11 February 2012

Steven Bailey
Inquiry into Housing Affordability
New Zealand Productivity Commission
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By email: housinginquiry@productivity.govt.nz

Dear Steven

NZPIF RESPONSE TO THE DRAFT REPORT OF THE PRODUCTIVITY COMMISSION INTO HOUSING AFFORDABILITY

The New Zealand Property Investors' Federation (the Federation) welcomes the opportunity to comment on the Productivity Commission's draft report on housing affordability.

In making a contribution the Federation focuses its comments on the Commission's draft findings and recommendations on the section to do with the role of taxation.

In general terms, the Federation believes that the Commission's comprehensive analysis and draft report are both on the right track. We reiterate that current tax settings have not made houses unaffordable and the imposition of a Capital Gains Tax (CGT) or any other new taxes on investment rental property would not be a solution to make housing more affordable. A CGT and other taxes would have unintended and distortionary impacts and potentially feed into higher costs such as rents and other Government assistance packages.

Consistent with this, the Federation observes that the Government has carefully looked into a CGT, RFRM tax, land tax, and ring fencing of losses in 2010. In all cases the new policy suggestions were rejected.

Further, the Prime Minister's comments on a recent television interview (TV1 Breakfast 19/12/11) stated that "*The balance … is making sure we don't do so much that people stop investing and then rental prices go up a lot*".

The Federation draws the conclusion that there is little to gain from tinkering with current tax settings as any adjustments will not significantly improve the affordability of housing.

DISCUSSION
The response of the Federation is noted under each of the findings or recommendations below.

Role of Taxation
F6.1: The tax bias in favour of equity invested in owner-occupied housing is not as large as is often suggested, once GST and territorial government rates are taken into account.

NZPIF response
The Federation agrees that the claimed tax advantage or bias for housing over other asset classes are "much smaller" than often suggested. It is important for policy makers, financial commentators and others to note and understand this authoritative finding and be willing to accept it.

While the Federation considers that proponents of the myth that current settings favour property investors are entitled to their ideological view points, however they should now carefully ensure their stance takes into account the clear and well researched analysis and information put forward by the Commission.

F6.2: A decision on whether to adopt a capital gains tax on housing should be based on a coherent set of principles that have general application, not just to housing – a wider matter that runs beyond the scope of this inquiry

NZPIF response
The Federation agrees that any tax treatment on housing should be consistent and applicable to all asset and income classes. There is no equitable or robust case to exempt other asset classes such as owner-occupied housing.

F6.3

- ***The elimination of depreciation allowances for houses (and other buildings) can be seen as a pragmatic balancing of a number of considerations in the light of a particular set of circumstances – the housing market boom of the early 2000s. Its aptness going forward, in what could be different circumstances, should be monitored; ideally in the context of establishing an approach that is durable across a range of different circumstances.***
- ***The full deductibility of interest expense for business borrowers (and assessability for savers), including of that component that is not 'real', is a tax distortion that favours borrowing to invest in real assets, including for investment in rental dwellings. However, it is a general flaw in the income tax system that best would be addressed as such, rather than specifically in the context of housing.***
- ***No changes, to ring-fence losses on residential rental investments from other taxable income, are called for.***

R6.1: That the Government monitor the impact of the removal of the depreciation allowance on commercial properties, including rental properties, for evidence that expenditures relevant to the proper upkeep and safety of buildings are being sustained

NZPIF response

Whilst the Federation disagrees with the Budget 2010 changes to the depreciation regime we do agree with the Commission that the current settings should be closely monitored. It is the Federation's belief that the elimination of the depreciation allowances could, as an unintended consequence, further raise rent levels as landlords need to play catch up with regard to off-setting rising maintenance, insurance and other housing related costs.

The Federation agrees with the Commission that the deductibility of interest expenses is not a special situation that only favours investors with rental housing. Interest deductibility is rightly applicable for all income generating businesses.

The Federation agrees with the Commission that there is no case for the ring fencing of losses on residential rental investments. Should such a regime be imposed it would only create a new set of distortions.

Yours sincerely

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