

A TAX SYSTEM FOR NEW ZEALAND'S FUTURE

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Afternoon Session 1

Base broadening – land taxes

Discussant: Mike Shaw, Partner, Deloitte

Background

- Non-distortionary, does not impact on land supply (?)
- Efficient to collect
- Non discriminatory (for land owners)
- Low rate tax

BUT

- Wealth tax on all existing land owners
- Land values expected to drop
- Distortionary to land assets

Background continued

Who would be impacted by a land tax?

All land-holders in New Zealand, regardless of status:

- Non-residents with New Zealand land
 - Foreign Governments' land holdings?
- Charities
 - Land held for charitable purposes
 - Land held for commercial purposes
- Local authority land holdings
 - Reserves/parks etc (likely to be excluded?)
 - Commercial land (included)
- Non-state schools, private hospitals
- Other

General Issues for consideration

- Will not address residential rental tax advantages
 - No direct impact (consider acquisitions post land tax)
- Would not impact land holdings offshore (e.g. a holiday home in Coromandel would be impacted, but not one on the Gold Coast)
- Based on individual titles versus taxpayers total land holdings (relevant if a value exemption)
- Deductibility of land tax - it is cost of owning land, compare to:
 - Rates
 - GST on revenue expenses by non-registered persons
 - Not a tax on income

Revenue costing

- A land tax could raise as much as **\$3.8 billion**, according to figures provided by a paper commissioned by officials (net fiscal will reduce if tax deductible)
- This figure is based on a land tax of **1%** and assumes a land value reduction of **16.7% - 25%**. If a 0.5% land tax was imposed, the assumed reduction is 10%-15%.
- This revenue would come from the following areas (assuming a 1% land tax):

– Owner occupier	\$1,560m
– Residential rental	\$916m
– Commercial forestry	\$36m
– Agriculture	\$875m
– Industrial/commercial/mining	\$446m

Specific issues for consideration

Valuation

- Disputes about the accuracy of valuations – especially commercial land values
- Different valuation periods by different councils
- Disputes about the value of land versus improvement values
- Land values may be based on alternative use rather than actual use – equitable?
 - Sheep and beef farm convertible to dairy
 - Golf courses
- Councils will re-zone/reclassify land holdings to reduce value

Specific issues for consideration (cont)

Impact on retired citizens:

- Low income, but some hold land with high value
- Could defer until sale/death plus interest charge
 - Highlights wealth tax aspects, potentially an estate duty?
 - Most estates that seek deferral will have major liabilities for land tax, especially as retired people live longer
 - Lock in impacts for those in deferred payment scheme (roll-over relief)?
- Could adjust National Super, but how much?
- Could have specific rebates, but will add costs and reduce efficiency

Specific issues for consideration (cont)

Impact on individuals

- Individuals with large mortgages
- Impact on rent
 - Given land value reduction, existing rentals may not increase as returns based on land values may not change (consider landlord who acquires land post land tax); or alternatively
 - Existing landlords will want to increase rents to cover additional costs

Specific issues for consideration (cont)

Impact on farmers:

- Tax on productive sector of the economy
- Exemption for land values below say \$50k per hectare, likely to exclude most farms.
 - What about horticultural industry, for example orchard on outskirts of town?
- Should exemption be provided?
 - Broad base suggests no exemption
 - Compare residential section with lifestyle block?
 - Some farms/horticulture units have close proximity to residential areas and may exceed exemption level

Specific issues for consideration (cont)

Impact on farmers (cont)

- Land tax not likely to be compensated by other tax relief
 - Taxable/cash income on farm land generally low (farms are generally low yielding business)
 - This is especially the case when sheep and beef land is valued on the potential to convert to dairy/horticulture etc
 - \$3m farm will have \$30k in land tax (at 1%), or \$15k at 0.5% (ignoring impacts on land value)
 - Impact on farmers with tax losses?
 - Impact on corporate farmers; any corporate tax reduction?
 - Extent of individual tax reductions?

Specific issues for consideration (cont)

Potential insolvency of land owners

- 1% land tax could reduce land values between 16-25%, and a 0.5% tax could reduce land values between 10-15%
 - Existing land owners could become technically insolvent (both balance sheet and cash flow implications)
 - Includes all land owners, not just farmers
 - Will include residential/commercial land where land owner is highly geared

Specific issues for consideration (cont)

Potential insolvency of land owners (cont)

- Land banks for future development
 - Will put more pressure on property developers
 - Incentive to develop ASAP (note difference for existing land owners versus land acquired after land tax introduced)

Specific issues for consideration (cont)

Leases

- Commercial land holdings
 - Ability to recover through leases?
 - Different implications depending on terms of leases?
 - Ultimately land owners suffer a value loss

Specific issues for consideration (cont)

Political pressures

- Land tax pre 1992, exemptions included
 - *Residential land*
 - *Farm land, horticulture land etc*
 - *Local /public authority owned land*
 - *Land owned by friendly societies/building societies/trustee banks*
 - *Show-grounds (owned by Agricultural and Pastoral societies)*
 - *Railways/Tramways*
 - *Land owned by societies incorporated under the Libraries and Mechanics Institute Act!*
 - *Libraries, museums, cemeteries, public recreation grounds, public gardens, domains or reserves*
 - *Charitable land holdings (where the land is used as a site for the charitable purpose)*
 - *Maori Customary land*
 - *Land owned by superannuation funds*
- Some pressure points will arise