

Morgan cannot avoid the facts

Obviously being up-front and pragmatic is an admirable trait within the Morgan household. Gareth Morgan is quite right to acknowledge that rental property is being discriminated against by the Tax Working Group and his son, Trade-Me founder Sam Morgan, is extremely honest in fronting up and saying that people in his position do not pay tax.

Faced with the fact that rental property is taxed in exactly the same way as other investments and businesses, Gareth Morgan had no option really but agree. But good on him for doing so, as others with the same vested interest are not so willing to state this publically. Morgan is quite right that suggestions for disallowing depreciation claims for rental property and ring fencing losses (currently available to all business' and investments) would be a "ham-fisted policy response" if adopted in this years budget.

We cannot forget that Morgan is a Fund Manager himself, and therefore does view things from this point of view. That is possibly why there were still a few errors in his otherwise excellent article published in today's Herald.

Morgan repeated the claim that the rental sector is worth \$200b and that there is "a \$500m annual loss of taxable income for the whole sector". These claims are the cornerstone of increasing the taxation of rental property and both statements are quite untrue.

Rental property made a loss of \$500m in 2008, however the following graph from the Tax Working Groups own report, provided by Inland Revenue Department data, shows that losses were made in only two of the past 28 years. Not the "year after year the (rental property) industry makes tax losses" claimed by Mr Morgan.

Auckland University have also questioned his claim that the value of rental property in New Zealand is anything like \$200b. When the effect of borrowings is considered, the actual amount invested in NZ rental property is likely to be less than \$40b. This is considerably less than the amount of money invested in the NZ Stock Exchange and considerably less than that invested in Morgan's Managed Funds industry.

Morgan says that there is a "national past-time of exploiting the rental property tax dodge", implying that every man and his dog are investing in rental property. However the number of people who actual own rental property in NZ is only around 200,000. This is a large minority compared to the 1.3 million who are participating in Kiwi Saver and therefore investing in Morgan's Managed Funds industry.

If you want to see an industry that has favoured Government status, then it is the fund management sector, not rental property. Fund Managers are actually allowed to make un-taxed profits on share trading, something unavailable to private share traders or property traders. Apart from Kiwisaver, what other industry uses direct tax payer funds to encourage investment and increase the earnings of investment providers? Is there any other industry that legally forces employers to contribute to their employees investments?

At a time when thousands of people, mainly the elderly, have lost their life savings by following the advice of the financial services industry, it is incredible that they are pointing the finger at rental property providers as the cause of all New Zealand's problems.

While Gareth Morgan has some of his facts wrong, he is right that rental property does not have a tax advantage, is being discriminated against and that proposed rental property tax changes are wrong. He is also to be commended for rallying attention around the rorts of the Managed Funds industry.

Morgan, his son and other business people should be applauded for their contribution to our economy. We need industry to grow as a nation. However it takes many different industries to ensure that an economy performs well. Good housing is a significant component of a well functioning economy.

The rental property sector is not saying we do not need to encourage industries such as exporters. We are saying that discriminating rental property through increasing taxes in the hope that funds move into managed funds is not the way to do it.

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