NEW ZEALAND PROPERTY INVESTORS FEDERATION
Proud providers of rental homes

NZPIF POSITION STATEMENT: MAY 2021

REMOVAL OF RENTAL PROPERTY MORTGAGE INTEREST TAX DEDUCTIBILITY

Background

In March 2021 the Government announced several changes to housing policies in response to a spike in house prices that mainly had occurred from September 2021. These changes were aimed at helping first home buyers and disincentivising rental property providers. One fundamental change was the removal of mortgage interest as a deductible expense for residential rental property, exempting new builds. The new law will apply to investment properties purchased on or after 27th March 2021 and incrementally for all existing residential investment properties. Existing investment properties can only claim 75% of their mortgage interest costs from 1 October 2021, reducing by a further 25% each year until 2025.
The Government Impact Statement stated that no research had been undertaken on the consequences of this action. Government Policy Analysts from the Inland Revenue, Treasury, plus Ministry of Housing and Urban Development recommended Government did not remove mortgage interest deductibility for residential Investment Property.
The Government will be conducting public consultation on the new tax law, however, this will be limited to technical aspects of the law, such as how to define a new build.

NZPIF action to date

With no research on the likely effects of the tax law change, the NZPIF surveyed rental property owners to determine how they would be affected and their potential response.
The NZPIF met with representatives from the First Home Buyers Club and Tenants Protection Association Canterbury. These three organisations wrote to the Minister of Revenue asking that the new law be revised as it would increase rental prices, reduce rental property supply and make it harder for First Home Buyers to save for a home deposit. The NZPIF presented this to five Government Ministers, but the request was rejected. The NZPIF asked if the design of the new law could be amended to be like a similar law in the UK that limited mortgage interest deductibility rather than completely removing it. This was also rejected.

NZPIF Survey Results

The NZPIF survey received a response from 1,917 rental property providers.
The main points from the survey were:

- 90% had debt on their properties and would be affected by the law change.
- The average increase in tax was $15,083 per investor
- The average increase in tax was $3,140 per rental property
- 98% of respondents who bought a rental property in the last two years will be affected by a tax increase of $4,542 per year per property

- 78.8% of those investing for 20+ years being affected at a cost of $2,468 per year per property.
- Cost of the extra tax could be $1.5 billion
- To cope with the tax increase, 76.8% of respondents will increase or probably increase rental prices.
- The median rental price increase is between $21 and $30 per week.
- 70.3% of respondents do not currently charge tenants full market-level rental prices. 40% have rental prices between $5 and $25 under market value, while 30% have rental prices more than $25 pw under market value.

NZPIF position on the removal of interest tax as a deducible expense

- Interest deductibility is a standard tax provision for all businesses. Claiming that it is a loophole because homeowners cannot claim it is misleading. Homeowners get the untaxed benefit of accommodation while rental property owners get the taxed benefit of rental income, where all the revenue costs of providing that rental should be deductible.
- NZPIF is opposed to the removal of interest as a legitimate tax-deductible expense for property investors.
- Our findings suggest that rents will have to increase to help landlords absorb the tax increases on rental property. This will reduce rental affordability for tenants.
- Higher rental prices will make it harder for first home buyers to save for a deposit.
- People may look at alternative investments rather than property. This will increase demand for the remaining properties and reduce the supply of houses available for tenants to rent, thus increasing homelessness.
- If the Government feels compelled to change the laws on rental property mortgage interest as a tax-deductible expense, they should implement the UK model, which is not expected to reduce supply or increase rental prices to a significant degree.