Tax Working Group
Te Awheawhe Tāke

Tax Working Group Public Submissions Information Release

Release Document

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Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[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.

[1]

Submission to the Tax Working Group

I am a Chartered Accountant, Fellow of CAANZ, director of Accountests Ltd and was a partner in a 'Big 4' accounting firm from 1998 to 2016.

My submission is based on my knowledge of the practical way in which taxpayers interact with the tax system and the compliance costs of them doing so. My submission is limited to the taxation of residential investment property.

Problems with existing taxation model

1. Taxation of 'capital gain' element of property is non existent in most cases, and complex at the margin (other than the brightline test)
2. Taxation of the 'income' portion is subject to significant deductions especially for interest and repairs, much of which adds to capital value not rental income
3. Taxpayers have an incentive to 'push the envelope' on the capital / revenue boundary in relation to both income and expenses especially since the elimination of depreciation allowances for residential property

Preferred option for change

1. I do not favour a full scale capital gains tax due to its inherent complexity, the market distortions it creates and compliance costs to taxpayers
2. I strongly support a risk free rate of return (RFRM) model for residential investment property. This would be much easier to implement than a capital gains tax, would provide regular income to Government and reduce taxpayer compliance costs. Investor behaviour is then not impacted by tax considerations, and highly speculative investments based on nil or negative taxable income will be much less likely to proceed.
3. The RFRM model also does not need to tax the family home. Other non income generating residential property could also be exempted based on criteria similar to existing loss limitation rules. Interest deductibility could be retained initially but phased out over time to ameliorate immediate cash tax costs to geared investors.
4. Initially limiting to residential investment property avoids having to deal with agricultural land within the context of a Land Tax – again this would be complex. Additional areas could be considered once the residential investment property portion has been bedded in.

Implementation of the FDR within the FIF rules showed how easily this can work, and FDR is now a relatively low compliance cost model for most portfolio equity investors – we can replicate this for residential investment property owners.

Yours sincerely

Giles Pearson FCA