

Officials against rental property interest deductibility removal

Newly released information shows that in addition to Inland Revenue and Treasury, officials from the Ministry of Housing and Urban Development were unanimous in advising the Government against removing rental property mortgage interest as a tax deduction. This opposition is also supported by economists, the general public and even tenant groups who are also stating that the policy will lead to rent rises.

Housing and Urban Development (HUD) said that “Increasing housing supply should be the key focus for improving housing affordability in New Zealand”. Some initiatives in the March 23 announcement have focused on this. However some will have the opposite effect.

Removal of the mortgage Interest tax deductibility will not increase housing supply. It is simply a way of shuffling the existing housing stock, removing tenants to make way for first home buyers. The estimated 75% of current tenants who are unable to afford to buy a home will find it harder to save for a deposit even if house prices fell by 10-20%.

Any interest payments are a legitimate tax deduction for any income producing asset or business. It is not, and never had been, a “loophole”. Home owners cannot deduct mortgage interest, as homeowners don’t receive an income from their home on which they have to pay tax. (A similar situation is that of a taxi driver who can claim his taxi vehicle expenses as a legitimate expense whereas the family car’s expenses are not tax deductible).

HUD noted that “Applying it (limiting tax deductions) to existing stock risks divestment by landlords, termination of existing tenancies, imposing costs on tenants, and potentially putting some investors into, or exacerbating, negative cashflow”. It also noted that this could “have negative impacts on child wellbeing and child poverty”.

The removal of the interest tax deductibility will ultimately hurt tenants and ‘mum and dad’ investors. HUD expects the extra costs on private rental providers would be in the vicinity of \$4125 per year, per property.

If some of the new well-intentioned housing policies are causing significant problems, Government should reconsider their introduction rather than look to introduce even more laws to try and fix the problems that they have and will create.

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