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# Tax laws to hit builders, landlords

Accountants expect housing investment to suffer from changes to tax claims on rental properties.

CHANGES to the rules about what property investors are entitled to claim on rental properties could send prices soaring and grind the building industry to a halt, according to a Palmerston North accountancy firm.


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By Jimmy Ellingham

Accountants Shane Storey and Du Randt Potgieter of Storey and Associates have crunched the numbers and come up with a series of scenarios to illustrate the effects of tax announcements in this year's Budget.

These include no longer allowing Working for Families tax credits to be claimed on the basis of losses on rental properties and forbidding tax refunds for depreciation on buildings.

For a family on an average income of $70,000, owning a house worth $350,000 which they rent for $350 per week, tax changes mean they could be $114 a week worse off.

This scenario was typical of an average Storey and Associates client.

According to 2006 census data, 32 per cent of Palmerston North's housing stock is made up of rental properties. The national average is 26.7 per cent.

A spokesman for Finance Minister Bill English said Treasury estimates show rent was expected to rise only 1.4 per cent during the next three to five years.

Mr Storey said that from April 1 next year, depreciation and Working for Families tax cuts on rental property losses would cease.

It was not expected that the couple $114 a week worse off would increase rents to completely offset that amount, but should investors be left to absorb loses they would have to make up the shortfall themselves.

"For some people living week to week, that's a big difference," Mr Potgieter said.

"What they're doing is squashing a market."

Mr Storey said he did not have a problem with the rules around depreciation being altered, but he thought a better way to do that would have been to apply new policies to properties bought after a certain date. Potential investors would then know what they were in for.

Demand for houses could drop over time as people invested elsewhere, grinding the supply of new houses to a halt.

"Landlords are easy whipping dogs," he said.

Mr English's spokesman said tax changes would help rebalance the economy towards productive investment.

"Ending depreciation tax breaks on buildings makes sense. On average, New Zealand buildings actually increase rather than decrease in value over time."

The Government closed the Working for Families "loophole" as it did not believe people should use investment losses to artificially inflate their eligibility for this support.

This and axing depreciation claims was expected to draw $2.48 billion during the next four years, he said.

Manawatu Property Investors Association president Grant Ogilvie said Budget changes would affect the cashflow of property investors.

Investors would lose about $30 a week from depreciation, of which about $10 could be passed on to tenants.

Palmerston North MP Iain Lees-Galloway said the Storey and Associates' figures were "worth consideration". Their findings were further evidence of how the Budget was hurting middle-income families, he said.

While some of the numbers were "a little bit inflated", Mr Lees-Galloway expected to see a "fairly significant" increase in rents.

Auckland University department of property's Laurence Murphy said a major barrier to increasing rent was whether tenants had the ability to absorb the extra costs.

As Palmerston North had a high student population, the income of those renting would be "relatively constrained".

## LOSING MONEY

**Scenarios for couples claiming depreciation on rental properties and Working for Families credits for losses on rentals, as calculated by Storey & Associates:**

- Combined income $50,000: House value $350,000. Weekly rent $350. $82.06 a week worse off.
- Combined income $70,000. House value $350,000. Weekly rent $350. $114.17 a week worse off.
- Combined income $80,000. House value $350,000. Weekly rent $350. $116.29 a week worse off.
- Combined income $100,000. House value $350,000. Weekly rent $350. $68.27 a week worse off.

Mr Storey and Mr Potgietar worry these losses will either be offset through increased rents or with investors potentially exiting the housing market. This could cause prices to plunge, they say.