Tax and Superannuation Literacy: Australian and New Zealand Perspectives

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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 (Australian Securities and Investments Commission, 2014) and in New Zealand through the National Strategy for Financial Capability (Commission for Financial Capability, 2015). 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 often the primary 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 (Chardon, 2014).

There are a number of fundamental differences in tax and retirement policy between Australia and New Zealand including the fact 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 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 NZ Super (Commission for Financial Literacy and Retirement Income, 2013).

This paper will explore the extent to which tax and superannuation literacy are considered as important in the context of the New Zealand National Strategy for Financial Capability (Commission for Financial Capability, 2015) and the extent to which aspects of tax and superannuation have been measured as part of previous financial capability research. Using recent Australian measures of financial and tax literacy research as comparisons, the paper will argue that 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.

1. Financial Literacy Overview

Complexity of taxation law and policy is an area of much academic research particularly in the context of its role in taxpayer compliance (Chris. Evans & Kerr, 2012; Chris Evans, Ritchie, Tran-Nam, & Walpole, 1997; Chris Evans & Tran-Nam, 2010a, 2010b; Lignier & Evans, 2012). An aspect of compliance that has not been previously explored in detail, is the impact of people's understanding of the tax system and whether that impacts 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 paper compares the financial literacy context in both Australia and New Zealand, focusing specifically on the extent to which tax and superannuation literacy are considered as important in the context of the New Zealand National Strategy for Financial Capability (Commission for Financial Capability, 2015). The paper will explore whether differences in tax and retirement policy between the two countries, impact on specific outcomes of financial literacy in those areas or 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" (Australian Securities and Investments Commission, 2011; Commission for Financial Literacy and Retirement Income, 2013a; Consumer and Financial Literacy Taskforce, 2004). Taxation issues and to a lesser extent, superannuation, have largely been excluded from financial literacy measurements and education programs to date in Australia. Chardon (2011) has previously argued that tax and superannuation should be incorporated into the broader notion of financial literacy (also known as financial capability). 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 (Kelly, 2003). If tax literacy is similar to financial literacy then surveys measuring adult financial literacy in Australia as well as other academic research suggest that there are certain at-risk groups which have low levels of literacy particularly in relation to financial products and superannuation (Worthington, 2008). For example, the Australian and New Zealand Banking Group Ltd ('ANZ') surveys of adult financial literacy in Australia have consistently reported people find superannuation aspects more difficult than basic banking (ANZ, 2005; 2008; 2011; 2015). Conversely, 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 (Commission for Financial Literacy and Retirement Income, 2013a). In Australia, Worthington has argued that knowledge of superannuation was varied with good understanding in some areas and poor understanding in others (Worthington, 2008).

Both in Australia and overseas there is little academic research that focuses on the design of financial literacy models and therefore elements (including knowledge, behavioural and attitudinal) which should form part of measuring a person's level of financial literacy and which of those are most likely to result in financial success. As a result, there is inconsistency globally in how financial literacy is measured, despite work by the OECD in producing good practice guidelines and in establishing the International Network on Financial Education (INFE). For example, the ANZ surveys in Australia have shifted in focus since 2011, now measuring 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 (ANZ, 2011). In New Zealand, however, 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 are able to be compared against other OECD countries that similarly use the INFE model for measuring financial literacy (Atkinson & Messy, 2012).

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. Aspects which can impact on financial position 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 advisors.

This paper examines whether tax literacy is considered as 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 difference in Australian and New Zealand tax policy will be explored in 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 complexity that has not been researched previously. The paper 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/advisor 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 (McKerchar, 2002, pp. 284-285). Yet at the same time, McKerchar's research found "evidence of a high commitment to compliance" (McKerchar, 2002, p. 289). 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 for many years. If individuals have low levels of tax literacy, there is little wonder 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 and through tax expenditure programs. However, taxation is something which 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.

The reminder of this paper 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 (2014) which measured tax and superannuation literacy in Australia. Next, an overview of the financial literacy context and measures of financial literacy in New Zealand will be provided. Finally the paper explores some of the differences in the tax and superannuation context which may be driving both outcomes of financial literacy in these areas as well as strategic focus. Recommendations as a result of these outcomes will be made for both the Australian and New Zealand financial literacy strategies going forward.

2. Financial and Tax Literacy in Australia

The ANZ ‘Survey of Adult Financial Literacy in Australia’ is the most comprehensive and widely cited broad measure of financial literacy in Australia.[1] 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 (ANZ, 2008). 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. (ANZ, 2005; ANZ 2008; ANZ, 2011; ANZ 2015). 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 2015 survey found that one in five people were poorly equipped to make superannuation decisions (ANZ, 2015).

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% of $1,400 (ANZ, 2005, p.2). 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 percent it is at the lowest level since surveys began (91 percent in 2002) (ANZ, 2015, p.4). It was also reported that one third of those who receive superannuation statements, find them difficult to understand (ANZ, 2015, p.73). A specific tax question was posed in the ANZ survey in 2011 and asked whether the respondent

[1] This survey has been undertaken in 2003, 2005, 2008, 2011 and most recently in 2015.

knew if superannuation was taxed at higher, lower or the same rate as other investments (not reported in 2015). The result was that 59% of respondents, under 65 years of age, employed and with superannuation, knew that superannuation was taxed at a lower rate than other investments (similar to 58% in 2005) (ANZ, 2011, p.54). However, 3% thought that superannuation was taxed at a higher rate, 11% thought the same rate of taxation applied and 27% said that they did not know (ANZ, 2011, p.54). The report therefore asserted that there was uncertainty about the tax treatment of superannuation. It is therefore questioned as to why this specific question was not posed in the most recent survey given this finding.

In terms of superannuation as an investment vehicle, the survey found that 75% of respondents were members of a superannuation fund, compared to 47% having a high interest savings account and 19% with an investment property (ANZ, 2015, p.61). The report also highlighted some potential confusion over understandings of what is a self-managed superannuation fund ('SMSF'). Despite ATO statistics indicating around 6% of adults are members of a SMSF, the ANZ survey found that 11% of adults reported having a SMSF (ANZ, 2015, p.61). Interestingly, overall, those with a SMSF were found that have higher financial literacy scores, financial knowledge and more positive attitude in relation to financial self-efficacy and aspiration and impulsivity) (ANZ, 2015, p.70). 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 2005 ANZ survey found that 7% of respondents identified taxation as one of the areas that they felt they needed further education (ANZ, 2015, p. 254). This was mirrored in 2008 where it was found that taxation information ranked as the most desired amongst those types of information that participants stated they wanted further advice on from government bodies (ANZ, 2015, p. 113). The 2014 survey found that there was an increase from 14% to 19% in the number of persons reporting the use of tax specialists (ANZ, 2015, p.4), though this was less likely amongst women over 60 years of age.

The 2005 ANZ report 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 (ANZ, 2005, p. 5). 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 (ANZ, 2005, p. 7). 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 (Financial Literacy Foundation, 2007). Purported tax advantages are often used as incentives or sales tactics for many investments (such as for share and rental property investments) and particularly for risky investment scams. Seeking advice and being able to identify scams are both practices that the ATO encourage. The findings also 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 which 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 advisors and client. 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. Overview of tax and superannuation literacy in Australia

Recently, Chardon (2014) undertook a survey of adult taxation and superannuation literacy in Australia. Overall, the survey results show that 81% of Australians have a ‘tax literacy score’ (TLS) at the ‘basic’ or higher level. This in turn means that 19% 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% of the maximum score. When compared against the 2008 ANZ survey, the mean ‘financial literacy score’ as a percentage of the maximum score, was 71.3%. 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 although populations may be broadly financially literate, there are some specific aspects or specific demographics where there are potential risks.

The relationship between TLS and demographic was strongest in those categories which related to the workplace and income (employment hours, employment category and total income). The results were broadly in line with the results of the ANZ survey of adult financial literacy which found that 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 therefore that it is exposure to the workforce and employment which has a more strongly 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 and 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.

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 (Chardon, 2014). Overall, ‘females’ 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). Many of these basic aspects of the Australian tax system are mirrored in the New Zealand tax system, though under different names. For example, taxable income, expenses claimed, tax credits and ACC Earners Levy. 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 light of these tax literacy findings in the Australian context, it is therefore recommended that when designing financial literacy models and education programs, careful attention be paid to including those aspects identified in the survey as having the lowest levels of understanding. Specifically, for financial advisors, financial counsellors, financial planners and tax advisors providing advice, the results of this research can provide areas upon which training can be designed to improve communication with clients. 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 paper.

4. Financial Literacy in New Zealand - Overview

As indicated earlier, responsibility for the financial literacy agenda in New Zealand falls with the Commission for Financial Capability (the Commission) and the Retirement Commissioner.[2] 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' (Commission for Financial Capability, 2015). These activities are stated to have a number of overarching goals:

- *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.*
- *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* (Commission for Financial Capability, 2015).

In terms of implementation, the Commission outlines in its 'Statement of Intent' that implementing and therefore improving financial literacy as part of the New Zealand National Strategy is just one aspect of achieving those abovementioned goals and that improving New Zealander's understanding of financial issues is important because "being in control gives individuals greater financial freedom, creates resilient communities and builds a more prosperous and productive economy"(Commission for Financial Literacy and Retirement Income, 2014).

It has been argued that there has been a "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[3] retirement savings accounts" in the years post GFC (Crossan, Feslier, & Hurnard, 2011). 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. It has been submitted there has been some loss of public confidence in the financial sector generally, higher unemployment yet 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 Kiwi-Saver (Commission for Financial Literacy and Retirement Income, 2013b).

Financial literacy in New Zealand is measured through the Financial Knowledge and Behaviour Survey[4] which has been undertaken in 2006, 2009 and most recently in 2013. The survey measures financial knowledge, financial behaviour and attitudes toward financial matters (Commission for Financial Literacy and Retirement Income, 2013a). The most recent survey also incorporated a number of knowledge questions as used by the OECD International Network on Financial Education

[2] The Commission for Financial Capability was rebranded from the Commission for Financial Literacy and Retirement Incomes in December 2014 and is an autonomous crown entity (ACE).
[3] KiwiSaver is the name given to the optional New Zealand retirement saving scheme.
[4] Similar to Australia the survey is sponsored by ANZ Bank and conducted by Colmar Brunton.

(INFE) in an international pilot study. This enabled New Zealand to make comparisons in terms of the financial knowledge of the population as compared to 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 (Crossan et al., 2011). Further, in terms of superannuation, New Zealand has been stated to be somewhat unique in that it is one of only two OECD countries that does not have a compulsory retirement savings scheme (Marriott, 2007). 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 (Crossan et al., 2011). There is therefore an argument that retirement planning and knowledge of superannuation and the taxation of superannuation may be less important in the context of financial literacy in New Zealand.

As will be discussed further, another difference between Australia and New Zealand in terms of basic taxation concepts 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 taxpayers can elect for their tax to be assessed (finalised) in accordance with the 'personal tax summary' (PTS) issued by the Inland Revenue Department (IRD) without the need to lodge a tax return (Errn Chen, Hansford, & McKerchar, 2005). However, it should be noted that the latest IRD Statistics indicate the number of PTS and full income tax returns (IR3) lodged were almost equal at 1.188 million and 1.149 million respectively (Inland Revenue Department New Zealand, 2015). Since those with any income other than salary, interest, dividends or Maori 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.

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 that financial knowledge had not increased since 2009, but that there had been an overall increase since 2005. As expected, there are some similar 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 Maori and Pacific Islander groups (Commission for Financial Literacy and Retirement Income, 2013a; OECD, 2013). 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 (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 (Commission for Financial Literacy and Retirement Income, 2013a, p. 162). 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 (Commission for Financial Literacy and Retirement Income, 2013a, p. 110).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 (Commission for Financial Literacy and Retirement Income, 2013a). The importance of improving financial literacy in the Maori population has been recognised in the National Strategy where one of the goals is that '100% of Māori and Pasifika learners can access appropriate financial education programmes' (Commission for Financial Capability, 2015), its commitment to research on specific indigenous groups such as Ngai Tahu members (ANZ, 2010) and its specific strategies for improving Maori financial literacy (Te Mängai Penapena Pütea, 2014). In other contexts, 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 (Brimble & Blue, 2013) .

In terms of international comparisons, New Zealand had the highest financial knowledge average score (78%) when compared with the thirteen other countries that participated in the OECD INFE financial literacy pilot study (Atkinson & Messy, 2012). Australia did not participate in the pilot study and as described earlier. However, for the questions that are comparable, it can be seen that New Zealanders scored higher on both the calculation of interest plus principle question (77% correct vs 65% correct), the compound interest question (60% correct vs 59% correct) as well as the understanding risk and return question (90% correct vs 87% correct) (Commission for Financial Literacy and Retirement Income, 2013a, p. 37).

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 (Commission for Financial Literacy and Retirement Income, 2013a, p. 168). However, there has been an overall decrease in the extent to which participants have 'thought about financial planning for retirement' (54% in 2013 down from 59% in 2005). Importantly, there has been a marked increase in the number of New Zealanders opting-in to the KiwiSaver superannuation scheme. In the 2013 survey, 52% of participants reported having a KiwiSaver account which was up from 29% in 2009 (Commission for Financial Literacy and Retirement Income, 2013a, p. 166).

In terms of specific questions relating to understanding of superannuation, the New Zealand survey poses a number of questions. 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% of participants scored correctly, (up from 84% in 2009) with knowledge increasing as age increases (Commission for Financial Literacy and Retirement Income, 2013a, pp. 89-90). The second question is about the amount of NZ Super that is paid. The specific question is posed as:

> *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 $18,200 or $350 per week]*

There was an increase in New Zealanders who scored correctly on this question with 43% correct in 2013 which was up from 31% in 2009 (Commission for Financial Literacy and Retirement Income, 2013a, p. 91). The final questions posed is whether NZ Super is income or asset tested with the correct answers being; neither income nor asset tested. The survey found 48% of participants knew NZ Super is not income tested (up from 38% in 2005). Further, 51% of participants knew it is not asset tested (up from 45% in 2005). Similarly, it was found that knowledge of these concepts increases with age (Commission for Financial Literacy and Retirement Income, 2013a, pp. 94-96). Those aged 45 to 54 years are significantly less likely than average to be able to identify the correct amount (Commission for Financial Literacy and Retirement Income, 2013a, pp. 92-93)

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

> *Is a person's gross salary before or after tax? [Correct answer: before tax]*.

The results were that 87% knew gross salary was before tax (down from 89% in 2009 but the same as 2005) (Commission for Financial Literacy and Retirement Income, 2013a, p. 46). Given the fact that New Zealanders with salary and wage income only are not required to lodge income tax returns, there may have been an argument that understanding this basic tax concept might be poorly understood. Yet, this finding demonstrates a relatively high understanding. There is no corresponding question in Australian surveys that can be used as comparisons here.

In terms of investments, in 2013 it was reported that 18% of participants identified that they had investments in property other than the one they lived in (up from 10% in 2009) and 16% reported having investments in shares (other than in a business they owned) (Commission for Financial Literacy and Retirement Income, 2013a, p. 149). In Australia, the results are comparable in terms of property, with 19% reporting owning an investment property, whereas 29% 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) (ANZ, at p.64).

The uptake of financial literacy strategy products and materials appears to be more common in New Zealand. The 2013 New Zealand survey found 37% of respondents indicated they had ever read a Sorted (the NZ Financial Literacy Commission's branded products) booklet, visited the website or attended a seminar that used sorted material (at p. 156). In Australia, the use of ASIC's MoneySmart website (when accessing financial information digitally) was much lower with 10% of respondents reporting as having used it and higher proportions preferring to use financial institution websites or Choice magazine website (ANZ, 2014, at p. 5). New Zealanders appear much more likely to gain information and advice from banks (47%), family/relatives/friends (37%) than a financial advisor (15%). Whereas in Australia, around 59% of respondents had consulted either an accountant or financial advisor/planner.

5. 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 which 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 appear to no longer test superannuation knowledge in any detail. New Zealand surveys largely ignore tax knowledge, though focus on superannuation knowledge in more detail. The 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 were in relation to understanding the tax effect of deductions, the difference between offsets and deductions, basic superannuation, Medicare levy and negative gearing. It is therefore important to look at the context of the New Zealand taxation system and whether any differences could lead to the conclusion that tax literacy is either more or less important for overall financial literacy in that context.

As stated, the New Zealand self-assessment system is quite unique and different from Australia. There is a heavy reliance on the withholding system and instead of lodging tax returns, like in Australia, taxpayers who qualify merely verify the details of their PTS in order to receive refunds or pay any outstanding taxes (Errn Chen et al., 2005). However, much like in Australia, there are specific tax expenditure measures available through the tax system which may result in an overall high tax burden on those 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 include: the independent earner tax credit (IETC), donations, childcare credits, active income exemptions. In Australia, these have been identified as: education tax offset (replaced by Schoolkids Bonus), general deductions, medical expenses offset, 50% capital gains discount and avoidance of Medical Levy Surcharge. Despite the differences in lodgement requirements of personal taxpayers, there remains some congruency in the number of taxpayers using tax agents to manage their tax affairs (over 80% for Australia and 72% in New Zealand) (Australian Taxation Office, 2015; Inland Revenue Department, 2015). As discussed earlier, there was also equally as many tax payers in New Zealand using the PTS system as there were lodging normal tax returns. It has been argued that one of the pillars of a successful self-assessment system is for tax authorities to develop a good relationship with the public and to promote tax education (Errn Chen et al., 2005). Therefore, irrespective of the actual specifics of a self-assessment program 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 will provide both positive outcomes for tax authorities as well as taxpayers. Further, given that effective communication and relationship building with an advisor 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.

In terms of other tax context differences that may impact upon the importance of tax as a component of financial literacy, the tax rates should also be considered. The fact that there is a large difference between the top marginal personal income tax rate in New Zealand (33%) and in Australia (47%) may mean there is added incentive (or risk to overall financial wealth) for Australian taxpayers to get tax obligations and entitlements correct right. 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 has impacts on a number of aspects of the importance 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% discount and the main residence exemption were all seen as important aspects of the tax system that could impact on financial decision making if poorly understood (Brackin, 2014). As outlined earlier, surveys showed a congruence between participants who had property investments other than their own home. However, given the absence of capital gains tax in New Zealand, there is less argument for the importance of an understanding of the basics of taxation on property than there is in Australia.

In terms of the taxation context of superannuation and retirement income, and whether this impacts upon the importance of these components on overall financial literacy, a number of aspects can be explored. Earlier it was stated that tax complexity can lead to un-intended non-compliance and that one of the ways this could be overcome was by ensuring tax and superannuation literacy were included in measures of financial literacy. 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 businesses (Freudenberg, Tran-Nam, Karlinsky, & Gupta, 2012). Interestingly, retirement planning was listed as the third most complex area in Australia, yet outside the top fifteen 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 (non-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 (Marriott, 2007). Unlike the heavily concession based superannuation system 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 (Marriott, 2007). 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 (Marriott, 2007). However, with the introduction of KiwiSaver in 2007, and the evidence described above of its growing popularity, it is argued that having an understanding of the tax consequences of retirement income is as important as ever in New Zealand.

Marriot (2007) argues that a compulsory and concessionally taxed superannuation system has certain advantages with a ''locking-in'' of super potentially ensuring funds are available for their intended purpose of retirement rather than being consumed beforehand through investments that allow funds to be accessed early. For this reason the findings in relation to understanding 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% of participants were currently making contributions to KiwiSaver and 15% were making contributions to a non KiwiSaver work based superannuation scheme and 21% to a non KiwiSaver personal retirement super/saving scheme (Commission for Financial Literacy and Retirement Income, 2013a, p. 149). This has grown substantially from the 2009 survey where only 29% reporting being members of KiwiSaver. 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% in 2014. Marriott (2007) suggests the current KiwiSaver scheme (between 2-4% depending on levels of employer co-contributions) is unlikely to make a significant different to standards of living in retirement and that the amounts of contributions need to be even higher than that of the current 9.5% in Australia. These arguments highlight the importance (both in terms of making appropriate early financial decisions or taking up available options) in both countries of individuals having an understanding of the current system and how and whether tax applies.

In terms of planning for retirement, in the 2014 Australian survey it was found that only 28% of super fund members had identified a target income for retirement, though this figure increased as age increased (in the 55-64 category) to 54% (ANZ, 2014, p.62). In New Zealand, although the question posed was somewhat differently, 47% of participants cited ‘amount of retirement income’ as a key factor in what they think about when saving for retirement (Commission for Financial Literacy and Retirement Income, 2013a, p. 86). 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 than in Australia, though an understanding of the importance of superannuation, retirement planning, superannuation options available remains equally important in both countries.

6. 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 taken 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 be undertaken around 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. This would provide further evidence for the Commission in terms of education programs that target increased uptake of KiwiSaver or other voluntary superannuation schemes.

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 super funds and SMSFs, it is submitted that the superannuation knowledge questions (and the taxation of superannuation questions as posed by Chardon) be reintroduced to the ANZ surveys in Australia.

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 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 further to gain access to all available entitlements. 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 were equally as many individuals lodging normal tax returns as those who did not. 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.

Furthermore, we 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, we note 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.

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