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**THE TREASURY**  
Kaitohutohu Kaupapa Rawa

To: Minister of Finance

**AIDE MEMOIRE: VIEWS ON MICHAEL LITTLEWOOD'S PAPER 'WHAT DO NEW ZEALANDERS OWN AND OWE? NEWS FROM SOFIE 2004-2006'**

[deleted – not relevant to Budget advice on tax]

**Treasury views on Michael's comments on tax on rentals**

In his email to you, Michael noted he does not believe that the tax laws on rentals needs changing. Rather he thinks that the administration of existing laws should be improved.

Tax measures to be announced on Budget day include additional funding for Inland Revenue to conduct additional audit and compliance activity in relation to property transactions. While this will improve the administration of existing tax laws, Treasury considers that by itself it will not address the tax preference for housing investments. In reality, the enforcement of existing tax laws has proved difficult for Inland Revenue as the department is required to prove that the intention upon purchase was to make capital gains through resale.

Treasury considers that Budget measures to disallow depreciation deductions from buildings with a useful life of 50 years or more will have a significant positive impact on investment decisions. The changes will encourage investment in productive parts of the

economy by making the tax treatment of property fairer compared to other forms of investment. This will reduce the likelihood of people investing in property purely for tax reasons.

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