PM makes major move on housing profits and foreign buyers

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Labour leader Andrew Little says the new rules were an admission from the Government that there was a housing crisis in Auckland. Photo / Doug Sherring

A capital gains tax on residential property sold within two years of buying it is being seen as a step in the right direction, but not far enough, with few expecting the new tax to have a big effect on Auckland property prices.

Prime Minister John Key announced the plan this morning as part of the Budget package.

The exemptions to this new bright-line test will be if the property sold is the seller's main home, if it is part of a deceased estate or inherited, and or if it is transferred as part of a relationship settlement.

The tax will be on the seller's normal income tax rate.

Labour leader Andrew Little said this afternoon the moves were "weak measures to rein in the astronomical profits property speculators."

But he said they were an admission that there was a housing crisis.

"For years the Prime Minister has denied there is a crisis, refused to admit foreign investors are pushing up house prices and said there is no need to dampen down housing demand. Today John Key has been forced to eat his words."

"This is not only an admission there is a housing crisis, it is an admission that the intention test in the current law is not working."

But he said National was only tinkering with the housing market with moves that were tentative and incremental.

"The Prime Minister is creating a massive loop hole with his new 'bright line' test which will exempt speculators who hold onto their properties for longer than two years," Mr Little said.

However Mr Key told reporters today that because the current rules about "intention" still applied, someone who clearly intended to make a capital gain would still be taxed whether the property was sold after two years and one day, or even after 10 years.

Mr Little said it was unclear whether the measures will have much effect on Auckland's "run-away housing market."

"I call on the Government to release its figures showing how many speculators will be caught and how many will escape untouched"

"What is needed is a more comprehensive and wholehearted crack down on speculators, alongside Labour's policy of banning residential property sales to foreign speculators."

Mr Little said the policy was not a Capital Gains Tax, but a tightening up "intention rule" that Inland Revenue already had in place.

"So if you buy a property intending to sell it to make a profit on it then you get taxed on it."

Mr Little said there should be a full review of the tax system before looking at implementing a Capital Gains Tax and was not something Labour would have as a policy going into the next general election.

"A Capital Gains Tax...doesn't stop the property price bubble because it never has anywhere else where it operates.

The issue right now is buyers, particularly in Auckland, being shut out of the property market, because of extremely high prices, speculators buying the properties and foreign buyers not needing to borrow buying into the market, Mr Little said.

"so you've got to address those measures."

The Government had taken the "smallest possible steps" to address the issue and they did it begrudgingly, he said.

Labour's view was that the State needed to lead a "massive" affordable house building programme.

Investors might decide to hold onto their properties for two years before selling, which could increase the supply problem, he said.

"You get into a land-banking problem."

The move, announced today and due to take effect in October, is a bid to combat Auckland house inflation which has seen property values increase by 60 per cent since 2008. File photo / Brendon O'Hagan

'Not far enough'

Green Party co-leader Metiria Turei says the Government is beginning to "see sense" on capital gains tax but isn't going far enough.

A full capital gains tax on all investment properties was sensible but limiting the policy to sales within two years would the wind out of the policy's effectiveness, Mrs Turei said.

The solutions were incomplete, she said.

"This is a welcome U-turn from the Government. Only last week they were saying that capital gains taxes don't work, so it is great they have changed their mind so quickly," she said.

"The Government's shift shows their arm has finally been twisted far enough to do something meaningful about the Auckland housing crisis. But it is a half-hearted move that still largely protects property investors."

New rules about offshore investors requiring a local bank account and IRD number were positive but they should be used to gather proper information about the level of offshore purchasing, Mrs Turei said.

"We believe the Government should take further steps to restrict offshore investors' negative influence on the housing market."

Changes will make little difference - Property Institute

Property Institute chief executive Ashley Church applauded the newly-announced suite of tax and property measures.

But he labelled them more "welcome tweaks" than major policy changes and warned they would not tackle house price inflation in Auckland.

The decision to tax capital gains made on property sold within two years was a change in emphasis rather than a new policy, he said.

"It's been government policy to levy tax on anyone buying an investment property with the intention of selling it at a profit, within 10 years of purchase, for as long as I can remember. So the real change here is that the Government is giving the IRD more resource to police that policy within the first two years of that purchase."

Mr Church said while the move was not an unreasonable step and might even bring in a little more tax income - it would do little to reduce house prices.

"I wouldn't imagine that there are too many speculators buying and selling quickly in this market because capital growth is so strong. It's more likely that most investors will hang on to their properties for a few years - at least until this current boom has run its course."

Mr Church welcomed moves to identify foreign investors by requiring them to have a New Zealand tax number but he also doubted this would make any noticeable impact on the market.

"We've been calling for some form of registration of foreign investors for a while - not because we necessarily believe that they are skewing the market, but because all of the various opinions are based on guesswork until we actually have that information."

Mr Church said the evidence, once collected, would probably show that foreign investors were a far smaller problem than generally believed.

"Overall, the changes get a tick. They're good, sensible, measures which [amplify] existing policy settings and allow for the collection of important information - but they're not going to lead to a halt in Auckland house price inflation."

Meanwhile, the Property Investors Federation has accused the Government of bowing to public pressure by introducing a capital gains tax and says the decision is wrong.

Federation executive officer Andrew King told the Herald the policy was clearly aimed at traders and speculators who were buying and selling properties for quick profit following "hysteria" about their role in driving up house prices.

But it was unclear what proportion of the market speculators made up or whether the new tax would have any discernible impact.

"There's been a lot of pressure for [the Government] to do something about the housing market and to be seen to be doing something.

"We really need to have more information on the market."

Following the Reserve Bank's announcement this week that Auckland property investors would need at least 30 per cent deposit to get banking finance from October, "there was a

howl of people saying, 'the Government are doing nothing and leaving it to the Reserve Bank'. They were slammed for it. I think we have to be careful what we ask for."

Mr King said a policy that taxed anyone who intentionally bought and sold property for profit was already in place and was working. He favoured more effective policing of that policy rather than introducing yet another tax.

However, he did not believe a capital gains tax would overly affect landlords or the rental market, or create a shortage of rental properties that could potentially drive up rents.

This was because most rental investors held on to their properties for longer than two years.

"It probably won't affect them and therefore it shouldn't have any effect on rental prices." However it could discourage some investors from purchasing rental properties by creating uncertainty.

Just as there was to be an exemption for homeowners, he hoped a similar exemption could be made for investors if their circumstances changed within the two-year timeframe and they needed to sell their rental property, for instance if they developed a terminal illness.

Mr King said rental property investors made up only about 7 per cent of the population, but a vocal lobby wanted rental investors "slammed".

"They are very vocal and they will love this [capital gains tax announcement] and I think the Government is probably reacting to that."

There was considerable confusion about whether property investors had a tax advantage, meaning some were "unintentionally breaking the law" by not declaring the tax they rightfully owed.

The new policy was clearly targeted at speculators and would help clarify who was buying and selling properties solely to profit from capital gain.

"It will help to clarify those people and make it easier to target them."

The capital gains of people selling residential property within two years of buying it will now be taxed, Prime Minister John Key announced this morning as part of the Budget package. Photo / NZ Herald

Plan to slow down housing price rises

The move, to take effect from October 1, is expected to address Auckland house inflation which has seen property values increase by 18 per cent in a year and 60 per cent since 2008.

At present, capital gains are taxed if IRD believes it was the intention of the seller to make a capital gain on a property.

That rule will remain in addition to the bright-line test so that if somebody flicked on a property after two years and one day, they would almost certainly have to pay tax on the gain.

The Government will also introduce rules that could make the over-heated Auckland housing market less attractive to non-resident speculators.

The Government had not forecast collecting anything extra in capital gains tax through the bright line test but it will make the rules clearer.

New disclosure rules will give the Government information about who is buying property - residents or non-residents.

All buyers and sellers of any property other than their main home will be required to supply a New Zealand IRD number as part of the usual land process with Land Information New Zealand.

And all non-residents will have to haver a New Zealand bank account before they can get a New Zealand IRD number.

That information will help IRD to work out who is trading property for the purpose of making capital gain.

Under existing laws, IRD will be able to share that information with overseas tax authorities.

Mr Key also announced that IRD would get an extra $29 million in the Budget for tax compliance which in addition to the $33 million extra since 2010 in compliance and enforcement would total $62 million extra for compliance over the next five years.

That extra is expected to generate $420 million in additional tax in the next five years.

Mr Key said the Government would also investigate introducing a withholding tax for non-residents selling residential property.

Mr Key made the announcement at the National Party's lower North Island conference at Silverstream.

- NZ Herald