Tax Working Group
Te Awheawhe Tāke

Tax Working Group Public Submissions Information Release

Release Document

February 2019

taxworkingroup.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.

From:	[1]
Sent:	Friday, 2 November 2018 12:26 AM
To:	TWG Submissions
Subject:	Submission on the Tax Working Group Report

I would like to make the following submission regarding the Tax Working Group's Report which was issued 20 September, 2018.

I would like my name and contact details to remain private and not released publically. I have spoken with the Privacy Officer at Treasury who has told me none of my details will be made public if I make this submission.

[1]

I have read the two proposals that the Working Group has suggested and would like to make some comments regarding each, particularly with regard to residential property investments.

<u>Risk Free Rate of Return</u>

Anything but 'Risk Free' this proposal might at worst collapse the economy if the Government in fact saw fit to introduce it and at best seriously lower our standard of living and GDP.

Businesses would be bankrupted as they would not be able to stump up with the ready cash annually and many property investors would be forced to sell.

It actually encourages people to take on more debt so they have less equity. This seems to run contrary to what the government, economists and financial services advisors have been telling us for years, that we are over indebted in the private sector, over indebted as a nation and as individuals.

For example, those property investors who have been busy chipping away at paying off the principal on their mortgage gradually but steadily over the years to build up equity so they have a nest egg in their retirement (and will not have to be a burden on the State) are the ones who will be penalised! The harder they have worked to pay off their one or two investment properties the more they will be penalised and the more unaffordable this tax would be. They would have to remortgage their property to pay the RFRR! If they sell their property this would put more of a squeeze on the rental market and rents would rise as a result.

An unintended consequence might be for those who could afford it, perhaps in well paid jobs, to buy more rentals and take on more debt to the maximum amount they could borrow. They could buy up the mum and dad investor's properties that the mum and dad investors could no longer afford to keep!

This is a cruel and unfair tax, especially for those many mum and dad investors who own 1 or 2 investment properties and have spent a lifetime paying off the mortgage on them (or plan to do so). It is penalising those who have been prudent in building up equity and going without rather than frittering away their savings.

Capital Gains Tax

We already have a Capital Gains Tax in New Zealand in all but name and it is called the Brightline Test but this fact seems to go unnoticed by many, possibly because it is not widely disseminated by the media.
I also believe that the IRD has been given greater resources to investigate and police this.

By the Tax Working Group's own implicit admission, the current housing situation in NZ is not primarily as a result of the lack of a CGT with regard to investment properties or indeed investment in housing in NZ. I don't think the TWG has really thought through the ramifications if such a tax were it introduced and especially with relation to NZ's own unique tax laws as they stand.

I always recall the words of our lawyer after my husband died at 39years and I was widowed in my 30s. We owned a block of flats and had lived in one of them. I asked the lawyer, do you think they will ever introduce a CGTax in NZ? He replied, if they did we would all go to live in Australia.
Well, we could all join family over there (many of us have family and friends living over there) or else just stay here and invest in Australian property and/or shares, which would not do much for our economy.

I do not support a CGTax and in all fairness it should be including the family home were it ever introduced. The family home is for many their greatest asset or most high value investment and when property prices rise so does our spending. We view our homes as investments and that's what they are! But of course that would be political suicide to introduce a CG Tax on the family home.

It seems to me that Michael Cullen's support of a CG Tax smacks of another time, another place, an opportunity to enable a long held dream to be made a reality. But times have changed, we live in a complicated world, a new perspective is required. NZ is a unique situation and to change that we would have to introduce major tax reform. This would take years but really it is not necessary, we are doing fine. It's simple and works relatively well in general terms. Why try to fix something if it is not broken unless you are trying to fulfil some long held dogma without looking objectively at what you are trying to achieve. Or, is quite simply also seen as an opportunity to extract more tax. No doubt, although touted as tax neutral now, it would be ratcheted up in the future, like for example gst was.

Although the Australian situation is different we can see the 'mansion effect' that has resulted in Sydney. I have first hand information of this as my brother has lived there for 20+ years. Rentals are not sold so often and family homes become newer, larger or upgraded.

If the family bach were exempt say, this would drive investors to buy one rather than a rental property, thus driving up prices and locking up capital.

As mentioned, our NZ tax situation is not geared up for such a tax, we would have to rewrite all our tax laws really. It is a complicated tax, unfair and in reality takes many years for governments to make money from it. It is complicated to administer and costly and open to interpretation.
It penalises those who are forced to sell, most likely those with one or two properties who need to cash up to help fund their retirement. Those with many properties can likely live off the rent and just pass them on to their children. Unfair.
It penalises those like me with no children, or who do not own my own home but live with a relative and have my money invested in rental units that I will have to sell one day.
There will be those who will always find ways around the tax and most likely this will not be the small time mum and dad investors who make up most of the property investment market.

For all these reasons I do not support a CGTax but were one ever introduced it should only apply to investment properties bought after the CGTax passed in to law.

SUMMARY

In short, the RFRT would have disastrous consequences if it were introduced, either fully or in some watered down form. It is also grossly unfair to those who have gone without to build up equity.

A Capital Gains Tax is cumbersome, costly to administer, not suited to our unique tax situation, is unfair, will be open to interpretation, will create the 'mansion effect' and is unnecessarily complicated. Rents will rise.

No doubt many accountants and tax lawyers will be enthusiastic about the idea and play down the negative ramifications (many which are often only obvious after new laws come into effect) as they will be swamped with new clients. NZ is its own unique situation and its tax simplicity is one of its desirable characteristics.

Finally, property investors are facing many challengers at present. The Healthy Homes Bill, the reform of the RTAct, abolishment of letting fees, political uncertainties and vehement tenant action groups. In short, it is becoming increasingly undesirable to be a landlord or property investor, particularly a mum and dad investor. Apart from all these costs and uncertainties at present levelled at Landlords, the role of a Landlord itself is time consuming and intensive. It is far from a passive investment.
I have been a Landlord for 20+ years and am finding that the market now calls for upgrades to renovate and modernise kitchens and bathrooms to a higher standard than the property I live in myself. That is a whole different story but I forsee rental shortages and rent rises on the horizon because if I am thinking that selling might not be such a bad thing I know many others will be thinking the same way.

Also, I am very pleased that the Tax Working Group has agreed that property is fairly taxed. As mentioned, many property investors are content to chip away at their mortgages and pay tax on their rental income.