
From: ^IRD: Paul Kilford
Sent: Tuesday, 16 April 2019 4:11 PM
To: ^Parliament: Keiran Kennedy
Cc: Mark Vink [TSY]; Jordan Ward [TSY]; ^IRD: Phil Whittington
Subject: TWG response

[SENSITIVE]

Hi Keiran

A couple of things:

- At the end of this email are some lines on the “less than full residential option”. Let me know if you need anything further on this.
- For the announcement, we understand that Ministers will be releasing the table at the back of the Cabinet paper as part of their PR. We will update the tax policy website to include an item that would just something like: “Today the Government released its response to the recommendations of the Tax Working Group. The response to individual recommendations can be found here [with link to the Ministers’ PR/table]” This would go up immediately after the Ministers’ PR goes live.

Cheers
Paul

- The minority itself could not agree with whether second homes/baches should be taxed.
- If second homes/baches are not taxed:
 - the additional revenue from taxing rentals is reduced
 - it raises significant efficiency concerns because you would tax someone on capital gains if they rent the home to someone, but not if they keep it empty for most of the year. In other words, the tax system would favour someone that left a house empty rather than renting it – and this could create negative housing supply effects
 - it similarly raises fairness concerns because the system would reward those that could afford not to rent their second home
 - you have all sorts of definitional problems of deciding when a property is a bach (what if it’s on Airbnb most of the year?) or a rental. This increases complexity and compliance/administration costs.
- If you try to make the exemption simpler, by allowing anyone to own one additional property without capital gains tax (which could be a bach or a rental), you end up:
 - collecting no significant revenue
 - favouring small-scale over professional landlords
 - creating compliance costs from needing to nominate an exempt property if you own more than one
 - having to retain the bright-line rules in order to prevent speculation (otherwise people could use their one additional property allowance to buy and sell quickly for a profit).
- The combination of the above supports the status quo over a watered down tax on capital gains from residential rental property.

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