

Tax Working Group Public Submissions Information Release

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[1]

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I am a Chartered Accountant working in a large public practice firm. I (along with my husband) have worked hard to get the assets we hold today in order to provide for our future retirement so as not to be a burden on society (or family) later in life. In order to complete my bachelor's degree I worked full time and studied by correspondence, as the cost of papers was not subsidised and based on my parents income I was not entitled to any student allowance. We have saved and invested wisely in assets that typically grow in value to try and keep pace with inflation so as to future proof them. Part of our savings has been invested in rental property as we like to be able to hold tangible investments in which we can put some personal effort over time to protect and maintain.

I believe there is already a high level of focus on property taxes in New Zealand and my view is that the current system is simple to understand and works well. The assumption that rental property receives tax advantages is untrue. The IRD have said repeatedly that property investment does not receive any tax advantages. Also, according to a study commissioned by the New Zealand Property Investors Federation by financial and economic consultants Morgan Wallace, the marginal effective tax rate for rental property is actually higher than the majority of other assets.

The current system provides a good balance of providing for the needs of tenants while still encouraging investment in property. Yields may be low, but landlords are still contributing significantly to New Zealand's taxation.

I am disappointed with repeated comments throughout the submission document on growing concerns about inequality, fairness and taxation on assets and wealth, with the comment of 'a renewed interest in wealth taxes internationally despite the falling use of them in practise', which implies that these will be focussed on in an attempt to appease lobby groups. These all look like an attempt at creating an environment to introduce Envy taxes with the sole intention of punishing people who have made sacrifices and choices to provide a strong financial future for themselves

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?*

I don't believe that taxes should be used to try and modify behaviour of investors. They should only be used to protect society in general from things which are detrimental to people's health or wellbeing e.g. tobacco and alcohol.

The majority of rental property owners are just regular people (like myself and my husband) who are 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 logistically unable to provide all of the housing needed (as is demonstrated by the current housing crisis in many of our large cities). 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 bringing in taxes which would reduce the available rental stock, because that is what would happen if a 'property tax' is introduced. Not everyone wants to own their own house.

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 tax to Government.

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?*

The system should encourage saving but 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.

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. This worries me as it will create a greater reliance on government benefits in the future.

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?*

It seems unfair that there is not a similar level of focus on buying and selling shares as that placed on property. I think the bright line test should apply to all investment types in order to fairly tax speculators.

Rental property owners already have an increased level of scrutiny through the IRD having a Property Tax Compliance Unit and a Bright Line Test.

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?*

No new taxes should be introduced, but I think there needs to be better enforcement of current tax laws in particular around share market speculation. This would increase the tax revenue and promote fairness and consistency of investment types.

Ring fencing of losses should not be implemented. There has been a lot of comment that this is 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 further discourages

property investors and will dissuade new investors from investing when further investment in housing is seriously needed in order to increase the supply of rental properties.

The introduction of new 'targeted' taxes can create a number of unintended consequences. If a Capital Gains Tax was introduced in order to reduce other taxes (which excluded the family home), there would be a reduction in the number of people willing to invest in income producing assets such as rental properties and it would instead encourage more money to be invested into higher priced non-productive family homes.

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?*

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 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 use of the accommodation to offset these expenses.

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 more likely, a 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?*

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.

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

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?*

New Zealand should not introduce a Land Tax. A Land Tax excluding the family home would have unintended consequences (as already mentioned above) encouraging more development of expensive homes on large sections of land, which would not help alleviate the current housing and rental supply shortage.

A land tax would increase the cost of providing rental properties, leading to reduced supply, increased rental prices, and an increase in overcrowding.

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

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

Progressive company tax: *Would a progressive company tax (with a lower rate for small companies) improve the tax system and the business environment?*

I don't think the company tax rates should be changed. I think the system is fair as it is.

The tax system and positive environmental outcomes: *What role could the taxation system play in delivering positive environmental and ecological outcomes, especially over the longer term?*

As mentioned previously, I believe 'punitive taxes' should only be used to protect society in general from things which are detrimental to people's health or wellbeing. I think our environment falls into this category. We need to protect it for future generations and stop the degradation of our global environment. I think New Zealand's 'clean and green' image is being eroded and efforts need to be made to curb behaviour by implementing further taxes on known detrimental factors e.g. fuel emissions and rubbish. We need to encourage better use of our natural resources. I would support further investigation into what should be taxed further in this regard.

GST exemptions for particular goods: *Should GST be removed from some goods and services?*

I think our current GST system works well and is simple and easy to manage. Any change to provide exemptions for particular goods will detract from that and likely cause unintended consequences.

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

Yours sincerely

Dawn Witheford