Overview proposal – revisiting New Zealanders' relationship to land

Background: the New Zealand tax system at a glance

The New Zealand Government sources over 90% of its revenue from its broad-based and low-rate tax regime.[1] Relative to other countries, the tax system is considered to be simple, transparent and effective, leading Inland Revenue officials to take the view that it is not in need of a major overhaul.[2]

Given the tax system is already broad based and operating well, a notable exception from the tax base from a central Government perspective is property. In my proposal I set out why an ad-valorem property tax based on land value should be introduced to complement the current New Zealand taxation system, particularly in light of the challenges facing New Zealand set out below.

Challenges faced by New Zealand

Demographic challenges – population ageing and the increased cost of superannuation and healthcare

Bill English recently announced that the Government would raise the eligibility age for superannuation from 2037 to reign in the cost of pensions.[3] Many view the measure as being "too little, too late", as the change is not expected to address the continued rise in the cost of running the superannuation scheme.

The New Zealand superannuation scheme is expected to rise from 5% to 8.4% of GDP in 60 years, not taking into account the expected increase in healthcare costs, while the proposed changes would only save the Government $4 billion a year, or 0.6% of GDP once it had been fully phased in.[4]

Housing crisis and affordability of housing

The unaffordability of housing and the shortage of housing in urban centres has become a politicised and increasingly contentious matter of debate, with our housing crisis even being reported in international media.[5] The Government, has acknowledged the issue, with the National Party introducing a series of measures to fast-track the building of new houses.[6]

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[1] Financial Statements of the Government of New Zealand for the year ended 30 June 2016.
[2] Briefing for the Incoming Minister of Revenue, published in November 2011 by the Policy Advice Division of Inland Revenue at p9.
[3] PM Bill English announces Super changes – NZ Herald article http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11812931 published Monday 6 March 2017, accessed on 12 March 2017.
[4] Ibid.
[5] As an example, see "New Zealand housing crisis forces hundreds to live in tents and garages" on The Guardian dated 17 May 2016, https://www.theguardian.com/world/2016/may/17/new-zealand-housing-crisis-forces-hundreds-to-live-in-garages-tents-and-cars, accessed on 11 March 2017.
[6] "National's Comprehensive Housing Plan" https://www.national.org.nz/national_s_comprehensive_housing_plan, accessed on 12 March 2017.

Housing and rental prices cannot be seen purely as a cost of living issue. The availability of affordable, stable housing is directly correlated to better outcomes in terms of healthcare,[7] educational attainment,[8] and overall quality of life.[9]

Despite the generally accepted importance of housing to positive societal outcomes, most of the measures announced by the Government do not consider or address the efficiency of land use, existing disincentives to making capital improvements to land, or more immediate measures to improve affordability.

House prices have risen out of all proportion to median household incomes as well as rents, with prices primarily being driven by a combination of speculative buying and investment.[10] Despite this, the Government announcements do not include any measures to address speculative investment in housing.

The proposed solution

In light of the fiscal and societal challenges set out above, an ad valorem tax imposed on the titleholder(s) of all privately owned land should be given serious consideration.

How it would work

- **Value:** The tax would be imposed based on the land value, used by the relevant local councils to charge council rates.
- **Rate:** The 2010 Tax Working Group estimated that if a land tax were imposed at a rate of 0.5% of the total land value based on 2010 land values, it would generate up to $2.3 billion in tax revenue, which would be reduced by $0.6 billion if the land tax were to be made a deductible expense against taxable income for businesses.[11] Based on the 2015/16 Government Financial Statements, $2.3 billion today would represent a 3.4% increase in total Government revenue.
- **Collection:** The tax would be collected by the relevant councils, and would be due on the rates instalment quarterly due dates set by the relevant councils.
- **Exemptions:** all land owned by Government, Local Authorities, Public Authorities.

How would it address the challenges above?

Demographic challenges – cost of the superannuation scheme

The land tax would not be a "fix" to the superannuation scheme – however it would go some way to meet the costs of the scheme, at least until a more permanent solution is identified to ensure it is fair and economically sustainable without having to cut spending in other areas.

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[7] John Hopkins Center to Eliminate Cardiovascular Health Disparities, http://www.jhsph.edu/research/centers-and-institutes/johns-hopkins-center-to-eliminate-cardiovascular-health-disparities/about/influences_on_health/stable_housing.html accessed 12 March 2017.
[8] Institute of Governmental Studies, University of California Berkeley, http://brr.berkeley.edu/2011/06/affordable-housing-stable-housing-and-educational-outcomes/, accessed 12 March 2017.
[9] Habitat for Humanity New Zealand, http://www.habitat.org.nz/about/the_need_in_nz.html, accessed 12 March 2017.
[10] The Economist – Daily chart of Global house prices, http://www.economist.com/blogs/graphicdetail/2017/03/daily-chart-6, accessed 12 March 2017.
[11] A Tax System for New Zealand's Future: Report of the Victoria University of Wellington Tax Working Group, published January 2010, http://www.victoria.ac.nz/sacl/centres-and-institutes/cagtr/pdf/tax-report-website.pdf.

The tax revenue generated would be approximately 1% of New Zealand's GDP[12] - that would be approximately 20% of the current cost of the superannuation scheme.

Superannuation – lack of means testing

One of the big criticisms of the scheme is that it is not means-tested. The introduction of a land tax would be an indirect way of addressing this, as the burden of a land tax would be mostly shouldered by the wealthier, who are far more likely to own their own home and/or additional investment or holiday properties.

Even if means testing was not introduced, the pensions received by wealthier New Zealanders would likely be offset by the land taxes they would need to pay on their properties. This could even help wealthier people who are asset-rich and cash-poor fund their payments of land tax, instead of operating an administratively burdensome deferral mechanism for the tax to be deferred until the property is sold or recouped from estates of retirees.

Housing crisis and the unaffordability of housing

A land tax would encourage more efficient use of land, it would also encourage intensification on valuable land, and discourage land-banking.

The combination of the above would incentivise the development of intensive housing, particularly on valuable areas of land (where the demand would generally be the highest). It would encourage landowners who are using the land inefficiently to either improve the efficiency of their use of the land, or to sell it to another person who would be able to make better use of the land. As an example, the introduction of the tax would encourage a person who uses an empty lot in a central area of Auckland to charge for parking to either invest and build a multi-storey car-park to maximise the use of the land, or to sell it to a developer.

A land tax is effectively a tax on wealth. This would mean that relative to other forms of wealth (e.g. owning shares or precious metals) the price of land would go down. This would discourage speculative purchases of land (as the speculative gain would most likely be wiped out by the tax cost of owning the land). It would also discourage people from owning houses as a form of investment.

The combination of the immediate drop in land values, as well as the disincentives from speculative/investment holding of land would make houses as well as other commercial real estate more affordable almost immediately.

In the longer term, it is unlikely that the tax would cause a significant increase in rents, as the decrease in the value of the land would likely mean the return yields based on land values would be unlikely to change (relative to other forms of investment).

As a result, we would expect to see prices of housing dropping, combined with an increased supply and quality of housing in the longer term as a result of capital improvements and intensification. There should also be an increased supply of houses or sale, as asset-rich and cash-poor landowners start to sell excess properties to improve their cashflow positions.

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[12] Total GDP of New Zealand economy is $255 billion. Gross Domestic Product: September 2016 quarter, Stats NZ, http://www.stats.govt.nz/browse_for_stats/economic_indicators/GDP/GrossDomesticProduct_HOTPSep16qtr.aspx, published 22 December 2016, accessed on 12 March 2017.

Proposed steps to introduce the tax

Land taxes are generally considered to be economically sound (since taxing land does not reduce the supply), and for countries like New Zealand which have a central land registration system and local councils who impose rates based on property values, it would be simple to administer.

The biggest challenge of introducing the tax would undoubtedly be political. Members of the public and businesses would be concerned about the impact this might have on their private homes, investment properties, factories, offices and farmland. Understandably so - every New Zealander has an interest in how land is managed in New Zealand and would be affected (directly or indirectly) by any tax which is imposed on land.

In short, I would look to use the housing crisis, and the international media attention it has gained, as a unique opportunity to introduce a potentially politically unpopular, but justifiable change to the New Zealand tax system.

The sales pitch

Affordable home ownership is cornerstone of New Zealand identity. Stable, adequate housing (whether through ownership or otherwise) brings with it positive social outcomes like improved educational attainment, healthy families, and strong communities – all things that we believe in as New Zealanders.

Taxing land, but not other forms of wealth is more than a tax measure. It sends a signal that land is different from other forms of wealth, and should be treated as such. Rather being an investment vehicle it should be seen as an important resource which must be within the reach of all New Zealanders.

We need to change the way New Zealanders think about housing and land. This tax should act as the first step from changing our perception of land from a tradable commodity to something all New Zealanders should have access to.