Budget 2015: New tax rules announced to target property speculators

NZ Prime Minister John Key has announced ahead of Thursday's Budget that property investors who buy and sell residential property for profit within two years will be taxed on the capital gains.

The Prime Minister also announced measures to identify foreign investors to better enforce the requirement to pay tax.

The new policy will introduce a 'bright line' test that assumes any residential rental property sold within two years is sold for trading purposes. This compliments the current IRD approach, which is to ask the property seller if they 'intended' to trade the property when they bought it. The new policy is essentially a modification of the existing rules, which will help the IRD to better enforce the spirit of the tax policy. The rules do not apply to owner-occupied housing or if the property is inherited from a deceased estate or transferred as part of a relationship property settlement.

In our view, the most significant implication of the announcement is requiring foreign investors to register with the IRD and opening an NZ bank account. This will make it easier to collect tax owing from foreign investors who made capital gains investing in the NZ property market.

It will also bring more visibility to the extent of foreign investment in NZ's property market. Currently NZ lacks good quality data on the purchase of homes by NZ investors and foreign investors. As a result, it is actually fairly difficult to gauge how effective these new rules will be. However, going forward, NZ policy makers will be more informed on the impact any new rules and requirements will have.

Implications

Our expectation is the new policy will not have a significant impact on the Auckland housing market. And in the short term, the policy could create distortions. The new rules do not apply to current purchases. It will only apply to houses purchased on or after October 1. As a result of the consultation period there may be unintended consequences, which could further boost demand in the Auckland property market in the short term. It's possible that property investors (particularly the speculators) could rush in ahead of October 1 to avoid being subjected to the new rules.

However, the RBNZ's new LVR lending limits on investment property (expected to be honored by banks immediately) could potentially dampen this impact.

At the margin, the announcement may make domestic markets more confident in the likelihood of rate cuts in NZ. NZ interest rates fell as markets opened this morning, although declines in US interest rates Friday night would have also influenced this move. We continue to expect the RBNZ will cut the OCR by 25 basis points at both the September and October announcements.

See our full Budget Preview here (drafted before this weekend's announcements).

Full Press Release (emphasis our own)

The Budget will include extra measures to ensure that people buying and selling residential property for profit – including overseas buyers – pay their fair share of tax, Prime Minister John Key says.

"People calling for a new capital gains tax often overlook the fact that under existing rules, anyone buying property with the intention of selling for a gain is liable for tax on that gain," *Mr Key told the National Party's Lower North Island regional conference in Lower Hutt today.*

"Everyone – whether from New Zealand or overseas – should pay their fair share of tax according to the law. ***So we need to ensure the existing law is enforced."***

Mr Key confirmed ***the Budget this week will contain several measures to bolster tax rules on property transactions and to help Inland Revenue enforce them.***

They include:

- ***Providing Inland Revenue with extra funding for compliance and enforcement.***
- ***Requiring non-residents and New Zealanders buying and selling any property other than their main home to provide a New Zealand IRD number.***
- ***Requiring non-residents to have a New Zealand bank account to get a New Zealand IRD number.***
- ***Introducing a new "bright line" test to tax gains from residential property sold within two years of purchase, unless it's the seller's main home, inherited or transferred in a relationship property settlement.***

The changes will be subject to consultation and take effect on 1 October this year. ***The "bright line" test will apply to properties bought on or after that date.***

*"****These measures will not affect New Zealanders' main home, although existing tax rules will still apply in addition to these new steps,"*** *Mr Key says.*

"They are aimed squarely at ensuring that property buyers – including overseas speculators - who buy residential property with the intention of selling for a gain pay their fair share of tax as required by the law.

"It's not unreasonable to expect that if you buy an investment property and sell it for a gain within two years, then you should be taxed on that gain.

"This is quite different to an investor buying with a long-term view of renting their property to tenants. And it's completely different to New Zealand owner-occupiers who have worked hard to buy their family home."

Mr Key says that while the current law is clear about taxing property gains, decisions often rely on the intent of the buyers or an assessment of their intentions by Inland Revenue.

"One of the reasons this has become an issue, particularly with overseas investors, is that we don't always have good information about them. And some overseas investors can be difficult to track down – even if Inland Revenue knows they owe tax."

Mr Key says New Zealanders would expect ***Inland Revenue to apply the same tax rules on overseas property investors that are applied to New Zealand property buyers****.*

"That's what these changes are about. As New Zealanders, we expect each other to pay our fair share of tax.

“That same requirement must also apply to overseas residents. The Government welcomes overseas investment, but in return those investors must follow our rules when it comes to tax,” Mr Key says.