IPTI Xtracts

Property Tax and Assessment News from Around the World

NEW ZEALAND – June 2021

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NSW property tax proposal: upfront transfer duty and land tax -vs- new annual property tax

As a property owner, you would appreciate the sheer joy that comes from having to pay thousands of dollars on top of your purchase price in the form of transfer duty (formerly known as stamp duty). No doubt transfer duty meant that you either had to reduce your buying power by the amount of the duty, or you will be paying interest on that amount over the life of your mortgage.
Housing prices are certainly booming, but as housing prices increase so too does the purchaser's transfer duty bill. Also factor in any GST (a tax which was meant to replace stamp duty) and land tax liability, and the myriad of other taxes and expenses that flow from property ownership – and you are left with a situation where affordability is questioned, many people are giving up on the idea of owning their own home, and investment decisions may be skewed or hampered.

Even from a commercial perspective, property ownership can be risky – pre 2020, who would have thought we would have a virus dictating how much rent tenants were liable to pay? See our previous articles here.

Although it is an important source of revenue for the NSW Government, transfer duty is one of the biggest financial barriers to home ownership and mobility. The Government's own statistics show that transfer duty adds about $34,000 to the upfront cost of buying the average NSW home, and that on average it takes 2.5 years to save for transfer duty.

The NSW Government is proposing major changes to transfer duty and has sought feedback from the public. The consultation period has closed, but the Government is yet to release any report or make any announcements.

Current situation

Transfer Duty

Transfer duty is currently payable at the following standard rates, based on the greater of the purchase price or the market value of the property. A premium duty rate is payable for residential properties worth more than $3,101,000, being $155,560 plus $7.00 for every $100 over $3,101,000.

Property value	Transfer duty rate
$0 to $14,000	$1.25 for every $100 (the minimum is $10)
$14,000 to $31,000	$175 plus $1.50 for every $100 over $14,000
$31,000 to $83,000	$430 plus $1.75 for every $100 over $31,000
$83,000 to $310,000	$1,340 plus $3.50 for every $100 over $83,000
$310,000 to $1,033,000	$9,285 plus $4.50 for every $100 over $310,000
Over $1,033,000	$41,820 plus $5.50 for every $100 over $1,033,000

Land Tax

Land tax is an annual tax paid by investors and commercial property owners, based on the total value of all land held by an owner above a certain threshold. It is calculated at a rate of $100 plus 1.6 per cent of land value above the threshold (currently $755,000), up to the premium threshold (currently $4,616,000 – where the rate increases to $61,876 plus two per cent of land value above the threshold). Due to the many exemptions and the high tax-free threshold, the current system of land tax places a large tax burden on a small number of taxpayers.

Proposed reforms

The new regime would give purchasers a choice to either pay transfer duty in one upfront lump sum and land tax (if applicable), or a new annual property tax that is based on the unimproved land value (as determined by the Valuer General). Unlike land tax, the amount investors/commercial landowners would pay would be based on individual properties, not aggregate landholdings.

The following indicative rates have been proposed across four property categories:

Property type	Currently liable to stamp duty?	Currently liable to land tax?	Potential property tax rate
Owner-occupied residential property	Yes	No	$500 + 0.3% of unimproved land value
Investment residential property	Yes	Yes	$1,500 + 1.0% of unimproved land value
Primary production land (farmland)	Yes	No	$0 + 0.3% of unimproved land value
Commercial property	Yes	Yes	$0 + 2.6% of unimproved land value

The opt-in decision will largely depend on how long a buyer intends to hold the property. The catch is that, once a buyer 'opts-in' to the annual property tax, that property will be subject to the annual tax in perpetuity and all future buyers will be bound by that decision. This could mean that similar properties will sell for vastly different prices, depending on whether they are subject to transfer duty or the annual tax.

There does not appear to be any specific exemptions available under the new regime. However, the Government has indicated that:

- Protections would apply so that the property tax does not result in rent increases without a tenant's agreement. This could include proactive monitoring of the rental market, or legislation governing the pass-through of the property tax to residential or commercial tenants.
- A hardship scheme would recognise that taxpayers' financial situations can change over time and ensure that no one facing hardship needs to sell their home to meet property tax liabilities.
- The existing stamp duty concessions for first home buyers could be replaced with a grant of up to $25,000, with the choice of paying transfer duty or the annual property tax.
- Unless you are buying a property, there would be no change. If you have already paid stamp duty on your existing property, you would not be subject to an annual property tax (ie. there would be no double taxation).

Will organisations such as charities, emergency services and sporting clubs be exempt from the tax (as they are currently exempt from paying land tax)? Will the annual tax have any time limits, which perhaps kick in once an owner reaches a certain age/experiences a change in circumstances and has already been paying the annual tax for a number of years (avoiding negative impacts on the cost of living for the elderly)? So many questions.

The potential benefits of the new regime include cost savings for buyers, downward pressure on home prices over the longer term, a larger number of property transactions, and a boost to the NSW economy (the Government predicts the new tax could inject up to $11 billion into the economy in the first 4 years).

Some commentators have expressed doubt as to whether the proposed reforms will improve housing affordability, as land values continue to increase but wages remain stagnant. Others have called for further modelling to show the real impacts such proposal could have on groups such as first home buyers and the elderly. Some owners, particularly large investors, dread the complexity of having to deal with three taxes (stamp duty, land tax and property tax) potentially for the next 50 years (it is estimated a full transition to the new system could take that long). Others are wondering why the upfront lump sum issue can't simply be resolved by allowing owners to pay transfer duty in instalments over a number of years.

The Government has indicated that switching to the proposed annual property tax would see a fall in revenue for NSW in the short to medium-term, but the changes would be self-funded in the long term – and ultimately revenue from the property tax would be similar to that which is collected as stamp duty and land tax. The Government is “looking at options to keep it that way”, including legislation to lock in the rates or a legislated cap on total revenue growth (similar to how council rates are set). However, legislation can be amended, and there is always a risk that a government may be tempted to tinker with the system to its own advantage.

N*Z number two in international house price growth ranks*

House price growth in New Zealand is running at the second-fastest rate in the world, an international property consultancy says.

The Knight Frank Global House Price Index shows that, in the first quarter of this year, house prices globally were up 7.3 per cent in the year to March 2021. New Zealand hit 22.1 per cent.

That was the fastest rate of increase recorded since the last months of 2006 and reflected the runaway market growth seen in many countries.

Turkey had the fastest house price increases for the fifth consecutive quarter, with 32 per cent growth.

But Knight Frank researcher Kate Everett-Allen said that, if inflation was stripped out, Turkey’s real prices rose by around 16 per cent over the year.

Also, in the top ten were the US at 13.2 per cent, Sweden at 13 per cent, Austria at 12.3 per cent and Norway at 10.9 per cent.

Canada was ranked at 11 and Australia at 18 with 10.8 and 8.3 per cent annual growth respectively.

Everett-Allen said that with 13 countries recording double-digit price growth over the last year, it was no surprise that talk of post-pandemic housing bubbles was increasing.

But authorities were already starting to take action with cooling measures being introduced in a number of markets, including China, New Zealand, Ireland and Canada, she said.

In New Zealand, the Reserve Bank reinstated loan-to-value ratios earlier this year. In March, the Government announced a suite of new housing and tax policies intended to reign in the market.

Everett-Allen said, with governments taking action and fiscal stimulus measures set to end later this year in a number of markets, buyer sentiment was likely to be less exuberant.

"Plus the threat of new variants [of Covid] and stop/start vaccine roll-outs have the potential to exert further downward pressure on price growth."

But the house price boom did not encompass every country and there were several large economies where strong price growth remained elusive and sales had yet to gain traction, she said.

They included Italy, India and Spain, which all recorded lower price growth in the first months of this year than they did last year. This was either due to stringent lockdowns, economic concerns or excess supply.

New Zealand's rampant market has already attracted international attention this year.

In April, Bloomberg reported it as one of the least affordable in the world, while the 2021 annual Demographia international housing affordability report ranked Auckland's market as the fourth least affordable in the world.

CoreLogic's May data, released Tuesday, showed that price growth was starting to slow, although CoreLogic's head of research, Nick Goodall, said it was unlikely to do so at the rate forecast by Treasury and the Reserve Bank.

But results from the latest survey by the Real Estate Institute and economist Tony Alexander suggested the market was in a holding pattern as buyers waited for Government clarification on the new tax policies.

Property values rise again in May, but at a slower pace, says QV

N Zealand housing crisis: Prices surge more than 20% in the last year

The treasury is predicting a sharp slowdown in price growth but at the moment, the only people who appear to be thriving are those already on the property ladder.

The growth in property values has slowed over the last three months for the first time since last July, according to the QV House Price Index released on Tuesday.

The national average value rose 8.8 per cent for the three months to the end of May, compared with 8.9 per cent quarterly growth in April.

However, the national average value of $931,928 was still significantly higher than a year ago, up 23.7 per cent, QV general manager David Nagel said. That was a bigger annual gain than April's 21.4 per cent rise.

House prices have soared since the Covid-19 lockdown in 2020, with growth in New Zealand running at the second-fastest rate in the world, according to international property consultancy Knight Frank Global.

In the Auckland region, the average value rose 8.4 per cent over the quarter to $1.3 million, and was up 21.8 per cent on a year earlier, Nagel said.

Tauranga's average value rose 10.2 per cent over the quarter to $1.02m, up from quarterly growth of 7.8 per cent in April.

Wellington had 10 per cent quarterly growth, down from 10.8 per cent in April, to $997,354.

Christchurch saw quarterly growth of 9.3 per cent to $639,868, Hamilton's average rose 8.5 per cent to $810,633, and in Dunedin the quarterly average value was up 5.2 per cent to $665,130.

The small quarterly reduction in national value was significant, Nagel said, because it included transactions from buoyant months earlier in the quarter.

"We can expect to see further reductions in the rate of growth as the impacts of the recent tax changes for investors and credit availability start to take effect," he said in a statement.

"There's certainly plenty of signs that the heat is coming out of the market now since the March tax announcements, with a combination of investors taking a breather, first-home buyers exercising more caution and the seasonal downturn that normally accompanies the approach of winter, all contributing to a slowing market."

In March, the Government said it would double the 'bright-line test' on residential property, and spend billions of dollars in an attempt to boost housing supply, as part of reforms aimed at increasing housing affordability.

However, Nagel said a housing supply shortage and low interest rates continued to drive property prices.

"Talk of interest rates potentially rising later next year, coupled with some dire price predictions from the Reserve Bank and central Government doesn't seem to have affected the market as much as they'd have hoped.

"We'll likely see a continued slowing in the rate of price increases over the coming months as the property market finds its new normal."

The Government expects house price growth to slow dramatically by the middle of 2022, partly as a result of its housing tax policy changes announced earlier this year.

In its economic outlook released in the Budget in May, Treasury forecast annual house price growth to peak at 17.3 per cent in the June 2021 quarter, and ease to 0.9 per cent by the June 2022 quarter.

Last month, Westpac economists said they expected house prices to fall next year and in 2023, as rising interest rates put pressure on the market.

Tasman property values hit record high fueled by out-of-town buyers

Out-of-town buyers and high value properties are clashing with low stock to help push up property prices at the top of the South Island.

New figures released by The Real Estate Institute of New Zealand (REINZ) on Tuesday show that median property prices in the Tasman region hit $850,000 in May - up almost $150,000 on the same month last year.

The growth was one of the five biggest in the country, which saw the national median jump 32.3 per cent, from $620,000 last year to $820,000.

Nelson was up to $700,750 from $580,000 a year ago, and Marlborough was sitting at $650,000 up from $490,000.

Local agents say the increases in the top of the south are being driven by the same lack of stock other regions are seeing, but the area is also facing strong interest from out-of-town buyers.

Data from CoreLogic shows that in the first quarter of 2020 about 75 per cent of relocating owner-occupiers sales in Nelson were to locals, but in the last quarter that had dropped to 56 percent, while the number of moving buyers from outside the region had jumped.

In the regional summary released on Tuesday, REINZ chief executive Wendy Alexander wrote that while open home attendance had eased, "interest from out-of-town prospective purchasers has remained strong".

Summit Real Estate's Richmond branch manager Gordon Webb said Nelson had always been an attractive place for people to move to, but there had been a noticeable increase.

"The trend had definitely lifted, there's no doubt about that, and I guess you can see why people want to come here – it is the sunshine region."

Purchasers from outside the region often had different expectations around price, which could help drive the figures up, he said.

“There’s more competition in the market and, depending on where they’ve come from ... that brings a different value to the market.”

The number of houses sold in May was 66, more than double the 31 sold in May 2020.

The 2020 figure was likely affected by the Covid-19 lockdown, Webb said.

In the Tasman region the number of properties selling in higher price brackets was also pushing the median up, he said.

The REINZ figures show that the number of properties that sold for more than $1 million went from 5.3 per cent of the market in May 2020 to 17.6 per cent of the market in May 2021.

The other main factor was low stock, with houses being sold very quickly, he said.

“The stock levels are low, but the stock doesn’t hang around.”

People who wanted to buy needed to be flexible with settlement dates, do their due diligence and put in a competitive price, he said.

“Do you want it, or do you really, really want it? That does make a difference.”

REINZ Nelson/Marlborough spokesman Darryl Marshall said the pressure of low supply was a theme across the country where “demand is simply outstripping supply”.

”As quickly as they’re coming on [the market] there are interested parties.”

It meant that the market was going steadily up, rather than seeing traditional quiet times.

“The market just seems to continue each month whether it’s summer or winter.”

The area had always been a popular destination for people to move to, and it was all creating a competitive environment.

And, as prices increased so too did the price houses would be marketed at, he said.

Property Tax Consultation Launched

Following on from the surprise announcements on 23 March 2021 that there would be a material change to the taxation of residential properties, today the Government has released further detail about those proposals. This comes in the form of a 143 page Government Discussion Document; which is supplemented by a range of fact sheets, which break down the proposals into more digestible chunks:

- Changes to interest deductibility
- Who is affected by the interest deductibility changes?
- What type of properties are affected by changes to interest deductibility
- The treatment of new builds under the bright-line test and changes to interest deductibility
- The development exemption
- Should interest deductions be allowed when property is sold?
- Changes to the bright-line test

Refresher: What are the proposals?

- The bright-line test has been changed from 5 years to 10 years for property subject to a binding agreement dated on or after 27 March 2021. An exclusion applies for "new builds", which will remain subject to a 5 year bright-line test.
- Interest deductions on residential property acquired on or after 27 March 2021 will not be allowed from 1 October 2021. Interest on loans for properties acquired before 27 March 2021 can still be claimed as an expense, but the interest deductions will be phased out from 1 October 2021. An exclusion from the new interest denial will apply for "new builds".
- If money is borrowed on or after 27 March 2021 to maintain or improve property acquired before 27 March 2021, it will be immediately non-deductible from 1 October 2021 rather than subject to the phase out rule.
- Property developers should not be affected by these changes and will still be able to claim interest as an expense.

The overarching purpose of the changes are to help achieve the Government's goals around housing affordability:

"The Government's goal is to encourage more sustainable house prices, by dampening investor demand for existing housing stock to improve affordability for first-home buyers. … The proposal to exempt property development and new builds should help boost supply by channelling investment towards increasing housing stock and away from direct competition with first home buyers and owner-occupiers for existing housing stock."

What the documents released today highlight is that there can be a high level of complexity when it comes to implementing something which may sound conceptually simple. In some cases the outcomes for taxpayers will be clear, but in others it's not so clear cut. The Discussion Document seeks to identify some of the tricker scenarios and explain how the proposals could apply.

Some key parts of the document include:

- What property should be subject to the rules? Exclusions are provided for a range of scenarios where property is not negatively impacting on the ability of an owner-occupier to acquire a house, for example, land outside New Zealand, employee accommodation, farmland, care facilities, rest homes and retirement villages.
- Who should be subject to the rules? It's proposed that all taxpayer types (e.g. individuals, companies, trusts, partnerships) will be in the rules, but when it comes to companies only "close companies" and "residential investment property rich" companies will be subject to the rules. The exclusion for non-close companies means that many listed companies which might own a few properties as an incidental part of their business don't need to trace and allocate interest to a (comparatively) small asset. Ensuring "residential investment property rich" companies are still subject to the rules is to prevent an incentive for landlords to pool their properties in a single widely held vehicle in order to get deductions. A company will be residential investment property rich if 50% of assets (by value) are residential property.
- If a taxpayer has a mixture of property types, how do they figure out what relates to residential property versus non-residential property? It will be necessary for taxpayers to trace their funding arrangements to each purpose and allocate interest appropriately.
- If property developers can claim interest deductions still, who is a property developer? The Discussion Document works through this, however in many instances, the output for a property developer will be a "new build", which interest is deductible against.
- So what is a new build? The Discussion Document is fairly generous in allowing more than what you might first anticipate. Renovating an existing property to turn it into more dwellings may count, as will an existing home which has been relocated to a new section, and consideration is being given to also

including substantial renovations which take an existing uninhabitable building back up to standard to be lived in. All these scenarios arguably add to New Zealand's housing stock.

- Given the extension of the bright-line test to ten years, it is also proposed to reform the rules to allow taxpayers to restructure their affairs without triggering the bright-line, provided there is no significant change to the overall economic ownership.

Submissions on the proposals are only open for a short period with submissions closing on 12 July. It's therefore important for taxpayers to take the time now to understand how the proposals may impact and take the opportunity to have a say.

The painful debate over Auckland's rates

OPINION: Property rates are all about paying a fair share, for the cost of running the local body in which you live.

What constitutes a fair share is a never-ending debate. It flared-up in Auckland when 7,500 properties in outer fringe townships, lost the discount they'd enjoyed on their urban rates since 2016.

Those, mostly in the northwestern communities of Kumeu, Huapai, Riverhead, Whenuapai, Herald Island and Hobsonville argued their neighbourhoods, services and amenities were not urban.

They had a point, especially when one of the first tasks of amalgamating Auckland in 2010 was to create a single rating system to replace eight, with even treatment for all.

If only it was that simple and equitable. Are your rates meant to reflect what your street looks like today? How often a bus or train runs nearby? Or how close you are to a park or library?

For the aggrieved semi-rural communities, the answer, when councillors voted, was "no".

There is nothing equitable about the rates "bang-for-buck" despite the creation of the one Auckland Council in 2010 and the one rating system to rule them all.

What Aucklanders enjoy today has a lot to do with history. Before the Auckland Council there were eight local bodies. One of which was Auckland City Council.

In turn, Auckland City Council, pre-1989, was made up of 11 boroughs. Papatoetoe had its own mayor, council, town clerk and so on, and all had different spending priorities.

Auckland City had the legacy grand parks, beaches and downtown, but skimped on infrastructure spending which the whole region has now picked up.

The semi-rural dwellers pointed out they don't have much public transport, some don't have proper kerbs, just open drains and berms, and are a distance from big libraries and pools.

The 10-20 per cent discount they enjoyed since the Unitary Plan re-defined zonings in 2016, and disconnection from the urban rating boundaries, was justified they felt.

The argument struck a raw nerve with councillor Angela Dalton, who represents some of the poorest communities in the Manurewa and Papakura ward.

Dalton pointed out those communities, which had always been urban, also lacked community facilities enjoyed elsewhere, and because of that received less funding to help with upkeep.

Officials pointed out that other long-standing urban-rated areas such as Laingholm, Titirangi and Waiheke also had similar characteristics to those disputing being rated as urban.

These are debating points with merit on both sides, but the key argument is simple.

Income tax payments do not depend on how much the taxpayer uses the state-funded health, education or welfare system, for example. It's a system to fund the wider needs of the whole country.

Local body rates, calculated on the value of a property, is an outmoded and inequitable system that local government would love to replace. But in the meantime, its purpose is like taxes.

In Auckland Council, rates contribute to making the whole region a better place. Some neighbourhoods have enjoyed past investments, while others have missed out. Some will getter a larger share in future.

Some communities, especially those in growth-challenged northwest, south and outer north will need billions of dollars of investment to enable future, well-serviced and connected neighbourhoods to thrive.

Over the next three years, most of the 7,500 fringe properties will have their rates boosted in three steps.

On top of this year's five per cent average rate rise, an average value household in those areas will pay $230 phased-in over three years. Businesses, farms and lifestyle properties in the urban zone, will pay about $1400.

It is unfair if considered in the context of an individual neighbourhood, but it is simply how an imperfect system apportions as best it can, paying a fair share of the needs of wider Auckland.