Tax Working Group Public Submissions Information Release

Release Document

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Tax review submission paper - Housing.

To : submissions@taxworkinggroup.govt.nz
From : Jan Wijninckx (pronounced Yan Vaynings), private citizen, small business owner.

Date : 29-Apr-2018

Purpose : Suggestions to address imbalances turning NZ into a class society.

1. What I would like to see the tax working group address

1 the large and still growing imbalances between rich and poor resulting from 40 years of property ***speculation*** (which New Zealanders insist to call "investment").
2 Change what you tax, to be ready for significant changes in employment due to rapidly increasing automation and robotics by businesses (Baxter the robot does not pay income tax).

2. Summary of suggestions

To address the imbalances in housing ownership, ability for young people to buy, and disproportional wealth accumulation ("horizontal"):

1 Create an asset tax on all income generating property (houses, buildings, land etc, everything), collected every month, based on the GV and corrected by the monthly property in-/deflation.
2 Ensure property developers can write-off losses on one property development against other developments.
3 Taxing on shares and on bonds should be abolished, to promote investment in business, and level the playing field for all investment classes.

At all cost, please avoid:

4 a capital gains tax on houses / a capital gains tax exempting the first home (point 1 above caters for it); if you do propose capital gains, it should not be linked to duration of ownership.

3. Rationale

We have to do something about the tax system to promote building many more new houses, and stop the *speculation* on existing stock. With people earning something like 50k a year on average, a median house price of 800-900K is obscene. House prices are driven up by those that have some or many properties already (against which they can borrow more). There is no need for the tax payer to have to subsidize this wealth accumulation. Instead government and taxation rules should make sure that the supply side is lucrative, the circular investment in the same stock is penalised, in an attempt to rebalance house price affordability.

In the past, negative gearing fuelled this boom in "investment" / *speculation*, where the "investor could write of "losses" against their personal income, using an LAQC, often reducing their tax bill to not paying any tax at all. This is how you accumulated 10 or more houses and a tax rort / subsidy.

To close this loop-hole, the National government stopped the LAQC. I can totally understand that. However, property development is risky business and it would help if losses on one development can be offset against gains on other developments. Any other business can do exactly this, loses in the one, can be offset versus profits in the other. There is no need to single out developers, on the contrary, property development should be encouraged to increase supply, and that encouragement is enhanced by allowing losses to be offset.

3.1 Why an asset tax rather than a capital gains tax

Capital gains tax will yield very little and only starts to work in the future. The housing market has a very high price elasticity: a one percent increase in demand causes bidding wars of desperate buyers and dramatic increases property costs as we have seen. We need to adjust the behaviour now, to ensure middle income / the next generation New Zealand can buy a house too, so we can't wait for capital gains tax to kick-in in 5 to 10 years.

Instead, I'd like to propose an asset tax, a tax which is regularly collected, i.e. monthly, and which is calculated on GV plus the in-/deflation since the most recent GV evaluation. It should apply to income generating assets and thereby exclude the home one lives in.

By having an asset tax, we also start to prepare the tax collection for the significant changes in employment which are coming over the next five to ten years as a result of business automation and robotics. Baxter the robot does not pay income tax. Businesses which heavily automate remove tax payers. This trend is happening in law, in accounting, etc, as well as for blue collar workers such as those in forestry and shortly in fruit picking. As the state sees income from wages dwindle due to changes in employment, the tax revenue will need to shift from income to those that have the capital assets i.e. those that own Baxter, or any other income generating assets, like property.

Having an asset tax without any exclusions will make this taxation very simple to administer. It would lead to the asset-rich having to fork out some money, rather than accumulate it, thus rebalancing inequality. It doesn't need to be high, just high enough so that investing in people-activity based businesses becomes advantageous. Regarding property, the additional tax on assets can be compensated for by giving a similar reduction in tax on wage earnings.

Having an asset tax as proposed here, will shift the behaviour of investors, and reduce the pressure on house speculation. A property speculator with 12 houses would pay a sizeable amount in tax, far more than would be offset by the reduced tax on his/her wages. If the asset tax level is just right, the property investor /speculator is encouraged to divest and re-invest in activity generating business for relative better performance. In addition, if tax on shares and on bonds is abolished (after six trades a year one is deemed a trader, which works against risk mitigation in share portfolios), investors would have other options to invest in (other than property) and thereby capitalize activity generating business.

By having an asset tax which is collected monthly, government can take advantage of property inflation with immediate effect. This in itself would temper the inflation from property. It may even be an idea to let the reserve bank administer the tax rate to enable them to better manage inflation.

4. Declaration by the author

1 I have a business interest in property development, developing new in-fill housing;
2 My main business is a small consulting business combined with on-line software sales.
3 I do not own a property (my wife does).
4 Neither I, nor my wife, own investment properties.