Tax Working Group Public Submissions Information Release

Release Document

September 2018

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Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;

[2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Tax Law must be kept simple to avoid loopholes.

Capital Gains tax on property is too complex and open to abuse.

A suggestion that Land Tax could address problems of foreign ownership.

- Trade agreements expect all investors to be treated equally
- But tax rebates can be restricted to NZ Resident taxpayers.
- The solution to restricting foreign ownership of NZ land is:

Tax ALL land but allow bona fide New Zealand resident taxpayers to claim tax back in their tax return.

This would make overseas ownership of New Zealand land uneconomic.

Proposal: (*tax all land*)

A - That an annual land tax of 4% (specific amount to be debated) of the current rateable value be placed on all land in New Zealand, charged to the registered owner of the land.

(*The family home is exempt, even if it is a family farm*)

B - That 100% of the land tax can be claimed as a tax rebate by any New Zealand citizen or permanent resident who lives on the taxed property, provided that no part of the property is rented or leased to any other business or person who is not a direct family member of the land owner.

(*NZ Companies using land for their own commercial enterprise pay only 5% of the tax*)

C - That 95% of the land tax can be claimed as a tax rebate by any Company with a majority of New Zealand citizen shareholders and primarily registered in New Zealand for tax purposes, provided that no part of the property is used by, rented or leased to any other business or person. Condition: That the business is a bona fide commercial operation, not primarily a property investment agent.

(*New Zealand Landlords and property investors pay only 40% of the tax*)

(*Phased in over 3 years.*)

D - That 60% this tax can be claimed as tax rebate by the owner if they are:

1. A New Zealand resident or
2. A bona fide company registered in New Zealand for tax purposes with a majority shareholding by New Zealand citizens
3. The resulting tax would be almost the same as a capital gains tax (more or less depending on the movement in house prices) but <u>much</u> easier to calculate. It would discourage landlords form owning older homes (sought after by first home buyers) and encourage them to build apartments.

4. Note: The Landlords' spokesperson will say that landlords pulling out of the market (and investing in job creating businesses) will cause a shortage in rentals. This is false, since the only way for a landlord to leave the market is to sell the rental to an owner occupier. One fewer rental, one fewer family needing to rent. So it is market neutral.

(*Net result: <u>Overseas property speculators pay the full rate of tax</u>. Kiwi property investors pay 40% of the tax and owner occupiers pay no tax.*)

E - Unpaid tax would attract a 10% p.a. penalty. When the accumulated unpaid tax reaches 30% of the rateable value of the land, the property would have to be sold at auction and the tax recovered.

F - The New Zealand Government, Government Departments and Ministries and Local Bodies would be exempt Land Tax.

Advantages of this proposal:

1. It avoids the complication that:
    a. calculation of capital gains is very complex and therefore subject to abuse, and
    b. capital gains tax must be offset by a capital loss rebate
    c. Defining the family home is fraught with problems.

2. The tax of 4% p.a. of the value of the land would discourage foreign speculators and offshore ownership of New Zealand land. Foreign ownership of NZ land would be uneconomic.
3. No need to re-negotiate trade agreements to remove foreign ownership of land. The tax applies to everyone equally. The rebate only applies to NZ taxpayers.

    Like all new taxes it would need to be phased in over several years to allow the market to adjust.
    <u>Notes to consider.</u>

    Some existing trade agreements already allow foreign ownership of New Zealand land, and in the interests of trade we do not want to back out of these agreements.

    This tax would avoid the need for a complex (and therefore open to abuse) capital gains tax.

    Historically long term, real estate increases in value by about 3% a year in the long term in real terms. In the case of a typical suburban home, this is about 6% of the value of the Land. A 30% CG tax would represent about 1% of the improved value, or about 2% of the land value, which equates to the 1.6% paid by property investors in this proposal. (40% of 4% of the land value.)

For an apartment, **more improvement value**, less land value. The taxes would be a smaller percentage of the value of the property, which is fair because the land improves in value while buildings devalue over time. Thus this tax (being on land only) would encourage more efficient land use.

In addition, taxing only the land value would have the greatest effect on foreign owned farms, which means that when foreign owned farms (and all real estate) are put up for sale, the prospective purchasers would almost all be New Zealand citizens who could recover the tax.

The amount suggested could be phased in over a 6 year period to allow the market to adjust. The suggested 4% of the land value is subject to debate, and may be reviewed as it is phased in.

In summary, the long term benefits of this proposal are:

1. A reduction in land sales (including farms) to foreign speculators
2. An increase in the proportion of owner occupied homes
3. An increase in tax received from offshore investors
4. A movement away from speculation on housing and towards investing in job creating industries.
5. Avoids the need for a complex Capital Gains Tax on land which would be very difficult to calculate on an annual basis,
6. Achieves the same goals as a CGT but is simpler, and less prone to avoidance. However it provides a more consistent tax take year on year, and avoids large lump sum tax payments.

I urge you to consider the concept outlined in this brief document.

Yours

Peter Sumpter
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