

Tax Working Group Public Submissions Information Release

Release Document

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Key to sections of the Official Information Act 1982 under which information has been withheld.

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- [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.

Dear Sirs,

In regards to **broadening the tax base**, and also giving the Reserve Bank another **inflation fighting tool**, have you thought of a government imposed “premium” or levy on debt finance for residential investment properties?

I believe that such a levy has some very interesting benefits for government revenues and the ability of the Reserve Bank in controlling inflation without unduly affecting productive investment or inadvertently increasing the exchange rate.

What is it?

I would suggest that the Governor of the Reserve Bank be given the power to impose a **levy on all debt finance used to fund investment in residential properties**. This would simply be a specified premium added on top of the interest rate for borrowings made to purchase residential investment property. This levy can be adjusted up or down, just as the Official Cash Rate is varied.

What are the benefits?

The beauty of it is that rather than just adjusting the OCR, you now have a “**targeted tool**” on a sector of the economy that can have a very significant impact on inflation, without affecting the rest of the productive economy. Also, rather than the banks and overseas investors benefiting from a higher OCR, **the New Zealand Government benefits**, in that the revenue generated by the levy can come into general government revenue. It is also very **efficient** in that the banks and finance companies collect the levy for the government, and there are very few “tax gatherers” involved. It also would help direct investors into more productive assets by increasing the cost of and risks associated with investment in residential property. Risk in that with the ability of the Reserve Bank to change the levy periodically, the residential property investor, even with a fixed rate mortgage, is now less certain of his future costs. Historically, with most people fixing mortgage rates, much of the economy was insulated from increases in the OCR and there was a significant delay in the effects of such increases.

Another benefit is that **house price inflation would be curbed**, and more people would have the ability to buy that first home, since the levy would not be charged on one’s home.

Why target residential property investment?

Residential investment property is a very unique investment class. It is amazingly easy for anyone to get debt finance to purchase a residential investment property. Banks are very keen to lend, and the borrowers need quite a small percentage of the initial purchase price. In other words, it is just about the only class of investment where just about anyone can use financial leverage to increase wealth with no likely expectation of tax on capital gains, full tax deductibility of expenses, and little downside risk, and the lowest interest cost you can get for any investment. The banks would never lend on such terms to people for investment in shares for example. So this drives people to invest in residential property, which has a low benefit to the nation in terms of productive growth, hence skewing the nations investment profile

towards low and non-productive assets. It also is a significant driver of inflation as more people chase residential investment property.

This is just a broad outline, and I have worked my way through other issues related to this idea. If you are interested in the idea, please take it up, discuss it and feel free to use it. I would be happy to take time to pass on more about it if you would like.

Thanks for taking the time to read it.

Kindest Regards

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