

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.

30 April 2018

Tax Working Group
PO Box 3724
Wellington 6140

Dear Sir Michael

Submission to the tax working group

I understand as part of the Tax Working Group you are considering a capital gains tax (CGT) and this might include family baches. This is very concerning to me as my husband and I own a family bach which we may gift over time to our children.

While my bach might not be caught by the new rule, the possibility of a CGT raises many issues that I outline below.

Ownership

I am concerned how a CGT would apply to our current bach, or a future replacement bach, and how it might operate given that the ownership maybe with my husband and I and, in the future, our four children. Will a change in ownership from us to our children, either through gifting or inheritance, trigger CGT?

Valuation

The property cost us approximately \$300,000. This included a free boat that we later sold for \$2,000 – we had to get a warrant for the boat trailer first (that cost us about \$100 and \$300 for new tyres). Is our cost \$300,000, \$298,000 or \$298,400?

According to its current council valuation it is worth \$450,000. The local real estate said that if we were to sell we would likely receive \$500,000 (before his fees). While this sounds a like we have made a gain, it ignores the following that we have spent on the bach. From my memory:

- We had to put on a new roof. This cost us around \$25,000. When we purchased the bach there were leaks in the roof. It took us about three years to replace the roof. Should this expense be added to the cost of the house?
- The roofer ordered the wrong length for the roofing iron. We agreed a deal and he did the boat shed roof for \$5,000. The old roof on the boat shed was fine, but now it has a new roof. Does this add to the cost?
- After about 7 years of owning it, we did major renovations. This included replacing the old kitchen and bathroom. We also put in new carpets and repainted everything. This cost us \$150,000. I have not kept records of these transactions, although I will be able to get payment information from my bank. Given the kitchen and bathroom were replaced, do I reduce the original value of the bach as we no longer have those parts? If so, how do I value

the old kitchen and bathroom? We sold parts of the old kitchen and bathroom on Trade Me, do we have to account for that?

- We have spent money on landscaping the property including about \$500 on planting native trees. Do I add this to the cost? What records do I need for this? Do I also include the new spades and shovels used only for these plants?
- What do we do about the costs for plants that did not survive? As well as the native plants, we planted a range of fruit trees (approximate cost \$200). Most of these succumbed to the rabbits.
- Do we get any adjustment for inflation? The original purchase price of \$300,000 (about 15 years ago) would no longer be sufficient to purchase a comparable property.
- Part of the original house has its own bathroom. We just had to replace the toilet system, we do account for this? We are likely to replace the downstairs carpets, do we add this to the cost?
- We purchased a table tennis table, this will likely be given to any subsequent purchaser. When we purchased the bach it came with a number of furniture items (sofa, kitchen table and TV). How do we treat these items?
- When we purchased the boat, we had to spend \$2,000 changing the garage so that the boat would fit it. This was building a box on the end of the garage so that the boat could fit in. This is a permanent feature to the garage but probably of no use to any new purchaser. Do we add this to the cost?

Given all the issues above, I am unsure how I would value the bach if a CGT were to be introduced.

Joint costs of separate costs

Who claims the costs of capital expenditure— is it done via the relative share of the asset or does each owner carry their costs of the asset. We are having a debate over the veranda. My husband has said that if I spend my money we can add to the veranda for better sun protection. This will cost approximately \$10,000. Will he be able to add to his share of the cost of the property when it is paid for with my funds or do I carry the entire cost.

Gifting to our children

As noted above, we are likely to gift part/all the bach to our children. We suspect at least one of our children will live overseas. Do overseas based owners pay CGT? They may not have an IRD number or do we have to keep the IRD number simply due to them owning part of the bach? Do they have to file anything with the IRD while they are overseas?

If we do gift to the children, how will this impact on the working for families tax credits? Will the gift be caught and will they lose their working families tax credits? If we sell and make a gain, will this result in their tax credits having to be repaid?

Do we have to employ an accountant?

We don't employ an accountant. Should I employ an accountant to keep track of all these costs?

As you can see from this letter, I am confused as to how a CGT would work.

Many Thanks

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Sarah Polaschek

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