HOW MIGHT TAXING MORE CAPITAL GAINS WORK?

Tax Working Group
Te Awheawhe Tāke

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taxworkinggroup.govt.nz

Income earned from selling one of the assets below is added to all the other money you earned during the year. Your total income then gets taxed normally like everyone else's at the same rate.

INCLUDED ASSETS

- INVESTMENT PROPERTY
- LAND
- SHARES
- BUSINESS ASSETS
- INTANGIBLE PROPERTY SUCH AS INTELLECTUAL PROPERTY

EXCLUDED ASSETS

- FAMILY HOME
- PERSONAL OR HOUSEHOLD ITEMS LIKE:
- CAR
- BOAT
- ART

VALUATION DAY

Only gains from the start date of any new law would be taxed when an asset is sold. Losses are also calculated from this date.

Assets will need to be valued but this doesn't have to happen on the day the law comes into force. The Group has proposed several ways to help make it easy to determine the valuation.

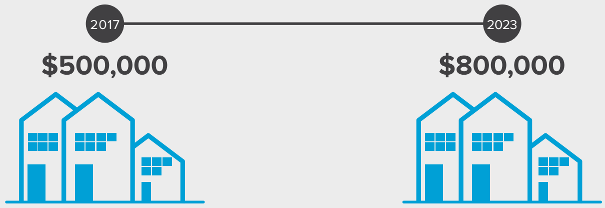
LOSSES

Assets bought before valuation day – any money lost between the day the law came into force and the sale of one of the included assets above, will generally be able to be used to reduce the tax you pay on gains from other assets.

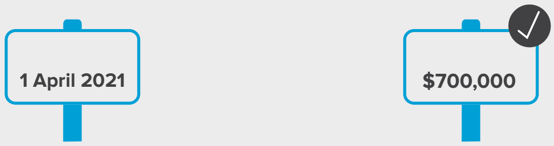
However, assets bought after valuation day – losses will generally be able to be used to offset tax paid on other income, but there are some circumstances where this is limited to income earned from asset sales.

HOW COULD THE TAX BE APPLIED? HERE ARE SOME SCENARIOS:

PROPERTY



Mary owns a few rental properties. She bought one for $500,000 in 2017 and sells it for $800,000 in 2023.



Let's say new tax rules come into force on 1 April 2021 and Mary decides to accept the next Council Valuation of $700,000 as the value of her house.

Mary won't be taxed on $200,000 gain that occurred before 2021. It's only the $100,000 gain after 1 April 2021 that matters.

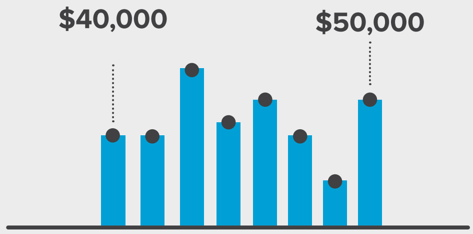
Mary spent $70,000 on renovations after the date of the council valuation, but ahead of the sale so her net gain is $30,000. Mary doesn't earn any wages, but she receives $60,000 each year from her rental income.

So how much tax does Mary need to pay in 2023 when she sells the property?

Under the current rules, Mary is only taxed on her $60,000 of rental income and not the $30,000 she earns from selling the property, meaning she pays $11,020 in tax.

Under the new proposal, Mary would be taxed on $90,000 of income, because her net gain from selling her property is included. This means she pays $20,620 in tax – exactly the same as the amount of tax paid by someone who earns $90,000 in wages.

SHARES



Wiremu bought some shares for $40,000 after the new rules had been introduced. A few years later, he sold them for $50,000. That's a capital gain of $10,000. Wiremu also earns $48,000 in wages, so his total income in the year he sold the shares is $58,000. Wiremu's employer would have already sorted the tax on his wages, paying $7,420 to Inland Revenue.

At today's rates, his extra $10,000 would be taxed at 30%. Wiremu will have $3,000 more tax to pay, because of the gain from the shares, for a total tax bill of $10,420.

That's exactly the same as someone who earned $58,000 just in wages.

MANAGED FUNDS

Alex's KiwiSaver account increased by $5,000 during the year to $105,000. Her scheme provider took care of the tax she owed, according to the PIR tax rate she selected earlier.

Her tax depends on the kind of assets her fund is invested in.

Let's say the value of the parcel of Australian and New Zealand shares in her KiwiSaver increased by $1,000 over the year and her tax rate for KiwiSaver was 28%. Her scheme provider would pay $280 from her account to Inland Revenue. If those shares had a bad year and dropped in value by $1,000, then Alex would get $280 back from Inland Revenue.

The Tax Working Group has recommended some reductions to KiwiSaver taxes to ensure that low-and-middle-income earners are better off overall.

Read more examples about how taxing more capital gains could work at taxworkinggroup.govt.nz