NZ's Key unveils new property tax

NZ Herald 17 May 2015

New Zealand's government is set to tighten the country's property tax laws amid growing concerns about the overheated Auckland housing market and what will happen if prices fall sharply.
Prime Minister John Key said Sunday in a statement the government would introduce new measures to force residential property investors to pay tax when they profit from the sale of a house they have owned for less than two years.
Although New Zealand currently has a tax on profits gained through property development it relies on the tax department proving intent, and so few people pay. Under the new measures, from October 1 any profit made from selling a property within two years of purchase will be taxed, unless the property is the seller's main home, inherited from a deceased estate or transferred as part of a relationship property settlement.
Finance Minister Bill English said the tax measures are expected to take some of the heat out of the housing market in New Zealand's largest city Auckland and sit alongside the Reserve Bank's latest moves to address associated financial stability issues.
New Zealand's central bank on Wednesday proposed tighter mortgage-lending rules for Auckland as well as rules aimed specifically at investors.

House prices in March were 16.9 per cent higher in the Auckland region than a year earlier, compared with an annual increase of 3.2 per cent for the rest of the country, according to the Reserve Bank of New Zealand. The strength of the Auckland housing market is attributed to demand in the fast-growing city outstripping supply as the country experiences record migration numbers.

Furthermore, the central bank estimates about a third of all property transactions are from investors and there is growing concern about the number of those in the market who are offshore as opposed to local.

There is no data on the proportion of New Zealand property owners who are non-residents, including overseas investors, but economists estimate the figure could be anywhere from 3 per cent to 20 per cent across the country. Under the new tax laws foreigners will have to pay tax on the gains.

An overheated property market is a particular concern for the central bank. New Zealand experienced a housing boom in the early 2000s fuelled by easy credit and a local preference for investing in the housing sector. At the time, the central bank tried to moderate house prices by boosting the cash rate, with little success. With so much of the country's wealth tied up in housing, when prices eventually did fall the nation dipped into a recession even before the global financial crisis.

The move by the government will likely be seen as giving the central bank further flexibility to cut rates. Economists remain split on whether the central bank will cut rates this year as it tries to balance a rising property market with soft inflation.

The new tax measures will be introduced as part of the government's budget due Thursday local time.