Tax Working Group Public Submissions Information Release

Release Document

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The Tax Working Group

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Tax Working Group

Submission on the Interim Report

I am a landlord with a modest holding of property. I have invested in housing as means for my savings to try and keep pace with inflation. I do not fully understand the share and fund market but I do know they all say I should consult my financial advisor. I was deterred by a strong recommendation that I have a minimum of $1M to invest before I spoke to an independent financial advisor. Investing in property seemed the only way the average Kiwi could start investing for retirement until KiwiSaver came along.

There are a number of proposals in the interim report that alarm me. I can see the desire for the government to get another form of taxation however rental property does not give high returns and capital growth is often non-existent for long periods, especially in the provinces.

Capital Gains Tax

Realisation

I am concerned that a capital gains tax on realisation will discriminate against individual investors compared to companies, trusts, and other entities. At some stage an individual (or his estate) would have to sell his properties and capital gains would be payable. A company or trust , on the other hand, is able to hold that property for much longer deferring tax.

Risk Free Rate of Return

I believe the risk free rate of return on equity for calculating capital gains tax mentioned in one of the proposals is unfair.

- It increases risk for the investor in that the investor can be required to pay tax on non-existent profits. In a long period without any capital gain it could force unnecessary sales of property,or even bankruptcy on an otherwise healthy, if unspectacular, investment.
- It does not reflect the costs of maintenance or depreciation
- It will have the effect of taxing capital investment in a property to the detriment of tenants. A $4,000 heat pump might not increase the value of the property but that capital investment would be added to the investor's equity in the property and that increase would be the basis for an increase in capital gains tax even though it is a cost, not a gain.

Inflation

I find imposing a capital tax without an allowance for inflation is objectionable. There is no profit or gain in holding a house for30 years if, at the end of the term, it still only buys the basket of goods that it could at the beginning of that term. All that has happened is the value of the money has fallen.

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The report argued that inflation is taxed in other situations. Income tax thresholds lag inflation but normally by only a few years so income tax does suffer some tax due to inflation it is relatively small.

In the case of sales stock being marked up and sold at a higher price than previously so as reflect the costs of replacement stock, that happens only incidentally and does not carry on beyond that year. In the case of a long term investment like rental property, even a 2% rate of inflation can show huge apparent gains that don't reflect the reality that the house is not worth any more, say, sacks of potatoes, than when it was originally purchased.

Exemptions

The exemption of the family home will continue the trend of building larger homes and investing more money into that home. It seems unfair that my properties (basic but comfortable) will attract capital gains tax while a luxury house worth more than all mine in total will pay no tax.

The exemption of cars, boats, works of art, etc. is proposed due to the apparent difficulty in determining what might be a profit or loss and what might be due to "consumption". However, this seems to promote inflationary bubbles for antiques, classic cars and boats, and art works.

Ring Fencing

I find the ring fencing proposals iniquitous. I have suffered losses in the past on housing and while I was younger I had time to make this up. With an average property taking several years before it starts making a profit most tax credits from a loss will have evaporated before any offset of tax could be made on them if some catastrophe forced a sale at a loss and I had to re-start.

Increase in Rents

The effect of a capital gains tax will be to increase rents. Standing costs of Rates, insurances, and provision for and actual maintenance are around $8,000. Add bank interest costs and there is not much margin left from a $20,000pa rental income; extra tax must be paid from increased rent.

Recent increases from legislative requirements, rates increases, and bigger insurance premiums have already forced us to increase rents and I worry about our tenants and the disruptive social impact further costs will create.

Thank you for your consideration

Regards

Alistair Saywell