

Tax Working Group Public Submissions Information Release

Release Document

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Submissions to the Tax Working Group by Tim Horsbrugh c/o Wairarapa Property Investors Association.

Questions for submitters

Chapter 4: The current New Zealand tax system

Frameworks

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?

Current System is working well.

Current System is fair, with the one exception is that rental property expenditure is for the benefits of people and this should be encouraged. (more said in my comments below)

Property investors currently pay a lot in GST for renovation projects.

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?

Property investors often buy run down properties and then bring them upto rental standard. These expenses should be subject to either depreciation or R&M. The current system encourages landlords to rent out substandard new purchases, and then renovate a year later so these renovation expenses can be used for justified R&M or depreciation expenses. (a silly rule that goes against the tenant.)

Property Investors cannot claim building depreciation, or major building improvements yet a farmer can claim depreciation for a hay barn or for a new roof on the woolshed. The tax system favours improvements to animal houses over people houses. Improvements to rental houses should be encouraged not unencouraged.

With a shortage of rental property, many social housing tenants with a poor history and CV are missing out on quality accommodation. Landlords currently choose tenants who are the lower risk options. We need new housing for the lower socioeconomic people so I as a landlord should be encouraged to either build a new house, or buy another rental house and to house a social housing tenant. In order to do so we need a win win which may mean an agreement stating that for the first five years of renting I must sign up a social housing tenant, the rent can be paid from winz directly to me, and any insurance claims for damage by the tenant will be provided for by WINZ. In return there will be an incentive, like all

renovation expenses can be claimed for in depreciation over this 5 year period or no capital gain tax put on this house providing I keep this for 5 plus years. We need to look for ways to encourage good behaviour to solve problems. Encourage the current landlord to find the solution to our housing crisis, rather than put up more disincentives to invest.

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?

No, certainly not. This will sku the investment type.

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?

There are too many disincentives with rental property. As mentioned depreciation and the new bright line test extension to 5 years are two examples.

Share market trading and people who renovate their own house and sell quickly, or trade farms are not paying income tax. These areas could be tightened. The 5 year bright line test should be applied to other investment types like shares.

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?

No new taxes need to be introduced.. We just need policing of the current taxes, like taxing profits made through share market speculation. (or widen the bright line test to shares)

A capital gains tax other than the family home will create an uneven playing field and disruption in the market. I know many will get out of providing rental property investment and will just focus on building a beautiful castle to live in which is untaxed. This is not what is needed in NZ.

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?

When a landlord replaces a leaky roof, or installs new carpet and a heatpump the cashflow from that property is terrible for a year or two. To claim a loss is critical so landlords can keep their head above water cashflow wise. Ringfencing or removing this loss will bring many landlords to their knees. Stay away from ring fencing losses otherwise rents will go up and maintenance expenditure will decline.

Incentivise the long term landlords and tax the speculators. Don't put us all in the same box.

Higher taxes on rental property will only mean higher rents. This will make rental accommodation affordability worse.

The best way to lower rents is with supply and demand. Not by letting the Govt build 100,000 homes, but by encouraging the private landlord to build one or two more purpose build high specked new houses each. This can easily be done. Give them better access to finance, or let them build on the back of a big section etc Give them an incentive to build a new home and house a social housing tenant for 5 years and the housing crisis will be solved. With more houses supplied to the market the prices will fall and rent will stabilise.

Capital gains tax

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

No. If a capital gains tax is introduced then it needs to be fair and across all asset types and all houses, businesses and farms.....everything which includes the family home. This is fair but is also political suicide.

Land tax

Should New Zealand introduce a land tax (that excludes the land under the family home)? If so, what features should it have?

No.. as above. The rental property crisis will only get worse. Current Investors will sit on their own mansions and will get out of rental property.