

¹⁰⁶ Marriott, above n 62.

¹⁰⁷ Marriott, above n 62.

¹⁰⁸ Marriott, above n 62.

¹⁰⁹ Marriott, above n 62.

¹¹⁰ Commission for Financial Literacy and Retirement Income, above n 3, at 149.

of KiwiSaver.¹¹¹ Given the differing contexts and the fact that Australia has a compulsory employee superannuation scheme, it is difficult to make direct comparisons. However, in Australia, the proportion of superannuation fund members under 65 years of age making additional voluntary contributions to superannuation was 27 per cent in 2014.¹¹² Marriott suggests the current KiwiSaver scheme (between two to four per cent depending on levels of employer co-contributions) is unlikely to make a significant difference to the standards of living in retirement and that the amounts of contributions need to be even higher than that of the current 9.5 per cent in Australia.¹¹³ These arguments highlight the importance (both in terms of making early financial decisions and/or taking up available options) in both countries of individuals having an understanding of the current system and how tax applies.

In terms of planning for retirement, the 2014 Australian survey found only 28 per cent of superannuation fund members had identified a target income for retirement, though this figure increased to 54 per cent as age increased (in the 55–64 category).¹¹⁴ In New Zealand, although the question was posed somewhat differently, 47 per cent of participants cited “amount of retirement income” as a key factor in what they think about when saving for retirement.¹¹⁵ Given the less complex nature of the taxation of superannuation in New Zealand it is submitted that having an understanding of the tax effects of superannuation is less important in New Zealand than Australia, though an understanding of the importance of superannuation, retirement planning and superannuation options available remains equally important in both jurisdictions.

Overall it is argued that it is important for New Zealanders to have a grounded understanding of tax, as it does impact on investment strategies, government entitlements and when they are required to engage with the tax system through lodging returns. Although the New Zealand survey shows a greater tendency to value and measure understandings of retirement planning and investing, more specific tax aspects in these areas could be incorporated.

6.0 FINDINGS/RECOMMENDATIONS

Given the unique pension and retirement saving position in New Zealand, and the evidence in terms of financial literacy and positive links to behaviour in these areas in New Zealand, it is suggested that these areas of survey testing continue to be explored by the Commission for Financial Literacy. Further, it is suggested that given the marked increase in take-up of KiwiSaver, and the research evidence in terms of the importance of retirement planning, further financial literacy research should be undertaken around the amounts needed for retirement income. Specifically, questions from the Australian survey that ask whether participants have “identified a figure for how much per year you will need to live on when you retire” and further “approximately how much per year do you think you will need?” could be posed in the New Zealand surveys.¹¹⁶ This would provide further evidence for the Commission in terms of education programs that target increased uptake of KiwiSaver or other voluntary superannuation schemes. Also, such a finding could be of particular importance if the New Zealand pension amount is not at a level required for retirement.

¹¹¹ Commission for Financial Literacy and Retirement Income, above n 3, at 149. This finding should be read in the context that the New Zealand Survey reports participant responses to the questions and may not reflect actual data if participants do not understand the difference between KiwiSaver and other superannuation schemes.

¹¹² ANZ and The Social Research Centre, above n 23, at 62.

¹¹³ Marriott, above n 62.

¹¹⁴ ANZ and The Social Research Centre, above n 23, at 62.

¹¹⁵ Commission for Financial Literacy and Retirement Income, above n 3, at 86.

¹¹⁶ ANZ and The Social Research Centre, above n 23, at 77.

Given the finding in the New Zealand surveys that superannuation knowledge can be a driver of positive financial behaviours — particularly in relation to “investing somewhere other than KiwiSaver” and “having access to an emergency fund” — and the fact that there is such a high proportion of Australians with superannuation funds and SMSFs, it is submitted that the superannuation knowledge questions (and the taxation of superannuation questions as posed by Chardon) be reintroduced into the ANZ surveys in Australia. Also, future research could consider the possible positive relationship between tax literacy and tax compliance, as has been demonstrated with SMSFs.

As a measure to try to reduce the likelihood of people falling victim to mass-marketed schemes, authorities in Australia and New Zealand should consider that improving financial and tax literacy is part of the solution of empowering people so they can critically evaluate claims being made by promoters. Such prevention would be preferable to addressing the outcomes after the event, which include penalties and stress for investors.

In relation to tax literacy, it was argued that despite a different self-assessment system for individuals with simple tax affairs, there remains a number of areas of similarity in the two tax systems. These similarities are in terms of basic elements of the tax system that individuals might need to be aware of in order to avoid making poor financial decisions and to gain access to all available entitlements. This is especially the case as both New Zealand and Australian governments use the tax system to deliver government entitlements and benefits. It was further argued that the absence of a requirement to lodge a tax return for certain individuals did not negate the importance of tax literacy in New Zealand, since there remains a potential to engage with Inland Revenue when income sources or circumstances change over time. Further, there were certain elements of the tax system which would need to be understood in order to successfully manage the lodging of a PTS and ensure all available entitlements were claimed.

Both in Australia and New Zealand, it is argued that misunderstandings of these basic tax aspects can potentially result in poor financial decisions or not claiming all available entitlements. In the light of these tax literacy findings in the Australian context, it is recommended that when designing financial literacy models and education programs, careful attention should be paid to including those aspects identified in the survey as having the lowest levels of understanding. Specifically, for financial advisers, financial counsellors, financial planners and tax advisers providing advice, the results of this research can provide areas upon which training can be designed to improve client knowledge and communication.

Finally, there also appears to be greater success of financial literacy products and services in New Zealand which could warrant further research. Furthermore, the authors advocate for more nuanced approaches to policy and financial literacy education that accounts for a range of different cultural, religious and individual value perspectives, rather than a one-size-fits-all approach. Indeed, more research is needed to inform practice and policy in this regard. Finally, it is noted that the potential for relevant professionals in financial and tax advice to contribute in community education programs and encourage policy makers and those developing and delivering such programs to engage this expertise.

7.0 CONCLUSION

“Knowledge is power” and when it comes to astute personal financial planning decisions it is appropriate that people have an understanding about how tax can influence their overall returns. While the evidence suggests New Zealanders perform comparatively well in relation to financial knowledge, financial attitudes and take-up of the voluntary retirement savings system, there has been little improvement since 2009. Furthermore, there remains concerning disparities across the community in relation to financial literacy,

placing some minority and indigenous groups at greater risk of poor financial outcomes. This is accentuated by evidence that non-compliant tax behaviours are often not intentional, suggesting the complexity of the taxation system coupled with low financial literacy may be a key issue. With the tax system being used more and more by governments for social engineering to encourage behaviour, as well as deliver benefits, having knowledge about tax is growing in importance as a modern citizen.

It is argued that improving tax literacy may therefore improve compliance, raise the confidence of taxpayers and mitigate the risk of miscommunication between clients and advisers. A financially capable community needs to be fostered rather than assumed, and improved financial and taxation literacy is a key element of this. The reward for effort in this regard is a more financially savvy community that has the capacity to make better financial decisions, be at less risk in relation to scams, and can benefit more from professional advice relationships.

This article has discussed arguments of how tax should be included in financial literacy measures. It then discussed the current understanding of financial literacy in Australia, before exploring in-depth the research of New Zealand's financial literacy. The article then explored differences and similarities with Australia and New Zealand concerning tax and superannuation, which could influence financial and tax literacy. This was then followed by recommendations and overall proposals for future research. It is through these perspectives of tax and superannuation literacy that the wealth accumulation for Australians and New Zealanders could be improved in the future.

Accepted for publication on 22 June 2016