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Property Tax and Assessment News from Around the World

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Capital gains tax 'valuation day' will cost Kiwi businesses billions of dollars

OPINION: If the Government manages to push through the recommendations of the Tax Working Group (TWG), the 450,000 or so small business owners in this country will be hit with massive compliance costs.

Small business, meaning all sole traders and including businesses with up to 20 employees, are the back bone of the New Zealand economy.

Their contribution to our economy is enormous. Together small businesses employ roughly 30 per cent of our entire work force and contribute roughly $65 billion to New Zealand's annual gross domestic product.

That's over 25 per cent of everything this country produces manufactures and sells every year.

In order to implement Labour's controversial capital gains tax (CGT), the TWG have proposed that every business in New Zealand must be valued by a professional valuation expert all on the same day.

This is not only ludicrously impractical, if not impossible, but the cost to be piled on businesses to comply with this will be horrendous and in some cases crippling.

The Tax Working Group's preferred option for taxing capital gains by business owners would create a "valuation day" approach, creating "a need to value all assets that are to be subject to the new rules as at a given day". Critics claims this will impose a heavy cost on hundreds of thousands of small businesses.

The compliance costs forced upon small business will run into the billions – I estimate $10,000 on average for each small business, meaning $4.5b of costs forced upon them by Labour tax policy.

These are our businesses that can least afford this cost – their profit margins are already being squeezed by the multitude of other costs they are facing today with wage increases, fuel cost increases and impact of our dollar falling on importers.

Exempting the family home from CGT, but hammering our small business owners, is hardly going to be the magic pill to encourage a shift away from property into more productive assets as is Labour's grand plan.

The TWG is recommending that CGT applies to assets already owned on the date the law comes into effect.

Making CGT apply to assets bought after the tax becomes law is by far the easiest and fairest way to bring in the legislation. It avoids the messy and expensive exercise of coming up with a value for these assets.

This method is also fairer on taxpayers since the new tax only applies to assets bought after it's introduced so individuals and businesses know what tax they might be on the hook for at time they buy an asset.

New Zealand is a country of small business owners. These are the corner dairy owners, the panel beaters, the builders, the hairdressers, the local butcher and the local fish and chip shop who are in many cases earning just enough to pay the bills to keep their business going.

They also employ people who pay taxes and spend the money that keeps our economy going.
Let's consider for a moment how impractical and ill considered the TWG proposal is.

Imagine 450,000 business owners all rushing out on the same day to find a local business valuation expert to value their business.

Valuing a business is a far more complex and expensive exercise than valuing a house or commercial property. Sales data is not readily and publicly available for businesses in contrast to houses and commercial property.

The main asset most businesses own can't be seen or touched because it's the intangible goodwill tied up in the owner's expertise and knowledge, making it a very hard asset to value.

I don't know the last time Sir Michael Cullen and fellow TWG members tried to get a business valued but I can tell you through many years of experience, it is a complex and expensive exercise.

For a start, there are only a handful of professional business valuation experts in most New Zealand towns and cities. Also it's not cheap to hire a professional business valuation expert. In most cases, you won't get any change from $10,000 and in many cases it will be much more than that.

Prices for this service will sky rocket. And small businesses will be forced to pay the bill – and the tax when they come to sell their business.

Successfully implementing a major reform to our tax system is a notoriously challenging and politically dangerous exercise.

All previous governments that have looked closely at introducing a CGT have walked away from the idea once they realised the minefield of issues they had to navigate to both design the tax so it is fair, easy to understand and not too onerous on taxpayers to comply with.

This dilemma is exactly the position the TWG finds itself in now.

But that is not justification for suffocating the 450,000 small business owners of this country.

The impact on this group will be enormous, disproportionately larger than on big business.

The TWG needs to gets real and come up with a workable and inexpensive way to implement its proposals or tell the government it can't be done.

Capital gains tax may once again be destined for scrap heap. And perhaps that's where it should stay.

Troy Bowker is the chief executive of Caniwi Capital

'Shaken trust': Auckland Council apologises to churches over handling of rates hikes

Auckland churches have been stung by a recent move to rate church properties

Auckland Council has apologised for what one councillor is calling "appalling" treatment of the region's churches.

Religious leaders on Tuesday ripped into the council' s controversial, and "badly flawed", move to rate church properties, which saw one church's rates bill increase from $400 to $21,000.

An Auckland Council review – to investigate which religious properties were using their premises for revenue, such as hall hire and car parking – began in 2016. Religious properties could only be exempt from rates if the land was used for worship, theological training or education.

The outcome was an increase in rates for religious properties from $2.3 million to $3.6m.

Auckland Council officers have admitted letters sent to churches asking how their properties were used "may not have reached the appropriate contact".

The matter was debated at Auckland Council's finance and performance committee meeting on Tuesday.

Councillor Efeso Collins said the way the council had dealt with churches was "pretty much appalling".

"I think we've failed in that area," he said.

Elim Christian Centre's John Roberts said his church responded to a council survey by saying it was used totally for church purposes.

Elim's rates bill skyrocketed anyway.

"A few months ago, we received our annual rates assessment, which had increased from the $400 rubbish collection charge to $21,000," Roberts said.

"That caused a bit of a shock – no explanation, no valuer had been to visit, no consultation, just a new policy and a massive bill.

"Thankfully, as a result of assistance from members from this committee and others, a valuer was fairly quickly dispatched to check the church property, resulting in the rates being reassessed back down to the $400 rubbish charge."

The council's actions were a "clear attempt to chip away at the rating exemption given to churches by parliament", Roberts added.

"It's left us with a severely shaken trust in council's systems and a high level of suspicion about what council's real intentions are."

Orākei Baptist Church treasurer Diane Robinson attacked the council's communication breakdown, saying there he been "no transparency, no consultation".

The process was "incredibly badly flawed", she said.

"Where do I find this [extra] money from if you haven't given us warning?" she asked.

Some churches have previously told Stuff rates hikes could force them to cut community services.

"A lot of churches are doing their best on very limited budgets and a big rates bill will put stress on their services. Some may have to pull back on the services they provide," Gate Church pastor Joseph Fa'afiu said.

Gate Church's rates bill jumped from about $200 to $1500.

Councillors voted to pass an apology from Auckland Council and council staff, acknowledging its engagement with religious organisations had been unsatisfactory.

They also voted to defer rates increases until the 2019 to 2020 financial year, except where the increases were clearly caused by rating commercial activities.

The council's review resulted an increase in rates for the properties in questions of $1.3 million – from $2.3m to $3.6m.

In total, 241 properties got a rates decrease and 542 experienced an increase.

Of these, 305 of these received an increase of more than $1000.

Mangawhai rates protesters lose case in Court of Appeal

Bruce and Heather Rogan, Mangawhai residents who stopped paying rates they believed were unlawfully set, have lost an appeal against the Kaipara District Council.

The couple were part of a group of about 100 who refused to pay rates after the council hit residents with 40 per cent rates rises when it secretly ran up $58 million in debt for a sewage treatment system.

Despite a victory in the High Court in 2016 when it was ruled the rates were invalid, the Court of Appeal concluded the Rogans were still not legally allowed to withhold rates.

"The question that arises on this appeal is whether a ratepayer is entitled to withhold payment of rates where a rates assessment or rates invoice does not contain or accurately record all the specified information," Justices Stephen Kos, Raynor Asher and Murray Gilbert said in the judgment.

"For the reasons set out in this judgment, we agree with the conclusion reached in each of the courts below that the answer is 'no'."

The judges ruled that section 60 of the Local Government (Rating) Act 2002 meant the couple were not entitled to withhold rates:

"A person must not refuse to pay rates on the ground that the rates are invalid unless the person brings proceedings in the High Court to challenge the validity of the rates on the ground that the local authority is not empowered to set or assess the rates on the particular rating unit."

The judges said section 60 "provides that a person cannot refuse to pay rates on the ground that the rates are invalid unless he or she makes good on the objection by bringing judicial review proceedings in the High Court.

"Even then, he or she must not refuse to pay the rates unless the challenge is based on the contention that the local authority is not empowered to set or assess the rates on the particular rating unit. This could be where, for example, the rating unit is outside the local authority's territorial boundary."

The Rogans have since repaid the three years' rates owed from 2012 to 2015 but have not paid penalties.

"The Rogans were not entitled to refuse payment of the rates because of the asserted errors and omissions in the rates assessments and rates invoices," the judgment read.

"The sections we have referred to show a statutory obligation to pay irrespective of whether there are errors or omissions in the rates assessment or the rates invoice of the type complained of in this case."

The former council resigned in 2012 and was temporarily replaced by commissioners.

Wellington property values leap 45 per cent in latest rating valuation

Home ownership in Wellington is becoming a distant dream for some, as property values in the cheapest suburbs leapt more than 50 per cent in three years.

The average property value in Wellington has risen about 45 per cent, but the most affordable suburbs, such as Newlands and Tawa, have experienced the biggest increases.

The values, released this morning by Quotable Value and the Wellington City Council, also show nine suburbs now have a rateable value higher than $1 million, compared to only two suburbs three years ago.

"If you've got a home, it means you're going to feel wealthier," said Wellington mayor Justin Lester.

"If you don't have a home it means the prospects of getting one - you might have reduced confidence about it."

The council wanted to see more affordable construction happening in the city, and wanted all Wellingtonians to have the ability to own their own home, Lester said.

He was "personally committed" to ensuring people had affordable housing options.

Lester pointed to the recently announced $1.5 billion plan to revitalise neighbouring city Porirua and provide at least 2000 KiwiBuild homes.

He said the council was also creating more social housing and affordable rentals for Wellington residents.

Today's values will be officially released on Wednesday, but show the average rating value in the city has increased to $876,912 since the last rating valuations in 2015.