IPTI Xtracts

Property Tax and Assessment News from Around the World

NEW ZEALAND – June 2020

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Taxing wealth: a necessary step, or unachievable pipe dream?

Green Party announce guaranteed income policy, paid for by a wealth tax.

ANALYSIS: The tax system is the biggest single lever politicians have to change the economy.

Just under 30 per cent of Gross Domestic Product (GDP – a measure of the economy), is taken by the government as tax each year. Changing both the amount that's taxed and where it's taxed from has huge implications downstream.

Good adjustments can shore up the system and make it run more smoothly, while bad changes can create chaos and distortions.

The Green Party this week announced its major tax policy for the election, the centrepiece was a tax of 1 per cent on wealth over $1 million and 2 per cent over $2 million.

The tax would be individualised and would only tackle net wealth, meaning while many Auckland homeowners may fear their million-dollar family home being caught up in the scheme, they'd likely be excluded because most homes are owned by multiple people who would each only be on the hook for a portion of its value. The mortgage on the home would likely take those individual fortunes below $1 million.

The Greens say their policy will only touch the wealthiest 6 per cent of New Zealanders, slapping them with a tax that would yield nearly $8 billion by 2021/22.

It's a mighty amount of income, although it's still less than a quarter of what the government expects to rake in with GST in the same year (a cool $32b, dropping to $20b if you deduct refunds).

Tax consultant Terry Baucher says the tax is a long time coming.

"I'm coming round to the view that it's something we're going to need," he said.

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The tax system needed shoring up, not just to deal with the enormous costs of the Covid-19 economic clean-up, but to also deal with long-term financial challenges like the costs of the ageing population to our superannuation and health systems, Baucher said.

On the most recent forecasts, Treasury thinks the Covid-19 shock will hit tax revenue by $49.2b over the forecast period, before eventually picking up again. But this is only half the problem. Research compiled by the Government's Tax Working Group reckoned that the rising costs of things like superannuation would create a budget deficit of roughly 1.2 per cent of GDP by 2030 and a massive 4 per cent of GDP by 2045.

That might not look like much, but in real terms it equates to a funding hole of billions of dollars each year, creating a mountain of debt for future generations to pay off.

Baucher said there wasn't much room to plug that hole with adjustments to existing taxes.

"There's not much leeway for getting more out of GST; with income tax you could shuffle the rates around, but 38-39 per cent is as high as any government would want to go.

"We haven't gone about 40 per cent in 30 years," Baucher said (another one of the Greens' tax policies is to create two new income tax brackets of 37 per cent for income over $100,000 and 42 per cent for income over $150,000).

The Tax Working Group also raised the issue of the declining tax base. The largest slice of tax income each year, equating to 40 per cent of the total, comes from individual income tax – the stuff that comes out of your wages. This is likely to come under strain in the coming decade as wage stagnation bites, the gig economy takes off, and an ageing population sees fewer people working.

Without thinking about new taxes, plugging the revenue hole would mean a smaller number of income tax payers, paying more and more tax. New Zealanders already pay quite a lot of income tax. Of the OECD countries, only a handful of national tax takes have a greater proportion of income tax payments.

That doesn't mean a wealth tax is necessarily the way forward. There's a reason the Kiwi taxman loves an income tax: it's very easy to collect. The guiding maxim of our tax system is "broad base low rate". That means that we generally try to keep our tax rates low with minimal exemptions. This ensures high rates of compliance because there's no great reward for the costly practice of stashing your income somewhere the taxman can't get at it.

A full 87 per cent of all tax income is captured by three taxes: GST, taxed at a single rate with few exemptions; company income tax, again taxed at a flat rate with few exemptions; and income tax, paid at progressive rates.

Wealth taxes are inherently more complex. Wealth can mean anything from something relatively obvious, like the equity an individual has in a home to something far more complex, like the value of a small business.

Clipping the ticket on your income is fairly easy because working out how much income you earn and what proportion to pay in tax is so obvious and simple. Most people barely notice it. It's much harder calculating a wealth tax as the values of the things that make you wealthy go up and down and you don't necessarily have them valued regularly.

Deloitte tax partner Robyn Walker said the policy would likely run into the same issues as Labour's now jettisoned capital gains tax.

"It's an unrealised CGT, which is not something that is popular," she said.

There would be issues around how wealth was valued.

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"You need to be able to have rules which look at the totality of your wealth," Walker said.

"The wealth could be dispersed in different ways: You own different bank accounts you've got a house you own jointly, you could borrow against the house," she said.

This would be particularly difficult for the owners of small businesses, which might sit on the cusp of the $1m and $2m thresholds. Their small size would mean their owners would be unlikely to have them regularly valued, yet they would qualify as wealth under the scheme.

"The valuation of businesses is definitely not a straightforward process, otherwise we would have seen more lending go out via the business finance guarantee scheme," Walker said, referring to the Government's struggling business loan scheme which had paid just $86m in loans to 503 business, well below the $6.25b the Government had estimated it might pay.

Robin Oliver, former member of the tax working group and once IRD's deputy commissioner of policy agrees.

"The CGT fell over on valuation issues," Oliver said.

He suggested a way of avoiding complexity around valuations while also taxing wealth would be to go for a straight land tax.

"All we've really got in New Zealand in assets is land," Oliver said.

"What we have is land, what's untaxed is land." A land tax would be relatively more easy to implement as land values were independently calculated for rating purposes.

What the Greens propose is in fact a broader version of this. There's a carve-out for assets worth less than $50,000, so you won't pay a wealth tax on household appliances, which would avoid some of the drama around what sort of assets are captured by the tax, something that kneecapped the CGT.

But the policy would also be buoyed by some arguments the CGT sought to address, including the preferential tax treatment of certain forms of savings like the family home. The tax working group found that savings on owner-occupied housing (effectively the family home) faced an effective tax rate of 11.3 per cent, compared with an effective tax of 55.7 per cent on savings in a bank account.

The Greens' policy would get the IRD to build an online tool, which businesses would use to value themselves for the tax. It's valuations are likely to be controversial at first, but people could eventually get used to them as they have with rateable values for homes. There's also an opt-out of the IRD calculation. If you don't want the IRD valuing your businesses, you're allowed to provide your own independently audited valuation.

New taxes are never easy – the imposition of GST was certainly difficult but, with all the easy taxes currently reaching their use-by dates, future governments don't have much choice but to look elsewhere.

Revealed: Impact of the lockdown on the nation's housing market

New data has revealed the financial impact of the lockdown on the nation's housing market and identified the best and worst-performing regions.

Data crunched by OneRoof and its partner Valocity shows New Zealand property values have fallen just 1 per cent since the start of the Covid-19 crisis, as measured by a new index, despite a plunge in values during the four-week nationwide shutdown.

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The situation is better than many pundits had expected, though it comes on the back of strong price growth in the months before the lockdown began.

Experts attribute the relative buoyancy to the low number of listings coupled with strong demand from buyers and record low interest rates.

Of the 15 major regions, 12 have seen declines since March 25 - the day before the country went into lockdown - with values in the remaining regions stalling.

Property values in the Greater Auckland region dropped 2 per cent on the index in the weeks after March 25, but have since recovered, and are now just 1.6 per cent off where they were before lockdown.

Similarly, New Zealand property values on the index dropped 2.4 per cent during the lockdown period but the surge in market activity since alert level 2 has seen them recover much of that loss.

Dollar-wise, Auckland City's median value on March 25 was $1.03 million. It now sits at $1.02 million.

Economists are still trying to quantify the likely impact of the pandemic on the country's housing market.

Global ratings agency S&P last week tipped New Zealand house prices to fall 10 per cent.

However, OneRoof editor Owen Vaughan says the new index shows clearly that overall the housing market is doing better than was forecast at the start of the crisis.

"While the full impact of Covid-19 won't be clear until mortgage deferrals and the wage subsidy scheme come to an end, it seems the housing market has rebounded from the lockdown.

"The index shows that values in many locations are back to where they were at the start of the year, when the market was starting to run hot. The question for buyers and sellers is whether or not the bounce-back will be short-lived."

OneRoof and Valocity created the new index to solve the challenges of measuring a housing market that suffered an unprecedented shutdown and faces an uncertain future.

The index sets as a baseline property values on March 25, 2020. Every sale since that date has then been analysed and tracked, allowing subtle changes in the market to be measured.

Valocity valuation director James Wilson said: "When we looked at the market using traditional methodology, comparing activity now to activity 12 months ago, we saw that only two territorial authorities - Kaipara and Selwyn - have seen declines in property values and that 38 have enjoyed more than 10 per cent growth.

"This gives a false impression of what's going on in the market. Yes, property values are up but that's more a reflection of the fact that these locations were experiencing value growth in the three to six months before lockdown."

Wilson says the drop in sales volumes forced OneRoof and Valocity to look at a range of different market metrics, not just median sale prices.

"By breaking down what's been selling together with the nature of the housing stock in any given location allows us to track more effectively the actual changes in individual submarkets."

The index shows the impact of the lockdown and the extent of the bounce-back in each territorial authority.

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The biggest fallers were North Shore (- 3.8%) and Christchurch (-3%). Others include Queenstown Lakes (-7.7%), Far North (-4.4%), Waitaki (-3.9%) and the Coromandel (-3.8%) - but those areas had low sales volumes so the numbers weren't as reliable.

The best-performer was Lower Hutt (up 1.1%). Rotorua was also high at 4.6 per cent as was Waikato (4%), Matamata (3.7%), and Kaipara (3.1%) but those areas also had low sales volumes.

Wilson says the index clearly shows the erosion in property values isn't a crash. "For example, North Shore values are where they were at the start of February, when the market there was picking up speed. Auckland City is back to where it was at the end of January," he says.

Loan Market mortgage adviser Bruce Patten said the market was busy, driven by a low number of listings and strong demand from first home buyers looking to cash in on record low interest rates.

"A lot of parents are helping children into properties because the cost of a mortgage is actually less than what they're paying in rent."

While this boded well, the real impact of the pandemic would not be known till thousands of homeowners came off their mortgage holidays in October to December.

This could see many people forced to sell their homes if they had lost their job and not found re-employment, he said.

Barfoot and Thompson national auction manager Campbell Dunoon said the company sold a 1950s three-bedroom home last week in double grammar zone for $3.584 million, more than $500,000 over CV, and at the end of last month sold what could be this year's most expensive piece of real estate - a 1960s clifftop home in Remuera that went for $8m.

And while many auction rooms are full, not everything is selling under the hammer. Some auction clearance rates have been low with properties selling for under CV.

Ray White chief auctioneer John Bowring puts recent successes down to not enough houses on the market to meet buyer demand.

"Even if the new normal is that we've only got half the stock [to sell], we've still got more buyers looking for properties. It's always going to be a supply and demand issue."

Harcourts Cooper & Co auctioneer Andrew North, who operates on Auckland's North Shore says supply is tight.

"Until we see a flood to the market, there'll be no fall in prices."

He suspects would-be sellers are choosing to renovate rather than trading houses.

Property prices 'on the brink of a material decline' as growth rate declines in 14 New Zealand cities

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House price growth has slowed across 14 out of 16 New Zealand cities over the last two months, a property price report shows.

Quotable Value (QV) house price index data for May shows that over the last three months to May, the national average house price increased by 2.4 percent to $739,539. The growth rate is down from 3 percent in April. The year-on-year increase of 7.7 percent is also below the growth rate of the previous month.

QV general manager David Nagel, said that an initial bounce in sales volumes after lockdown was a likely result of pent-up demand. Although COVID-19 restrictions have eased under alert level 2, numbers are down and buyers are cautious, the effects of which aren't yet captured in the data.

"The key point from the QV house price data this month is the gradual decline in quarterly growth in May, with 14 of the 16 major cities we monitor showing a reduction in the rate of growth since April."

"This trend is likely to continue as a greater proportion of post-lockdown sales are used in the HPI calculations," Nagel said.

He said the number of sales during April and May were well below normal levels, skewing the pricing data towards early to mid-March, when volumes were higher. A disconnect in price expectations between sellers and buyers suggests the industry is "on the brink of a material decline" similar to the 10 percent fall following the 2008 Global Financial Crisis (GFC).

"When we look at the April and May transactions in isolation, it shows a definite impact, with post lockdown sales on average down by around 5 percent on pre-lockdown levels," Nagel said.

"While the data is still sketchy, we're now very confident that the market has come back already from the value levels we saw in February and March, particularly in some of the high-risk locations that had previously experienced a sustained period of value growth."

Although demand for affordable properties in central locations is still strong, the number of for sale signs is expected to increase. The percentage drop in property prices will be clearer over the next few months.

"We'll likely see more listings gradually coming on stream after the cushioning effect of the Government wage subsidy comes to an end and bank mortgage holiday periods expire.

"Unfortunately, this will be when the full impact of the pandemic will be reflected on real estate values", Nagel added.

QV house price index May 2020

Auckland house prices up 5.4 percent year-on-year, North Shore the highest

In the Auckland area, the average house is valued at $1,086,223, an increase of 5.4 percent year on year and 2.7 percent over the last quarter.

Auckland's North Shore had the highest annual growth of 6.6 percent, followed by Auckland City at 6.2 percent and Waitakere at 5.5 percent.

Quarterly growth figures to May show that properties on the North Shore increased by 3.6 percent, followed by Waitakere at 3 percent. Properties in Manukau increased by 2.7 percent and Papakura by 1 percent.

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QV senior consultant Rupert Yortt said that May values were relatively flat. Lower value and centrally-located homes still received strong interest. Overall, buyers were cautious.

"First and second home buyers who had little disruption with their employment during the lockdown period are still actively looking, while higher value properties are tending to receive lower levels of interest," Yortt said, adding that well-presented, centrally located homes were the exception.

"Buyers are being cautious with off the plans purchases and smaller development plans throughout the region are likely to be put on hold in the current uncertain climate."

Wellington house prices up 7.9 percent year-on-year, Hutt City the highest

In Wellington, the average house is valued at $894,710 ($787,288 including Hutt Valley, Porirua and Kapiti), an increase of 7.9 percent year on year and 0.7 percent over the last quarter.

Hutt City had the highest annual growth of 17.7 percent (3.2 percent increase in the last quarter), to $688,394. Close behind were Upper Hutt and Porirua, with annual growth rate increases of 13.5 percent and 16.7 percent to $633,343 and $692,264 respectively.

QV senior consultant David Cornford, said that growth in the Wellington region had plateaued, but there's currently no evidence to suggest that values have dropped.

"Open homes have been well attended and multiple offers are still common for well-presented properties in desirable locations, Cornford said.

However, there was a slight increase in the number of properties not selling at tender, indicating a disconnect in price expectations. However, the current listings shortage and high number of Government employees is expected to support stable prices.

"Attractive interest rates have peaked the interest of first home buyers who have job security and this segment of the market appears to be holding up well."

Christchurch house prices show modest growth

In Christchurch, the average house is valued at $517,376, an increase of 3.7 percent year on year and 1 percent over the last quarter.

QV senior consultant Kris Rogers, said that the market had been active, with strong demand in the $300,000 to $550,000 price-range.

"Real estate agents have reported good numbers attending open homes in this value range with first home buyers prevalent, being encouraged to the market by record low interest rates and continued affordability."

Palmerston North, Whanganui, Clutha show strong annual growth

Palmerston North property values grew by 415.3 percent year-on-year and by 1.8 percent over the last quarter. Other regions with strong year-on-year growth were Dunedin (21.1 percent), Invercargill (16.8 percent), New Plymouth (9.7 percent) and Rotorua (9 percent).

In North Island provincial centres, Whanganui grew by 25 percent year-on-year and in the South Island, Clutha grew by 26.8 percent year-on-year.

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Quarterly growth figures were relatively flat, with the highest in Hastings (4.6 percent), Whangarei (4.4 percent), Napier (4.1 percent) and Dunedin (4.2 percent). In the North Island, South Waikato was up 15.8 percent in the last quarter. In the South Island, Clutha was up 13.5 percent.

With unemployment and the number of property listings tipped to increase, combined with record low interest rates, the odds are increasingly stacked in favour of property buyers.

Campaign Launched To Stop Auckland Council's Handling Of Rates Consultation

The Auckland Ratepayers' Alliance has launched a major campaign to give a voice to the hundreds of thousands of Aucklanders who oppose Auckland Council's proposed rate hike options.

Ratepayers' Alliance spokesperson Jo Holmes says, "In Auckland Council's official consultation form for the Emergency Budget, ratepayers are told to choose between a rate hike of 3.5%, 2.5%, or an 'I don't know' option. The message seems to be that if you oppose a rate hike you must be uninformed."

"The Council's plan is clearly to manipulate ratepayers into endorsing the lower 2.5% option so Phil Goff can claim public supports for his rate hike. That is an insulting attempt to fudge the consultation process and screw the scrum."

In response, the Ratepayers' Alliance has published an alternative submission form at www.Rates2020.nz. This form poses the same question about rates, but adds additional choices: a zero rates increase, a 2.5% rates decrease, a 3.5% rates decrease, and an 'other' option. Ratepayers' details and comments are sent straight to the Council as a formal submission.

"An economic crisis is the worst time to increase taxes – especially council rates, which unlike income taxes show no mercy towards households that have lost their livelihoods."

"The Council cries poverty while it pays more than 2800 staff salaries higher than $100,000, and forges ahead with gold-plated projects like the City Rail Link. A zero rates increase is absolutely achievable, but Councillors must wrestle control of the Emergency Budget from self-interested officials, and sacrifice the nice-to-haves just like private businesses and households across the Super City have done already."

The campaign will be boosted with billboards, yard signs, Facebook ads, and (at this stage) 80,000 pamphlets delivered to homes across Auckland.

NZ property market 'surprisingly positive'

A new report about the property market suggests New Zealanders are continuing their love affair with houses.

Trustworthy, accurate and reliable news stories are more important now than ever. Support our newsrooms by making a contribution.

As New Zealand emerged from Alert Level 4, Auckland nurse Frances Crane was desperately looking for a new home.

She had sold her house the day before lockdown and was transitioning into a high-priced short-term rental market.

Online searches for a two-bedroom home offered few options and the flood of homes for sale she anticipated as the country shifted down levels never arrived.

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Eventually she spotted a place in Hobsonville that ticked all the boxes.

She knew she wasn't the only potential buyer and secured the property with an offer in the high-$700,000 range.

"I didn't get a bargain but I paid a fair price for it," she said.

Crane's experience reflects many throughout the country as participants in the property market express surprise at the current stability in sale prices and begin to question whether the "doom and gloom" scenario painted by many economists will arrive.

Official sales figures for May are not due out from the Real Estate Institute of New Zealand (REINZ) until next week but real estate agents are reporting an unexpected high level of activity and strong prices.

Ben Macky of Auckland real estate firm Wallace Stratton said that when Covid-19 hit he was predicting a very difficult year but since coming out of lockdown the company has seen multiple offers on properties and some selling for much higher prices than expected.

"There's absolutely an appetite for property. Buyers are willing to spend money.

"We are consistently writing more deals than what we would have expected."

The biggest handbrake was a reluctance from banks to lend to people in industries perceived to be risky such as hospitality, aviation and real estate, he said.

Managing director of Auckland's largest real estate firm Barfoot and Thompson Peter Thompson said his company's sales in the last two weeks were ahead of figures during the same period last year with median prices in May at $914,000 - only slightly below the March peak of $925,000.

"The market has rebounded really well, but we say that with caution," he said.

Some sales made immediately after lockdown were from people who had sold but hadn't bought, some were sales prior to Covid that had not settled and in some cases people's circumstances had changed with border restrictions.

"I think as we come out of June we're still going through a bit of an unsure time."

Economists predict that house prices will drop somewhere between 5 per cent and 15 per cent this year prompted by falling Gross Domestic Product (GDP), mortgage holidays coming to an end, unemployment rising and tighter household budgets.

However, there are positive factors at play including low interest rates, a government spend-up and the general resilience of our financial system.

Economist Tony Alexander said people seemed to have a more optimistic outlook than expected in a recession and this is important in the real estate market where attitudes drive decisions.

They are "pushing through the misery" and focussed on better conditions late in 2020 and early 2021, he said in a recent newsletter.

"This is why asset price weakness is likely to be substantially less than many might be thinking, and opportunities for low-priced purchases short-lived in duration."

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The Queenstown market was widely predicted to be negatively affected by Covid 19, with its heavy reliance on tourism.

Infometrics is predicting a potential drop in the district's GDP of 23 per cent and already thousands of jobs have been lost but Harcourts Queenstown agent Kirsty Sinclair said that was not yet having a negative effect on the property market.

“In the last three weeks we’ve been really surprised by how active it is."

Queenstown Harcourts real estate agent Kirsty Sinclair says some buyers are waiting to see if prices drop.

Only last week Bayleys sold a home and income property in Shotover Country for a record price for the suburb at $1.42 million. There were six people bidding on it.

A Bayleys auction featuring 19 residential properties in Queenstown had limited success with only three sales on the day but sales manager Stacy Coburn said seven had sold unconditionally since, two were under contract and two were in a multi-offer situation.

Sinclair said buyers were cautious and waiting to see if prices drop, but there was no sign of bargains yet.

“Right now, when buyers are most hesitant, what we’re seeing is giving real confidence.”

Thompson said his gut feeling was that sales volumes in Auckland would likely be down a bit on last year and prices would not drop more than five per cent after a few "ups and downs".

Where Auckland tends to be three to six months ahead of the country, he expected the post-Covid economy would see changes happening at a similar pace across the country except Wellington where the government-based employment market tended to provide more stable real estate prices.

Others were not so optimistic. CoreLogoic economist Kelvin Davidson warned the current activity was a "line in the sand" and the market should prepare for more houses to be sold at a loss.

Real estate data firm QV said the property market was on the brink of a material drop in prices for the first time in nearly 12 years.

REINZ chief executive Bindi Norwell said it was too early to draw definitive conclusions about how the housing market has responded to the Covid-19 pandemic.

The market won't find its new 'normal' pattern until the end of year with the conclusion of mortgage holidays likely to be a key factor, she said.

There are some "tyre kickers" looking to pick up properties at bargain prices but for Frances Cook the cost of waiting to see whether prices would drop was offset by rent costing “an arm and a leg”.

“I’ve bought and sold a few houses before. You win some and lose some but you’ve got to be happy with where you’re living and make a long term decision,” she said.

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