

## **Tax Working Group Public Submissions Information Release**

### **Release Document**

**February 2019**

**[taxworkinggroup.govt.nz/key-documents](http://taxworkinggroup.govt.nz/key-documents)**

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [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.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

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**From:** [1]  
**Sent:** Monday, 29 October 2018 4:10 PM  
**To:** TWG Submissions  
**Subject:** Submission - RFRM method

Dear Tax Working Group

I wish to make a personal submission on the Tax Working Group's consideration of taxing capital assets via the risk-free rate of return method.

I am happy for this submission to be released under the Official Information Act 1982, but ask that my name and contact details be redacted from any release under s.9(2)(a) of the Act.

**I strongly object to the idea of using a risk free rate of return method for taxation purposes.**

The proposal does not make sense, would create perverse incentives, and unfairly reward taxpayers who live in highly-valued properties. The rationale for it does not hold unless it also applies to family homes.

The biggest impact of this proposal will be to levy (potentially substantial) taxes on houses that are not used to generate income.

It is important to note that there **are many legitimate reasons why individuals may live in two properties simultaneously**. For example, work, family, educational or other personal commitments may mean that it is not possible for an individual to live in their primary residence, and in some cases, it may be economically rational for people to own a second property, rather than to rent.

This does not mean that the individuals concerned are high net-worth individuals. Indeed, the value of two properties owned by one individual may well be less than a single property owned by another. This is logically absurd and would create highly inequitable outcomes. Take two individuals. Person A owns two \$300,000 properties (total value \$600,000) and lives in both of them for half the week. Under your proposal, she would have to pay tax on a \$300,000 capital asset, despite earning no income on it. Person B might be wealthy and living in a single \$2 million home - but person B would pay no tax on the proposal.

It is completely inequitable to charge new valuation-based taxes on properties that are not used for the purposes of generating income.

I recommend that the Tax Working Group:

- (i) explicitly acknowledge that some individuals and families, depending on their personal circumstances, may have more than one family home, and that all family-owned property that is not generating income should be treated the same as a "family home"; and
- (ii) explicitly discount the RFRM method on the basis that it is completely inequitable to tax capital assets that are not generating income.

Yours faithfully

[1]