NZPIF submission to the Tax Working Group

4 June 2018

The Tax Working Group (TWG) was established by the Government to ensure the New Zealand tax system is fair, balanced and administered well. It is difficult to argue against these aims, but the NZPIF is interested in how the TWG establishes what currently isn't fair and balanced in our tax system and how they would correct this.

This report is a summary of the NZPIF submission to the TWG. You can view the complete submission here.

The TWG has been asked to report on whether the tax system promotes the right balance between supporting the productive economy and the speculative economy. It is critical that the Group correctly defines the productive economy as if done so then the provision of rental property to workers can only be seen as an essential part of the productive economy. The same cannot be said for buying and selling of shares.

Apart from providing accommodation for a third of all New Zealanders, the rental industry pays annual tax on a net rental income of around $1.5 billion, pays rates and supports many other industries such as insurance, property management and many trades.

The NZPIF is concerned that the Group has received incorrect information.

The TWG has produced a background paper called the Future of Tax. You can view this paper here.

In this background paper (page 39 and 40) is a study on tax rates that claims rental property pays a lower level of tax compared to other assets. This has lead them to state that "rental property is undertaxed relative to other assets".

This didn't look right to the NZPIF so we commissioned a report into the TWG study from Finance and Economic Consultants, Morgan Wallace. They found that the methodology was flawed, in that they assumed that only rental property had any capital gains element to it.

The report completely rebuked the TWG study and shows that rental property is in fact overtaxed compared to most other assets. (You can view the Morgan Wallace report here)

The Morgan Wallace report completely removes the TWG's key reason for claiming that rental property is undertaxed compared to other assets thereby ending any reason to apply an extra tax to rental property using fairness as a justification.

Our submission specifically addressed the topic of a Capital Gains Tax (CGT) as this appears to be the principle reason for the group being established.

We reasoned that other countries that have either a CGT or land tax have still seen large housing price rises, so tax is not a method to control house prices in New Zealand. In addition, increasing the cost or reducing the return of providing rental property has seen higher rental prices of the past seven years. This is leading to rental unaffordability and overcrowding, plus making it harder for aspiring first home buyers to save a deposit.

Housing has for many years been targeted to ensure that property speculators pay all the tax they should. This includes the IRD establishing the Property Compliance Team and the introduction of the two year Bright Line Test.

The NZPIF has always supported measures to ensure property speculation is properly taxed, however the extension of the Bright Line Test to five years affects rental property purchases more than speculative property purchases. While the NZPIF promotes holding rental property for the long term, many things can happen over a five year period meaning that a property needs to be sold. The Bright Line Test therefore adds extra risk when buying and providing a rental property to tenants that does not apply to other assets. This is unfair and could lead to shortages in rental property supply.

If looking to introduce fairness to the tax system, the NZPIF suggested that the Bright Line Test should apply to all assets, including shares and businesses. In addition to fairness, this could be a way to increase tax revenue for the Government.

NZPIF conclusion

Our broad based taxation system works well, providing tax revenue to pay for essential services that our country needs.

The provision of rental property contributes to the productive economy and pays a fair share of tax. Increasing property tax would not be equitable and the burden would mostly fall on tenants.

A case could be made to ensure share traders pay their fair share of tax by including shares in the Bright Line Test and introducing a share traders compliance unit within the Inland Revenue Department.

The introduction of a CGT or Land Tax would not make housing more affordable, but it would make rental property more difficult to provide at a time when we need more of it. Rising rental prices through higher costs and taxes would make it harder for tenants to save a home deposit, thereby making housing less affordable.