

Misleading talk around property will lead to bad tax decisions

The Property Investors' Federation is concerned about the high level of misinformation around taxation of rental property.

- **Rental property does not have a tax advantage over other investments or businesses.**
- **Rental property usually contributes to the tax system**
- **Depreciation claims must be paid back if a rental property is sold for a profit**

The fact that rental property does not have a tax advantage over other investments or businesses was clearly confirmed in 2007 by Deputy Commissioner of Inland Revenue, Robin Oliver. When asked by a Government Select Committee if there were some tax advantages for investments in rental housing, Oliver replied that "the short answer is there is none". "Rules about expenses for deducting costs such as interest, upkeep and maintenance, as well as paying tax on income were the same for investments in shares or anything else. In fact under the housing case, the capital gains boundary is brought back a bit. There are tighter rules to what is a capital gain."

Many businesses make a loss during the first few years while getting established and rental property is no different. The rental market is extremely competitive and Tenants enjoy lower rents because of this, helping them to save for a deposit on their own home.

The statement that rental property owners actually reduce the level of tax available to the government by \$150m has been repeated so often that it is now thought of as a fact. It is actually very misleading. The often quoted figure is an anomaly that occurred in 2008 when interest rates were at their peak, making it extremely difficult to provide rental property. However with lower interest rates rental property will once again return to be a net payer of tax. To suggest that rental property owners are not paying their way based on one very difficult year is grossly misleading.

Many rental property owners have purchased their property on the basis that they can claim depreciation as an expenses but that they will have to pay this back should they sell at some time in the future. Depreciation claims by rental property owners help them to keep the cost of renting lower, especially in the first few years of ownership. If the ability to make depreciation claims are withdrawn from rental property then many owners will be forced to sell their property as they will no longer be able to finance them.

Another point often raised by rental property opponents, is that the rental industry is not part of the productive sector. This shows little understanding of what it takes to make a country productive.

Rental property owners house around a third of New Zealand's workers. Without access to decent housing, these workers would be considerably less productive. Rental property owners also contribute to the general economy through supporting banks, local councils, trades people, professionals, hardware stores, insurance companies and a host of other businesses.

In summary, it is a fallacy that rental property has a tax advantage over other businesses or investments, so any tax applied solely to rental property would not level the playing field, it would distort it.

Rental property does contribute to the tax system and it is definitely part of the productive sector. To suggest otherwise is completely misleading. While the goal to align the top marginal tax rates at 30% is admirable, to target landlords and tenants with the cost of paying for these tax deductions is completely unjust.
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