



## Andrew King: Myth of tax bonanza for rental investors

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Three articles on home ownership this week put the blame for rising house prices on property investors. However, there is a considerable amount of misinformation and misunderstanding that has led the writers to their conclusions.

Before assigning blame we need to ask two questions. Are property investors really to blame and if they are, would the capital gains tax on rental property help the situation?

When considering misinformation, Tapu Misa made an excellent point when she discussed "those investment seminars ... the kind that promise to show you how to make lots of money by using the equity in your home to buy a rental property".

This type of seminar is usually put on by organisations that sell you the rental property or help you "find" rental property and often do not portray reality. That would get in the way of making a sale.

***There are few truly impartial seminar presentations on property in New Zealand. Empower Education is a reputable commercial educator as are the not-for-profit property investor associations all over New Zealand.***

Many people do not understand just who a property investors actually is. A property investor is someone who provides long-term rental accommodation for tenant customers.

They are mostly Joe and Jane average New Zealanders, not multi-millionaires.

By contrast, a property speculator, developer or trader buys a property with the intention of selling it on for a profit. These traders often add value to the property and usually turn it over quite quickly.

Any capital gain traders make from selling the property is treated as income and they pay tax on it, effectively a capital gains tax.

The New Zealand Property Investors Federation ([www.nzpif.org.nz](http://www.nzpif.org.nz)) is an industry group for property investors, not property traders, with 20 local associations around the country. Hence this article refers to property investors or rental property providers, not traders, speculators or developers.

Many people believe that because property investors are able to claim expenses, such as mortgage interest, they have an advantage over home buyers. This is not true.

Rental property expenses are merely taken away from the rent investors receive and income tax is paid on the balance. This is just like any other business and doesn't make buying a property any easier for investors over home owners.

The cost of buying a property and the rental return it will generate often mean investors have to top up the investment in the early years. These early losses are tax deductible, just as they are for any other business.

However, there are usually shortfalls and these have to be met by the investor. Most businesses make losses in their early years and this also reduces their tax payments.

Property investment is no different and rental providers do not receive any special treatment.

Many people think investors out-bid first home buyers. In my experience it is the other way around.

First home buyers fall in love with a property and have to have it. They often pay more for the property than the investor, who is more concerned with how to finance the property and isn't so emotionally involved.

For these reasons property investors are price takers rather than price leaders. They want to pay as little as possible for the property and walk away if the price is too high.

Assuming that property investors are increasing the price of property, would taxing them more really help first home buyers? It is a fact that the cost of renting a home in New Zealand is considerably cheaper than owning the same home.

This situation allows renters the opportunity to save for a home deposit if they want to or invest the money in some other investment such as shares.

If rental property owners were taxed more it would simply drive rental prices up. This in turn would make it harder for renters to save.

If you apply a capital gains tax to rental property, shouldn't this also apply to other investments such as shares, gold, antiques and art plus all other New Zealand businesses, including farms? These are all excluded from taxation on capital gains.

In fact the only investors in New Zealand who are not taxed for income generated by capital gains are fund managers. If anyone has a tax advantage in New Zealand it is fund managers, not rental property investors.

Probably the greatest argument against applying a capital gains tax on rental property is that it won't actually help to reduce house prices.

Despite having capital gains taxes in Australia, the United States and Britain, these countries have had house price increases greater than New Zealand's.

To be fair to politicians, it is not for political reasons that most don't believe in a capital gains tax. They know from overseas experience that it is difficult to administer, produces little in extra tax income and doesn't achieve the intended outcome on house prices.

There are no easy answers to controlling house prices, and in fact there are a lot of reasons why you shouldn't try as it just causes anomalies.

Affordability is certainly an issue for both home owners and investors, and this should be enough to slow the growth of house prices without taking any action. This situation has occurred many times before and likely will in the future.

