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Coversheet: Taxing vacant property

*Position Paper for Session 23 of the Tax Working Group
22-23 November, 2018*

Purpose of discussion

At its meeting of 19-20 July, the Tax Working Group (TWG) considered the Secretariat paper on housing affordability – which included a discussion of taxing vacant land and empty homes.

In its Interim Report, the Group commented that it believes there is merit in the considering taxes on vacant land and empty homes (over and above existing local government rates) to encourage housing development of vacant land. This paper discusses matters relating to the taxation of vacant property.

Key points for discussion

Does the Group agree with the Secretariat's assessment?

Recommended actions

We recommend that you:

- a **agree** not to support further work on vacant property taxes at this time; and
- b **agree** that the Government keep under review the effectiveness of vacant property taxes on housing supply in other jurisdictions.

Taxing vacant property

*Position Paper for Session 23
of the Tax Working Group*

November 2018

Prepared by the Inland Revenue Department and the Treasury

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Executive Summary

The supply of additional housing can come from either better utilisation of the existing housing stock or by the development of land currently used for other purposes. The key judgement is whether imposing a vacant property tax would be effective in addressing housing supply shortages.

Currently there is very little evidence to suggest that vacant property taxes are effective in increasing the supply of housing (although this could be because the tax rates may be set too low to induce existing owners to develop, sell or lease their residential property). The parameters of the tax are likely to be contentious to define and difficult to enforce. Implementing and maintaining the integrity of a vacant property tax also seems to involve high administration and compliance costs.

The design and implementation of vacant land taxes are complex. It is necessary to decide what types of land are subject to the tax and establish definitions of 'vacant' or 'unoccupied' property. This entails defining current land and dwelling uses that are less valuable than providing future residential accommodation. Decisions on the best use of land are sometimes difficult and have plenty of community interest. For example, how should communities value greenbelts or nature reserves within city limits, when faced with an undersupply of housing?

Setting the tax rate on vacant property so that it encourages existing owners to either develop, sell or lease their vacant property also seem difficult. Such a tax would be designed to encourage current owners to do things that they might not otherwise want to do. The risk become that the rate on vacant property is set too low to have any effect on existing owners.

Implementing a vacant property tax requires up-to-date information on land use and whether the land is occupied or vacant. Developing and maintaining such registers is costly. Enforcement is also likely to be an issue given the number of exemptions that tend to apply to vacant property taxes.

Finally, the need for vacant property taxes seems to depend upon the state of a local housing market. If effective, such taxes should only apply until equilibrium is restored to a local housing market. The administrative requirements for a vacant property tax seems high for what should only be a temporary tax.

1. Introduction

1.1 Purpose

1. The Secretariat has been asked to undertake a review of issues to be considered in relation to the taxation of vacant property. It is understood that the policy objective is to increase the supply of homes for rent or purchase rather than to establish a new revenue base.

1.2 Content and scope

2. The focus of this paper is to provide the Group with evidence to inform its current understanding of vacant land and dwellings in New Zealand and matters relating to taxing such property. The paper specifically covers the following:
 - The potential rationale for this form of taxation;
 - Data on vacancy levels and trends
 - Possible reasons for vacancy
 - International responses to vacant property
 - Issues relating to the implementation of vacancy taxes
 - Council rating powers on vacant property

2. Problem definition and objectives

2.1 Context

3. Housing affordability has been a significant policy challenge for governments around the world for a number of years. In late 2017 the New Zealand Government commissioned independent experts Alan Johnson, Phillipa Howden-Chapman and Shamubeel Eaqub to report on the state of housing in New Zealand.
4. Their report, *A Stocktake of New Zealand's Housing – February 2018*, notes that renting is becoming less affordable than it was in the 1980s, with a pattern of an increasing number of overcrowded households and the number of people living in non-owner-occupied housing. Growing demand, when there is already an inadequate supply of housing is creating pressure.¹ Tenancy bond data shows that rents and wages more or less tracked each other until late 2014. Since then, rents have risen faster than wages and much faster than prices generally.²
5. Median house sale prices nationally rose in New Zealand by around 40% over the past 10 years and by 30% over the past five years. Similar rates of price growth have been experienced in Wellington and Canterbury regions. Median price growth in the Waikato region has been much stronger at around 45% over the past five years. By comparison, the median price of Auckland houses rose 65% over the past five years and by almost 90% over the last decade.³
6. Increasing house prices and rents are likely to be strong indicators of a mismatch between housing demand and supply. Increased demand for housing can be met in two ways. First, more supply can come from the existing housing stock, which is either vacant or under-utilised. Secondly, vacant land can be developed to increase the supply of residential property.

2.2 Policy rationale for a tax on vacant property

7. This paper considers the potential for a tax on vacant property (land and dwellings) to increase the supply of homes for rent or purchase.
8. A potential rationale for a tax on vacant land or property would be to provide additional supply in areas where the demand for housing exceeds the supply. It does this by increasing the carrying cost to the owner of the vacant land or property.
9. The supply of additional housing can come from either better use of the existing housing stock or by developing land currently used for other purposes. The key judgement is whether imposing a vacant property tax would be effective in addressing housing supply shortages.

¹ A Stocktake of New Zealand's Housing – February 2018, Johnson, A., Howden-Chapman, P., Eaqub, S., page 7.

² A Stocktake of New Zealand's Housing – February 2018, Johnson, A., Howden-Chapman, P., Eaqub, S., page 11.

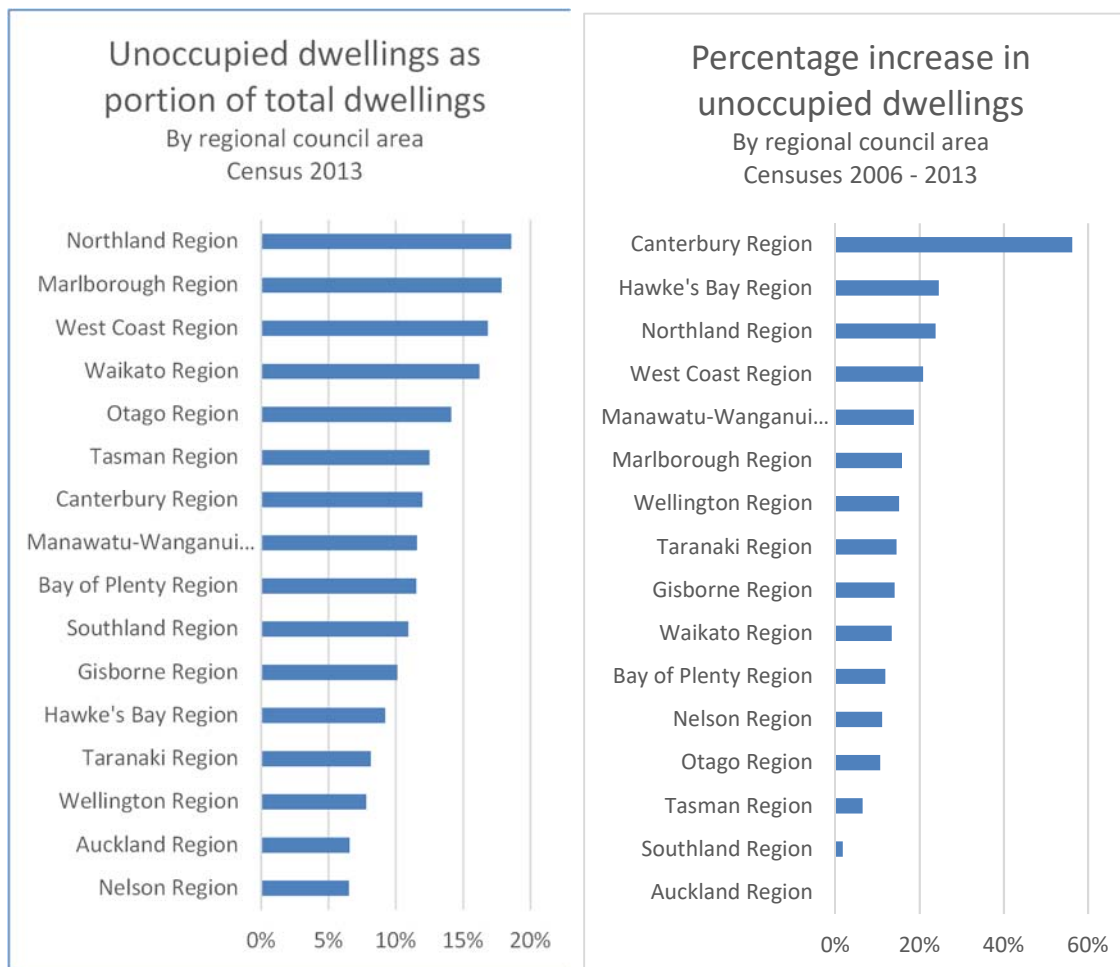
³ A Stocktake of New Zealand's Housing – February 2018, Johnson, A., Howden-Chapman, P., Eaqub, S., page 16.

3. New Zealand evidence of vacant property and land

3.1 National level Census data on unoccupied housing

10. The Census provides data on the number of unoccupied properties on Census night. Unoccupied dwellings on census night are classified as either ‘residents away’ or ‘empty’. A dwelling is classified as having ‘residents away’ where occupants of a dwelling are known to be temporarily away and are not expected to return on, or before, Census night. Unoccupied dwellings that are being repaired or renovated, and unoccupied baches or holiday homes are classified as empty in the Census data.
11. Total dwellings in New Zealand on Census night 2013 was just over 1,756,000. This was an 118,000 increase on the number of total dwellings reported in Census 2006. In 2013, nationwide 1 in 10 dwellings were unoccupied. Nearly one-quarter were classified as unoccupied because all the occupants were temporarily away at the time of the Census, but about three-quarters were recorded as having no occupants at all.
12. According to the 2013 Census results many regions had more unoccupied dwellings than at the last Census. The number of dwellings recorded as unoccupied rose from approximately 159,000 in 2006 to 185,000 in 2013. This was a 16.4 percent increase between 2006 and 2013.
13. There was little change in the number of unoccupied dwellings in the Auckland region. The largest percentage increase in unoccupied dwellings was in the Canterbury region, which had 28,317 unoccupied dwellings in 2013, up from 18,117 in 2006. This was a 56.3 percent increase and was related to the 2010–11 Canterbury earthquakes.

Table 1: vacant dwellings and change in vacant dwellings by regional council area (Source: Statistics New Zealand)



14. In addition to unoccupied dwellings, the underuse of dwellings may also be an issue. Conceptually, if the number of people living in a dwelling is below a dwelling's capacity, this also could be an important source of vacant housing capacity.
15. Anecdotally, there are reports of elderly couples and singles living in housing designed for large families. There does not appear to be any official data on the utilisation rates for the existing housing stock. Census information on the average population per dwelling might shed some information on this matter.
16. Census information suggests that average population per dwelling has reduced between 2001 and 2013. In 2001, the average number of people per dwelling was about 2.52 persons. In 2013, this figure was 2.48 persons per dwelling.
17. The overriding trend in New Zealand is that the average number of people per dwelling is reducing. The two exceptions to this trend are the Auckland and Otago regions. In Auckland the average number of people per dwelling has increased from

2.77 person in 2001, to 2.84 persons in 2013. In Otago the average number of people per dwelling increased from 2.35 in 2001 to 2.37 in 2013.

18. There is little official nation-wide data on vacant land. Perhaps the challenge with vacant land is there is often a value judgement over whether the better use of the land (presumably currently used for other purposes) is to build dwellings on the land. Discussions and decisions on the best use of land are sometimes difficult and have plenty of community interest. Often the discussions are around how should communities value for example greenbelts or nature reserves within city limits, when faced with an undersupply of housing. Perhaps this is the reason for lack of data. This said Auckland City Council has done some work on vacant land that is already zoned for residential use. This is discussed in the next section.

3.2 Vacant property in Auckland

3.2.1 Auckland empty housing

19. Census 2013 data counted approximately 473,500 occupied dwellings and 33,500 unoccupied dwellings in the Auckland region. Census data suggests that between 2006 and 2013 dwellings in Auckland increased by about 33,800.
20. A breakdown of the vacant dwellings shows that about a third had residents away. The remaining 22,000 properties were reported as empty.⁴ This amount represents about 4.3 percent of total dwellings in Auckland.
21. Other than residents that were away on Census night, there is no other information explaining why 22,000 dwelling were empty. Obvious reasons are that the unoccupied dwellings are being repaired or renovated, or they could be baches or holiday homes.
22. A more recent effort to quantify the number of vacant dwellings in Auckland was done by MBIE and Vector. This work used electricity connections data could be used to assess levels of vacant residential properties in Auckland. Vector was able to identify when a property was unoccupied using Installation Control Point (ICP) connections to the property. They classified a dwelling as 'unoccupied' on any given day if it used less than 400W per day (maximum demand threshold). From this base, Vector classified a property as vacant when it is unoccupied for at least 100 consecutive days.
23. Using this method, Vector classified 8,000 homes as being vacant in Auckland in 2015. This represented around 1.6 per cent of all dwellings in the Auckland Region. According to this study, the highest proportion of vacant homes were located in the northern beach suburbs and on Waiheke Island. From this, the most likely explanation for the vacancies is that homes left unoccupied for more than 100 consecutive days were holiday homes and baches.

⁴ Running on empty: The 'ghost homes' in Auckland's housing crisis, Wane, J. (September 2017).

3.2.2 Auckland long-term vacant residentially zoned land

24. Stories of individuals land banking have also been reported in the media, with reports of massive tax-free gains being made on yearly, monthly and even on a daily basis.
25. As mentioned before, it is very difficult to determine whether one type of land use should be preferred over another, particularly within or on the fringes of a city. However, in 2014 Auckland City Council looked at long term vacant land suitable for residential development within the built-up area of Auckland to see why it was not being developed.
26. In September 2014, the Auckland Council released a report that identified a significant pool of over 5,000 vacant residentially zoned sections within the built-up area of Auckland.⁵ Approximately 65% of these sections had been vacant since 2006 and earlier.

3.3 Comment

27. Census captures information on whether a dwelling is occupied or unoccupied. However, this data does not provide many insights for policy makers. Census information does not capture the reasons why a dwelling might be unoccupied. It also does not provide any information on how long the dwelling has been empty. It is assumed that any vacant property tax is aimed at reducing long-term vacancy rates not temporary vacancies.
28. There is also the apparent difference in estimates of vacancy rates in Auckland between the Census results and MBIE's work. The difference is likely to be due to different methodologies and definition of unoccupied/vacant. But there is a significant difference of about 14,000 dwellings.
29. It is also important to recognise that in housing markets there will always be some level of vacant property. It is reported that a three percent vacancy rate is generally considered to represent a market in equilibrium, where nominal rent growth follows the rate of inflation.⁶
30. Absent any robust information on vacancy rates in areas where there is particular housing affordability issues, it seems difficult to justify a tax on unoccupied housing or land.

⁵ Long-term Vacant Residentially Zoned Land in Auckland: Reasons for Prolonged Land Vacancy and Development Potential, September 2014, Technical report 2014/022.

⁶ Speculative Vacancies 8 The Empty Properties Ignored by Statistics (2014), Cashmore, C., Prosper Australia, page 37.

4. Reasons for vacant property

4.1 Introduction

31. Understanding why a dwelling or land is unoccupied and understanding its current use also seem to be important when policy makers are thinking about taxing vacant property. This may also assist distinguish between short run vacancies and longer term vacant property.
32. This section focuses on the international research on reasons for medium to long term vacancies of dwellings, as these properties are likely to be the key policy focus for any vacant property tax.

4.2 New Zealand research on reasons for vacant property

33. One piece of New Zealand research on the reasons why vacant residential land in Auckland remains undeveloped was done by Auckland City Council. As part of their 2014 report, Auckland City Council did in-depth interviews with 29 owners of long-term vacant residential land to understand why they had not developed their land parcels.
34. The report concludes that the owners of parcels of vacant residential land are discouraged from developing because they:
 - value the site considerably higher than what a developer is prepared to pay;
 - perceive that the financial risk has increased, due to the Global Financial Crisis;
 - perceive that developers face higher compliance costs to develop because of the urban location;
 - consider that the cost to develop in Auckland is too high; and
 - consider that they are better off speculating on capital gains and being passive investors, because the increased transaction costs of complying with RMA rules and development contributions.
35. Beyond the above, New Zealand does not appear to collect data on the reasons for why property is vacant. And while many countries have recent experiences with significant house and land inflation, very few countries systematically collect information and data that might inform the policy debates and housing market policy development. This said, the remainder of this section focuses on the international research into reasons for medium to longer vacancies of dwellings.

4.3 International research on reasons for vacant property

4.3.1 Ireland⁷

36. The report done for the Irish Government uses Census information on the reasons for vacancy of those properties classified as vacant. It also considers Local Property Tax returns.

Reported category	Comment / reason
For sale/rent/new build/renovation abandoned farm house	Tend to be short-term vacancies.
Owner deceased/in nursing home/hospital/with relatives	Vacancies may be short-term but may extend to medium term vacancies.
Other personal use (eg second and holiday homes or work-related homes)	Periodically used, with periods of non-use.
Vacant long-term / boarded up and habitable	Legal problems, including issues with meeting local building regulation (eg fire standards), poor construction (eg leaky buildings), dilapidation or other reasons.
Information not readily summarised	

37. The report writers had some difficulty in determining the reasons and the proportions of dwellings vacant for specific reasons. This was in part due to the proportion of Census forms being blank on reasons. Nearly 70 percent of forms were returned blank on reasons. For the remainder, nearly 50 percent reported the reason that the dwelling was vacant was because the property was for sale or rent. About 20 percent of the non-blank forms stated that the property had been vacant long-term and was habitable. However, “Rent Pressure Zones” in Ireland, the report concluded that a vacant property tax was unlikely to reduce a significant number of long-term / boarded up vacancies.

4.3.2 Italy⁸

38. According to basic economics, when vacancy rates rise, house prices should decrease and vice versa, responding to supply and demand mechanisms. However, the housing markets in a number of Mediterranean countries (Spain, Greece and Italy) have contradicted the theoretical logic for periods of time. Between 1996 and 2002 Greece had a vacancy rate of 31.9 percent, followed by Spain with 21.1 percent and both countries experienced very large increases in house prices. A 2018 study considered whether the Italian housing market also contradicted conventional theory. In the

⁷ Source: Indecon Report on the Taxation of Vacant Residential Property, September 2018, prepared for the Minister of Finance.

⁸ Source: Houses without people and people without houses: a cultural and institutional exploration of an Italian paradox, March 2018, Gentili, M, and Hoekstra, J., Housing Studies, DOI.

process the research considered the reasons to explain Italy's vacancy rate of 21.3 percent.

Reason	Key points
Investment in property in a home owning culture	Home ownership satisfies housing needs and a form of social security. Property is seen as a safe and profitable way to invest household savings. The growth in the number of dwellings has outstripped the growth in households for forty years. The discrepancy is explained by people acquiring the new supply as second homes and to meet speculative demand. ⁹
Important role for the family in supporting access to housing	Italy has a family-based welfare system, where intergenerational mutual support is key for many welfare services: health and elderly care, child care and housing. Families will often keep vacant dwellings to meet future family needs, including buying a house for children in advance of them being ready to occupy it.
History of strict rent regulation and tenant protection	Strict rental regulation tended to discourage investment in dwellings to provide private rental accommodation. In recent times rental regulation has been relaxed, but it remains difficult and costly for landlords to get their property back in the case of rent arrears. Italian regulation of the private rental market has failed to provide a good balance between affordability and social protection for the tenants, and reasonable returns for landlords. Investors could avoid these difficulties by not renting out the property, or by renting the property on the black market.
Strong rural to urban migration	Vacated dwellings might be used as second homes. Some may not be able to be sold due to lack of demand because of remote locations. However, the value of these dwellings as potential housing supply may be low due to their location.

39. The reasons identified in this research were related but not the main topic of the research. Nonetheless, the results indicate that reasons for vacant dwellings in Italy are varied and perhaps offer some insights into policy development relating to the New Zealand housing market.

⁹ The later may be rented out (sometimes on the black market and therefore classified as vacant) but sometimes deliberately kept empty for the "option value", ie can be sold quickly for a premium if empty.

4.3.3 Australia¹⁰

40. During the 1980s, the reasons why a dwelling was unoccupied was collected as part of the Australian Censuses. Table x shows the two main reasons for a dwelling being unoccupied were that it was a holiday home or the residents were absent on Census night. These two categories accounted for about 60 to 65 per cent of unoccupied properties.

Table x: Share of unoccupied dwellings by reason

Reason	1981	1986
For Sale	5.8%	6.5%
Rental (short or long term)	10.6%	11.3%
Newly completed	4.4%	3.8%
Repairs and alterations	4.7%	4.4%
Holiday home	24.3%	24.7%
Awaiting demolition	1.8%	1.2%
Resident absent on Census night	39.4%	34.7%
Other	9.2%	13.5%
Total	100%	100%

Source: ABS Census - Place of Enumeration

41. The above data has not been collected since 1986. However, the reasons were updated for a paper in 2016 – using assumptions and other data sources. According to the research, the two largest categories remain holiday homes or residents absent on Census night, accounting for more than two thirds of all unoccupied dwellings. The share of Holiday homes is lower than the estimates from the 1980s, which makes sense giving falling home ownership rates. Residents absent was higher, which given the increased mobility of households would also appear to make sense.

42. While this analysis has limitations, it suggests that most of the dwellings that were unoccupied on Census night were unoccupied for a very valid reason. There does not appear to be a large pool of dwellings being withheld from the housing market in Australia.

Table x: 2016 Share of unoccupied dwellings by category

Reason	Unoccupied private dwellings	Share of private dwellings
For Sale	52,000	5%
Rental (short or long term)	110,000	10.6%
Newly completed	55,000	5.3%

¹⁰ Source: Why no one was home on Census night, SGS Economics and Planning, Article July 2017.

Repairs and alterations	47,000	4.5%
Holiday home	237,000	22.8%
Awaiting demolition	16,000	1.5%
Resident absent on Census night	453,000	43.6%
Other	69,000	6.7%
Total	1,039,867	100%

Source: SGS Economics and Planning

43. However, these results contrast with the research on vacant properties in Melbourne.

4.3.3.1 Vacant dwellings in Melbourne¹¹

44. Prosper Australia, a tax reform lobby group that favours land value taxation, has a series of reports considering speculative vacancies in Melbourne to highlight how Government housing, tax and supply policies have contributed toward widespread residential and commercial vacancies.

45. Based upon water-use information and dwellings advertised for rent, they report estimates of up to 4.8 percent of Melbourne’s housing stock is vacant. This equates to nearly 83,000 dwellings and is based on low water usage of less than 50 litres per day over a 12-month period. No water was consumed in about 25,000 properties, indicating that these dwellings were demonstrably unoccupied. The report also asserts that the reason that these properties are vacant is due to investors acquiring housing for speculative purposes. The report suggests that most are investing for “capital gains” rather than rental income.

4.4 Comment

46. Firstly, there appears to be little systematic information, both domestically or internationally, that might assist New Zealand policy makers clearly understand the reasons behind long-term vacant property.

47. The above research suggests that there are a wide range of reasons, cultural, economic and other that explain why dwellings are left vacant. A better understanding of these reasons can assist with defining the circumstances that policy makers might consider a property to be vacant long term. It would also inform thinking about exemptions to a vacant property tax.

48. Understanding the reasons why a property is vacant is also important to quantifying the scale of the problem and providing estimates of any potential gains to be made from taxing vacant property.

¹¹ Speculative Vacancies 8, The Empty Properties Ignored by Statistics, 2014, Catherine Cashmore, Prosper Australia.

49. As previously mentioned, vacant dwellings are only really a problem in locations where there is high demand for housing. This means that policy makers require up-to-date information on location specific factors influencing local housing supply and demand.
50. Ideally, this information would exist at the point that policy makers are making design decisions. However, it is also an option to go with a less targeted vacant property tax and live with some rough edges and have categories of exemptions. Other countries seem to have adopted this approach.

5. International Responses to Vacant Property¹²

5.1 Introduction

51. In many countries housing shortages have emerged, particularly in key cities. Most countries do not appear to have implemented a vacant property tax. However, a number of countries have. This section briefly describes examples of vacant property taxes.

5.2 Vancouver

52. Vancouver City recently introduced a vacant property tax. The first taxable year was 2017. All residential property owners are required to make an annual return declaring the status of their property. Failure to file a return results in an assumption that the property is vacant, and the tax is levied.
53. Within the city of Vancouver, residential properties are “vacant” if they are not used as a principal private residence; and/or have not been rented out for a minimum of 6 months in a given year.
54. The tax rate is one percent of a property’s assessed taxable value. This value is based on the previous year’s assessed value. If a residential property is an owner’s principal residence then it is exempt from the tax, regardless of how much time the owner actually occupies the property. To be exempt from the tax, the owner is not required to occupy the property for any period of time, as long as the property is their principal residence.
55. Property status declarations are subject to an audit process and if a property is selected for audit, the owner is required to provide information or evidence in support of their declaration. The amount of days that a property is physically occupied by an owner, his/her family members or guests, does not determine whether the property is exempt from the tax. If the property is not a principal residence or rented for at least six

¹² Source: Indecon Report on the Taxation of Vacant Residential Property, September 2018, prepared for the Minister of Finance.

months of the year, and does not otherwise qualify for an exemption, it is considered vacant and the tax will apply.

56. In the case of second homes, the vacant property tax will not apply if the registered owner occupied their second home for at least 180 days of the tax year because their work required a physical presence in the city of Vancouver. Their work must be full-time for this exemption to apply.
57. There are a range of exemptions from the vacant property tax for properties whose owner recently passed away, for owners in medical care, for buildings vacant due to ongoing major construction/renovation works and for properties which are vacant due to court orders. There is no exemption of properties classed as uninhabitable.
58. In 2017, a total of 183,900 returns were submitted in the first year of the program, accounting for 98.85% of all residential property owners in Vancouver. Just under 8,500 properties were determined to be unoccupied or underutilized: 1,200 were declared vacant by the owner and 2,100 people failed to declare, and their properties were deemed vacant and subject to the tax. 5,200 properties were declared exempt from the vacant properties tax.

Table x: Reasons for exemption in 2017

Exemption	Times exemption claimed
Property transferred during the year	2,480
Renovation or redevelopment	1,560
Strata restrictions on rentals	560
Other: including death of owner, owner in care, occupied for more than 180 days for work in Vancouver	600

59. The tax was estimated to raise \$30 million of revenue in its first year. The number of properties which may ultimately end up paying the tax for 2017 is lower than was forecast. A study of electricity use in 2016 estimated that 10,000 properties were vacant for a year and Census estimated that there were 25,000 vacant homes. Both these estimates are higher than the 1,200 to 3,300 properties which may pay the vacant property tax in Vancouver.

5.3 Melbourne

60. A vacant residential property tax came into effect in January 2018 in Melbourne. The vacant residential land tax is a tax on residential properties in Melbourne's inner and middle suburbs which are unoccupied for more than six months a year. Provided a property was occupied for an aggregate of six months in the preceding calendar year, the vacant residential land tax does not apply for that tax year.
61. A property is not considered vacant if it was occupied for more than six months in the preceding calendar year by either: the owner or persons permitted (ie employees,

friends or family members) by the owner as their principal place of residence; or a person under a lease or short-term letting arrangement.

62. A residence that is classed as an individual's principal private residence, regardless of the amount of time that the dwelling is vacant in a year, is not subject to the tax.
63. The tax is levied annually and is based on the capital improved value of the taxable land, which is determined by the general valuation process. The value is displayed on the council rates notice for the property provided in the state of Victoria. The tax is levied at 1% of the property's value.
64. Owners of vacant residential properties are required to notify the State Revenue Office by 15 January each year via an online portal. If a property is eligible for an exemption, the land owner is required to notify the State Revenue Office and advise which exemption applies. The State Revenue Office conducts monitoring and compliance activities to make sure that vacant residences are being declared. The compliance program includes comparing data with that of other state and federal agencies and conducting investigations.
65. There are a number of exemptions to the tax. The exemptions include:
 - for recently deceased owners and owners in nursing homes;
 - properties being constructed or renovated will not be considered vacant for up to two years from when construction or renovation starts.
 - for properties that change ownership during a year, the property is not subject to the vacant residential land tax in the following year.
 - properties owned and occupied by people who stay in Melbourne's inner and middle suburbs for work purposes, but whose principal place of residence is elsewhere in Australia. The exemption applies to properties occupied for at least 140 days a year for the purpose of attending the owner's workplace.
66. The vacant property tax only came into effect in 2018 and has yet to complete a full year of returns. This means that there is currently little evidence on the impact of the tax to date. Estimates using water consumption data suggest that there are over 5,000 vacant properties in the targeted areas. The tax is estimated to raise over \$80 million over a four-year period, although the principal objective of the tax is to increase the housing supply and not raise revenue.

5.4 Tax on Vacant Dwellings, France

67. Since 2014, owners of holiday homes in areas of housing shortage in France have been liable to face a surcharge on the housing tax that applies to that property. The tax applies to secondary homes which are not registered as owner or occupier's principal private residence.

68. The tax is based on a notional rental value for the property multiplied by the tax rate fixed in the locality. The rental value is assessed by the land registry (cadastre). Local councils have the discretion to apply a surcharge on second homes by between 5% and 60%. The rate in Paris was increased to 60% in 2017. The tax applies in around 28 urban centres in France. Those who hold a second home for business or professional reasons are exempt, as are landlords who ordinarily let out a property on an annual basis.
69. There has been limited evidence of the impact of the vacant homes tax in France. The fact that the original tax, which was capped at a 20% surcharge, was reformed in 2017 to allow for a surcharge of up to 60% indicates that the initial tax was not having the desired impact on vacancy rates in the areas of the greatest degree of housing market pressure in France.

5.5 Council tax on vacant properties, the United Kingdom

70. In the UK, local councils have the power to impose higher council tax on dwellings that have been vacant for more than two years. Councils could previously impose an additional council tax surcharge of 50 percent on vacant properties. In 2017 the level of the surcharge was increased to 100 percent. The imposition of the surcharge is at the local council's discretion. There is limited evidence to date on the impact of this tax on vacancy rates in the UK. One criticism of this measure is that it is ineffectual for high-end properties in London, which are attractive investments for foreign buyers.

5.6 Comment

71. Vacant dwelling taxes have been introduced in a small number of countries and cities. It appears that it is early days for these taxes and there is very little evidence to determine if the tax is increasing the supply of housing.
72. The general approach to taxing vacant dwellings is a time-based test to define vacant property. For example, the tax applies if a property is vacant for more than six months in a twelve-month period. Many vacant land taxes exclude the principal residence and have a wide range of other exemptions. There seems to be a range of different approaches to create registers of vacant property, but all involve some sort of monitoring and audit activity. It also seems that local authorities have a significant role in administering these taxes and collecting the revenue. This creates a potential risk that entity benefiting from the revenue treats the vacant land tax as a new revenue source, rather than a mechanism to encourage greater supply of housing.

6. Issues with implementing a vacant property tax

6.1 Introduction

73. There are a range of matters that need to be considered for a vacant property tax. The key decisions relate to developing:

- an appropriate definition of vacancy, including defining the relevant assessment criteria and the exemptions;
- the appropriate means of establishing and maintaining a register of vacant property;
- the appropriate tax rate to apply to vacant property;
- anti-avoidance rules and processes; and
- the approach to monitoring and evaluating the effectiveness of the policy.

74. It is also important to determine the locations and the duration of where such a tax should apply. It is also important to determine who should administer any vacant property tax and who gets to keep any revenue. The following section briefly discusses some of these matters.

6.2 Definition of vacant property

75. A key first step in establishing a tax on vacant property is defining what constitutes a vacant residential dwelling and vacant land that would be subject to any such tax. Key variables could include:

- what is meant by vacant property (ie defining current land and property uses that are less valuable than providing residential accommodation);
- the period for which the property has been subject to its current use (or non-use); and
- defining the exemptions to the definition of vacant property, including the assessment criteria and monitoring.

76. Limiting a vacant property tax to existing dwelling somewhat simplifies these considerations. However, there will still be tricky calls to be made. For example, should a second home, intended to be a future principal residence after retiring, be within the scope of a vacant property tax if the property has limited use in the next few years?

6.3 Register of vacancies and administration

77. A vacant dwelling tax may require some form of register of vacant properties. This register would need to be location specific and kept current. Doing this would likely involve compliance and administrative costs and challenges. Particularly in a dynamic local property market.

78. Currently there is no single source of information on residential property ownership, land use, land zoning, and local housing market conditions. Pulling these pieces of information together for the purposes of a vacant land register would take time and so a vacant property tax could not in our opinion be effectively introduced within a short timeframe.
79. There is also the question over who should administer such a tax. It seems that local councils may be best placed to administer such a tax. However, it is an open question as to whether they have the requisite skills and processes to administer such a tax. Looking at how other cities have implemented their vacant land tax suggests that these types of taxes require significant oversight and administration.

6.4 Setting the base value and tax rate

80. Ideally the base value should be readily available and set annually. For rating purposes local councils publish rating valuation information for every property in New Zealand. Most rating valuations are reviewed on a three-year cycle. This might need to change if a vacant dwelling tax was to be considered.
81. Ideally, a property's value for a vacant dwelling tax should be its land value, rather than its capital value (which typically includes the value of all improvements and buildings). Calculating the tax on land values would not discourage investment in land improvements – which seems to be one outcome the policy is seeking to achieve.
82. The rate of tax needs to be sufficient to incentivise owners of vacant properties to sell or lease their property. A common criticism of vacant property regimes is that such taxes are set too low. Setting tax rates that influence existing owner's behaviour is likely to be difficult.
83. Evidence of the success or otherwise of vacant property taxes overseas at lowering the levels of vacant property would be useful when considering the appropriate rate for a vacant property tax.

6.5 The rules and monitoring for tax avoidance

84. Should a vacant property tax be implemented, a key avoidance rule would involve ensuring that property owners cannot register more than one property as their principal private residence.
85. It is also important to ensure that property owners do not avoid the vacant property tax by only renting their otherwise vacant property for a very short period in order to record some rental income for the period and avoid classification as vacant. To avoid this situation, a minimum threshold for rental income over a 12-month period could be imposed.

86. It would also be important to ensure that robust procedures are in place to ensure that those applying for exemptions from the vacant property tax have sufficient evidence to support their applications. Getting up to date information on a property owner's status or the status of the property may be a challenge.

6.6 Comment

87. The design and implementation of vacant land taxes are complex. It is necessary to decide what types of land are subject to the tax and establish definitions of 'vacant' or 'unoccupied' property. The parameters of the tax are likely to be contentious to define and difficult to enforce. Implementing and maintaining the integrity of a vacant property tax also seems to involve high administration and compliance costs.

88. Setting the tax rate on vacant property so that it encourages existing owners to either develop, sell or lease their vacant property also seems a challenge. Such a tax would be designed to encourage current owners to do things that they might not otherwise want to do. The risk become that the rate on vacant property is set too low to have any effect on the current owner's behaviour.

89. Finally, the need for vacant property taxes seems to depend upon the state of a local housing market. If effective, such taxes should only apply until equilibrium is restored to a local housing market. The administrative requirements for a vacant property tax seem high for what should only be a temporary tax.

7. Council rating powers on vacant property

7.1 Introduction

90. The Department of Internal Affairs (DIA) has been asked whether a local authority wishing to impose a differential on vacant property could do so under the relevant provisions of the Local Government Act 2002 (LGA02) and the Local Government (Rating) Act 2002 (the Rating Act). The following section summarises their comments.

7.2 Vacant housing

91. DIA advises that it is doubtful such a rate could be set for vacant housing under current statutory requirements. Further, if such a differential rate could be set they consider that the administrative difficulty in identifying the properties that were vacant on 30 June would be so large that it is unlikely any local authority would set such a rate.

92. On the latter point, DIA notes that there is no information readily available to a local authority to determine whether or not a property is vacant, and if so why. The closest would be whether water was being consumed, but many local authorities do not meter water and have no knowledge of water consumption from individual properties.
93. Further, DIA notes that rates are an annual tax assessed on 30 June each year. This assessment applies for the whole of the following year. This means the circumstances applying on 30 June apply for the whole of the following year. The complications with this approach would include:
- the possibility that the owner of a property was absent or on holiday on 30 June;
 - the possibility that the house being actively for sale, but the owner had moved to their new home prior to completing the sale of their old home; and
 - the house was actively being rented but was vacant for renovation between tenancies.

7.3 Vacant land

94. DIA advises that, while the statutory considerations are the same as above, it is possible to get to a different answer for vacant land, especially large blocks of vacant land that are capable of subdivision.
95. DIA has been asked in the past whether a local authority could charge a targeted rate on vacant land to discourage land banking. DIA considers that it is reasonably arguable that the land is benefitting from the council's investment both in rezoning and servicing it with infrastructure, and it could well be possible to design a targeted rate to recover those additional costs from the land.
96. The underlying rationale would best be linked to demonstrable costs the Council has incurred, rather than a blunt Pigouvian tax designed only to incentivize land development.
97. In terms of the Rating Act, identifying vacant property is far easier – the information concerned is readily obtainable from council records – zoning, availability of services, and the presence or absence of homes and buildings are all core parts of the council record set.
98. The key issue is whether any rate, if so charged, would sufficiently incentivise land owners to develop. This would need to be considered in the context of all the different incentives applying to land owners. In particular, whether increased rates would outweigh the disincentives to development. DIA is not aware of any local authority currently imposing a targeted rate on vacant land.

7.4 Comment

99. It seems that a local authority may be able to impose a targeted rate on vacant land, provided the local authority has invested in re-zoning the land and providing infrastructure. If there has been no investment, then the ability to impose a targeted rate seems less certain.
100. DIA advises that it is doubtful that a differential rate could be set for vacant housing under current statutory requirements. Moreover, they consider that the administration of such a rate on vacant land would be very difficult.

Appendix A: Suggested text for Final Report

Vacant land and empty home taxes

1. The Group has considered taxes on vacant land and empty homes. A tax on vacant land and or dwellings is intended to encourage additional supply in areas where the demand for housing exceeds supply.
2. A number of cities and countries have taxes on vacant dwellings. We note that the design and implementation of vacant property taxes is complex. For example, it is necessary to decide what types of land use ought to be subject to the tax and establish definitions of ‘vacant’ or ‘unoccupied’ property. Such definitions are likely to be contentious and costly to enforce.
3. Further there is little evidence to suggest that such taxes have increased the supply of housing to rent or buy in the locations where they apply (although this may be because the rates of tax are low).
4. On balance the Group does not support doing further work on vacant property taxes at this time. We recommend that the Government keep under review the effectiveness of vacant property taxes on housing supply in other jurisdictions.

