



26 January 2009

NZ has 2nd most unaffordable housing – time to balance the tax system.

Demographia has released the results of their 2009 International Housing Affordability Survey with New Zealand's average house price at 5.7 times the average national income, ranking as the second most unaffordable in the world. The New Zealand Manufacturers and Exporters Association (NZMEA) say the almost unique absence of a Capital Gains Tax in New Zealand is one of the factors that drive this outcome. It is clear that the tax rules favour assets over activity.

NZMEA Chief Executive John Walley says, "What is there to fear from a Capital Gains Tax that does not affect the family home or increase the overall tax load? We need to balance the tax treatment of all gains and income to encourage more investors into the productive sector of the economy where jobs and wealth are really created."

"Capital is the key ingredient in developing new technology into a sellable product. Investment is needed to fund research, new equipment and staff training - these are the precursors to improving productivity."

New Zealand's housing bubble saw prices rise 70% between 1999 and 2008ⁱ causing a rise in inflation and debt levels; two of the major causes of the economic crisis.

"The need for a better balance in our tax system has been emphasised by the economic crisis. The housing bubble has inevitably collapsed, as everyone including the politicians knew it would, leaving the country with only a pile of debt and low productivity. The bias in our tax system has been identified in both the Treasury and Inland Revenue minister briefings – where is the political will to fix the problem?" says Mr. Walley

"A Capital Gains Tax has long been framed as politically untenable in New Zealand, but it is difficult to see why, when it will both make housing more affordable, and help create jobs and real wealth. If the Government is serious about improving productivity and creating jobs then this would be a good place to start."

ⁱ The Economist, 'Structural Cracks', May 22 2008