

# New Zealand Experience with Property Taxation

- Land tax was enacted in 1879, survived until 1992
  - Introduced to help break up large holdings
  - Peaked in 1920s at 11% of tax take
  - Final rate 2%, but only 0.1% of tax take
- Property taxes are still used to raise rating revenue for local authorities, however
- Reasons for repeal of Land Tax:
  - Tax had been heavily eroded by political concessions and was inequitable
  - Most land was outside the tax base
  - Overtaken by widening of income tax base, and PAYE taxes in the 1950s and
  - Introduction of GST in 1986
- Generic operational issues:
  - Valuation – artificial and outdated methods
  - Differing assessments for lessees, trustees, beneficiaries and shareholders

## Land tax avoidance

- Entity splitting – leads to need for greater complexity
- Need special rules for trusts
  - NZ taxed some beneficiaries directly
- Companies and shareholders to be aggregated
  - Complex rules easily avoided
  - Tax credit rules unclear
- Valuation manipulation
- Exemptions lead to categorisation disputes

## Tax Working Group 2009 - 2010

- Appointed by government to review NZ tax structure: private sector/academic supported by IRD and Treasury
- Recommended reduction in income tax rates, increase in GST
  - Took effect 1 October 2010
- Considered other options including a CGT and a general land tax
- Rejected land/property tax option

## Reasons for rejection

- See background paper 3: September 2009
  - [www.victoria.ac.nz/sacl/cagtr/twg](http://www.victoria.ac.nz/sacl/cagtr/twg)
  
- Policy considerations:
  - Would raise a lot of revenue with wide base
  - But only targets one form of capital
  - Retirees and farmers most affected
  - Also banks/other lenders
  - Would cause a fall in land values of 16%
  - Unfair on current owners
  - Would create cashflow problems for many
  
- Administrative/operational:
  - Relatively easy to measure value
  - But inevitable incentive to avoid

# Design Considerations

- TWG did consider some of the operational design issues:
  - What entity would collect it?
    - IRD?
    - Local authorities on behalf of Crown
  - Setting thresholds, and systems for deferring payment
  
- Other issues:
  - Dealing with trusts
  - Corporates and shareholders
  - Which valuation method to apply
  - Computer assisted assessment?
  - Is it income-tax deductible?
  - Should it be introduced gradually?