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.

7th March 2019

[1]

(1) Withholding Tax on residential property rental income (PWT)

I believe that landlords should be required to submit a (PWT) Property Withholding Tax similar to (RWT) Residential Withholding Tax on rents received a monthly basis. The reason being is that we have to change the thinking and tax advantages that residential property has over other forms of investment without killing the industry.

As a 30 year property person, landlord and long term property investor, property investment should be encouraged not demonised, as private landlord hold an integral part in providing 25% of housing stock in New Zealand.

Currently as a private mortgage holder over a residential property I am required to submit a RWT monthly, remitting the appropriate selected tax rate on the monthly interest received on the residential mortgage, so why not on residential rents.

I believe there should be a compulsory 20% PWT on all residential rents payable on a monthly basis, similar to withholding tax on commission earnings.

Currently the landlord has the total use of the gross monthly rental income less his expenses and is only required to submit that income in his final end of year return. Sometimes this is 6 to 9 months after the end of the financial year. That is a powerful use of money situation and a huge advantage.

It would also make the tax payable as and when the income is derived, not some 18 months later.

This will actually change the way landlords and banks view the income stream from residential property. It will prepare landlords for the ultimate goal of producing a taxable income and not just accumulate losses which are offset against other income.

In conjunction with PWT I support ring fencing losses for rental properties. There are many mechanisms for holding over losses to be applied against future income of the property for a professional landlord. It will incentivise landlords to make future taxable income so that the ring fenced losses can be claimed from their property portfolio. This combination will make landlords conscious of trying to ultimately be income positive long term and be a long term landlord.

I appreciate that landlords can then submit their annual rental income statement claiming losses but it puts cash flow positive rental income foremost in their minds.

The collection of the PWT would be a simple, it could be a computer entry for landlords who have their property managed or a manual monthly submission similar to RWT for self-managed properties.

(2) Limitation of Capital Value or Lease Value of Business Vehicles for Depreciation purposes

I have never understood why there is not a limit on the value of some business vehicles or on lease business vehicle. Yes I what freedom of choice of motor vehicle, but I see no reason why a commission agent requires a $200,000 vehicle to perform his or her job say as a sales agent.

The tax payer should not be subsidising this elitist practice and a limit of value be imposed which relates to a person's business activates. For example business vehicles maximum depreciated value could be limited to $80,000 to $100,000.

This was something Norman Kirk referred to many years ago when he said that "depreciation was designed to assist replacement of a working assets and not provide income tax reduction". Firms and individual should fund their depreciation so that unrealistic financing costs or leasing rates are not require when it comes time to replace the asset which they have depreciated tax wise.

(3) Ability to Income split for households with school age children

I believe that the family unit is paramount in the upbringing of children and having a non-working non-income producing family member to look after children should not be penalise tax wise as it is now. The household with only one working parent or care giver it should be encouraged.

The philosophies of our taxation system for families with school age children should be based on total household income. If one spouse is not working, 20% of the total household income should be apportioned to the non-working spouse and then both be taxed at the normal rate.

A level playing field of taxation is not all about taxing the rich and defending the poor. A family that makes a conscious decision for "a stay at home spouses" should get the same tax advances of what a dual income family currently gets under our tax system.

The numbers are compelling but there can be a limit set as to what level the split can be implemented say $100,000 as long as you have children attending primary/secondary school with an age limit of 18 years.

The tax implications as shown:

<u>Example 1 - Total Household Income = $100,000</u>

Single Family Income	Dual Family Income	20% Split Family Income
$100,000	$65,000 & $35,000	$80,000 & $20,000

Total Annual Tax Paid by each group for the above income examples:

$23,920	$11,050 + $5,145 = $16,195	$17,320 + $2,520 = $19,840

- This Single income family currently **paid $7,725 more that dual Income Family**
- **A 20% Split family income pays $4,080 less** income tax because of 20% allowance
- A 20% Split family stills pays $3,645 more income tax than the Dual Income family

Example 2 - Total Household Income = $80,000

Single Family Income	Dual Family Income	20% Split Family Income
$80,000	$55,000 & $25,000	$64,000 & $16,000

Total Tax Paid by each group for the above income examples

$17,320	$8,050 + $3,045 = $11,095	$10,750 + $1,820 = $12,570

- This Single income family currently **paid $6,225 more that dual Income Family**
- **A 20% Split family income pays $4,750 less** income tax because of 20% allowance
- A 20% Split family stills pays $1,655 more income tax than the Dual income family

Example 2 - Total Household Income = $60,000

Single Family Income	Dual Family Income	20% Split Family Income
$60,000	$45,000 & $15,000	$48,000 & $12,000

Total Tax Paid by each group for the above income examples

$9,550	$6,895 + $1,995 = $8,890	$7,420 + $1,260 = $8,680

- This Single income family still **paid $660 more that dual Income Family**
- **A 20% Split family income pays $870 less** income tax because of 20% allowance

These reductions in total tax paid by the household is a true recognition of the value of "stay at home spouses" by allowing them to income split up to 20% of the single income family to a maximum of $100,000 household total income.

This is very politically correct in my opinion and can easily be worked alongside working for families at the same time. Working for families should then be calculated on the reduced primary income source

Kind Regards

Jeff Cate

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