Tax Working Group Public Submissions Information Release

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Submission to the Tax Working Group: Future of Tax

1. I own a few rental properties as a sideline to my usual day job – which is a 9-5pm working on a help desk. Contrary to popular belief I wouldn't say I'm well off as have much disposable income as the press make out and seem to think Landlords have it easy. I do take pride in providing good quality homes for my tenants and have serious concerns regarding some of the proposals outlined by the Tax Working Group which could impact the affordability and availability of rental housing in New Zealand.

2. Thank you for the opportunity to submit to the Tax Working Group: Future of Tax.

Chapter 4: The current New Zealand Tax System

New Zealand's 'broad-based, low-rate' system, with few exemptions for GST and income tax, has been in place for over thirty years. Looking to the future, is it still the best approach for New Zealand? If not, what approach should replace it?

3. In my opinion the current broad based system is simple to understand and works well. The assumption that rental property receives tax advantages is untrue. It is well known that the IRD have repeatedly said that property investment does not receive any tax advantages. A study commissioned by the New Zealand Property Investors Federation, by financial and economic consultants Morgan Wallace, shows that the marginal effective tax rate for rental property is actually higher than the majority of other assets.

4. In each of the last five years NZ rental property owners have paid tax on approximately $1.5b of rental income. The importance of rental properties to a local economy should not be understated. In addition to the provision of a home for tenants, property owners contribute significantly to their local economy by employing tradesmen and service industries such as plumbers, electricians, painters, carpet layers, property management companies. They do this through their spending on maintenance, upgrading properties, banking, insurance, Local Authority Rates and all the other costs which will have resulted in substantial GST payments to Inland Revenue.

5. The current system provides a good balance of providing somewhat cheaper rental prices for tenants while still encouraging investment in property where yields may be low, while still contributing significantly to New Zealand's taxation requirements and local employment and property related expenses.

Taxes and Behaviour: *Should there be a greater role in the tax system for taxes that intentionally modify behaviour? If so, which behaviours and/or what type of taxes?*

6. I don't believe that targeting the rental property sector would help make housing more affordable. When the cost of providing a product increases then the cost of that good or service will go up too. Take for example the proposal to tax petrol in Auckland… which will hit the end consumer rather than the petrol stations. If we introduce a targeted tax at rental property then ultimately renting will become more expensive for renters. The rental property sector is often incorrectly labelled as an unproductive sector, but rental property contributes hugely to the local economy through employment in the property related trades and services, banking and insurance companies while also providing homes for these workers and providing tax to Government.

7. The majority of rental property owners are just regular people trying to make a living and provide for their retirement. They are contributing to society by providing much needed housing while contributing to the local economy. The government have historically seen the value of private investment in rental properties because the government is unable to provide all of the housing required. There now seems to be a shift in focus with proposed taxes specifically targeting property investors, which will strongly discourage this form of investment. It is hard to see the merit in reducing the available rental stock because private investment in rental property benefits society and should be encouraged.

8. Not everyone wants to own their own house. The majority of tenants I've had do not know how to maintain a clean house or have the inclination to save a deposit. They need the stability of a managed property with fixed monthly outgoings where all unexpected costs and surprise maintenance items are taken care of. Hard saving and Kiwisaver is a great help to those that do want property and need to get a deposit together to buy what is affordable to them.

Retirement savings: *Should the tax system encourage saving for retirement as a goal in its own right? If so, what changes would you suggest to achieve this goal?*

9. I do not agree. A good tax system should not favour one investment over another or make investment in any type compulsory. There are many ways that people can provide for their retirement that suits their own individual circumstances and changing any taxes to penalise a sector of investors such as rental property owners may put groups of people off investing in anything at all. Discouraging personal accountability and ownership of investments for their own future may discourage people from investing or saving for their retirement. Kiwisaver is a positive step and maybe further positive options like this could be worked on (like bonds in Government housing stock) rather than penalising other saving options.

Chapter 5: The results of the current tax system. Fairness and balance: *Does the tax system strike the right balance between supporting the productive economy and the speculative economy? If it does not, what would need to change to achieve a better balance?*

10. Rental property owners already have an increased level of scrutiny through the IRD having a Property Tax Compliance Unit and a Bright Line Test. I fully support the Bright Line test as it weeds out the speculators effectively, however it seems unfair that there is not a similar level of focus on other speculative activities such as buying and selling shares. A bright line test should apply to all investment types to fairly tax speculation, not just focus on property.

Chapter 6: Thinking outside the current system: *What are the main inconsistencies in the current tax system? Which of these inconsistencies are most important to address? Is there a case to consider the introduction of any new taxes that are not currently levied? Should any taxes be reduced if new taxes are introduced?*

11. It is important to note that the income derived from assets is taxed just as a person's labour is taxed and that assets are frequently purchased from income which has already had tax paid on it, taxing these assets again would be very unfair.

12. There can be a number of unintended consequences with the introduction of new targeted taxes for example if something like a Capital Gains Tax was introduced that excluded the family home in order to reduce other taxes, there could be large unintended consequences, such as the reduction of people willing to invest in income producing assets such as rental properties and would encourage more money going into higher priced but non-productive family homes.

13. No new taxes should be introduced for New Zealanders, but better enforcement of current tax laws in particularly around share market speculation would increase the tax revenue and promote fairness and consistency of investment types.

14. Ring fencing of losses should not be implemented. This is said to be a loop hole for rental property investors but this is not true as all business can offset their costs and losses against other income. To specifically disallow this for property investors sends additional discouragement to property investors and will dissuade new investors from investing in this much needed sector to increase supply of rental properties.

Chapter 7: Specific challenges. Housing affordability. *How, and to what extent, does the tax system affect housing affordability for owners and renters? Is there a case to change the tax system to promote greater housing affordability? If so, what changes would you recommend?*

15. Allowing losses on rental property to offset other income tax payable is an important aspect which allows owners to provide and maintain their investment return while being able to charge cheaper rent than would otherwise be required. Additionally, not taxing capital gains on a long-term investment also allows rental property owners to maintain their investment return and charge less rent. It is regularly assumed that that the ability of rental property owners to claim expenses such as mortgage interest, council rates, insurances and maintenance costs means they have an advantage over homeowners when buying property. This is not true. A rental owner gets rental income and pays tax on the profit (after expenses) they make while a home owner gets accommodation to offset these expenses.

16. Higher taxes have had no effect on housing affordability in any country that has them. Higher taxes specifically on rental property will increase the cost of providing rental property leading to either a reduction in supply, an increase in price, an increase in overcrowding or a likely combination of all three.

Capital gains tax: *Should New Zealand introduce a capital gains tax (that excludes the family home)? If so, what features should it have?*

17. New Zealand should not introduce a Capital Gains Tax. Many people will still want to invest their money into property and this would encourage spending on larger more expensive family homes and reduce the investment into farms, businesses, shares, rental property and other assets.

18. A targeted Capital Gains Tax would be complicated to administer and is unlikely to raise significant tax income.

19. If a Capital Gains Tax is to be introduced it should include the family home as well as shares and other assets.

Land Tax: *Should New Zealand introduce a land tax (that excludes the land under the family home)? If so, what features should it have?*
20. New Zealand should not introduce a Land Tax. A Land Tax excluding the family home would encourage more development of expensive homes on large sections of land which would not help alleviate the current housing and rental supply shortage and increase the stock of "unaffordable" housing.

21. A tax based on the value of an asset does not mean that the owner has the income to be able to pay for the tax. Local council rates on property in New Zealand are already expensive and many Landlords like myself already just scrape by wearing todays costs knowing that there will be some reward when I reach retirement age for the hard sweat and tears put into maintaining a couple of additional properties. A Land tax should not be introduced in New Zealand.

22. A land tax would increase the cost of providing rental properties, leading to reduced supply, increased rental prices, an increase in overcrowding and most likely a combination of all of these.

23. A land tax would increase business costs which would increase the price of all goods and services.

24. It would be complicated for mixed use premises, such as home and incomes, mixed-use commercial/residential properties and farms.

25. Most Landlords are hardworking and take their roles seriously. When many people are enjoying their weekends in various recreational activities many Landlords use their free time painting, or gardening to keep their rentals tidy in addition to their own home. I think targeted penalising of this group further because of the few speculators or overseas investors that slip between the cracks would be detrimental to the country as a whole. There are effective tools already in place which already make the market much less attractive than it was 10 years ago. Property is definitely not the free ride it is made out to be and we don't need further disincentives making is less affordable.

I do not wish to be heard in support of this submission.

Yours sincerely

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