IPTI Xtracts

Property Tax and Assessment News from Around the World

NEW ZEALAND – March 2019

Rating Valuations

Objection Inspections

More than 960 Whangarei District property owners asked for their valuations to be reviewed after property valuation notices were release in January this year.

Valuation Service Provider – Opteon is now reviewing these valuations and will respond to all objectors by 30 June 2019.

Objections are being reviewed area by area in the most in the most efficient way.

Frequently Asked Questions

I have objected to my valuation, what happens next?

An Opteon valuer will inspect your property, analyse the values and contact you to discuss the result. A valuation change may or may not occur and you will be sent a new valuation notice if a change is made.

If you do not agree with the revised valuation (or no change to your valuation) you can appeal at the Land Valuation Tribunal.

Will they need to inspect my property?

Yes. Rating Valuation rules require the valuers to complete an on-site inspection for all objections.

What parts of the property will they inspect?

The valuer will inspect the entire property to a level that is suitable to gather as much information as they can to justify the final valuation. The valuer will only enter buildings if you invite them to.

I'd like some warning so I can make sure things are tidy – will I get any?

Because of the high number of objections received the valuers will be working fast on a high volume of properties. This means appointments will not always be booked in advance. Please bear with us.

Will my tenants be contacted?

The valuer will call you if they need to enter a tenanted property. The valuers are generally only inspecting the exterior and will only enter if the tenant asks them. Please advised all tenants that an inspection can occur at any time during business hours.

Do I need to be there during the inspection?

Only if you need the interior inspected.

The valuer will contact you if they require further information. Objections that relate to internal modifications will be contacted by the valuer to require access within the building.

What if I don't agree with the re-valuation?

If you disagree with the revised outcome from your objection review, you can lodge an objection to the Land Valuation Tribunal within 20 working days of receiving the last review.

Silence on the land: Why are NZ farmers quiet on prospect of capital gains tax?

The proposed capital gains tax is a "mangy dog", Federated Farmers says - but so far it hasn't provoked much barking in the home paddocks.

Farmers have been almost silent - at least in public - on the spectre of a tax that, according to critics, will add unacceptably high costs and complexity to farmers' already heavy compliance burden.

But don't think for a minute they've accepted the idea of a tax on land sales.

The suggestion from farmers is that while some feel so hammered by central and local government lately they are shell-shocked. Others are more relaxed. That's because they know Coalition partner NZ First won't support the recommendations from the Tax Working Group (TWG), for fear of being consigned to political history next year.

Meanwhile, Agriculture Minister Damien O'Connor says he's surprised he hasn't had a single invitation from farmers to discuss the potential impact the TWG's recommendations could have on them.

And he says he hasn't had a lot of reaction personally, despite being fully prepared for "farmers wondering what this might mean for them".

Even plain-speaking Federated Farmers vice-president and commerce spokesman Andrew Hoggard - who came up with the "mangy dog" gem - says "it's been surprisingly quiet".

However, the Manawatū dairy farmer suggests the apparent calm among the federation's 17,000 or so members might be because he "only hears when I've done something wrong".

But he isn't backing away from the federation's belief that a capital gains tax (CGT) on farmers would be a loony move - on several levels.

Two weeks after the Government-commissioned TWG report, Hoggard is still asking "why are we doing this?".

"What is the purpose, what is the outcome, what are we trying to achieve?

"Everyone has been talking about housing affordability but [the recommendations] don't include the vast bulk of the country's housing, so how is that going to achieve the outcome?"

The TWG, led by former Labour Finance Minister Sir Michael Cullen, recommended the Government implement a CGT, and use the money gained to lower the personal tax rate and to target polluters.

The CGT would cover assets such as land, shares, investment properties, business assets and intellectual property, with gains taxed at the taxpayer's marginal rate.

Any gains on the sale of these assets would be added to the seller's yearly income and would normally be taxed at realisation – when the assets are sold.

Other assets – such as the family home, cars, boats and art – would be exempt from a CGT.

Cullen said New Zealand's tax system had many strengths "but there is a clear weakness caused by our inconsistent treatment of capital gains".

He expected the CGT as recommended by the working group would raise about $8 billion over its first five years, and that revenue would increase in the ensuing years.

The TWG said of the $8b it cited, about 10 per cent or $800m would be contributed by a "rural property" CGT.

The $8b did not include proceeds from environmental taxes because the TWG did not recommend specific environmental tax measures or prices.

The Coalition Government is taking until next month to give its official reaction to the TWG report.

Hoggard asks: "in all the talk about CGT and tax fairness, how do you reconcile that out of a farming couple and an Auckland urban couple planning to sell their respective properties for $2 million and move to retirement villages, only one - the farmers - has to pay a CGT?

"Then you've got the issues around the complications with valuations and all the various scenarios that may unfold - how does that work?

"If you go back to the principles of taxation - that it's easy to work out, fair across the whole base - to me this fails on so many levels. You have to question why are we doing this?"

Personally, says Hoggard, he's more worried about the TWG's environmental tax proposals which will hit him "year after year" and promise to be a regulatory, bureaucracy-creating nightmare given the very different agendas of the various regional councils in areas such as improving water quality.

O'Connor says he's more than happy to listen and discuss farmers' concerns about these and other issues with the TWG report - but no one has asked him.

The veteran politician says the debate about farms and a capital gains tax has been kicked around for decades, and he has heard "many different attitudes from the farming sector over the years".

"Going right back to the 1980s, when farmers were told to stop farming for capital gains because it was over-inflating land values and people were struggling to make a decent living. Farming's been through a few cycles since then and as I've said before, one of the big challenges for young farmers in New Zealand is the cost of land, and being able to make a decent return on that investment when they buy that land."

O'Connor notes that New Zealand is a global rarity in not having a CGT, but can't offer evidence that such a tax would reduce land prices.

"It doesn't guarantee any change and while I've not had an opportunity to read the whole report, this is part of the comprehensive range of options that looks to rebalance the tax system. Ensuring the tax system works better for all New Zealanders, including farmers, has been the mandate of the [TWG] group.

"Clearly there's a lot of technical issues in there that I can't make a judgment on, other than this is not designed to bring land values down [but] keep them at a level over time that is more aligned to productive returns, not to the speculative value."

To the suggestion the farming sector is fearful of the unknown and the impact on long-held family farms, O'Connor says the TWG report had been clear.

"The report is proposing a specific exclusion of the family farm that is passed from one generation to another. There are many issues through the report that mitigate and accept most of their concerns."

But asked for his personal opinion on imposing capital gains tax on farms, O'Connor opts for vanilla.

"I've always believed personally that if you've got income and you live in a society like ours, then you have an obligation to pay some of that in tax to contribute to the infrastructure we enjoy."

Asked if the Coalition is to blame for fuelling uncertainty and speculation by delaying its official reaction to the TWG report, O'Connor says the gap is for consultation and reflection.

"We haven't made up our minds and we are going to take time. The assumption we have made up our mind and that everything is calculated is complete hogwash.

"We've said that until we are blue in the face. Of course, for political reasons, people are going to be making outrageous claims and statements. We expect that but what we do want to do is engage in a sensible way with all the sectors that make New Zealand the place it is, from the productive primary sectors to the social sectors.

"It's about being prepared to consider all the hard issues for the long-term benefit of all New Zealanders."

DairyNZ, the industry-good organisation for the dairy sector, said its analysis of the TWG's final report was still a month or two off completion.

When the report came out, DairyNZ said it would be "looking closely" at the implications for farmers and had "strong concerns of a system that looks likely to have significant implications for farmers across a broad range of areas from business asset valuations, administrative costs, succession planning and retirement schemes".

Dairy exporter Fonterra, New Zealand's biggest company, says it has nothing to say on a CGT and comment is better coming from industry groups.

Horticulture NZ says it is still analysing the TWG report but chief executive Mike Chapman has blogged that a water tax would be "crazy" and urged New Zealand "not to suffocate ourselves with taxes".

Working group chairman Cullen, in a follow-up statement on environmental taxes and a CGT on farmers, attempted to correct some of what O'Connor calls "misinformation" spreading in the farming community about the TWG's recommendations.

Cullen said the recommended tax on rural property when it was sold or transferred would only apply to capital gains made "after the implementation date which the Government has indicated would be after the next election".

Capital gains made before then would not be taxed, Cullen said.

"The TWG has also recommended that tax would not have to be paid when an asset is transferred or sold in some circumstances, and would instead be deferred until a later sale. These circumstances include death, relationship separation, and reinvestment for businesses with turnover of less than $5 million. For example, if a farmer dies and the property is passed down through inheritance, no tax would be payable at that time.

"The TWG did not recommend a 33 per cent rate for taxing income from capital gains. Instead it recommended that the gains be taxed at a person's marginal tax rate, like other income. This means that the tax rate a person pays will depend on how much income they earn and their amount of capital gains.

"The TWG also recommended that if a retiring business owner, such as a farmer, sells their business, the first $500,000 of capital gains be taxed at their KiwiSaver tax rate. The top KiwiSaver tax rate is currently 28 per cent.

But don't count on farmers staying quiet on a move to tax their property sales.

Federated Farmers' Hoggard suspects that as busy people, they are simply waiting until they know more.

Then the mangy dog could be sent to the kennels.

How it could work

Michael Cullen's example:

• Dairy farm bought for $1.5m 20 years ago.

• Worth $3m when new capital gains tax comes into effect (excluding family home).

• Farmer retires 10 years later. Sells farm for $4m.

• Farmer made $70,000 of other income in the year of sale.

• Capital gain is $1m from the time the new tax came into effect.

• $500,000 of that gain would be taxed at 28% (assuming this was the farmer's KiwiSaver tax rate in each of the previous two years). Rest of the capital gain would be taxed at 33%.

• Farmer's tax bill from selling farm: $305,000.

• Family home would be exempt.

• If farm was passed on through inheritance, tax would be deferred until it was sold.