Tax Working Group Public Submissions Information Release

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Tauranga Property Investors' Association
PO Box 15-033
TAURANGA 3114
Email: [1]

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Tax Working Group Secretariat
PO Box 3724
Wellington 6140

Via email: submissions@taxworkinggroup.govt.nz

Tauranga Property Investors' Association's Submission to the Tax Working Group: Future of Tax

1. The Tauranga Property Investors' Association was established in 1994 as a non-profit organisation for people who own or otherwise have an interest in residential, commercial or other investment property. Affiliated to the New Zealand Property Investors' Association, the local association has 280 members representing a large group of experienced investors from a variety of backgrounds. Our members take pride in providing good quality homes for their tenants.

2. Thank you for the opportunity to submit to the Tax Working Group: Future of Tax.

   Chapter 4: The current New Zealand Tax System
   New Zealand's 'broad-based, low-rate' system, with few exemptions for GST and income tax, has been in place for over thirty years. Looking to the future, is it still the best approach for New Zealand? If not, what approach should replace it?

3. There is already a high level of focus and analysis on property taxes in New Zealand and our view is the current broad based system is simple to understand and works well. The assumption that rental property receives tax advantages is untrue. It is well known that the IRD have repeatedly said that property investment does not receive any tax advantages. A study commissioned by the New Zealand Property Investors Federation, by financial and economic consultants Morgan Wallace, shows that the marginal effective tax rate for rental property is actually higher than the majority of other assets.

4. In each of the last five years NZ rental property owners have paid tax on approximately $1.5b of rental income. The importance of rental properties to a local economy should not be understated. In addition to the provision of a home for tenants, property owners contribute significantly to their local economy by employing tradesmen and service industries such as plumbers, electricians, painters, carpet layers, property management companies. They do this through their spending on maintenance, upgrading properties, banking, insurance, Local Authority Rates and all the other costs which will have resulted in substantial GST payments to Inland Revenue.

5. The current system provides a good balance of providing somewhat cheaper rental prices for tenants while still encouraging investment in property where yields may be low, while still

contributing significantly to New Zealand's taxation requirements and local employment and property related expenses.

Taxes and Behaviour: *Should there be a greater role in the tax system for taxes that intentionally modify behaviour? If so, which behaviours and/or what type of taxes?*

6. The rental property sector is often incorrectly labelled as an unproductive sector, but rental property contributes hugely to the local economy through employment in the property related trades and services, banking and insurance companies while also providing homes for these workers and providing tax to Government.

7. The majority of rental property owners are just regular people trying to make a living and provide for their retirement. They are contributing to society by providing much needed housing while contributing to the local economy. The government have historically seen the value of private investment in rental properties because the government is unable to provide all of the housing required. There now seems to be a shift in focus with proposed taxes specifically targeting property investors, which will strongly discourage this form of investment. It is hard to see the merit in reducing the available rental stock because private investment in rental property benefits society and should be encouraged. Not everyone wants to own their own house.

Retirement savings: *Should the tax system encourage saving for retirement as a goal in its own right? If so, what changes would you suggest to achieve this goal?*

8. We do not agree. A good tax system should not favour one investment over another or make investment in any type compulsory. There are many ways that people can provide for their retirement that suits their own individual circumstances and changing any taxes to penalise a sector of investors such as rental property owners may put groups of people off investing in anything at all. Discouraging personal accountability and ownership of investments for their own future may discourage people from investing or saving for their retirement.

Chapter 5: The results of the current tax system. Fairness and balance: *Does the tax system strike the right balance between supporting the productive economy and the speculative economy? If it does not, what would need to change to achieve a better balance?*

9. Rental property owners already have an increased level of scrutiny through the IRD having a Property Tax Compliance Unit and a Bright Line Test. It seems unfair that there is not a similar level of focus on buying and selling shares, the TPIA feel that a bright line test should apply to all investment types to fairly tax speculation, not just focus on property.

Chapter 6: Thinking outside the current system: *What are the main inconsistencies in the current tax system? Which of these inconsistencies are most important to address? Is there a case to consider the introduction of any new taxes that are not currently levied? Should any taxes be reduced if new taxes are introduced?*

10. It is important to note that the income derived from assets is taxed just as a person's labour is taxed and that assets are frequently purchased from income which has already had tax paid on it, taxing these assets again would be very unfair.

11. There can be a number of unintended consequences with the introduction of new targeted taxes for example if something like a Capital Gains Tax was introduced that excluded the family home in order to reduce other taxes, there could be large unintended consequences, such as the reduction of people willing to invest in income producing assets such as rental properties and would encourage more money going into higher priced but non-productive family homes.

12. No new taxes should be introduced for New Zealanders, but better enforcement of current tax laws in particularly around share market speculation would increase the tax revenue and promote fairness and consistency of investment types.

13. Ring fencing of losses should not be implemented. This is said to be a loop hole for rental property investors but this is not true as all business can offset their costs and losses against other income. To specifically disallow this for property investors sends additional discouragement to property investors and will dissuade new investors from investing in this much needed sector to increase supply of rental properties.

Chapter 7: Specific challenges. Housing affordability. *How, and to what extent, does the tax system affect housing affordability for owners and renters? Is there a case to change the tax system to promote greater housing affordability? If so, what changes would you recommend?*

14. Allowing losses on rental property to offset other income tax payable is an important aspect which allows owners to provide and maintain their investment return while being able to charge cheaper rent than would otherwise be required. Additionally, not taxing capital gains on a long-term investment also allows rental property owners to maintain their investment return and charge less rent. It is regularly assumed that that the ability of rental property owners to claim expenses such as mortgage interest, council rates, insurances and maintenance costs means they have an advantage over homeowners when buying property. This is not true. A rental owner gets rental income and pays tax on the profit (after expenses) they make while a home owner gets accommodation to offset these expenses.

15. Higher taxes have had no effect on housing affordability in any country that has them. Higher taxes specifically on rental property will increase the cost of providing rental property leading to either a reduction in supply, an increase in price, an increase in overcrowding or a likely combination of all three.

Capital gains tax: *Should New Zealand introduce a capital gains tax (that excludes the family home)? If so, what features should it have?*

16. New Zealand should not introduce a Capital Gains Tax. Many people will still want to invest their money into property and this would encourage spending on larger more expensive family homes and reduce the investment into farms, businesses, shares, rental property and other assets.

17. A targeted Capital Gains Tax would be complicated to administer and is unlikely to raise significant tax income.
18. If a Capital Gains Tax is to be introduced it should include the family home as well as shares and other assets.

Land Tax: *Should New Zealand introduce a land tax (that excludes the land under the family home)? If so, what features should it have?*

19. New Zealand should not introduce a Land Tax. A Land Tax excluding the family home would have unintended consequences that would encourage more development of expensive homes on large sections of land which would not help alleviate the current housing and rental supply shortage.
20. A tax based on the value of an asset does not mean that the owner has the income to be able to pay for the tax. Local council rates on property in New Zealand are already expensive. A Land tax should not be introduced in New Zealand.
21. A land tax would increase the cost of providing rental properties, leading to reduced supply, increased rental prices, an increase in overcrowding and most likely a combination of all of these.
22. A land tax would increase business costs which would increase the price of all goods and services.
23. It would be complicated for mixed use premises, such as home and incomes, mixed-use commercial/residential properties and farms.

We do not wish to be heard in support of this submission.

Yours sincerely

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Simon Darmody

President, Tauranga Property Investors' Association