Tax Working Group Public Submissions Information Release

Release Document

September 2018

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

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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.

G Berryman
[1]

20th April 2018

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Re CAPITAL GAINS TAXATION AND PROPERTY INVESTMENT

EXECUTIVE SUMMARY

1. **There are no capital gains on property other than speculative gains at times of currency or interest rate arbitrage**
2. **The assumption that there is always Capital Gains and no Capital losses, on property assets is not supported by historical data.**
3. **Attention should be directed to the overseas owned, New Zealand based subdivision activities where the land is purchased by use of the New Zealand Companies resources, but immediately transferred to the overseas domiciled Directors of the Company. When subdivision is undertaken the profit is taken tax free, by transfer at a new price back to the New Zealand Company who undertake the subdivision.**
4. **An all-encompassing Capital Gains Tax already exists and is called rates, which is a tax for services provided.**

Mr Parker's 'The Wizard Of Id'

Above a copy of a 'Mr Parker's' THE WIZARD OF ID 'cartoon, which focuses on what is being discussed, the share to be paid and who receives the benefit of the present tax system.

CAPITAL GAINS TAXATION

I intend to address the field of Property ownership, Investment and taxation.

I have read numerous articles on Capital Gains Taxation together with the 'The Future of Tax' briefing paper, two features come to mind.

A. Glossary – **Capital Gains Tax (CGT)**: 'A tax on the increase in the capital value of an asset.'

   With respect this is not a definition of a Capital Gain.

   Unless you allow for the effect of inflation – which is a designed demand of Government, and the declining cost of borrowing for funding (see later), this is not a definition to create a new tax policy on.

   Inflation is not a Capital Gain and it appears that most of the present hysteria is associated with the activities of short term Investors who are only active on the periphery of the property market at limited times. Speculators are currently caught by the present taxation system, which has historically been poorly administered by the Inland Revenue Department.

   Around the period of the Global Financial Crises (GFC), there were wide spread reports of sharp declines in the value of property, with resultant mortgagee sales and with sale figures below initial purchase prices. Would it be the intention of a taxation system to provide a refund of the capital in this instance?

B. If a Capital Gains tax is introduced and it is across the board of property, then tax losses on property should be allowed for crediting and not ring fenced to one property.

The points I would like to make are as follows:

1. We already have in place a comprehensive and all-encompassing Capital Gains Tax on property. It is called RATES, which throughout New Zealand is levied on the CAPITAL VALUE of the entire property LAND and CAPITAL IMPROVEMENTS and currently are increasing at above the rate of inflation throughout the country.

2. The fact that rates are devoted to local issues, rather than central government issues, is a process of income sharing or sharing of the taxation which has been in place for some time, Local Government undertake some of the activities of Central Government in any case. Social housing is an example.

3. Central Government and the activities of the Reserve Bank are central to what has caused so called Capital Gains in New Zealand.

3.1 Immigration is an acknowledged input to the CPI index and is an inflationary activity. Central government dictates the level of immigration into the country and leaves it to Local Government to cope without support to improve the needed infrastructure. Auckland is a prime example of underinvestment in roading, transport, utility services and social infrastructure required for a city of its size.

3.2 The Reserve Bank as a policy implementer of Central Government, are mandated to have a target of 1 - 3% inflation. The desire to have such a policy is to inflate away Government debt and to provide a sense of advancement in the community. Deflation has the opposite effect of greater political uncertainty and public disturbance i.e. Riots in Queen Street, Auckland during the Great Depression etc.

3.3 Over the last 30 years the Reserve Bank Act and its operations have been fiddled with.

A. At one stage Central Government dictated the amount of funds to be placed by 'Trading Banks' later including 'Community Banks', with Central Government to finance Central Governments funding requirements. This was applied during periods of expansion – 'Think Big Projects, electricity generation requirements in the 1950's etc.' and to control inflation and property price expansion.

B. The Reserve Bank has allowed the easy importation of funding from overseas jurisdictions which have flowed directly into house mortgages, with the effect of boosting prices and subsidising the Australian owned banks.

C. This policy has directly contributed to at least a 25% increase in so called Capital Values throughout New Zealand. Historically interest rates have been around 6.5% to 7% over the last 40 years. A drop to rates of around 4.5% equates to a 2 - 2.5% difference, which translated into Values is 20% to 25% in value terms. It could be argued that this is a low estimate of the effect of low interest rates. Our Country has never in the last 60 years had rates as low as currently available.

4. If property is viewed as a spread throughout the whole of New Zealand, what is actually taking place is as people leave country areas and move to the cities, demand for rural properties declines with the effect of a transfer of capital value from rural to urban centres.

5. No mention is ever made of application of a capital gains tax to Government and Local Body property.

6. Exemptions are normally proffered in regards to personal, 'owner occupier held' property; where in fact the real speculator element is prevalent in this group at bubble times in the market.

   I have no problems with couples buying a house and adding 'sweat' equity to increase their proprietorship in the property market, I do have a problem with silver spoon commentators, wanting to purchase property at the level attained by their parents

7. Property traders (speculators) pay tax presently on property gains if they are so classified, a similar tax charge is made for share traders, both where they are deemed to be earning their living from such activity.

8. Currently a claw back tax applies where property is disposed of and depreciation is claimed on the dwelling and chattels during ownership, which is a form of application of a capital gains tax. This is not consistent when the ultimate point of the chattels and the dwelling at some stage will be reach the end of their economic life and require replacement.

9. If such a tax was introduced and Government Policy was exempted, no real control would exist preventing the Government from printing currency similar to Zimbabwe and consequently destroying the intrinsic value of property ownership by over taxation. I remind the Committee that this occurred here in New Zealand in the 1970's to 1980's

10. Speculative gains have been taxed for some time. The Briefing paper refers to the taxation of property gains by means of Income Taxation.

11. Let me provide the following example by way of illustration. (See Reserve Bank printout attached)

    An associated Company of ours purchased in 1970, a domestic dwelling which has been rented on the rental market since purchase.

    Purchase Price - $9,500 (Nine Thousand Five Hundred Dollars),

    Current Rating Valuation $630,000.

    A so called Capital Gain of $620,500. Try selling the property at that figure and then having a change of heart and seek to buy it back at $9,500, if you can.

    The attached Reserve Bank CPI Inflation calculator for Housing comes out at $639,381.44, which shows that all of the so called Capital Gain has been by means of inflation, or the erosion of money value. I.e. in real terms over the 50 year odd years of ownership the value of the property has remained virtually constant.

12. The writer is aware of a sale of land in the Henderson area where overseas Owners/Directors sourced the land using their New Zealand Company, purchased the land and sold it back to the New Zealand Company, prior to development. The profit was taken prior to development and would no doubt be tax free.

PROPERTY OWNERSHIP MATTERS

The present coalition Government has to date adopted an anti-private landlord stance.

In my opinion this is an unfortunate attitude to take. Successive Governments have provided Social Housing by means of the State Advances Corporation and now Housing Corporation. This policy has been in place since the 1930's with recent Governments not greatly increasing the quality and quantity of housing provided.

As a compromise and to allow the provision of housing, private landlords have been encouraged to meet the need.

Changes to tenancy occupancy provisions placing greater liabilities and compliance burdens on landlords (e.g. rental W.O.F's) and other proposed changes will reduce the rate of return, leading to landlords withdrawing properties from the market restricting supply and increasing the price of the remaining accommodation. It is well acknowledged that the returns on residential tenancy are in the order of 2% – 4 % net after expenses (at best). Hardly a great rate of return and reflective of why there are no listed Public Corporations providing such a service – contrasted to the Residential Care sector.

Our company manages a number of properties for landlords. I would make the comment and it should be emphasised that **good tenants get good landlords**, with the corollary being that **bad tenants normally get bad landlords**.

Previous New Zealand Government policies have been responsible for the creation of the climate where private individuals seek to provide for their own retirement by means of the purchase of investment properties.

We have seen the rise and fall of the stock market in the 1980s aided and abetted by Government selling off public assets at discounted prices and in some cases the full funding by Government, providing a one-sided bet for inside operators/speculators.

Then we have experienced the collapse of finance companies around the period of the GFC, where individuals (many of them retirees) sought higher rates of return than available at the time through the banking system with ultimately disastrous consequences.

The attraction of property through the years has been a minor return, the provision of a social need and a **protection of capital as well as having a secure asset when others have failed.**

Most of the owners of properties which we manage are small business people, retired people or family homes which are rented, whilst a surviving parent/owner is in care – does a CGT tax apply to the latter?. Again how popular does a Government want to be if this asset is Capital Gains Taxed.

An ownership example (countless others are available), I can provide is where a parent has purchased a small unit which is let and provides an income for a Downs Syndrome child as a means of continuing support once the now surviving parent passes away.

Taxation changes have been made over recent times which affect the attractiveness of property.

1) Depreciation has been removed as a deduction for taxation. This is despite the fact that a dwelling has a limited economic or useable life which is acknowledged as not more than 100 years.
2) Proposals have been made to the deduction of repairs and maintenance to a dwelling. How this will run to maintain adequate housing is questionable.
3) It is worth remembering that GST on expenditure is not offset against rent received on residential property.

Mention has been made in the New Zealand Herald of the Reserve Bank introducing a charge on overseas sourced funds to stiffen the influence of the OCR rate assessed by them. This would be a more purposeful change, which could be made over time to tax the super profits generated as a benefit to banks and evident by the borrowing cheap money overseas and lending dear here in New Zealand. Additionally it is questionable why banking services are exempt from GST with an obvious huge subsidy being provided directly by central Government.

OBVIOUS FAULTS IN THE BACKGROUND PAPER

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"Some people have more than one option for structuring their business affairs, whereas others do not. For example, an employee will always have tax deducted at source by their employer through the PAYE system. A contractor doing broadly equivalent work may be able to conduct their business as either a sole-trader, a partner in a partnership, through a company or through a trust. Such decisions can allow tax rate benefits as well as the ability to access work-related *deductions* this has implications for horizontal equity."

No explanation is provided as to what the benefits of such an operation is. Do the authors think that work related expenses i.e. provision of tools, travelling expenses do not relate to the earning of an income?

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"As an example, consider a firm that can spend $9 to make $10 in revenue. If there is a 20% tax on profit then the firm will still have the incentive to make the investment as they will make a post-tax return of $0.80 (that is, 80% of the $1 profit). However, if instead the firm was not allowed to take deductions and there was a 20% tax on revenue, the firm will not make the investment because after tax they will make a $1 loss (they would be taxed $2 on the $10 revenue)."

This presupposes that all business activity is profitable. This is clearly not the case and in most cases it is hard to determine the exact profitability of any business activity.

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Wealth inequality

This is a simple fact of life, we are all born with nothing, some people accumulate, others dissipate. It remains a choice for them as to how they wish to live their lives. In fact Governments want to see consumption, rather than saving as the activity provides employment – Income Tax and GST.

TAXATION INCIDENCE

Appended to this submission is a schedule displaying the effective tax rates including the effect of G.S.T. A rather low income incurs tax of roughly 25% a slightly higher income 30% and the top income threshold 40%. A more equitable basis would be to make the first $10,000 of any income tax free, to allow for the imposition of G.S.T on the lower income earners. Accident Compensation Commission levies are included in the above whilst Kiwi saver payments are additional taxes to the above.

The submitter is available for interviewing if required.

[1]

Graeme Berryman

[1]

Definitions:

Sweat Equity: ‘an interest in a property earned by a tenant in return for labour towards upkeep or restoration’

Are we trying to fix a problem which does not exist?

Dik Browne's 'Hagar the Horrible'

Monetary policy Inflation calculator

Inflation calculator

Want to know how much a house worth $50,000 in 1973 is worth in today's money when adjusted for inflation? Or what a loaf of bread worth $4.50 today would've been worth in 1986 when adjusted for inflation?

To recalculate results, change the category, cost and dates below:

To recalculate results, change the category, cost and dates below:

Category

Housing ▼

Cost $

9500

Date of cost above

1970 Q1 ▼

Date for comparison

2017 Q4 ▼

Calculate

Housing
that cost $9,500.00
in quarter 1 of 1970
would have cost

$639,381.44

in quarter 4 of 2017

Total percentage change	**6,630.3%**
Number of years difference	**47.75**
Compound average annual rate	**9.2%**
Decline in purchasing power	**98.5%**

Index value for 1970 quarter 1 is	**36.9**
Index value for 2017 quarter 4 is	**2480.8**

Statement Last Updated: 24/04/2018 10:31:04 a.m.

Clear

Disclaimer

Consumers Price Index (CPI) inflation is official data produced by Statistics New Zealand ("Stats NZ") and is only being reproduced in this calculator.

Read more information on CPI on the Stats NZ website (https://www.stats.govt.nz/topics/consumers-price-index)

The sub-categories in the inflation calculator do not necessarily relate to CPI inflation. Please refer to the "About the Inflation Calculator" section further down on this page for more details.

The figures produced by the Calculator are offered as guides only and should not be regarded as 'official' Reserve Bank calculations. While every effort is made to ensure that the calculations used to generate the Calculator's outputs are correct, the Reserve Bank will accept no liability or responsibility for any errors or for any use to which the resulting figures may be put. The data used prior to 1914 does not form part of the official Consumers Price Index - the Reserve Bank makes no claims as to the accuracy or reliability of these figures.

About the inflation calculator

The Inflation Calculator is updated on the day of the Consumers Price Index release. Please see the Statistics New Zealand release calendar for the next Consumers Price Index release date.

Go to the release calendar on the Stats NZ website (https://www.stats.govt.nz/release-calendar/)

The Inflation Calculator uses price data, mostly from Statistics New Zealand, to calculate the change in purchasing power of an amount of money between two dates, specified by the user. The difference between the input value and the Calculator's output value represents the effect of the inflation or deflation that has occurred over that time, as measured by the selected index.

Read more about inflation in our 'What is inflation?' fact sheet (/research-and-publications/fact-sheets-and-guides/factsheet-what-is-inflation)

The available price deflators are:

- **General** – uses the 'all groups' Consumers Price Index (CPI), published by Statistics New Zealand. Estimates for the years between 1862 and 1914 have been included but should not be regarded as being official, or of the same quality as the published CPI.
- **Food** – Food Price Group from the CPI, Statistics New Zealand.
- **Clothing** – Clothing and Footwear Group from the CPI, Statistics New Zealand.
- **Housing** – House Price Index, PropertyIQ.
- **Wages** – Hourly wage in dollars (private sector, ordinary time) from Quarterly Employment Survey, Statistics New Zealand.
- **Transport** – Transport Group from the CPI, Statistics New Zealand.

Please use decimals

The Calculator only works with decimals, therefore an amount like £5.11.6 needs to be input as 5.575 (£5 + 11.5/20 shillings).

Prior to decimalisation on 10 July 1967, New Zealand used a system of currency made up of pounds, shillings and pence. One pound was equivalent to 20 shillings, and 12 pence made up one shilling. The Calculator presumes that if a date prior to July 1967 is selected then the denomination is pounds; if a date after that is selected the denomination is presumed to be dollars. At decimalisation, £1= $2.

Some of the historical series used as inputs into the Calculator are available from our Economic Indicators statistics.

Go to the Prices - M1 data for historical data on Consumers Price Index (CPI), Producers Price Index (PPI), House Price Index (HPI) and Gross Domestic Product (GDP) deflator (/statistics/m1)

Go to the Labour market - M9 data for historical data on wages (/statistics/m9)

Background notes

The Consumers Price Index ("CPI") published by Statistics New Zealand ("Stats NZ") records the change in the price of the "basket" of goods and services purchased by an "average" New Zealand household.

The rate of change between the CPI price level today and the CPI price level one year ago is commonly referred to as the inflation rate, or sometimes "headline CPI inflation".

Although various other price indices are published by Statistics New Zealand to provide a gauge of inflation in non-household sectors of the economy, the CPI is the most commonly used and recognised measure of inflation in New Zealand.

Read more about CPI on the Stats NZ website (https://www.stats.govt.nz/topics/consumers-price-index)

Read more about inflation in our 'What is inflation?' fact sheet (/research-and-publications/fact-sheets-and-guides/factsheet-what-is-inflation)

Although the rate of inflation is normally thought of in terms of quarterly or annual price changes, it is possible to estimate the inflation that has occurred between two points in time and express this as a percentage change in prices over that period. The Inflation Calculator aims to give people a simple tool for calculating such figures for a selected amount of (New Zealand denominated) money for any two points in time between 1862 and the latest available figure.

Only partial official CPI data exists between 1914 and 1925. Interpolated figures have been inserted for quarters where no official CPI value is available between these dates.

There is no official CPI data available prior to 1914. However, an index of the prices of food and rent, averaged for the four main centres, was once published by Stats NZ in the *Official 1990 Year Book*. Indices for this series have been used for the dates between 1891 and 1913, and linked to the official CPI series beginning in June 1914.

Read the New Zealand Official 1990 Year Book on the Stats NZ website (https://www3.stats.govt.nz/New_Zealand_Official_Yearbooks/1990/NZOYB_1990.html?_ga=2.8422901.1541927353.1519158469-428859992.1518659575)

Furthermore, in 1911, James W. McIlraith published price indices for general prices (as opposed to consumer prices) from the early 1860s to 1910. We have used this index for the years between 1862 and 1890.

It should be noted that the construction of this series is more akin to that of a GDP deflator (covering general rather than consumer prices), so some caution is advised where dates covering this period are entered. **These series are not as comprehensive in their coverage as the official CPI and should**

not be regarded as being of the quality of the official series, but they should provide a fairly reasonable gauge of CPI inflation over this period.

For both of these series, a quarterly track has been interpolated from annual estimates and rebased to the current CPI base (June 2017 quarter=1000).

For more information on these and other early price data, see *Looking at Numbers – a view of New Zealand's economic history*, by Phil Briggs on the NZIER website (https://nzier.org.nz/publication/looking-at-the-numbers)

Note that in using the CPI to measure price changes, the calculator may not give a good estimate of the level of prices of assets (e.g. house prices) or the prices of individual goods/services whose price levels have on average changed by significantly more or less than the change in the CPI in the specified years.

The "total percentage change" represents the total growth in the price of an average consumer's bundle of goods over the period selected. Also calculated is the average annual (compound) growth rate in prices over the selected years, and the percentage decline (or increase) in the "purchasing power" of the dollar. Where a positive decline has occurred, the Calculator will produce a figure that will be greater than zero and less than 100%. For example, if $1 bought $1 worth of goods and services in 1980 but only 50 cents in 2003 then the purchasing power has declined by 50%. If it only purchases 1 cent worth of goods and services then the decline is around 99%. Where a rise in purchasing power has occurred, it will be expressed as a "negative decline" in purchasing power. This could happen if people enter a current value and want to find out its equivalent value some time in the past.

An article published in the December 2003 issue of the Reserve Bank *Bulletin* further discusses the functionality of the calculator and gives examples of its uses and limitations.

Read the *Bulletin* article "The Reserve Bank inflation calculator" (/research-and-publications/reserve-bank-bulletin/2003/rbb2003-66-04-03)

UPCOMING OCR/MPS ANNOUNCEMENTS

This is the Reserve Bank's schedule for the release of Monetary Policy Statements (MPS) and Official Cash Rate (OCR) announcements. Announcements are made to financial markets at 9am (NZDT) and then immediately to the news media, and via Twitter (https://twitter.com/reservebankofnz), the website and email (/email-updates).*

10 May 18	OCR and MPS (live-stream)
28 Jun 18	OCR
09 Aug 18	OCR and MPS (live-stream)
27 Sep 18	OCR
08 Nov 18	OCR and MPS (live-stream)

* The Reserve Bank reserves the right to make changes, if required due to unexpected developments. In that unlikely event, the markets and the media would be given as much warning as possible.

Read more information on how the Reserve Bank releases information (/about-us/how-the-reserve-bank-releases-information).

Go to the live-stream ➔ (/research-and-publications/webcasts)

1.75 OCR (/monetary-policy/official-cash-rate-decisions)

1.1 Inflation (/monetary-policy/inflation)

LIVE-STREAMS

Live-streams of *Monetary Policy Statement* media conferences are scheduled to commence at 10am on release day.

Live-streams of *Financial Stability Report* media conferences are scheduled to commence at 11am on release day.

Videos of the events are posted to YouTube (http://www.youtube.com/reservebankofnz) and to our videos page (/research-and-publications/videos) by the end of the business day.

Go to the live-stream (/research-and-publications/webcasts)

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TAX RATES 2018 **The odd amount includes ACC contribution.**

Rates are under $14,000 pa	11.89%
$14,000 to $48,000 pa	18.89%
$48,000 to $70,000 pa	31.39%
Over $70,000 pa	34.39%

1. **If earning under $14,000 tax paid would be:-**

Income	$100.00
Less Tax	$11.89%
Net	$88.11
Less GST on $88.11 spent	$11.49
	$76.38%

Equals tax paid $11.89 plus $11.49 = **$23.38%** **$23.38%**

2. **If earning $14,000 to $48,000 tax paid would be:-**

Income	$100.00
Less Tax	$18.89%
Net	$81.11
Less GST on $88.11 spent	$10.58
	$70.53%

Equals tax paid $18.89 plus $10.58 = **$29.47%**

3. **If earning $48,000 to $70,000 tax paid would be:-**

Income	$100.00
Less Tax	$31.39%
Net	$68.61
Less GST on $68.61 spent	$8.95
	$59.66%

Equals tax paid $31.39 plus $8.95 = **$40.34%** **$40.34%**

4. **If earning over $70,000, tax paid would be:-**

Income	$100.00
Less Tax	$34.39%
Net	$65.61

Less GST on $65.61 spent	$8.56	
	$57.05%	
Equals tax paid $34.39 plus $8.56 = **$42.95%**		**$42.95%**

Additional tax/Levy – Kiwi Saver payments which include a form of payroll tax with a compulsory payment being made by employers.