Hon Bill English

Minister of Finance

Hon Peter Dunne

Minister of Revenue

20 May 2010

Property tax changes increase fairness

Changes to the tax treatment of investment property increase fairness and help rebalance the economy towards productive investment, Finance Minister Bill English and Revenue Minister Peter Dunne say.

Budget 2010 property tax measures include:

- Denying depreciation deductions for buildings, such as rental housing and office buildings, with an estimated useful life of 50 years or more. This takes effect for all such buildings from the start of the 2011/12 income year.
- Changes to the tax rules for qualifying companies (QCs) and loss attributing qualifying companies (LAQCs), taking effect from income years starting on or after 1 April 2011.
- Preventing property investors from using rental losses to inflate Working for Families eligibility and payments, from 1 April 2011.
- Funding over the next four years for Inland Revenue to target property speculators who have been avoiding paying tax on their trading gains.
- Cutting the top personal tax rate from 38 per cent to 33 per cent, reducing the value of losses higher-income earners can claim on property investments.

“These changes will make the tax system fairer by ensuring the treatment of property is consistent with other forms of investment. This will reduce the incentive for people to buy property purely for tax reasons and will help tilt the economy towards saving, productive investment and exports,” Mr English says.

“Closing loopholes that allow well-off families to use investment losses to inflate their eligibility for Working for Families payments will remove another incentive to invest in property.

“These changes will generate at least $2.48 billion additional revenue over the next four years, which can be returned to all New Zealand taxpayers as part of our package of across the board tax cuts.”

The Treasury estimates the impact on rents of Budget 2010 tax changes will be slight, with rents rising about 0.7 per cent more than they otherwise would have over the next three to five years.

Mr Dunne says the new rules will enhance consistency across the tax system.

“Ending depreciation tax breaks on buildings makes sense. On average, New Zealand buildings actually increase, rather than decrease, in value over time.

“Changes to LAQCs and QCs to make them flow-through entities for tax purposes will reduce the opportunities for tax structuring.

“An extra $26.6 million funding over four years will enable Inland Revenue to continue its successful programme of increased property transaction audits and compliance activity. This will ensure people who trade in property comply with the law and pay tax on their trading gains,” Mr Dunne says.

For more information, see Budget 2010 fact sheets on building depreciation, *LAQC and QC rules, Working for Families changes and tax integrity.*

Media contacts: Grant Fleming 04 817 9869 or 021 277 9869

Mark Stewart 04 817 6985 or 021 243 6985