THE TREASURY
Kaitohutohu Kaupapa Rawa

Reference: 20170096

17 May 2017

Thank you for your Official Information Act request, received on 17 March 2017. You requested:

> "any information (advice, correspondence, minutes, memos, reports, briefing papers, aide memoires, evaluations or any other information) held, sent or received by Treasury or the finance minister or their office between January 1, 2015 and today's date, relating to:
>
> 1) a land tax
> 2) a tax on property purchases by foreigners, including those residing in New Zealand, and/or overseas-based New Zealanders, which does not fall under 1) above
> 3) an "empty property" tax
>
> This will also include any information in which property taxes in Canada and its provinces (including taxes on foreign buyers and empty properties) are discussed."

On 3 April 2017, you clarified that your request could be limited to substantive documents, but would include internal emails and drafts. On 12 April 2017, you clarified that your request could be further limited to documents from 1 January 2016.

On 18 April 2017, we extended the time limit to respond to your request by 20 working days.

You noted that a similar request was sent to Inland Revenue, and they will respond separately. We have coordinated our response with Inland Revenue such that where both agencies held the same information, Inland Revenue will release the information under their response.

1 The Terrace
PO Box 3724
Wellington
New Zealand

tel. 64-4-472 2733
fax. 64-4-473 0982
www.treasury.govt.nz

Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	28 April 2016	Internal Treasury email on land tax with draft table noting pros and cons	Release in part
2.	29 April 2016	Email from the Department of Prime Minister and Cabinet with draft initial scan of land taxes in other jurisdictions	Release in part
3.	5 May 2016	Internal Treasury briefing note on tax for the Secretary's appearance before the Finance and Expenditure Select Committee in June 2016	Release in part
4.	30 May 2016	Draft internal Treasury document on preliminary tax options for housing	Release in part
5.	10 June 2016	Internal Treasury email with preliminary thoughts on the consistency of restrictions on residential housing with New Zealand's international obligations with draft table	Release in part
6.	16 June 2016	Internal Treasury email with preliminary thoughts on the consistency of restrictions on residential housing with New Zealand's international obligations	Release in part
7.	23 September 2016	Email to Ministry of Business, Innovation and Employment regarding prior information on Singapore stamp duty	Release in part
8.	4 October 2016	Internal Treasury email on further Canadian foreign homebuyer measures	Release in part
9.	5 October 2016	Internal Treasury email on further Canadian foreign homebuyer measures	Release in part

10.	6 October 2016	Internal Treasury email with preliminary comments on a discriminatory stamp duty for discussions with the Prime Minister's Office	Release in part
11.	26 October 2016	Internal Treasury briefing note on tax for the Secretary's appearance before the Finance and Expenditure Select Committee in November 2016	Release in part
12.	31 October 2016	Internal Treasury briefing note on foreign investment for the Secretary's appearance before the Finance and Expenditure Select Committee in November 2016	Release in part
13.	20 November 2016	Internal Treasury email on other Canadian foreign homebuyer taxation changes	Release in part
14.	22 November 2016	Email from MFAT on Canada's measures regarding house prices and accompany report from the New Zealand High Commission in Ottawa	Release in part
15.	11 January 2017	Internal Treasury briefing note on foreign investment for the Secretary's appearance before the Finance and Expenditure Select Committee in February 2017	Release in part
16.	31 January 2017	Internal Treasury briefing note on tax for the Secretary's appearance before the Finance and Expenditure Select Committee in February 2017	Release in part

I have decided to release the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- personal contact details of officials, under section 9(2)(a) – to protect the privacy of natural persons, including deceased people
- names and contact details of junior officials and certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions
- under section 9(2)(h) – to maintain legal professional privilege

- under section 9(2)(j) - to enable a Minister of the Crown or any department or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations), and
- under section 9(2)(k) – to prevent the disclosure of official information for improper gain or improper advantage.

We have redacted the direct dial phone numbers of staff members in order to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's own website.

Some information has been deleted because it is not covered by the scope of your request. This is because the documents include matters outside your specific request.

As noted above, we have coordinated our response with Inland Revenue so that where both agencies hold the same information, Inland Revenue will release the information under their response. For example, Inland Revenue will release the 'Briefing Note re Vancouver Sales Tax' mentioned in Documents 11 and 16.

Please note that several of the documents being released are internal documents that are draft in nature and do not necessarily reflect the Treasury's and Inland Revenue's overall views.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This fully covers the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Matt Cowan
Acting Manager, Tax Strategy

Information for Release 20170096

From: Tracy Mears [TSY]
Sent: Friday, 29 April 2016 2:05:46 PM
To: s9(2)(g)(i) [TSY]
Subject: FW: Land Tax - Economics

From: Matthew Gan
Sent: Thursday, 28 April 2016 5:50 p.m.
To: Andrew Coleman [TSY] <Andrew.Coleman@treasury.govt.nz>; Tracy Mears [TSY] <Tracy.Mears@treasury.govt.nz>; Nick McNabb [TSY] <Nick.McNabb@treasury.govt.nz>
Cc: Suzy Morrissey [TSY] <Suzy.Morrissey@treasury.govt.nz>
Subject: RE: Land Tax - Economics

Thanks for the emails and background reading material.

I have collated the pros and cons from an economic standpoint into a summary table noting that the majority of the comments (and background reading) appear to be focused on a comprehensive land tax (link below), so have largely left the targeted (non-residents) land tax column unpopulated.

To help populate the table, how would the economic considerations change (if they would) if we were simply looking at a targeted land tax?

Land Tax - Pros and Cons (Treasury:3443540v1) Add to worklist

Andrew, thanks for the Dye and England suggestion. I found a 2010 summary report by the same authors on land tax online that was helpful in obtaining a rough understanding of the theory.

I will be on leave tomorrow, but look forward to the Monday meeting with MBIE/IRD/DPMC.

Matthew

Matthew Gan | Tax Strategy | **The Treasury**
Tel: +64 4 917 6164 | Matthew.Gan@treasury.govt.nz

From: Andrew Coleman [TSY]
Sent: Thursday, 28 April 2016 11:28 a.m.
To: Tracy Mears [TSY] <Tracy.Mears@treasury.govt.nz>; Matthew Gan <matthew.gan@treasury.govt.nz>; Nick McNabb [TSY] <Nick.McNabb@treasury.govt.nz>
Cc: Suzy Morrissey [TSY] <Suzy.Morrissey@treasury.govt.nz>
Subject: RE: Land Tax - Economics

I have on my desk a book “Land Value Taxation” edited by Dye and England if you are interested. It provides a good overview including international history and theory.

Deleted - not covered by your request

Feldstein(1978) talks a lot about the redistribution possibilities of a land tax, and how it is a transfer from current land owners to future generations of land owners. He also argues that this tends to lead to a lower capital stock and a higher international debt position, views that I think are increasingly standard in the literature. Petrucii and Luiss provide a review of this literature which is a good starting point. Skinner's model provides good insight

My reading notes on a couple of these papers are attached below.

In response to Tracy's list:
Under "Pros", I would add (to offset her "con" that it reduces the wealth of current land owners) It increases lifetime consumption of current non land owners and all future generations of New Zealanders, and is likely to increase wealth of future New Zealanders
I would also add (to offset her "only taxes one form of wealth") It is likely to reduce the distortions in the current tax system that favour investment in land and provided a wealth transfer to current generations of land-owners.

Of course, given the theory of second best I cannot be sure that adding a tax to reduce a distortion will lead to better outcomes; but the economics modelling suggests that it will lead to better outcomes overall, although transfer resources between land-owning and non-land-owning people.

s9(2)(g)(i)

Feldstein, Martin (1977). "The surprising incidence of a tax on pure rent: a new answer to an old question," *Journal of Political Economy* 85(2) 349-360

The paper argues that in an overlapping generations model a tax on land rent will reduce the price of land but some of the incidence will fall on capital because the level of capital will rise in response to the lower price of land as young agents find alternative assets to buy. This means a land tax can have large economic effects and lead to improved welfare for future generations.

Petrucci, Alberto and Luiss Carli. 2005. "The incidence of a tax on pure rent in a small open economy." Universita degli Studi del Molise Economics and Statistics Working Paper 25/05

This paper extends the Feldstein model of the effect of land taxes on capital accumulation by endogenising labour supply in response to the tax system. It uses an OLG model with finite population and land supply.
These notes are only on the literature review in the paper, which provides an excellent survey of the Feldstein and post-Feldstein literature of the effects of land taxes on land prices and thus capital or wealth accumulation.

Skinner, Jonathon (1996) "The dynamic efficiency cost of not taxing housing," *Journal of Public Economics* 59 397-417

Skinner uses an overlapping generations model with inelastic housing demand to show that by taxing other forms of capital more than housing the price of housing is increased, which, (in the absence of altruism) leads to higher consumption by the first generation and lower capital accumulation and consumption by all other generations. He argues that this intergenerational shift is the most important consequence of taxing housing and other forms of capital asymmetrically. The model is an analytically tractable two- period model that is repeated indefinitely and used to calculate both partial and general equilibrium effects.

Calvo, Guillermo, Laurence Kotlikoff and Carlos Alfredo Rodriguez (1979) "The incidence of a tax on pure rent: a new reason for an old answer." *Journal of Political Economy* 87(4) 869- 874.

This paper responds to Feldstein's argument about the incidence of property rent taxes by arguing that when agents are interested in the utility of their descendents they will change their private bequests in response to property price changes and thus the incidence of the tax falls entirely on the owners of the property.

Classic argument: only brief notes.

regards
Andrew

From: Tracy Mears [TSY]
Sent: Wednesday, 27 April 2016 10:08 p.m.
To: Matthew Gan <matthew.gan@treasury.govt.nz>; Nick McNabb [TSY] <Nick.McNabb@treasury.govt.nz>; Andrew Coleman [TSY] <Andrew.Coleman@treasury.govt.nz>

Cc: Suzy Morrissey [TSY] <Suzy.Morrissey@treasury.govt.nz>
Subject: RE: Land Tax - Economics

Hi Matthew

We agree that it would be good to set out the broad pros and cons and a view about any better alternatives (not just tax).

Here is a link to the background paper provided to the tax working group on land tax. This would seem to me to provide the best place to start. Land Tax (PDF 247KB)

It provides a useful summary of the expected pros and cons of a comprehensive land tax:

Pros

- It is a relatively efficient tax as it doesn't distort the use of the resource (unless there are exemptions? I presume there would be huge pressure to exempt agricultural land and have at least a discount for retirees) – I'm not convinced that the introduction of a land tax, in practice, would result in a uniform drop of the magnitude expected. Different people will have different views about whether a land tax could be repealed in the future so will discount (or not) the current land price accordingly. I also think that people do have a cognitive challenge comparing upfront costs with those over time – even when in NPV terms they are equivalent.
- It should provide incentives to develop land – to provide income to cover the tax.
- It is simple and easy to comply with

Cons

- Falls in land values would reduce wealth for land-owners and may create financial stability concerns if those land-owners are highly geared.
- It only taxes one form of wealth
- May create cashflow issues as the payment of the tax is not linked to an income source – especially for those with large land-holdings and low income e.g. retirees

For a non-residents land tax, the big issue is the definition of non-resident and the avoidance that would go on as a result. Compliance costs would be much higher because the collection agency (whoever they were) would have to identify foreign residents and find some way of verifying the information provided by all "residents". The higher the tax, the higher the likelihood of using companies, trusts, friends and family to avoid being labelled as a non-resident.

Happy to discuss
Tracy

From: Matthew Gan
Sent: Wednesday, 27 April 2016 5:37 p.m.
To: Tracy Mears [TSY] <Tracy.Mears@treasury.govt.nz>; Nick McNabb [TSY] <Nick.McNabb@treasury.govt.nz>; Andrew Coleman [TSY] <Andrew.Coleman@treasury.govt.nz>
Subject: Land Tax - Economics

[UNCLASSIFIED]

Hi Andrew, Nick and Tracy

Following on from the Land Tax meeting with IRD this morning, we thought it would be helpful to collate some preliminary internal thoughts on a land tax from an economic perspective, and Suzy suggested you would be the best people to contact for input.

In essence, we are looking to pull together a bullet point list of the key economic considerations for a:

- Discriminatory land tax (non-residents only); and
- Comprehensive land tax (including residents).

This will give us a high level list as a starter in the event more formal work is required/requested.

Being my 2nd day at Treasury, I am unsure as to the best way to pull this together, but as a suggestion, would either Andrew or Tracy be best placed to start the list via reply email to this group? Please let me know if it is easier for me to meet either or both of you to discuss and collate the list together and we can arrange a time?

Also, if you have any background reading on land tax that you think would be helpful for me at this point, can you please email it through?

Thanks
Matthew

Matthew Gan | Tax Strategy | **The Treasury**
Tel: +64 4 917 6164 | Matthew.Gan@treasury.govt.nz

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	Non Residents Land Tax	Comprehensive Land Tax
Pros		• Relatively efficient form of tax as it does not distort investment behaviour as land is a fixed supply and the tax applies regardless of whether or how well the land is used (unless there are exemptions – noting there may be pressure to exempt or discount agricultural land and retirees). • Should reduce the value of land. • Should provide incentives to develop land (to provide income to cover the tax). • Relatively simple and easy to comply with. • Should increase the lifetime consumption of current non-landowners and future generations of New Zealanders (and is likely to increase their wealth as well). • Likely to reduce distortions in the current tax system that favour investment in land that have provided a wealth transfer to the current generation of landowners.
Cons	• Compliance costs will be higher than a comprehensive land tax because the collection agency would have to identify non-residents and develop a way of verifying the information provided by	• Reductions in land value would reduce wealth for landowners and may create financial stability concerns if those landowners are highly geared. • Only taxes one form of wealth.

	'residents'. The higher the tax, the higher the likelihood of using companies, trusts, family to avoid being labelled as a non-resident. Therefore, the definition of non-resident will be critical.	• May create cash flow issues as the payment of the tax is not linked to an income source – especially for those with significant landholdings and low income (e.g. retirees).
Other		

From: s9(2)(a)
Sent: Friday, 29 April 2016 3:34:42 PM
To: Gary White;Tracy Mears [TSY];Nick McNabb [TSY];s9(2)(g)(i) [TSY]
Cc: Fiona Illingsworth [DPMC]
Subject: Initial scan of land tax use
Attachments: Initial scan of of land tax use.docx

[IN-CONFIDENCE]

Hi all

Attached is a quick initial scan of offshore use of land taxes that Fiona has done. We'd welcome any comments and particularly any info you have on use of a land tax elsewhere.

Cheers

s9(2)(a)

Land tax equivalents in other jurisdictions

Based on a quick literature review, the following land tax equivalents apply in other jurisdictions. We haven't been able to talk with the jurisdictions about how the taxes work.

Australia - Approximately 4.5% of tax collected in Australia comes from land taxes. It's worth noting that the three tier tax system in Australia is very complex compared to NZ (Federal government taxes vs state use of stamp duty and/or land taxes as their primary source of income, and council use of rates and user charge systems at the local level).

All states except the Northern Territory apply land taxes, which are generally graduated based on the value of a property. Some have exemptions for the principal place of residence or other exemptions (e.g. charities, land in primary production), set a minimum value before land tax applies, or differentiate between residential and commercial or industrial land. In Queensland, overseas residents pay the higher scale that companies pay, rather than the residential rate. In Victoria a new levy on foreign residents was introduced in January. Across Australia, foreigners can usually only buy new residential properties, not existing homes.

State	Basis	Rates (AU$)
ACT	Based on average unimproved land value for all residential rentals and for residential properties owned by a trust or corporation	Flat land tax rate of $975 and marginal rates of 0.41-1.23% apply depending on the value of the property
NSW	Principal place of residence exempt	On a property value of over $482,000 the rate paid is $100 plus 1.6% of land value up to a $2,947,000 threshold. Rate paid then moves to $39,540 plus 2% of the land value over the threshold.
Queensland	Individual property owner	On a land value of over $500,000 the rate paid is $500 plus 1% of land value up to a $5m threshold. Rate paid then moves to $62,500 plus 1.75% of the land value over the threshold
	Company and/or overseas resident	On a land value of over $350,000 the rate paid is $1,450 plus 1.7% of land value up to a $5m threshold. Rate paid then moves to $75,000 plus 2% of the land value over the threshold
South Australia	Principal place of residence exempt	On a land value of over $323,000, 50 cents per $100 over that value is paid with graduated steps up to a threshold of $1,078,000. Rate paid then moves to $10,927.50 plus $3.70 for each extra $100 value.
Tasmania		On a land value of over $25,000 the rate paid is $50 plus 0.55%, with property over $350,000 paying $1,837.50 plus 1.5%.
Victoria	Resident	On a land value of over $250,000 the rate paid ranges from $275 plus 0.2% of land value with four step thresholds up to a $3m threshold. The rate paid then moves to $24,975 plus 2.25% of the land value over the threshold.

	Non-resident (absentee owners)	An additional 0.5% levy on the relevant rate (from January 2016).
Western Australia	Land value tax is applied on the aggregated land holdings (all land in same ownership)	The rate paid starts at a flat rate of $300 for land over $300,000 and steps up to a threshold of $11m. Above this threshold the rate paid is $186,550 plus 2.67cents per dollar value.

Hong Kong – A "Government rent" of 3% is collected on all privately-owned properties under the land lease system operating since 1985.

Singapore - Property tax, which is a wealth tax, is based on the annual value of the property (generally derived from estimated annual rent or a flat rate on vacant land). Owner/occupiers pay 4-16% (HK$1,880-9,380), non-owner/occupiers pay 10-20% ($3,000-12,000) and commercial/industrial pay a flat 10% rate. Foreigners are restricted to buying non-landed residences (flats and apartments).

Taiwan – A land tax is levied annually for holding land in Taiwan. It is assessed on the total value of land owned by a person or an entity in a district. Land for residential use is taxed at a flat rate of 0.2%, if certain prescribed conditions can be met. Land used for other purposes is taxed at progressive rates, ranging from 1% to 5.5%.

Denmark - House or apartment owners pay a property value tax of 1–3% depending on the combined land and building value of their property. Some income limits apply for pensioners and low-income earners. It appears that people living in Denmark must also pay property value tax on any foreign property that they own(!), and people living abroad must pay property value tax on any property that they own in Denmark. There are a range of restrictions on the foreign ownership of Danish property.

Estonia and Lithuania also apply a form of land tax but it appears that this is an equivalent of council rates in New Zealand.

In a *UK* variation, councils can charge an extra 50% council tax on houses that are vacant for a long time. We understand this is done to incentivise owners to use or rent the properties. There have been some media reports that similar punitive tax measures might be proposed by some political parties for the London situation, where there are reports of 22,000 empty homes.

Land Tax: FEC – 8 June 2016

Key messages

- The Prime Minister suggested in April 2016 that a targeted land tax may be considered if overseas buyers were shown to be a major contributor to rising house prices in data scheduled for release by LINZ in May 2016.
- The information released by LINZ indicates that 2-3% of property transfers between 1 October 2015 and 31 March 2016 involved a buyer who is an overseas tax resident. Note that the data collected is based on tax residency and is not a register of foreign buyers. (See the Foreign investment briefing for further information on the LINZ data).
- The Tax Working Group (2010) considered a comprehensive land tax with most members supportive of a low rate land tax.
- A land tax would be an annual tax based on the value of land only (i.e. improvements and buildings would not be included).
- The introduction of a comprehensive land tax could have a number of benefits for housing affordability while being relatively easy and simple to administer, including:
    - Reducing the value of land. The Tax Working Group Paper on Land Tax (2009) noted that the introduction of a 1% land tax could result in a 16.7% fall in land values (and potentially 25%+) depending on assumptions.
    - Providing incentives to develop land (i.e. discouraging land banking).
- The potential benefits would need to be weighed against other factors, including:
    - The reduction in land values could have a significant effect on existing land owners and others, such as investors and lenders. For example, people with highly geared land may end up with negative net equity impacting the balance sheets of mortgage lenders.
    - Since there is no transaction linked to a land tax, the payment of a land tax could create cashflow issues for some landowners (e.g. retired people).
    - If the land tax did not apply to owner-occupied housing, it could have the undesired impact of placing upward pressure on house prices by providing an additional incentive for renters to own their own homes.
- If the land tax was only targeted at non-residents, the benefits of the tax would be diminished. In particular, the administrative costs would be significantly higher as the collection agency (or agencies) would have to identify non-residents and develop a way of verifying the information provided by 'residents'. Companies, trusts and family members may be utilised to avoid being labelled as a non-resident.

Questions & answers

Question: Does Treasury support a targeted and/or comprehensive land tax?

Answer: We have not undertaken any detailed work on a land tax (either targeted or comprehensive), and are not developing it as a potential government reform. There are a number of policy and design issues for a land tax that would need to be considered further.

Question: How much revenue would a land tax produce?

Answer: That depends on a number of factors, such as whether it was a targeted or

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comprehensive land tax, the tax rate, transitional rules, and asset price appreciation assumptions.

Question: Would a targeted land tax breach NZ's free trade agreement (FTA), Trans-Pacific Partnership (TPP) and double tax agreement obligations (DTA)?

Answer: Targeted land taxes should be permitted under NZ's FTA and TPP. Note that land taxes are considered direct taxes and non-discrimination obligations in FTAs are not applicable to these types of taxes.

Introducing a land tax on foreigners is inconsistent with a number of NZ's DTAs (including Australia, Japan and Mexico). However, if the land tax applies to offshore persons (e.g. including NZ citizens living overseas), then the DTAs should not apply to restrict the application of the tax.

Background material

- http://www.victoria.ac.nz/sacl/cagtr/pdf/tax-report-website.pdf: Tax Working Group Report (2010). Summarises the Land Tax Paper below on pages 50 and 51.
- http://www.victoria.ac.nz/sacl/cagtr/twg/Publications/3-land-tax-ird_treasury.pdf: Land Tax Paper for the Tax Working Group (2009).

Pages 4 - 10 not covered by request

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Long list of taxation options

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Pages 2 not covered by request

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Base broadening by introducing a well-designed **land tax** (based on the value of unimproved land and with no exemptions based on land use) should be very efficient with little reduction of economic performance. Historically, New Zealand has had a land tax but it had been weakened with exemptions and ultimately repealed, so its sustainability may be questionable. Its distributional impact is largely proportionate. Its main disadvantage is a transitional inequity as the introduction of a land tax should cause land values to fall, so current land owners would bear the cost for introducing a tax which is efficient for the future. This could also raise political objections to introducing a land tax that applied on a broad basis. The land tax, by causing land values to fall, would also reduce international vulnerabilities over time as less foreign borrowing would be needed to buy land (although, to the extent that the tax imposes unexpected cash flow burdens on current land owners and reduces the value of land as collateral there could be a risk to some borrowers and lenders which would increase vulnerabilities in the short term).

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Pages 4 - 6 not covered by request

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Land / property tax on housing

Taxes on land values, rather than property values (land and improvements), are more efficient as they incentivise the development of land to its highest and best use.

- It is considered to be very efficient economically causing very little distortions in behaviour or reduction in economic performance compared to other revenue sources.
- In order to be efficient there should be no exemptions, such as for owner-occupied housing.
- Its ongoing equity impact would be largely proportionate.
- However it would likely impose a large windfall loss to current landowners as the value of land would be expected to fall when the tax is announced.
- It would be fairly simple to comply with and administer.

A tax on the value of unimproved land has the potential to raise much revenue and is considered to be a very efficient tax base.
A land tax was recommended by a majority of the
Tax Working Group in 2010.

A tax on the unimproved value of land is considered to be very efficient. That is because taxing land does not affect the quantity available in the economy. In contrast, taxing other assets is likely to reduce the quantity of those assets employed in the economy, which would harm economic performance.
In order to achieve an efficient outcome, there should be no exemptions based on the use of the land. For example, if there were an exemption for owner-occupied housing, there would be a bias favouring land to be used for owner-occupied housing compared to other uses.

The largest equity cost of a land tax is that it would impose a windfall loss on current owners of land as the value of land would fall when the tax is announced, creating horizontal equity concerns. Andrew Coleman and Arthur Grimes have estimated that a 1% land tax would cause land values to be 16.7% lower than they would be without a land tax (assuming 100% capitalisation of the net present value of the tax.). Benge I find that if marginal investors face a 30% marginal tax rate and if real net land rents are expected to grow by 1% per annum, a 1% deductible land tax would be estimated to produce a 26% fall in land values and a 1% non-deductible land tax would lead to a 34% fall in land prices.

Current landowners would effectively pay the price of establishing an efficient revenue source for the future. This could raise political objections to introducing a broad-based land tax. Cash flow hardship is also possible for some land owners who purchased land without knowing of a potential land tax and/or who hold valuable land but have little disposable income (although this may be addressed, in part, in the short term through transitional arrangements - e.g. introducing a small land tax that increases each year to the final rate).

Another complication is if a land tax is introduced in substitution for another tax, such as an income tax, higher after-tax incomes may tend to increase land prices, partially offsetting the reduction caused by the tax itself.

On an ongoing basis the cost of a land tax is largely proportionate to income, so it is neither progressive nor regressive.

There are two other main equity considerations for specific groups:

- *Farms* - Farms have much higher land values compared to residential property across area unit deciles

The design of the land tax could be made more progressive to help address this by allowing a 'credit' (or rebate) for each hectare of land.

Superannuitants – Superannuitants tend to live in more valuable properties than non-superannuitants on the same levels of income.[47] They may therefore typically need to devote a larger proportion of income to paying land tax liabilities. However, as superannuitants already receive a universal transfer payment, an administrative mechanism already exists for delivering to superannuitants targeted compensation for a land tax, should that be considered necessary. Alternatively, payment of the land tax liability could be deferred until the property was sold (although this could be seen as undesirable as due to lock in effect and would become a barrier to the efficient use of the housing stock)

However, by suppressing land prices, the demand for borrowing from offshore should decline, which may improve macro vulnerabilities overall. On the other hand, if the transition to a land tax causes land prices to fall and places cash flow burdens on land owners, there could be a risk to some borrowers and lenders which would increase vulnerabilities to that extent. A progressive land tax (per hectare rebate) should reduce this risk.

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Vancouver's mayor is considering a tax on empty homes to help boost supply and damp prices in North America's hottest residential market.

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Appendix A: Overview of tax policy options

Option	Detail	Cost	Short term impact on house prices	Long term impact on house prices	Distributional effect	Risks and/or perverse incentives	Feasibility and/or barriers to	Assessment
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Land tax	To reduce the benefits of land-banking. This would act as both a fund-raising tool and also a price signal to develop.							

Pages 11- 13 not covered by request

From: s9(2)(g)(i) [TSY]
Sent: Friday, 10 June 2016 9:33:49 AM
To: s9(2)(g)(i) [TSY]
Subject: RE: Consistency of restrictions on residential housing with New Zealand's international obligations

Hi s9(2)(g)(i)

Carmel Peters (Carmel.Peters@ird.govt.nz) at IRD is probably the best person to contact in the first instance. I think MFAT talked to her in preparing the DTA advice last year (it was mostly sourced from IRD).

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Cheers,
Mark

s9(2)(g)(i) | Analyst | **The Treasury**
s9(2)(g)(i) @treasury.govt.nz

From: s9(2)(g)(i) [TSY]
Sent: Wednesday, 8 June 2016 3:06 p.m.
To: s9(2)(g)(i) @treasury.govt.nz>
Subject: RE: Consistency of restrictions on residential housing with New Zealand's international obligations

Hi s9(2)(g)(i)

Thanks for your amendments to the table – I've included your comment re: feasibility of implementation. I don't there's a need for MFAT to look over this yet, but if there appears to be an appetite for one of these options, I'll be in touch.

Would you mind sending through the contact details for relevant person at Inland Revenue so I can discuss the de facto discrimination issue re: DTAs?

s9(2)(j)

Cheers,

s9(2)(g)(i)

s9(2)(g)(i) | Analyst, Housing | **The Treasury**
s9(2)(g)(i) @treasury.govt.nz

From: s9(2)(g)(i) [TSY]
Sent: Wednesday, 1 June 2016 1:23 p.m.
To: s9(2)(g)(i) @treasury.govt.nz>
Cc: Tracy Mears [TSY] <Tracy.Mears@treasury.govt.nz>
Subject: RE: Consistency of restrictions on residential housing with New Zealand's international obligations

Hi s9(2)(g)(i)

Thanks for this. Most of the text just picks up from our TR so it looks ok. I have marked up some answers to your questions in the document. In addition, I think your new text in the "residency based land tax" related to de facto discrimination and DTA obligations is likely to be correct, but you may want to check this with IRD/tax team as the advice that was provided to us did not specifically address de-facto discrimination with regard to stamp duties/land tax.

If you would like MFAT to look over this let me know. Most of the text simply, particularly relating to FTAs, simply reflects the original text from our TR so I'm not sure that it is necessary given we have previously agreed the text with them. If discussions on these options are going to be taken further though it would be worthwhile looping them in (it seemed from our conversation earlier in the week that measures which discriminated based on nationality/residency were likely to lower down the list of measures to be considered).

As above though, I do think it's worth getting some of the DTA text checked.

Also, the table doesn't comment on feasibility of implementation, but for completeness I note that the two proposals relating to restricting foreign ownership would likely be difficult to implement, particularly if carves out were required to ensure we met our international obligations.

Happy to discuss.

s9(2)(g)(i)

s9(2)(g)(i) | Analyst | **The Treasury**
s9(2)(g)(i) @treasury.govt.nz

From s9(2)(g)(i) [TSY]
Sent: Monday, 30 May 2016 12:11 p.m.

To: s9(2)(g)(i) @treasury.govt.nz>
Cc: Tracy Mears [TSY] <Tracy.Mears@treasury.govt.nz>
Subject: Consistency of restrictions on residential housing with New Zealand's international obligations

Hi s9(2)(g)(i)

Thanks for sending through last year's TR on the impact of international obligations on measures to restrict foreign investment in housing.

I've developed the table at Annex 1 into the document below. You'll note a few comments where I'd be grateful for your advice.
Consistency of restrictions on residential housing with New Zealand (Treasury:3460582) Add to worklist

Are you aware whether MFAT has further considered the consistency of residency (rather than nationality) based restrictions with New Zealand's international obligations?

We discussed that MFAT would be able to fact-check the table. Perhaps we can have a quick chat this afternoon about how (and how quickly) we move forward with this.

Cheers,
s9(2)(g)(i)

s9(2)(g)(i) | Analyst, Housing | **The Treasury**
s9(2)(g)(i) @treasury.govt.nz

From: s9(2)(g)(i) [redacted] [TSY]
Sent: Thursday, 16 June 2016 10:37 a.m.
To: Andreas Heuser [TSY]; Tracy Mears [TSY]; s9(2)(g)(i) [redacted] [TSY]
Cc: Tom Hall [TSY]; Nick McNabb [TSY]
Subject: RE: The top 10 Chinese buyer picks for Q1 2016 are...

Queensland is also imposing a 3% surcharge on stamp duty for foreigners.

International put advice up to MoF in September last year, which provided an overview of the consistency of restrictions on residential housing with New Zealand's international obligations – MFAT was consulted on this: The impact of international obligations on measures to restrict foreign investment in housing [Returned from Finance (Hon Bill English)] (Treasury:3271440v3) Add to worklist
Mark – do you have any other background material / legal opinions on this?

I updated the report's annex table contained within the TR: Consistency of restrictions on residential housing with New Zealand (Treasury:3460582), a summary of which is below. This hasn't been consulted on with IR or MFAT yet, s9(2)(j) [redacted]

Scenarios		Description
Stamp duty	*Nationality based*	s9(2)(j) [redacted]
	Residency based	s9(2)(h) [redacted]
Land tax	*Nationality based*	[redacted]
	Residency based	[redacted]

Deleted - not covered by your request [redacted]

s9(2)(g)(i) [redacted] | Analyst, Housing | **The Treasury**
s9(2)(g)(i) [redacted]@treasury.govt.nz

Pages 2 - 7 not covered by request

From: s9(2)(g)(i) [TSY]
Sent: Friday, 23 September 2016 10:13:20 AM
To: ^MBIE: Warwick Terry
Cc: Matthew Gan;Nick McNabb [TSY]
Subject: Singapore stamp duty
Attachments: 3169979_Housing Options.docx, 3308569_Housing market effects of a stamp duty.doc Documents publicly available

[IN-CONFIDENCE]

Hi Warwick,

I've attached two documents, with relevant excerpts copied, to assist your advice on Singapore's stamp duty. I've also included links to an IMF overview of Singapore's changes stamp duties, as well as the Inland Revenue Authority of Singapore's overview of seller's and buyer's stamp duty.

We are still trying to track down the table you recall that compares different jurisdictions' stamp duties. We'll send this across as soon as / if we find it, but don't hold out much hope.

<u>Housing options</u>

116. The Minister of Revenue has suggested that we explore an option along the lines of a stamp duty that has been implemented in Singapore.

117. In Singapore, there are two stamp duties that apply to buyers, the Buyer's Stamp Duty and the Additional Buyer's Stamp Duty. Of particular interest is the Additional Buyer's Stamp Duty, which has a range of rates (nil to 15%) and the rates vary depending on the nature of the buyer (with the lowest rates for Singapore citizens and permanent residents, highest rates for companies and non-residents), and the number of properties owned (the lowest rate for the first property, higher rates for additional properties).

118. Singapore also has a Seller's Stamp Duty. This stamp duty applies only if a property is sold within four years of purchase, and the rate decreases the longer a property is held (16% if sold within a year, and nil if sold after four years).

119. New Zealand could adopt a similar stamp duty on sales of residential property, based on the framework of the Additional Buyer's Stamp Duty and the Seller's Stamp Duty with rates that vary over a number of criteria:

- An exemption for the first and second properties owned by a New Zealand citizen or permanent resident (this exemption would apply in respect of both a buyer's stamp duty (BSD) and a seller's stamp duty (SSD)
- In the case of a BSD, lower rates for purchases by New Zealand citizens and permanent residents (3% or up to 5%); higher rates for purchases by non-residents and companies (10%)
- In the case of an SSD, lower rates for long holding periods and higher rates for short holding periods (ranging between 15% for 1 year and 2% within 4 years).

Housing market effects of a stamp duty

29. The International Monetary Fund (IMF)'s assessment of Singapore's Additional Buyer's Stamp Duty is that the policy had some effectiveness at reducing demand from foreign nationals, who were outside the scope of other demand-side measures used to dampen the housing market, for example loan-to-value and debt-to-income ratios. However, it is important to note that the effectiveness of Singapore's stamp duty was reinforced by other demand and supply-side settings used in conjunction with the stamp duty.

Inland Revenue Authority of Singapore's overview of seller's and buyer's stamp duty

Seller's stamp duty
https://www.iras.gov.sg/irashome/Other-Taxes/Stamp-Duty-for-Property/Working-out-your-Stamp-Duty/Selling-or-Disposing-Property/Seller-s-Stamp-Duty--SSD--for-Residential-Property/

Seller's stamp duty
https://www.iras.gov.sg/IRASHome/Other-Taxes/Stamp-Duty-for-Property/Working-out-your-Stamp-Duty/Buying-or-Acquiring-Property/What-is-the-Duty-that-I-Need-to-Pay-as-a-Buyer-or-Transferee-of-Residential-Property/Buyer-s-Stamp-Duty--BSD-/

IMF report
This summarises Singapore's Macroprudential Measures from 2009–13 and discusses stamp duty changes.
www.imf.org/external/pubs/ft/wp/2015/wp15123.pdf

s9(2)(g)(i) | Analyst, Housing | **The Treasury**
s9(2)(g)(i) @treasury.govt.nz

From: s9(2)(g)(i) [TSY]
Sent: Tuesday, 4 October 2016 9:07:50 AM
To: Keith Walsh [TSY];Chris Parker [TSY];Nick McNabb [TSY];Andreas Heuser [TSY];Corwin Wallens [TSY];s9(2)(g)(i) [TSY]
Cc: Matthew Gan
Subject: RE: Further Canadian Foreign Homebuyer Measures

Eric Crampton also has a good summary of the impact of the tax:
http://thespinoff.co.nz/featured/08-09-2016/vancouvers-foreign-buyer-tax-the-solution-for-an-overheated-auckland-market/

Drawing on a Globe and Mail article, he notes:

- Vancouver's tax on foreign residents seems to have come in when the Vancouver property market was already weakening.
- Further, in anticipation of the tax coming in, some purchases that would have happened in August were brought forward to July
- At the same time, the market has also been affected by nobody quite knowing what the tax would involve in the many complicated cases that come up. […] confusion about its application would delay a few sales.

He also questions how much of a deterrent a 15% tax would be and notes warnings that companies hiring in expertise from abroad would have a tougher time attracting them to Vancouver.

s9(2)(g)(i) | Analyst, Housing | **The Treasury**
s9(2)(g)(i) @treasury.govt.nz

From: Keith Walsh [TSY]
Sent: Tuesday, 4 October 2016 9:59 a.m.
To: Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; Nick McNabb [TSY] <Nick.McNabb@treasury.govt.nz>; Andreas Heuser [TSY] <Andreas.Heuser@treasury.govt.nz>; s9(2)(g)(i) s9(2)(g)(i) @treasury.govt.nz>; Corwin Wallens [TSY] <Corwin.Wallens@treasury.govt.nz>; s9(2)(g)(i) @treasury.govt.nz>
Subject: Further Canadian Foreign Homebuyer Measures

New Canadian policies targeting foreign home buyers were introduced today as part of a suite of housing measures.

- The new measures allows only Canadian residents to have a capital gains tax exemption on principal residences. Non-residents would have to pay a tax on this sale.

Also, going back to yesterday's Vancouver discussion, the success of the tax on foreign buyers may be distorted by the rush by foreign buyers to complete transactions before the tax started in August. The Globe and Mail found significant evidence of this pull-forward in demand:

In the seven weeks leading up to the levy, foreign buyers accounted for 13.2 per cent of sales in Metro Vancouver. By contrast, just 0.9 per cent of all transactions that closed in the region involved foreign buyers in August, the first month in which the tax has been in effect. However, experts caution that the decline is skewed because many deals were rushed through in July to avoid the tax.

http://www.theglobeandmail.com/news/national/ottawa-unveils-new-housing-measures-to-slow-foreign-real-estate-investment/article32206297/

Keith

From: Keith Walsh [TSY]
Sent: Monday, 3 October 2016 9:54 a.m.
To: Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; Nick McNabb [TSY] <Nick.McNabb@treasury.govt.nz>; Andreas Heuser [TSY] <Andreas.Heuser@treasury.govt.nz>; s9(2)(g)(i) s9(2)(g)(i) @treasury.govt.nz>; Corwin Wallens [TSY] <Corwin.Wallens@treasury.govt.nz>; s9(2)(g)(i) @treasury.govt.nz>
Subject: FW: Hive News Monday: Goff calls for Vancouver-style tax on foreign buyers; Key wary of unexpected interest rate spike

[IN-CONFIDENCE]

FYI: The imposition of this tax in August was indeed associated with a sharp decline in prices and sales volumes in Vancouver (detached home average price down 17% from July to August). Aside from basing the success of the program on one month of data, there are a few other considerations to keep in mind:

- Vancouver prices had essentially stalled since February after a few months of exceptionally rapid growth.
- Foreign demand could easily be shifted to neighbouring areas just outside of Vancouver (eg, Fraser Valley, Victoria), or even to other regions (eg, Toronto).
- A primary concern with this policy its impact the ability of Vancouver firms to attract foreign talent.
- A survey of Vancouverites found that 90% of respondents supported the tax.

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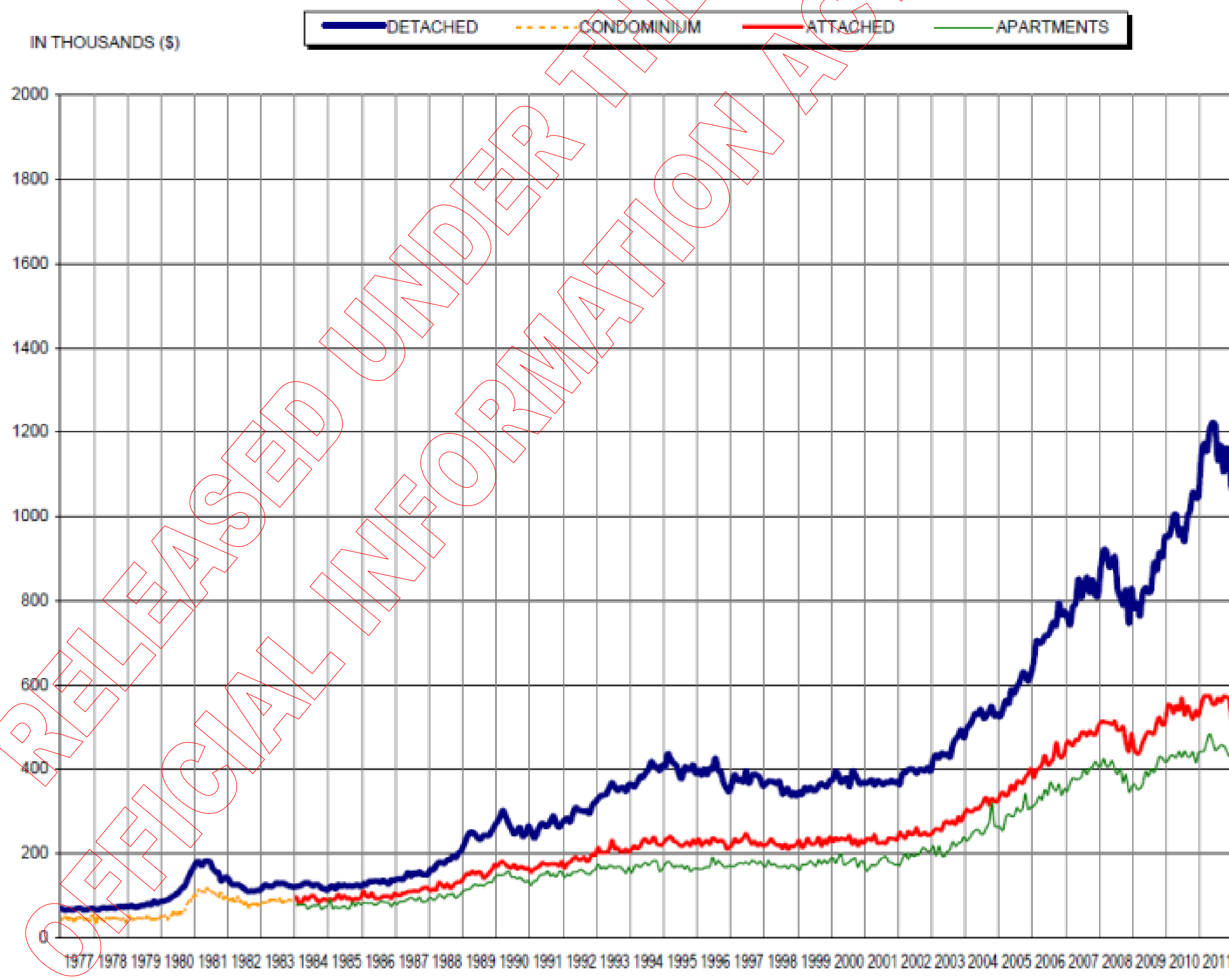
Residential Average Sale Prices - January 1977 to August 2016



NOTE: From 1977 - 1984 condominium averages were not separated into attached & apartment.

From: Hive News [mailto:bernard=hivenews.co.nz@mail102.atl51.rsgsv.net] **On Behalf Of** Hive News
Sent: Monday, 3 October 2016 9:12 a.m.
To: Keith Walsh [TSY] <Keith.Walsh@treasury.govt.nz>
Subject: Hive News Monday: Goff calls for Vancouver-style tax on foreign buyers; Key wary of unexpected interest rate spike

Good morning all. Auckland mayoral favourite Phil Goff has called on the Government to adopt a na...

Email not displaying correctly? View it in your browser.

Good morning all.

Auckland mayoral favourite **Phil Goff** has called on the Government to adopt a nationwide stamp duty on foreign buyers similar to the 15% one adopted in Vancouver with some initial success in August.

Goff told Morning Report **Tim Groser** had told him such a stamp duty was viable under New Zealand's trade agreements and was hopeful the Government would consider his call, despite its current reluctance.

"My preference would be to stop foreign investment in the existing housing, like Australia does, but I recall talking to Tim Groser when he was in Government and he was saying the Government might contemplate a stamp duty tax of around that level. That was one of the options still open under the TPP should that go through," Goff said.

John Key floated the idea of a land tax on foreign buyers in April last year (**see our July 27, 2015 Hive News for more detail**) and restated his openness to the idea in April this year (**see our April 26 Hive News for more detail**) He also said in late July (**see our July 28 Hive News for more detail**) a land tax on foreign buyers was possible before the 2017 election.

Goff was sceptical about **LINZ** data appearing to show just 4% of purchases in Auckland were by overseas tax residents, pointing out it excluded foreign students, those on temporary work visas and corporate vehicles. He said he'd seen estimates that the buying could be around 12% and the level of buying in Canada was around 5%.

"Even at 5%, that seems to have had at least a significant short term impact on stopping the huge level of inflation in property prices there," he said.

Goff said he did not believe the Government had ruled out the idea.

"They are certainly slow in coming to the party on it. They only to have to look across the Pacific to Canada. Trudeau has said that the housing affordability crisis is being pushed by overseas money. The state premier has said that demand and not just supply is needed to make the housing market more affordable. The Bank of Canada's Governor warned that foreign ownership was contributing to the unsustainable rise. Canada is not dissimilar to New Zealand. Vancouver is one of the three cities that is less affordable than Auckland. The problems are very similar," he said.

"I hope that they're ready to change their mind and I'll certainly be pushing them in that directions should I be elected as Mayor."

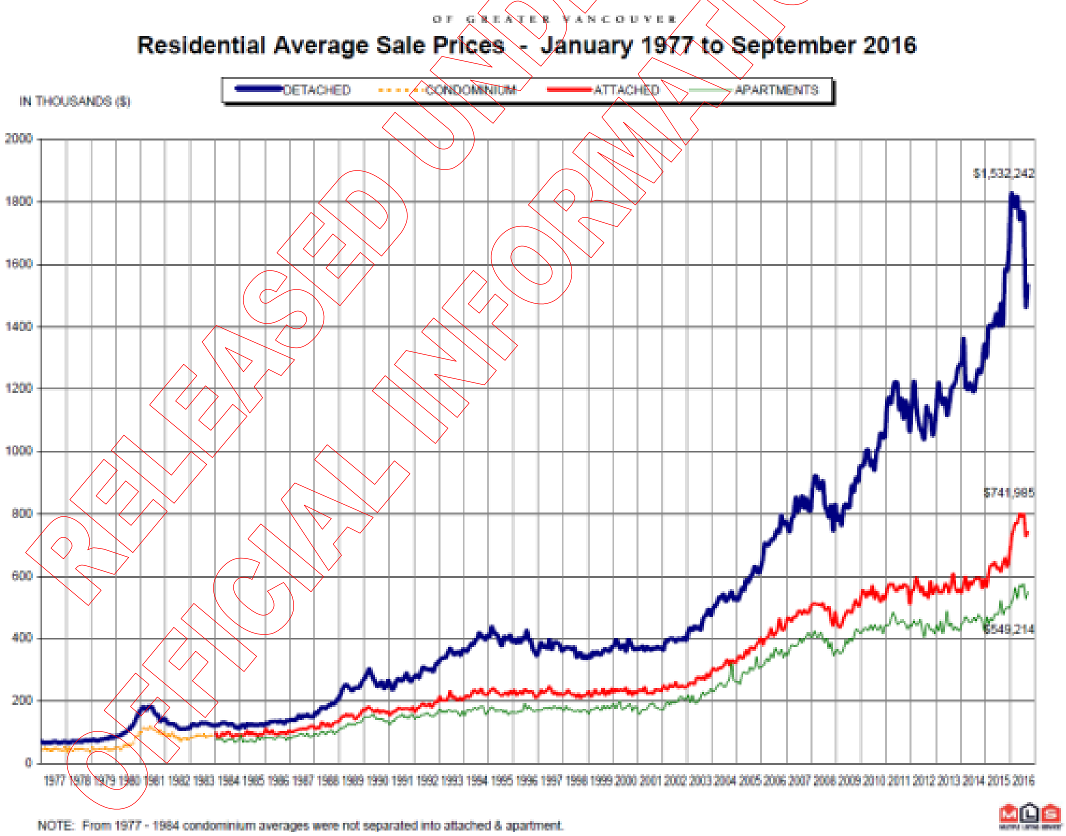
Elsewhere, **John Key** told an audience of bankers on Friday that the biggest risk to the New Zealand economy was an unexpected rise in interest rates. See more below in a report from that meeting.

In other economic and financial news...

Rest not covered by request

From: Keith Walsh [TSY]
Sent: Wednesday, 5 October 2016 8:28:13 AM
To: Chris Parker [TSY];Nick McNabb [TSY];Andreas Heuser [TSY];s9(2)(g)(i) [TSY];Corwin Wallens [TSY];s9(2)(g)(i) [TSY]
Subject: RE: Further Canadian Foreign Homebuyer Measures

Once again on foreign buyers in Vancouver, data for September (ie, the second month with a 15% surtax on foreigners) saw prices start to recover after a sharp drop August (average price of single family home up 4% following a 17% drop, hedonic price index for single family homes unchanged in September), although sales volumes weakened further.



Deleted - not covered by your request

Pages 2 - 10 not covered by request

New Canadian policies targeting foreign home buyers were introduced today as part of a suite of housing measures.

- The new measures allows only Canadian residents to have a capital gains tax exemption on principal residences. Non-residents would have to pay a tax on this sale.

Also, going back to yesterday's Vancouver discussion, the success of the tax on foreign buyers may be distorted by the rush by foreign buyers to complete transactions before the tax started in August. The Globe and Mail found significant evidence of this pull-forward in demand:

In the seven weeks leading up to the levy, foreign buyers accounted for 13.2 per cent of sales in Metro Vancouver. By contrast, just 0.9 per cent of all transactions that closed in the region involved foreign buyers in August, the first month in which the tax has been in effect. However, experts caution that the decline is skewed because many deals were rushed through in July to avoid the tax.

http://www.theglobeandmail.com/news/national/ottawa-unveils-new-housing-measures-to-slow-foreign-real-estate-investment/article32206297/

Keith

From: Keith Walsh [TSY]
Sent: Monday, 3 October 2016 9:54 a.m.
To: Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; Nick McNabb [TSY] <Nick.McNabb@treasury.govt.nz>; Andreas Heuser [TSY] <Andreas.Heuser@treasury.govt.nz>; s9(2)(g)(i) s9(2)(g)(i) @treasury.govt.nz>; Corwin Wallens [TSY] <Corwin.Wallens@treasury.govt.nz>; s9(2)(g)(i) r@treasury.govt.nz>
Subject: FW: Hive News Monday: Goff calls for Vancouver-style tax on foreign buyers; Key wary of unexpected interest rate spike

[IN-CONFIDENCE]

FYI: The imposition of this tax in August was indeed associated with a sharp decline in prices and sales volumes in Vancouver (detached home average price down 17% from July to August). Aside from basing the success of the program on one month of data, there are a few other considerations to keep in mind:

- Vancouver prices had essentially stalled since February after a few months of exceptionally rapid growth.
- Foreign demand could easily be shifted to neighbouring areas just outside of Vancouver (eg, Fraser Valley, Victoria), or even to other regions (eg, Toronto).
- A primary concern with this policy its impact the ability of Vancouver firms to attract foreign talent.
- A survey of Vancouverites found that 90% of respondents supported the tax.

Rest of document duplicated (refer to document 8)

From: s9(2)(g)(i)
Sent: Thursday, 6 October 2016 12:23:28 PM
To: Nick McNabb [TSY];Matthew Gan;Mark Holden [TSY];James Beard [TSY]; s9(2)(g)(i) s9(2)(g)(i) [TSY];Thomas Allen [TSY]
Cc: Christopher Nees [TSY];Lucy Greig [TSY];Andreas Heuser [TSY]
Subject: Discriminatory stamp duty - update on conversation with PM's office

Hi all,

Thank you for your feedback on the write-up of issues – I've reflected this in the summary copied below.

I spoke to Cam yesterday afternoon and talked through all of the issues below. I focussed on Treasury's general view on measures that target investors based on nationality or residency and then talked through the housing market effects of a comprehensive or discriminatory stamp duty.

I also discussed the transaction tax on foreigners in Vancouver, and discussed the preliminary effects of that tax, including on turnover and prices, as well as other considerations. I discussed, at a high level, the issues with understanding the level and nature of foreign or non-resident interest in New Zealand property and that caution that should be taken when considering the LINZ property transfer data (e.g., that tax residency, ethnicity, nationality and immigration status are different concepts and that the LINZ data neither supports nor counters perceptions about the level of foreign buyers).

Cam was interested in getting a detailed understanding of the issues involved and doesn't require anything further.

-
Treasury view on a discriminatory stamp duty
** This is taken from Treasury's September 2015 report 'The impact of international obligations on measures to restrict foreign investment in housing'*
In principle, we do not support measures that target investors based on nationality or residency. However, we recognise that in an environment of constrained housing supply there may be situations in which non-resident investment does not increase benefits to New Zealand. These could include situations where there are concerns that in this environment higher foreign demand may increase house prices without increasing economic activity, or if it were to lead to some reduction in housing services provided if new owners leaving housing unoccupied at a rate higher than former owners.

Overall it is difficult to judge with certainty whether imposing restrictions in these situations would provide net benefits as this would ultimately depend on the nature and implementation of them. Such restrictions would be a second-best policy tool and be less desirable as supply becomes more responsive.

Housing market effects of a general stamp duty
For buyers and sellers of housing, price sensitivities vary regionally. This means that the impact of a stamp duty in say Grey District will be different than it would be in Auckland. The following analysis focuses on the impacts of a stamp duty in a market like Auckland, where supply of housing is less sensitive to price changes than is demand for housing.

In general terms, a broad stamp duty applying to residential property could be expected to have the following short run impacts:

- reduce the number of transactions being completed as the duty introduces an extra cost on buying and selling residential property;
- introduce a wedge between the price paid by the buyer (cost of residential property plus duty) and the price received by the seller;
- potential buyers of property will adjust their offers to take account of any stamp duty, and this will likely reduce the amount of money received by sellers (as in the short run we would expect that the sellers bear most of the costs of a stamp duty in the form of lower house prices);
- therefore, we can expect to see the cost to buyers of purchasing a house increase (i.e., reducing housing affordability) and the sale price received by sellers decrease, though the proportion of the share of the duty would depend on buyers and sellers' relative responsiveness to price;
- the ongoing impact of a stamp duty on the demand for housing and house price appreciation will be less enduring if house price inflation is driven by fundamentals (i.e. demand for housing exceeds supply of housing) rather than speculation (the question as to whether current house price inflation is being driven by fundamentals or speculation is not yet resolved). It is likely the introduction of a stamp duty on residential property in Auckland would have more of a one-off effect on residential property prices and that demand factors would mean that house prices will continue to increase from the post-stamp duty level. In areas where house price inflation is driven more by speculation the above impacts could last for a number of years following the introduction of a stamp duty.

In the long run, as supply and demand become more price sensitive, the incidence of the duty would be shared more evenly between buyers and sellers.

Housing market effects of a discriminatory stamp duty
A discriminatory stamp duty on the basis of nationality or residency would have different impacts on market participants than a blanket stamp duty on all residential property. The impact of a discriminatory stamp duty would depend on its design (e.g., whether it were nationality- or residency-based), and the level and nature of interest in New Zealand property by non-New Zealand nationals/residents. While geared investors are often likely to be the marginal buyer in the housing market and may therefore set the marginal price, this dynamic depends on the particular region's supply and demand price elasticities. In Auckland, foreigners (who may or may not be NZ-resident) may often be the marginal buyer. In small urban areas, it is likely that NZ owner occupiers, not investors nor foreigners, are the marginal buyers.

Broadly, however, a discriminatory stamp duty applying to residential property could be expected to have the following short run impacts:

- *Turnover:* At the margin, fewer residential property transactions would be completed as the introduction of the tax would stop (what were previously) mutually beneficial transactions from occurring.
- *Impact on new supply:* At the margin, a discriminatory stamp duty would dampen new supply (level of impact depends on design).
- *Impact on house prices:* The cost to non-resident/non-NZ buyers of purchasing a house would increase in areas of high price elasticity of demand, relative to supply (i.e., reducing

housing affordability for non-resident/non-NZ buyers) and the sale price received by sellers would decrease at the margin.

- *Impact on foreign/non-resident speculators:* A stamp duty on residential land would have the greatest impact on those foreign/non-residents who planned to hold residential property for a short time. This is because the duty either increases costs or reduces future returns. Introducing a discriminatory stamp duty could, at the margin, reduce sales volatility by discouraging short run speculation by foreigners/non-residents.
- *Labour mobility:* For resident buyers captured under a discriminatory stamp duty, we would expect to see restricted labour mobility.

Other considerations

Consistency with international obligations	Measures that target non-residents (and therefore capture non-resident New Zealanders) are more likely to be consistent with our international obligations than measures that target purchasers on the basis of nationality. Nationality-based stamp duties would be inconsistent with some of New Zealand's international obligations (DTA/FTAs) and would require nationals of those countries to be exempt. Residency-based stamp duties would not necessarily constitute discrimination. The key question is how residency is defined and whether it therefore creates 'de-facto' discrimination by disproportionally impacting foreign non-residents. There is a high chance that a restriction on purchase of residential property by non-resident enterprises would constitute de facto discrimination because a meaningful restriction would most likely have a disproportionate impact on foreign enterprises. This would therefore be a breach of the national treatment obligation. Deleted - not covered by your request
Reputational risks	Would largely depend on application and design.
Implementation	High. Applying a stamp duty to a particular class of transactor would add complexity and administrative costs.
Efficiency	As a transaction tax, stamp duties on property transactions are generally considered to be inefficient because they are not applied uniformly (the duty disproportionately taxes real property sales and not other sales) and they may affect behaviour by discouraging sales, incentivising property transactors to engage in tax planning or otherwise altering their behaviour in order to avoid the tax (for example, it could create incentives to purchase property through resident or NZ family members or friends).

	However, this would be the intended effect of a discriminatory duty on non- residents. The intent would be to discourage purchase by that group because we deem the economic impact to be negative.
Revenue	Would largely depend on application and design. Narrowing the stamp duty base would significantly reduce the revenue gained through a general stamp duty.

Vancouver
The imposition of this tax in August was indeed associated with a sharp decline in prices and sales volumes in Vancouver (detached home average price down 17% from July to August). Aside from basing the success of the program on one month of data, there are a few other considerations to keep in mind:

- Vancouver prices had essentially stalled since February after a few months of exceptionally rapid growth.
- Foreign demand could easily be shifted to neighbouring areas just outside of Vancouver (eg, Fraser Valley, Victoria), or even to other regions (eg, Toronto).
- A primary concern with this policy its impact the ability of Vancouver firms to attract foreign talent.
- A survey of Vancouverites found that 90% of respondents supported the tax.

From Eric Crampton's article:
- Vancouver's tax on foreign residents seems to have come in when the Vancouver property market was already weakening.
- Further, in anticipation of the tax coming in, some purchases that would have happened in August were brought forward to July
- At the same time, the market has also been affected by nobody quite knowing what the tax would involve in the many complicated cases that come up. […] confusion about its application would delay a few sales.

He also questions how much of a deterrent a 15% tax would be and notes warnings that companies hiring in expertise from abroad would have a tougher time attracting them to Vancouver.

s9(2)(g)(i) Analyst, Housing | **The Treasury**
s9(2)(g)(i) @treasury.govt.nz

From: s9(2)(g)(i)
Sent: Monday, 3 October 2016 6:07 p.m.
To: Nick McNabb [TSY] <Nick.McNabb@treasury.govt.nz>; Matthew Gan <matthew.gan@treasury.govt.nz>; s9(2)(g)(i) @treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>; s9(2)(g)(i) @treasury.govt.nz>; Thomas Allen [TSY] <Thomas.Allen@treasury.govt.nz>
Cc: Christopher Nees [TSY] <Christopher.Nees@treasury.govt.nz>

Subject: RE: Hive News Monday: Goff calls for Vancouver-style tax on foreign buyers; Key wary of unexpected interest rate spike

Hi all,

I spoke to Cam this morning and provided a brief overview of:

- the DTA and FTA issues involved with applying a nationality- or residency-based stamp duty (see summary here), and
- a brief summary of the housing market effects of a universal stamp duty (see analysis from last year here, which informed IRD's draft report here).

Deleted - not covered by your request

Cam has asked for a brief overview of the issues involved with applying a discriminatory stamp duty. This is not meant to be overly burdensome; rather, he asked that I talk through these issues with him tomorrow to help inform how this issue should / could be thought about. I will call Paul Kilford from MoF's office tomorrow to let him know.

Can you please let me know by 4.00pm Tuesday whether you have any feedback on the issues outlined below?

Treasury view on a discriminatory stamp duty

** This is taken from Treasury's September 2015 report 'The impact of international obligations on measures to restrict foreign investment in housing'*

In principle, we do not support measures that target investors based on nationality or residency. However, we recognise that in an environment of constrained housing supply there may be situations in which non-resident investment does not increase benefits to New Zealand. These could include situations where there are concerns that in this environment higher foreign demand may increase house prices without increasing economic activity, or if it were to lead to some reduction in housing services provided if new owners leaving housing unoccupied at a rate higher than former owners.

Overall it is difficult to judge with certainty whether imposing restrictions in these situations would provide net benefits as this would ultimately depend on the nature and implementation of them. Such restrictions would be a second-best policy tool and be less desirable as supply becomes more responsive.

Housing market effects of a general stamp duty

For buyers and sellers of housing, price sensitivities vary regionally. This means that the impact of a stamp duty in say Grey District will be different than it would be in Auckland. The following analysis focuses on the impacts of a stamp duty in a market like Auckland, where supply of housing is less sensitive to price changes than is demand for housing.

In general terms, a broad stamp duty applying to residential property could be expected to have the following short run impacts:

- reduce the number of transactions being completed as the duty introduces an extra cost on buying and selling residential property;
- introduce a wedge between the price paid by the buyer (cost of residential property plus duty) and the price received by the seller;
- potential buyers of property will adjust their offers to take account of any stamp duty, and this will likely reduce the amount of money received by sellers (as in the short run we would expect that the sellers bear most of the costs of a stamp duty in the form of lower house prices);
- therefore, we can expect to see the cost to buyers of purchasing a house increase (i.e., reducing housing affordability) and the sale price received by sellers decrease, though the proportion of the share of the duty would depend on buyers and sellers' relative responsiveness to price;
- the ongoing impact of a stamp duty on the demand for housing and house price appreciation will be less enduring if house price inflation is driven by fundamentals (i.e. demand for housing exceeds supply of housing) rather than speculation. It is likely the introduction of a stamp duty on residential property in Auckland would have more of a one-off effect on residential property prices and that demand factors would mean that house prices will continue to increase from the post-stamp duty level. In areas where house price inflation is driven more by speculation the above impacts could last for a number of years following the introduction of a stamp duty.

In the long run, as supply and demand become more price sensitive, the incidence of the duty would be shared more evenly between buyers and sellers.

Housing market effects of a discriminatory stamp duty

A discriminatory stamp duty on the basis of nationality or residency would have different impacts on market participants than a blanket stamp duty on all residential property. The impact of a discriminatory stamp duty would depend on its design (e.g., whether it were nationality- or residency-based), and the level and nature of interest in New Zealand property by non-New Zealand nationals/residents. While geared investors are often likely to be the marginal buyer in the housing market and may therefore set the marginal price, this dynamic depends on the particular region's supply and demand price elasticities. In Auckland, foreigners (who may or may not be NZ-resident) may often be the marginal buyer. In small urban areas, it is likely that NZ owner occupiers, not investors nor foreigners, are the marginal buyers.

Broadly, however, a discriminatory stamp duty applying to residential property could be expected to have the following short run impacts:

- *Turnover:* At the margin, fewer residential property transactions would be completed as the introduction of the tax would stop (what were previously) mutually beneficial transactions from occurring.
- *Impact on new supply:* At the margin, a discriminatory stamp duty would dampen new supply (level of impact depends on design).
- *Impact on house prices:* The cost to non-resident/non-NZ buyers of purchasing a house would increase in areas of high price elasticity of demand, relative to supply (i.e., reducing housing affordability for non-resident/non-NZ buyers) and the sale price received by sellers would decrease at the margin.

- *Impact on speculators*: A stamp duty on residential land would have the greatest impact on those who planned to hold residential property for a short time. This is because the duty either increases costs or reduces future returns. Introducing a discriminatory stamp duty could reduce sales volatility by discouraging short run speculation.
- *Labour mobility:* For resident buyers captured under a discriminatory stamp duty, we would expect to see restricted labour mobility.

Other considerations

Consistency with international obligations	Measures that target non-residents (and therefore capture non-resident New Zealanders) are more likely to be consistent with our international obligations than measures that target purchasers on the basis of nationality. Nationality-based stamp duties would be inconsistent with some of New Zealand's international obligations (DTA/FTAs) and would require nationals of those countries to be exempt. Residency-based stamp duties would not necessarily constitute discrimination. The key question is how residency is defined and whether it therefore creates 'de-facto' discrimination by disproportionally impacting foreign non-residents. There is a high chance that a restriction on purchase of residential property by non-resident enterprises would constitute de facto discrimination because a meaningful restriction would most likely have a disproportionate impact on foreign enterprises.
Reputational risks	Would largely depend on application and design.
Implementation	High. Applying a stamp duty to a particular class of transactor would add complexity and administrative costs.
Efficiency	As a transaction tax, stamp duties on property transactions are generally considered to be inefficient because they are not applied uniformly (the duty disproportionately taxes real property sales and not other sales) and they may affect behaviour by discouraging sales, incentivising property transactors to engage in tax planning or otherwise altering their behaviour in order to avoid the tax (for example, it could create incentives to purchase property through resident or NZ family members or friends).
Revenue	Would largely depend on application and design. Narrowing the stamp duty base would significantly reduce the revenue gained through a general stamp duty.

s9(2)(g)(i) [redacted] | Analyst, Housing | **The Treasury**
s9(2)(g)(i) [redacted] treasury.govt.nz

From: Nick McNabb [TSY]
Sent: Monday, 3 October 2016 9:42 a.m.
To: Matthew Gan <matthew.gan@treasury.govt.nz>; s9(2)(g)(i) [redacted] TSY]
s9(2)(g)(i) [redacted] James Beard [TSY] <James.Beard@treasury.govt.nz>

Cc: s9(2)(g)(i) [TSY] s9(2)(g)(i) >
Subject: FW: Hive News Monday: Goff calls for Vancouver-style tax on foreign buyers; Key wary of unexpected interest rate spike

FYI – Cam called asking about this. Have suggested he speak to Sarah in the first instance. Will let you know what comes of it

Nick McNabb | Acting Manager, Housing | **The Treasury**
Tel: +64 4 917 6964 | Nick.McNabb@treasury.govt.nz

From: Nick McNabb [TSY]
Sent: Monday, 3 October 2016 9:41 a.m.
To: 'Cameron Burrows' <Cameron.Burrows@parliament.govt.nz>
Cc: Sarah Key [TSY] <Sarah.Key@treasury.govt.nz>
Subject: RE: Hive News Monday: Goff calls for Vancouver-style tax on foreign buyers; Key wary of unexpected interest rate spike

[IN-CONFIDENCE]

Hi Cam,

Must be a system problem - I have been at my desk. But won't be for a lot of the morning.

s9(2)(g)(i) would be the best person to talk to about this in the first instance (s9(2)(g)(i) about our views on this.

Nick

Nick McNabb | Acting Manager, Housing | **The Treasury**
Tel: +64 4 917 6964 | Nick.McNabb@treasury.govt.nz

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b. any use, dissemination or copying of this email is strictly prohibited and may be unlawful.

From: Cameron Burrows [mailto:Cameron.Burrows@parliament.govt.nz]
Sent: Monday, 3 October 2016 9:25 a.m.
To: Nick McNabb [TSY] <Nick.McNabb@treasury.govt.nz>
Subject: FW: Hive News Monday: Goff calls for Vancouver-style tax on foreign buyers; Key wary of unexpected interest rate spike

Hey Nick

Tried to call but couldn't get you. Will try again later this morning – just keen to get my head around how you guys think about a land tax on foreign buyers.

Cheers
Cam

Cameron Burrows | **Chief Policy Advisor**
Office of Rt Hon John Key | Prime Minister
Beehive, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand
T: 04 817 9366 | s9(2)(a) | E: cameron.burrows@parliament.govt.nz

From: Hive News [mailto:bernard=hivenews.co.nz@mail102.atl51.rsgsv.net] **On Behalf Of** Hive News
Sent: Monday, 3 October 2016 9:12 a.m.
To: Simon Duncan
Subject: Hive News Monday: Goff calls for Vancouver-style tax on foreign buyers; Key wary of unexpected interest rate spike

Good morning all. Auckland mayoral favourite Phil Goff has called on the Government to adopt a na...

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Land Tax: FEC – 30 November 2016

Key messages

- The Prime Minister suggested in April 2016 that a targeted land tax may be considered if overseas buyers were shown to be a major contributor to rising house prices in data released by LINZ in May 2016.
- The information collected by LINZ indicates that 3% of property transfers involve a buyer who is an overseas tax resident. Note that the data collected is based on tax residency and is not a register of foreign buyers. (See the Foreign investment briefing for further information on the LINZ data).
- The Tax Working Group (2010) considered a comprehensive land tax with most members supportive of a low rate land tax.
- A land tax would be an annual tax based on the value of land only (i.e. improvements and buildings would not be included).
- The introduction of a comprehensive land tax could have a number of benefits for housing affordability while being relatively easy and simple to administer, including:
    - Reducing the value of land. The Tax Working Group Paper on Land Tax (2009) noted that the introduction of a 1% land tax could result in a 16.7% fall in land values (and potentially 25%+) depending on assumptions.
    - Providing incentives to develop land (i.e. discouraging land banking).
- The potential benefits would need to be weighed against other factors, including:
    - The reduction in land values could have a significant effect on existing land owners and others, such as investors and lenders. For example, people with highly geared land may end up with negative net equity impacting the balance sheets of mortgage lenders.
    - Since there is no transaction linked to a land tax, the payment of a land tax could create cashflow issues for some landowners (e.g. retired people).
    - If the land tax did not apply to owner-occupied housing, it could have the undesired impact of placing upward pressure on house prices by providing an additional incentive for renters to own their own homes.
- If the land tax was only targeted at non-residents, the benefits of the tax would be diminished. In particular, the administrative costs would be significantly higher as the collection agency (or agencies) would have to identify non-residents and develop a way of verifying the information provided by 'residents'. Companies, trusts and family members may be utilised to avoid being labelled as a non-resident.

Questions & answers

Question: Has Treasury provided advice to the Minister of Finance on land tax?

Answer: The Minister of Finance has not requested advice on land tax nor has Treasury provided such advice.

Question: Does Treasury support a targeted and/or comprehensive land tax?

Answer: We have not undertaken any detailed work on a land tax (either targeted or comprehensive), and are not developing it as a potential government reform at this stage. There are a number of policy and design issues for a land tax that would need to be considered further.

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Question: Does Treasury think that a land tax would help with housing affordability?

Answer: The introduction of a comprehensive land tax should help with housing affordability by reducing the upfront cost of a house, but there will be an increased ongoing cost to home ownership. The benefits come from using the revenue raised to reduce other forms of taxes. The distributional effects of a land tax would fall unevenly, favouring future homebuyers at the expense of existing landowners already in the market. Note that this effect on existing landowners could be partially mitigated by using the revenue raised from the land tax to allow reductions to other taxes (e.g. personal tax rates).

Question: How much revenue would a land tax produce?

Answer: That depends on a number of factors, such as whether it was a targeted or comprehensive land tax, the tax rate, transitional rules, and asset price appreciation assumptions.

Question: Would a targeted land tax breach NZ's free trade agreement (FTA), Trans-Pacific Partnership (TPP) and double tax agreement obligations (DTA)?

Answer: Targeted land taxes on foreigners or non-residents should be permitted under NZ's FTA obligations and the TPP. Note that land taxes are considered direct taxes and non-discrimination obligations in FTAs are not applicable to these types of taxes.

Introducing a land tax on foreigners is inconsistent with a number of NZ's DTAs (including Australia, Japan and Mexico). However, a land tax that applies to offshore persons (e.g. including NZ citizens living overseas) may not necessarily constitute discrimination under NZ's DTAs. The key question is how residency is defined and whether it therefore creates *de facto* discrimination by disproportionally impacting foreign non-residents.

Background material

- See BN re Vancouver sales tax(Gary White)) (Treasury:3601815v1) for information on the Vancouver sale tax on property.
- http://www.victoria.ac.nz/sacl/cagtr/pdf/tax-report-website.pdf: Tax Working Group Report (2010). Summarises the Land Tax Paper below on pages 50 and 51.
- http://www.victoria.ac.nz/sacl/cagtr/twg/Publications/3-land-tax-ird_treasury.pdf: Land Tax Paper for the Tax Working Group (2009). .

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pages 3 - 11 not covered by request

Foreign Investment

FEC Briefing: November 2016

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IN-CONFIDENCE

What is the Treasury's view on a discriminatory stamp duty?

- In principle, we do not support measures that target investors based on nationality or residency. Such restrictions would be a second-best policy tool and be less desirable as supply becomes more responsive.

Recent stamp duty developments in other jurisdictions

Hong Kong: Earlier this month, Hong Kong raised the stamp duty for all residential purchases to 15 percent -- except for first-time buyers who are permanent residents. Until now, the highest levy for residents was 8.5 percent, while foreigners already paid a 15 percent stamp duty. The changes mean foreign buyers will now pay an effective 30 percent stamp duty.

Vancouver: In August, Vancouver introduced an additional property transfer tax of 15 per cent, which is imposed on foreign buyers of residential real estate.

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Page 7 not covered by request

From: Keith Walsh [TSY]
Sent: Sunday, 20 November 2016 4:57:47 PM
To: s9(2)(g)(i) [TSY];Matthew Gan; s9(2)(g)(i) [TSY];Thomas Allen [TSY];Christopher Nees [TSY]
Cc: Nick McNabb [TSY];Andreas Heuser [TSY];s9(2)(g)(i) [TSY];James Beard [TSY];Matt Cowan [TSY]
Subject: RE: Other Canadian Foreign Buyer Taxation Changes

Further tax measures introduced in Vancouver, with the city of Vancouver introducing an empty homes tax. The goal is to increase the supply of rental properties or homes for sale to improve affordability.

A charge of 1% of a home's assessed value will be levied on non-principal residencies which are not let out for at least six months. Owners must report a residence as being non-occupied, with there being large fines and penalties for non-compliance.

This tax would seem to get around any issues with residency and citizenship, but could also be pretty easy to avoid (eg, claim that renovations on your second home never quite finish, have a friend sign a lease and never live there, officially transfer ownership to a child who is studying in Vancouver, etc.).

http://vancouver.ca/news-calendar/vancouver-introduces-empty-homes-tax-framework-as-rental-housing-crisis-persists.aspx

Keith Walsh | Senior Analyst, Housing | **The Treasury**
Tel: s9(2)(k) | keith.walsh@treasury.govt.nz

From: Keith Walsh [TSY]
Sent: Thursday, 17 November 2016 11:59 a.m.
To: s9(2)(g)(i) @treasury.govt.nz>; Matthew Gan <matthew.gan@treasury.govt.nz>; s9(2)(g)(i) @treasury.govt.nz>; Thomas Allen [TSY] <Thomas.Allen@treasury.govt.nz>; Christopher Nees [TSY] <Christopher.Nees@treasury.govt.nz>
Cc: Nick McNabb [TSY] <Nick.McNabb@treasury.govt.nz>; Andreas Heuser [TSY] <Andreas.Heuser@treasury.govt.nz>; s9(2)(g)(i) @treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>; Matt Cowan [TSY] <Matt.Cowan@treasury.govt.nz>
Subject: Other Canadian Foreign Buyer Taxation Changes

Hello everyone,

An alternative approach to a "foreign buyers' tax" was introduced in the Canadian province of Ontario a few days ago.

This policy provides first-time buyers with a larger price range for which they are exempted from paying a property transfer tax (no tax for the price under $368,000, up from $227,500). This exemption, worth up to $4,000, applies only to Canadian citizens or permanent residents. A foreign household would still have an 18 month window after their purchase to get citizenship or residency and then apply for the refund.

See pages 181-183 for more detail.
http://www.fin.gov.on.ca/en/budget/fallstatement/2016/paper_all.pdf

Keith

From: s9(2)(g)(i) [TSY]
Sent: Friday, 14 October 2016 5:01 p.m.
To: Keith Walsh [TSY] <Keith.Walsh@treasury.govt.nz>; Matthew Gan <matthew.gan@treasury.govt.nz>; s9(2)(g)(i) @treasury.govt.nz>; Thomas Allen [TSY] <Thomas.Allen@treasury.govt.nz>; Christopher Nees [TSY] <Christopher.Nees@treasury.govt.nz>; Keith Walsh [TSY] <Keith.Walsh@treasury.govt.nz>
Cc: Nick McNabb [TSY] <Nick.McNabb@treasury.govt.nz>; Andreas Heuser [TSY] <Andreas.Heuser@treasury.govt.nz>; s9(2)(g)(i) @treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>; Matt Cowan [TSY] <Matt.Cowan@treasury.govt.nz>
Subject: RE: Updated IR note on Vancouver - comments required by 1.30pm today

Hi all,

The final note that IR shared with the Minister of Revenue and MoF's offices is available via the link below.
BN re Vancouver sales tax(Gary White)) (Treasury:3601815v1) Add to worklist

Have a good weekend.

s9(2)(g)(i)

s9(2)(g)(i) | Analyst, Housing | **The Treasury**
s9(2)(g)(i) @treasury.govt.nz

From: Keith Walsh [TSY]
Sent: Tuesday, 11 October 2016 11:00 a.m.
To: s9(2)(g)(i) s9(2)(g)(i) @treasury.govt.nz>; Matthew Gan <matthew.gan@treasury.govt.nz>; Richard Baird [TSY] <Richard.Baird@treasury.govt.nz>; Thomas Allen [TSY] <Thomas.Allen@treasury.govt.nz>; Christopher Nees [TSY] <Christopher.Nees@treasury.govt.nz>
Cc: Nick McNabb [TSY] <Nick.McNabb@treasury.govt.nz>; Andreas Heuser [TSY] <Andreas.Heuser@treasury.govt.nz>;s9(2)(g)(i) @treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>; Matt Cowan [TSY] <Matt.Cowan@treasury.govt.nz>
Subject: RE: Updated IR note on Vancouver - comments required by 1.30pm today

Just made a couple changes to clarify that there was a week for foreign buyers to react between the announcement and implementation of the tax.

The drop in average prices in August could just reflect a shift in composition of homes sold (fewer expensive single family homes, more apartments), but we don't yet have sufficient data to claim that the decline is just driven by shifting composition of homes sold.

Keith

From: s9(2)(g)(i) [TSY]
Sent: Tuesday, 11 October 2016 10:51 a.m.
To: Matthew Gan <matthew.gan@treasury.govt.nz>; Richard Baird [TSY] <Richard.Baird@treasury.govt.nz>; Thomas Allen [TSY] <Thomas.Allen@treasury.govt.nz>; Christopher Nees [TSY] <Christopher.Nees@treasury.govt.nz>; Keith Walsh [TSY] <Keith.Walsh@treasury.govt.nz>
Cc: Nick McNabb [TSY] <Nick.McNabb@treasury.govt.nz>; Andreas Heuser [TSY] <Andreas.Heuser@treasury.govt.nz>s9(2)(g)(i) @treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>; Matt Cowan [TSY] <Matt.Cowan@treasury.govt.nz>
Subject: Updated IR note on Vancouver - comments required by 1.30pm today
Importance: High

[IN-CONFIDENCE]

Hi all,

Gary has shared an updated version of the Vancouver note. **IR may share this note with the Offices of the Prime Minister, Minister of Finance and Minister of Revenue this afternoon**.

Could you please review the note and either track any changes directly or email me with changes by 1.30pm today?
2016-10-6 - Vancouver stamp duty stuff v 3 (Treasury:3598721) Add to worklist

Changes / text to be aware of:

- **Chris:** Note IR has decided not to use the MFAT wording on DTA / FTA issues – when I spoke to Gary yesterday, he wanted to keep this a relatively brief summary of issues. I'm going to suggest some additional wording on applying a sales tax on the basis of residency.
- **Keith** – average sale prices is now included (from the Haver data) – are there any caveats that should be noted?

FYI – the tracked document we sent across is below: Tsy comments 2016-10-6 - Vancouver stamp duty stuff v 2 (Treasury:3597471v1) Add to worklist

Cheers,
Sarah

s9(2)(g)(i) | Analyst, Housing | **The Treasury**
s9(2)(g)(i) @treasury.govt.nz

From: Gary White [mailto:Gary.White@ird.govt.nz]
Sent: Tuesday, 11 October 2016 10:29 a.m.

To: Peter Frawley <Peter.Frawley@ird.govt.nz>; s9(2)(g)(i) s9(2)(g)(i) @treasury.govt.nz>
Cc: Richard Braae <Richard.Braae@ird.govt.nz>
Subject: 2016-10-6 - Vancouver stamp duty stuff v 3

Hi

See latest version of the draft briefing note. It may go to Ministers offices – still to discuss with the offices if there is any interest in a background note on Vancouver's new tax and a summary of existing thoughts on the issues with a land transfer tax in the New Zealand context.

Can I have please comments by 2pm today?

Cheers

Gary

From: Nick McNabb [TSY]
Sent: Tuesday, 22 November 2016 2:38:00 PM
To: @Housing [TSY]
Subject: FW: FORMAL MESSAGE: CANADA TAKES ACTION ON HOUSE PRICES
Attachments: FM CANADA TAKES ACTION ON HOUSE PRICES.docx

FYI – from our embassy in Canada. Happy to take follow up questions

Nick McNabb | Acting Manager, Housing | **The Treasury**
Tel: +s9(2)(k) [redacted] | Nick.McNabb@treasury.govt.nz

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From: Tim Ng [TSY]
Sent: Tuesday, 22 November 2016 8:57 a.m.
To: Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Angela Mellish [TSY] <Angela.Mellish@treasury.govt.nz>; Peter Gardiner [TSY] <Peter.Gardiner@treasury.govt.nz>; Nick McNabb [TSY] <Nick.McNabb@treasury.govt.nz>
Subject: FW: FORMAL MESSAGE: CANADA TAKES ACTION ON HOUSE PRICES

FYI. I am sure Post would be happy to take follow up questions.

Cheers
Tim

From: HOLBOROW, Rupert (ECO) [mailto:Rupert.Holborow@mfat.govt.nz]
Sent: Monday, 21 November 2016 9:00 a.m.
To: Tim Ng [TSY] <tim.ng@treasury.govt.nz>
Subject: FW: FORMAL MESSAGE: CANADA TAKES ACTION ON HOUSE PRICES

[UNCLASSIFIED]

This would hopefully make itself to you…but in case not…I thought it might be of interest.

Rupert Holborow

Division Manager
Economic Division
New Zealand Ministry of Foreign Affairs & Trade | Manatū Aorere

s9(2)(k) [redacted] s9(2)(a) [redacted] **E** rupert.holborow@mfat.govt.nz **www.nzunsc.govt.nz**

NEW ZEALAND
UNITED NATIONS
SECURITY COUNCIL
2015-16

From: ECO
Sent: Monday, 21 November 2016 8:50 a.m.
To: HOLBOROW, Rupert (ECO); DOBBIE, Bill (ECO); FOWLIE, Kerryn (ECO)
Subject: FW: FORMAL MESSAGE: CANADA TAKES ACTION ON HOUSE PRICES

[UNCLASSIFIED]

From: OTTAWA
Sent: Saturday, 19 November 2016 6:10 a.m.
To: ECO; AMER; FM.MBIE Formal Messages FM.Reserve Bank NZ FM.Treasury

ABU DHABI; ADDIS ABABA; ANKARA; AUCKLAND; BANGKOK; BEIJING; BERLIN; BRASILIA; BRIDGETOWN; BRUSSELS; BUENOS AIRES; CAIRO; CANBERRA; CHENGDU; FM.GCSB FM.NAB NOI; HAGUE; HONG KONG; HONOLULU; JAKARTA; KUALA LUMPUR; LONDON; LOS ANGELES; MADRID; MANILA; MEXICO; MOSCOW; NEW DELHI; NZCIO TAIPEI (ONA); OTTAWA; PARIS; PORT MORESBY; PRETORIA; RIYADH; ROME; SANTIAGO; SEOUL; SHANGHAI; SINGAPORE; SUVA; SYDNEY; TOKYO; VIENNA; WARSAW; WASHINGTON; ...WLN TRADE DIVISIONS; CMD; DCE; CEO; DS AAG; DS TEG; FM.P/S Economic Development; FM.P/S Finance; FM.P/S MFA; FM.P/S Trade; FM.DPMC
Subject: FORMAL MESSAGE: CANADA TAKES ACTION ON HOUSE PRICES

[UNCLASSIFIED]

Action

For information. See **attached report** prepared by Post.

Report

Prime Minister Justin Trudeau and Finance Minister Bill Morneau face a political and economic quandary: how to cool an overheated Canadian housing market without crippling an economy that has become dependent on the housing and construction sector. The housing and construction industry underpins the Canadian economy and ranks as Canada's single biggest industry, accounting for over 12% of GDP.

2 Barely a day goes by in Canada without a front page newspaper article exploring the red hot property markets in Toronto and Vancouver. Whether it is the Central Bank of Canada warning about the dangers of elevated levels of household debt, the Federal Government passing new regulations to cool prices, the influx of foreign money driving up house prices, or the rental market being disrupted by companies like Air B&B – the Canadian housing market generates widespread discussion and debate in the mainstream media.

3 This report focuses on the Canadian housing market, specifically the cities of Vancouver and Toronto, and investigates intervention measures from the Provincial and Federal Governments.

4 British Columbia has slapped a 15% property transfer tax on any foreign entity (i.e. not a Canadian citizen or Canadian permanent resident) who wishes to buy property in Vancouver. That decision was the direct result of a data gathering exercise in August 2016 which showed foreign money (mostly coming from China) was heavily involved in the Vancouver property market. The Province of British Columbia is also taking action against rental prices.

5 In Ontario, policymakers are taking a less interventionist approach and are waiting to see how the Vancouver housing market reacts to the new provincial and federal measures.

6 In Ottawa, the Federal Government, introduced a package of measures to tighten mortgage lending requirements and close loopholes around foreign ownership and capital gains tax.

7 The combination of provincial and federal measures have had an immediate impact on house sales and prices in Vancouver. It is too early to assess, however, whether the short-term reaction by the market will equate to a long-term solution.

ENDS

Foreign Investment

FEC Briefing: January 2017

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IN-CONFIDENCE

What is the Treasury's view on a discriminatory stamp duty?

- In principle, we do not support measures that target investors based on nationality or residency. Such restrictions would be a second-best policy tool and be less desirable as supply becomes more responsive.

Recent stamp duty developments in other jurisdictions

Hong Kong: Earlier this month, Hong Kong raised the stamp duty for all residential purchases to 15 percent -- except for first-time buyers who are permanent residents. Until now, the highest levy for residents was 8.5 percent, while foreigners already paid a 15 percent stamp duty. The changes mean foreign buyers will now pay an effective 30 percent stamp duty.

Vancouver: In August, Vancouver introduced an additional property transfer tax of 15 per cent, which is imposed on foreign buyers of residential real estate.

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Page 6 not covered by request

Land Tax: FEC – 8 February 2017

Key messages

- The Prime Minister suggested in April 2016 that a targeted land tax may be considered if overseas buyers were shown to be a major contributor to rising house prices in data released by LINZ in May 2016.
- The information collected by LINZ indicates that 3% of property transfers involve a buyer who is an overseas tax resident. Note that the data collected is based on tax residency and is not a register of foreign buyers. (See the Foreign investment briefing for further information on the LINZ data).
- The Tax Working Group (2010) considered a comprehensive land tax with most members supportive of a low rate land tax.
- A land tax would be an annual tax based on the value of land only (i.e. improvements and buildings would not be included).
- The introduction of a comprehensive land tax could have a number of benefits for housing affordability while being relatively easy and simple to administer, including:
    - Reducing the value of land. The Tax Working Group Paper on Land Tax (2009) noted that the introduction of a 1% land tax could result in a 16.7% fall in land values (and potentially 25%+) depending on assumptions.
    - Providing incentives to develop land (i.e. discouraging land banking).
- The potential benefits would need to be weighed against other factors, including:
    - The reduction in land values could have a significant effect on existing land owners and others, such as investors and lenders. For example, people with highly geared land may end up with negative net equity impacting the balance sheets of mortgage lenders.
    - Since there is no transaction linked to a land tax, the payment of a land tax could create cashflow issues for some landowners (e.g. retired people).
- If the land tax was only targeted at non-residents, the benefits of the tax would be diminished. In particular, the administrative costs would be significantly higher as the collection agency (or agencies) would have to identify non-residents and develop a way of verifying the information provided by 'residents'. Companies, trusts and family members may be utilised to avoid being labelled as a non-resident.

Questions & answers

Question: Has Treasury provided advice to the Minister of Finance on land tax?

Answer: The Minister of Finance has not requested advice on land tax nor has Treasury provided such advice.

Question: Does Treasury support a targeted and/or comprehensive land tax?

Answer: We have not undertaken any detailed work on a land tax (either targeted or comprehensive), and are not developing it as a potential government reform at this stage. There are a number of policy and design issues for a land tax that would need to be considered further.

Question: Does Treasury think that a land tax would help with housing affordability?

Answer: The introduction of a comprehensive land tax should help with housing affordability by reducing the upfront cost of a house, but there will be an increased ongoing cost to home ownership. The benefits come from using the revenue raised to reduce other forms of taxes. The distributional effects of a land tax would fall unevenly, favouring future homebuyers at the expense of existing landowners already in the market. Note that this effect on existing landowners could be partially mitigated by using the revenue raised from the land tax to allow reductions to other taxes (e.g. personal tax rates).

Question: How much revenue would a land tax produce?

Answer: That depends on a number of factors, such as whether it was a targeted or comprehensive land tax, the tax rate, transitional rules, and asset price appreciation assumptions.

Question: Would a targeted land tax breach NZ's free trade agreement (FTA), Trans-Pacific Partnership (TPP) and double tax agreement obligations (DTA)?

Answer: Targeted land taxes on foreigners or non-residents should be permitted under NZ's FTA obligations and the TPP. Note that land taxes are considered direct taxes and non-discrimination obligations in FTAs are not applicable to these types of taxes.

Introducing a land tax on foreigners is inconsistent with a number of NZ's DTAs (including Australia, Japan and Mexico). However, a land tax that applies to offshore persons (e.g. including NZ citizens living overseas) may not necessarily constitute discrimination under NZ's DTAs. The key question is how residency is defined and whether it therefore creates *de facto* discrimination by disproportionally impacting foreign non-residents.

Background material

- See BN re Vancouver sales tax(Gary White)) (Treasury:3601815v1) for information on the Vancouver sale tax on property.
- http://www.victoria.ac.nz/sacl/cagtr/pdf/tax-report-website.pdf: Tax Working Group Report (2010). Summarises the Land Tax Paper below on pages 50 and 51.
- http://www.victoria.ac.nz/sacl/cagtr/twg/Publications/3-land-tax-ird_treasury.pdf: Land Tax Paper for the Tax Working Group (2009). .

Pages 3 - 10 not covered by request