

Tax Working Group Public Submissions Information Release

Release Document

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;
- [2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

SUBMISSION TO TAX WORKING GROUP

I am a buy and hold property investor of 35 years experience. Currently my wife and I own 15 rental residential properties through the medium of a Family Trust. We have owned 13 of these properties for over 10 years and the other 2 for 9 and 7 years. We have been paying tax on the profit from these properties for 13 years. **Initially, they made a loss but over time became profitable and then taxable once the losses were absorbed, a normal situation in property investment.**

There are a number of types of property investor, a fact many people including the media overlook, but the great majority are buy and hold as over time wealth is built through inflation and more recently, a shortage of accommodation throughout New Zealand.

Many people think that property investors are favoured by the current tax structure, but in fact compared to other businesses which are able to claim all expenses, depreciation etc, residential property investors are restricted on what they can claim. A previous IRD director has stated this to be true publically.

As there 581,000 rental properties compared to 1,735,000 owner occupied homes you can see approx. 1/3 of homes are rental properties. Any changes to the current tax structure will have a big impact on peoples housing, especially if there are negative changes.

As of now the tax law regarding the sale of residential rental properties states that it is the intention of purchasing the property at the time of purchase, that determines if tax is paid on the capital gain at the time of sale. The brightline test, currently 2 years although will almost certainly be 5 years if a new bill becomes law, overrides the initial intention clause. Tax on the capital gain within the brightline test time frame has to be paid. The third capital gain tax practise is that if the property is sold after 10 years, no tax is payable on the gain.

It is my submission that all of the above paragraph is rather unsatisfactory to all parties and difficult for the IRD to administer.

I therefore ask you to consider the following idea-

That there be no capital gains tax per se but that any capital gain on rental properties be taxed by treating the gain as income and added to the normal income of the taxable structure.

However, there is a sliding scale in applying the above. If the property is sold in the first year of ownership, then the full amount of the gain is taxable. In the second year 90% of the gain is taxable, in the third year 80% is taxable and so it continues until after 10 years no tax is payable.

This will eliminate any of the messy current legislation and still retain the incentive to hold properties for the long term as is necessary to retain investment in the sector so 1/3 of the population can be housed.

A hardship clause would be part of the legislation allowing genuine cases to have some relief upon application to, say the Tenancy Tribunal.

If a Capital Gains tax is to be implemented it is imperative that a Capital gains tax be applied to all forms of capital gain, not just property.

I have no ideas for other forms of capital gain tax, other than to say that our tax system seems to penalise investment, even down to tax on interest on savings, which seems to be very short sighted, given that, as a country we are short of capital investment.