Tax Working Group Public Submissions Information Release

Release Document

September 2018

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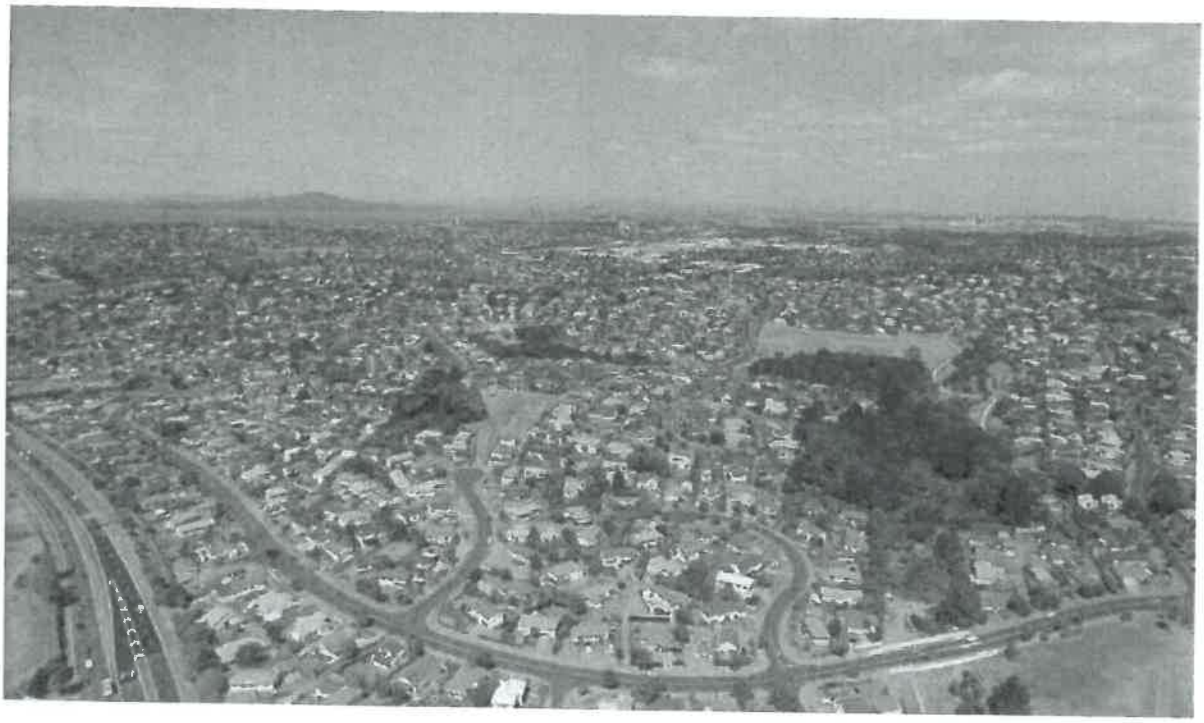
Francis Gargiulo

Comment: Bright line test a capital gains tax by stealth

28 Mar, 2018 5:00am

3 minutes to read



Property investment could now be out of reach for those who had considered it as an option. Picture / Chris Gorman

NZ Herald

By: Andrew Dickeson

In the space of five years your entire life can change. Sickness can strike, children can come along, and marriages can end. By extending the bright line test to five years — it's likely the people facing a change in circumstances will be victims of a capital gains tax brought in by stealth.

The Government's Taxation Amendment Bill, which extends the current bright line test from two years to five, means profits from investment properties sold within five years of when they were purchased could be taxed.

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Imagine the mum and dad investor who've worked hard their whole life to save for retirement. They've chosen to invest their money into a second property. Then three years into this investment, a life-changing illness strikes one of them. Work is no longer an option and the medicine they need isn't funded. They need to liquidate but with selling their rental property comes a massive tax bill. This is the sort of collateral damage that will result from the extended bright line test.

The other losers will be renters. We will always have a percentage of the population who need or choose to rent. However, with a range of new measures being introduced, which seem to disadvantage those who invest in property, it feels like a landlord beat up. Property investment could now be out of reach for those who have previously considered it as an investment option. On top of the extended bright line test, there are loan-to-value (LVR) restrictions, a proposed new law which would prevent landlords claiming back letting fees and increased compliance in the form of the Healthy Homes Bill.

There will be less housing supply in an already tight rental market and rents will climb even further. You only have to look at the Auckland and Wellington rental markets to know that things are already far too tight.

When the two-year test was introduced by the previous government it was designed to pluck the low-hanging fruit — those who were speculating, only in the market short term for capital gains. Extending it will disadvantage those who have a genuine need to sell. The aim is to make it easier for first-home buyers. But if landlords are forced to hold on to properties for five years, there may not be the stock there for them to buy.

Revenue Minister Stuart Nash declared that the move will "put fairness back into the tax system" which implies that people who had a genuine need to sell an investment property within five years were rorting the system. It would be fair to assume that for many, their choice to sell would have been based on their personal circumstances.

The issue with our housing market comes back to the basic issue of supply. We simply don't have enough housing stock. Tinkering with laws around demand won't do anything to solve that.

Andrew Dickeson is a tax director for Staples Rodway.

Francis Gargiulo ACA
[1]

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