

Taxation (Budget Measures) Bill — In Committee - 20 May 2010

Hon Sir ROGER DOUGLAS (ACT): I will be brief. I want to ask the Minister in the chair, Peter Dunne, a couple of questions in relation to rental property and the loss of the depreciation rights. I must say that I certainly had not contemplated the 50-year rule. It seems to me that it is a relatively neat provision. I thought that the Minister might have reduced it to about 1 percent or something of that nature. I am interested in the administrative handling of it, particularly for older houses—maybe a house that is 60 to 70 years old. One would hope that the procedures would not be too bureaucratic. But that is a minor issue.

The second issue is really the more important one, and that is what economic analysis has been done on whether the measure, which is in Part 3 of this bill, is in fact likely to change New Zealanders' attitude towards, or love of, investing in rental property. I think one of the big reasons that people invest in rental property is not just the fact that the sharemarket is prone to go up and down but that they tend to understand rental property. From my calculations, the loss of deductions is probably equal to an interest rate rise of about 1 percent. It is equal to an interest rate rise of approximately 1 percent, and I am not sure that that is likely to deter property investors from investing in rental property.

If we take a house in a regional town worth \$200,000, and we take 40 percent off that for the value of the land, that brings us down to about \$120,000. We then take off \$20,000 for chattels; they will still get the depreciation, as I understand it, on the chattels. That leaves \$100,000. At 3 percent, property investors will lose the depreciation on that—on \$100,000 that is \$3,000. Those people are likely to be on the new top rate of tax—and we thank the Minister for that—so after those savings they will lose about \$1,000. They will have to pay an extra \$1,000 in tax. On a borrowing of \$100,000 that is equivalent to 1 percent. If it is as high as 80 percent, then the equivalent borrowing cost is probably only 0.75 percent.

So I am not sure that this provision will change the approach of New Zealanders to rental property, and I wonder whether the Minister received any analysis of it from Treasury or anyone else. I think that what might deter people from moving into rental properties in the near future is the likelihood that interest rates will rise by 3 percent over the next 2 or 3 years. If we look at the prediction at the back of the Budget we can clearly see that mortgage interest rates are likely to rise by at least 3 percent and maybe hit 8.5 or 9.5 percent. I just wondered what economic analysis the Minister had received.