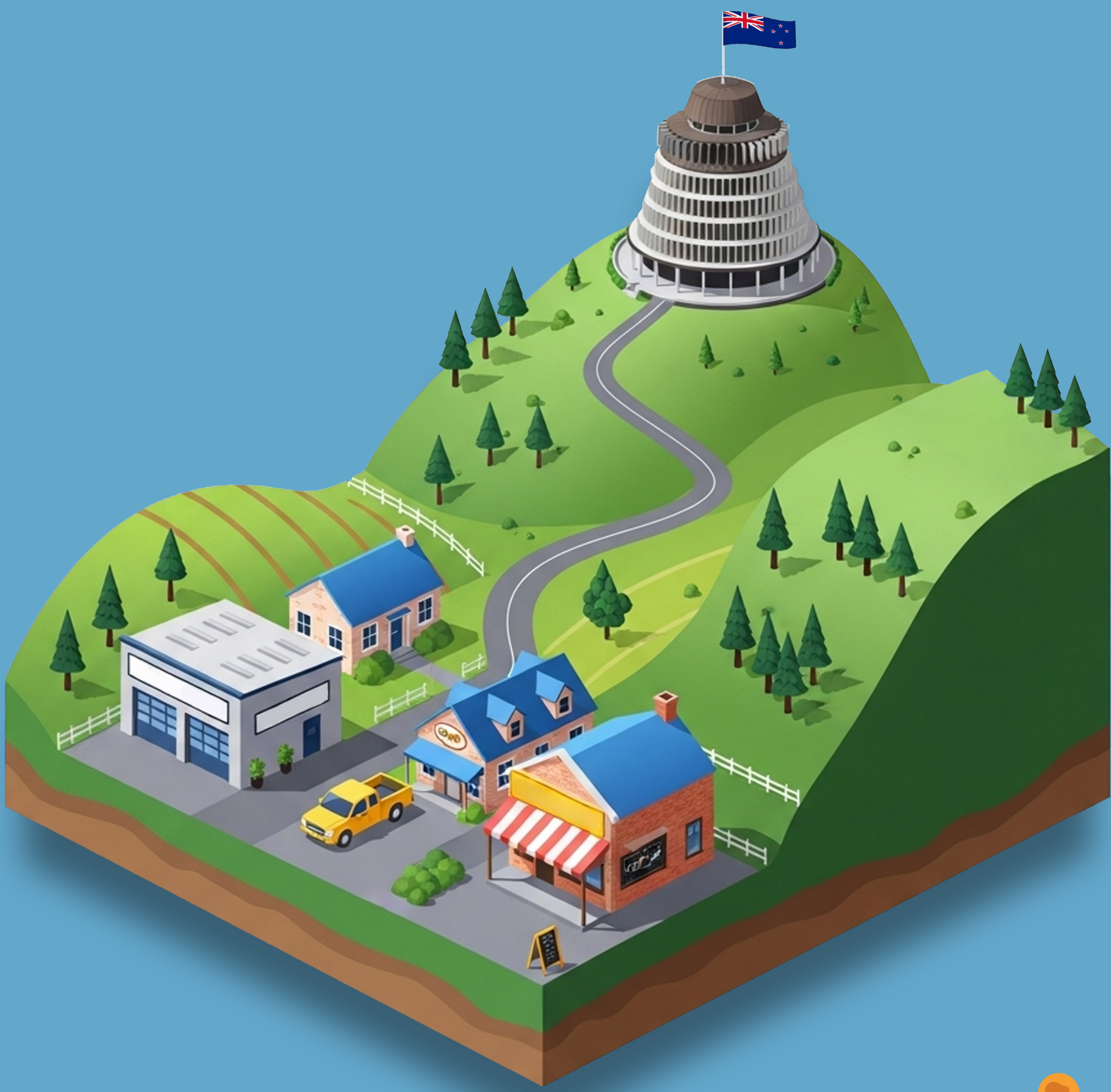
WHY LABOUR'S CAPITAL GAINS TAX FAILS THE FAIRNESS TEST



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TAXPAYERS' UNION

SUMMARY

Reasonable minds can differ on the merits of a capital gains tax (CGT) in New Zealand. A principled American-style "buck is a buck" argument could be made that a dollar earned from any source should be treated the same, whether from labour or capital gains. Even that fails to acknowledge that most capital gains taxes represent double taxation. With New Zealand's imputation regime (avoiding the same profit being taxed in a corporate and again in the shareholder's hand), the approach – rightly – is to avoid 'bucks' being taxed twice.

In the New Zealand context too, this argument fails to address the fact that low-wage, low-productivity New Zealand is one of the most capital-constrained countries in the developed world. Taxing capital by its very nature drives money elsewhere, and if there is one thing our country needs it is investment.

Regardless of whether a 'fair' and 'efficient' CGT can be designed, the argument is a moot point: Labour's latest proposal fails. Presenting a narrow, caveated tax plan might be good politics from a Labour Party keen to avoid opening themselves up to criticism, but it is a long way from sound economics.

Labour would apply a flat rate of 28 percent to any capital gains from residential or commercial property, with arbitrary carve outs: the 'family' home, farms, shares, inheritances, and KiwiSaver are exempt.

Despite the public commentary, the 28 percent rate would be one of the highest rates for a capital gains tax in the world, and whether directly or through reduced growth and higher costs, all New Zealanders will be impacted.

Rental home providers will be disincentivised from providing the homes young and low-income people in particular rely on.

Primarily a tax on inflation

Asset-owners will be penalised for holding assets even in cases where they're declining in real value, turning this into a sinister wealth tax by the back door. Over the last ten years, had this CGT been in place property owners would have faced a 58.57 percent effective tax rate on real gains thanks to Labour's plans to tax inflation.

Despite claims it will be pro-growth, from 1 July 2027 small businesses will be hammered by yet another tax raid in a country with one of the developed world's highest corporate tax rates. Fish'n'chip shops, mechanics, and cafes which own or invest in their premises will find themselves taxed.

As this paper will demonstrate, Labour's CGT fails the economic sniff test, and it clearly fails the fairness test.

WHO WILL LABOUR'S CGT HURT?

Labour's CGT proposal is aimed directly at commercial and residential property (excluding the family home), but its effects will be far more wide-reaching than that.

The first example is that both renters and homebuyers will be penalised by Labour's CGT. Firstly, renters will likely see increased rents due to reduced rental supply. Rental property owners selling pre-valuation day and would-be landlords choosing alternative investment options will see a permanent reduction in New Zealand's rental supply, owing to the increased costs faced by those letting out their property.

Reductions in rental property supply will not be met with a corresponding reduction in demand. Unchanged demand but reduced supply will see increased competition for a finite number of rental properties, and higher rental prices as a result.

This reduction in rental supply is by design. Labour seem to be working under the assumption that this shift in investment patterns will reduce home-buying costs as landlords sell their investment properties. The reality is that any CGT which excludes the family home will in fact drive up housing costs. The market return investors will demand will not change. The tax will ultimately be passed onto renters.

Those families who would otherwise have invested in rental property, now disincentivised by the tax, will instead look to invest their money where there are tax-free gains. In practice, that means a significant uptick in investment on upgrading and improving the family home. This is known as the 'mansion effect'.

Oliver, Hodge and Hope's views to the 2019 Tax Working Group on capital gains tax highlighted that contrary to Labour's promises, this will drive up the cost of buying a house.

> *Owner-occupied housing already receives preferential tax treatment and this will become even more so under the capital gains tax system. A rational investor could choose to relocate investments in liquid assets into owner-occupied housing, creating the so-called "mansion effect" and compounding the existing issues with housing supply and increasing house prices.*[1]

Both renters and buyers will be hit with higher prices. Labour's narrow CGT will do nothing to alleviate New Zealand's housing crisis, and on the contrary will worsen existing issues.

Even those who only own one property are at risk of being stung by Labour's CGT. Consider the following examples:

1. A New Zealander who owns a property, but spends more than twelve months on an overseas work assignment. This person then moves back into their property when they return to New Zealand – but the property will still be subject to the tax. This applies regardless of whether the owned property is rented out or unoccupied.
2. An elderly person, who owns their family home, has moved in to supported living, but delays the sale of the home.
3. Families who build a 'granny flat' for their elderly relative on their property.
4. Owners of a family bach.
5. Families who have moved house, but have not been able to sell their prior property within twelve months. In this case, the family would immediately be liable for capital gains tax upon sale of the old house.
6. Any business owner, whose business owns any commercial property whatsoever.
7. Every participant in KiwiSaver funds which invest in property.

1 Oliver, Hodge, and Hope (2018) Minority View on the Tax Working Group. https://taxworkinggroup.govt.nz/sites/default/files/2019-02/twg-bg-4050912-extending-the-taxation-of-capital-gains-minority-view.pdf p. 8

TAX ON INFLATION

Inflation drives the dollar-figure value of assets up regardless of any changes to the real value of the asset. For instance, imagine there was no real increase in the cost of land and housing in New Zealand, but inflation ran at an average of 3 percent per annum over the coming decade.

A small shop or rental property worth $900,000 on 1 July 2027 – the date from which the capital gains tax takes effect – would be worth $1,209,525 after ten years assuming an annual inflation rate of three percent. The property would not be worth a cent more in real terms.

Nonetheless, the property owner would be liable to pay capital gains tax on $309,525 of imaginary gains at a rate of 28 percent, amounting to a tax bill of $86,667 despite being no better off in real terms.

End of Financial Year	2026/27 (pre-CGT)	2027/28	2031/32	2036/37	Nominal Change (NZ$)	% Change	CGT Due (NZ$)
Nominal Value (NZ$)	900,000	927,000	1,043,347	1,209,525	309,525	34.4%	86,667

Any capital gains tax which is applied to inflationary, imaginary gains is an opportunistic tax raid on anyone with the foresight to invest in their business, or save for a nest egg. Property owners will be taxed not just in years where their assets do not make real gains, but even in years where they have declined in value should they need to sell. Tax on these real-terms losses cannot be carried forward to offset future liabilities, and must be borne solely by the property owner.

These inflationary gains are far from a hypothetical scenario. Between 2015 and 2025, the compound growth in the housing price index was 5.60 percent per annum as measured by the Reserve Bank[2]. Over the same period, Statistics New Zealand data show that the compound growth in inflation was 2.93 percent per annum[3]. At a figure of 52.3 percent, more than half of the increase in house prices is simply a result of inflation.

Nonetheless, owners of taxable property will face CGT on the whole nominal increase under Labour's proposals. Had Labour's CGT been in place during this period, property owners would have faced an effective tax rate of 58.57 percent on the real gain in value of their assets. This far exceeds the headline rate of 28 percent which Labour claim property owners will face.

By taxing property owners simply for holding on to assets rather than selling them, a CGT which is not adjusted for inflation functions as a tax on wealth by stealth. Business owners who continue to own their shops, or families who maintain ownership of the family bach, will pay tax simply for the privilege of owning property. Labour's CGT functions as a tax on patience and stewardship, not simply on capital gains.

Raids on family assets through taxing inflation are deeply unprincipled, with even the intellectual architects of taxing capital gains highlighting the need to avoid taxing nominal gains.

Robert Haig argued that increases in asset values caused by inflation "do not really indicate an increase in economic strength," while Simons described most nominal gains as "largely fictitious" once inflation was considered. Both concluded that capital gains tax must be adjusted for changes in the price level.[4]

2 RBNZ (2025). Housing Price Indicator. Available at: https://www.rbnz.govt.nz/statistics/series/economic-indicators/housing

3 Infoshare (2025). CPI All Groups for New Zealand. Available at: https://infoshare.stats.govt.nz/

4 Bartlett (2001). Why the Capital Gains Tax Rate Should Be Zero. NCPA Policy Report No. 245

This is perfectly avoidable. For instance, the United Kingdom's capital gains tax explicitly rules out taxing inflation by introducing an indexation allowance. As a result, in 1998, CGT receipts were reduced by £1.7 billion, meaning 53.97 percent of CGT revenue would have been taxed on inflation alone that year without an indexation allowance.[5]

A damning aspect of Labour's CGT design is that the higher the rate of inflation, the greater the effective tax rate on real value, and the more tax property owners will be forced to pay. This tax would deepen governments' perverse incentives to stoke inflation, worsening the cost-of-living crisis and functioning as a tax on all consumers and property-owning producers.

Labour's recent proposals to increase the Reserve Bank's inflation target band mid-point from 2 percent to 2.5 percent suggest Labour is keen to exploit these perverse incentives. Planned higher inflation, combined with a tax on inflation, will squeeze New Zealanders from both ends.

VALUATION DAY

The valuation day in Labour's capital gains tax plans is an administrative boondoggle. The CGT will take effect from 1 July 2027, with every taxable property required to be assessed on or before this date to establish its base taxable value.

Firstly, the logistical nightmare of a valuation day will impose compliance costs on taxpayers. There are only so many property valuers in New Zealand, and over a short span their work would soon be in higher demand than they could realistically manage. Taxpayers would be legally required to foot an as-yet-undetermined bill to have their commercial and residential property valued, with costs likely to run into the thousands of dollars.

Shaw, Hodge and Hope's view to the Tax Working Group assesses that the cost to New Zealanders of valuing all taxable rental property and assets under their proposal would reach $1.3 billion[6], equivalent to $650 for every household in the country. This includes rental property and enterprises – of which a portion will be commercial property. It excludes second homes, and does not account for eight years of inflation between 2019 and 2027. However, it provides a useful benchmark for estimating the scale of these costs.

In the same submission, they noted the following:

> *The main beneficiaries of a capital gains tax will be accountants, lawyers and valuers. The losers will be businesses of all sizes who will need to comply with very complex legislation; with small businesses bearing the highest compliance cost burden.*
>
> *[...] a proposed valuation day approach will impose immense deadweight costs on the economy in valuing single assets [...]*[7]

Valuation is inherently subjective. This is evident in the frequent reclassifications and revisions to the capital valuations (CV) which determine council rates liability. An artificially high or low CV might currently see a New Zealander liable for a rates bill which is a few hundred dollars larger. The stakes are significantly higher when assessing CGT liability. A CV undervaluation of $100,000, say, may subject a household to an additional $28,000 in tax liability.

5 Young (2024). Trimming taxes. The Case for Cutting Capital Gains Tax. Available at: https://static1.squarespace.com/static/56eddde762cd9413e151ac92/t/67211fbe33e5276c47715ab4/1730224063045/Trimming_Taxes-Peter_Young-Adam_Smith_Institute-October_2024+copy.pdf p. 20

6 OliverShaw (2019). Submission to the Tax Working Group. Available at: https://taxworkinggroup.govt.nz/sites/default/files/2018-12/twg-subm-4040340-624x-olivershaw.pdf

7 Oliver, Hodge, and Hope (2018) Minority View on the Tax Working Group. Available at: https://taxworkinggroup.govt.nz/sites/default/files/2019-02/twg-bg-4050912-extending-the-taxation-of-capital-gains-minority-view.pdf p. 8

Labour's policy vaguely states that "different options will be available to assess the value of a commercial or residential property (excluding the family home) in line with the recommendations of the [2019] Tax Working Group."[8] Whilst this lacks clarity, the implication is that the Tax Working Group's suggestion of an elongated valuation period may be adopted.

Grandfathering assets would solve these issues by eliminating subjective valuations entirely. Simply put, grandfathering an asset means that the market decides its value when it is sold. If a property owner feels the market value is inappropriate, they can simply hold the asset until they judge it to appropriately reflect their asset's worth.

Not only is this far more fair on taxpayers than Labour's proposal for a valuation day, it also greatly reduces complexity, cost, and the administrative burden. Compliance burdens are significantly eased for taxpayers, who simply need to record and report the price at which their assets were bought and sold and pay tax on the difference.

Following the Australian example[9] by grandfathering assets would be a practical and fair way to ensure that some taxpayers are not unfairly disadvantaged. Labour have chosen a far more bureaucratic and costly approach.

More Taxes for the Pile

Government spending is already at historic highs, with total crown spending as a share of the economy 17.27 percent higher than in 2017 and still in excess of when the National-led government took power in 2023[10]. With government spending, tax, and debt all squeezing taxpayers' wallets, increasing the burden of government will only worsen these issues.

Labour has pitched their new capital gains tax as a means to broaden the tax base, relieving pressure from productive workers and shifting the burden on to landlords. That, in no uncertain terms, is untrue.

As Labour offer no alternative tax relief to compensate for the tax increase of a CGT, the notion that their tax plan is shifting the burden away from workers is simply a fiction. Income taxes, corporate taxes, and other taxes like GST remain unchanged. However, there would now be an additional burden from taxing capital gains.

Labour also estimate that only ten percent of New Zealanders will be impacted by this capital gains tax. Even if those questionable numbers are accurate in terms of legal incidence, this completely neglects where the economic incidence of the tax will lie. Not only those who receive a tax bill in their letterbox pay the tax.

As an example to illustrate this idea, take GST. Legally in New Zealand, suppliers pay GST. The reality, however, is that clearly consumers see increased costs to cover a portion of GST whenever they buy goods. Whether through price rises or shifts in market behaviour, some costs pass through to consumers.

A CGT would affect investment decisions, seeing would-be rental property owners looking elsewhere and current landlords selling property before the valuation date. The result is reduced supply, leading to higher costs for renters.

8 Labour Party (2025). Targeted Tax Changes to Grow the Economy and Invest in Health. Available at: https://www.interest.co.nz/sites/default/files/2025-10/Labour%20CGT-oct25.pdf p. 8

9 Ingles (2009). Reforming Capital Gains Taxation in Australia. Available at: https://australiainstitute.org.au/wp-content/uploads/2020/12/cap_gains_7.pdf p. 10

10 Treasury (2025). Financial Statements of the Government of New Zealand for the Year Ended 30 June 2025. Available at: https://www.treasury.govt.nz/sites/default/files/2025-10/fsgnz-2025.pdf p. 171

Similarly affected investment decisions would play out across the economy given Labour's CGT applies to commercial as well as residential property. Mechanics, butchers, and bakers will be disincentivised from purchasing property, reducing supply and driving up costs.

Labour have expressed no intention of compensating taxpayers by ensuring revenue neutrality. To the contrary, despite high spending and existing deficits, Labour have already set aside any revenue for further spending initiatives.

A fair CGT would be revenue neutral. Labour's proposal is just more tax-and-spend.

Partial Rollover Relief Punishes Business

Labour's policy document does not contain a single reference to same-asset rollover relief. Without it, a CGT would not only be unfair but deeply economically damaging. Rollover relief allows taxpayers to defer paying capital gains tax if, upon selling an asset, they immediately reinvest in an asset of a similar class.

Take for example, a mechanic who sells their shop in order to purchase a replacement shop. The shop may be larger, smaller, or simply in another location – all legitimate business choices. With rollover relief, because the capital is reinvested in the same or similar asset class, the mechanic would not pay capital gains tax at the point of sale. In other words, the property owner is not liquidating assets, but simply reinvesting in the same asset class within a set timeframe.

Without rollover relief, the mechanic would not be able to fully reinvest the capital from the sale of their first shop into the second one. The property owner is treated as though they are liquidating assets despite having no intention of doing so. Under Labour's proposal, 28 percent of the property's nominal capital gains would be taxed, raising the hurdle rate for businesses to invest in their future. The tax on these capital gains will therefore function more like a stamp duty than a fair CGT, acting as a brake on market transactions. This will lead to lost opportunities for entrepreneurship and growth.

Labour's policy clearly recognises the need for some degree of rollover relief, as it accepts the following recommendations from the 2019 Tax Working Group.

1. Inheritance: When assets pass on death, inheritors should not be immediately taxed on unrealised capital gains. For example, if a family home appreciates by $500,000, the inheritor should not be forced to pay a $140,000 CGT bill at a time of grief.
2. Relationship Settlements: Transfers where there is no substantive change in ownership, such as during a marriage formation or relationship breakdown, should also be able to defer CGT bills until sale.

Few people have the means to pay Inland Revenue six-figure sums out of pocket on short notice. Whilst Labour including these caveats is a clear improvement on no rollover relief at all, Labour's half-baked rollover relief suggests that businesses may find themselves caught short should they implement this CGT in 2027.

The Juice Isn't Worth the Squeeze

Despite all the damage it will cause to small businesses and property-holding families, the tax revenue that Labour's deep-but-narrow capital gains tax will be able to generate will be close to negligible. This is in spite of one of the most aggressive headline capital gains tax rates in the developed world, with a 28 percent headline rate and taxes on inflationary gains.

Firstly, capital gains tax is largely voluntary. What this means is that tax is only due upon realisation of an asset's value. In the case of Labour's property-specific CGT, tax is only owed at the point of sale.

Whilst this does not lessen the effect such a tax will have on families and businesses over their lifetime, it does mean that revenue is unpredictable and inconsistent. Supposed plans to ring-fence CGT revenues to wholly fund Labour's Medicard scheme would see years with next to no available resources during downturns, guaranteeing that Medicard would need to be funded from general taxation and the consolidated fund.

Additionally, Labour's projected revenue from its capital gains tax are fanciful at best. Labour forecasts an annual revenue by 2029/30 of $965 million by taxing post-2027 capital gains. Given the 28 percent tax rate, that supposes growth in taxable assets of around $3.45 billion. This forecast is based on the 2019 Tax Working Group's CGT, produced in the middle of a property boom.

Given the 1 July 2027 valuation date, revenue can only occur from realisations of gains produced after this date. The Tax Working Group assumed 3 to 5 percent of taxable properties would be sold per year. Using the 4 percent midpoint, we can test these assumptions.

PropertyNZ assess that New Zealand property is collectively worth around $2.25 trillion as of 2023, composed of $1,900 billion in residential property and $350 billion in commercial[11]. The Tax Working Group assumed approximately 60 percent of residential property was owner-occupied, which would give a tax base of $1,110 billion.

Extrapolating out the average 2.60 percent annual growth in the dollar value of housing stock since June 2023[12] to all property, we would see growth in the tax base somewhere in the region of $33.29 billion in 2029/30. However, in order to reach Labour's revenue targets for the year, the sector would have to grow $86.15 billion in 2029/30, or 6.72 percent. The three-year rolling average growth in housing stock value was in fact -0.6 percent between 2022 and 2025, showing that even this more realistic growth prediction is not guaranteed.[13]

Our calculation also assumes that there will be no additional lock-in effect as a result of CGT, whereby owners hold on to property for longer to defer tax payments. However, there will be a lock-in effect, and this is another mark against Labour's estimates.

Labour's capital gains tax can only achieve its aims in one of three ways: through rampant inflation, another boom in property values like New Zealand saw prior to 2022, or an expansion in scope of the tax base, meaning taxing gains on other assets such as main homes, shares, and KiwiSaver accounts. Labour's revenue aims are unlikely to be met without an unpleasant combination of all three.

Labour's Capital Gains Tax is Unworkable and Unfair

Labour's capital gains tax fails every fairness test that matters. It taxes imaginary gains created by inflation, forces taxpayers into costly and subjective valuations, penalises businesses for wanting to invest in their own future, and is unpredictable and inefficient at raising revenue.

Labour claims this new tax will make the system fairer, broaden the tax base, and take pressure off working people. In

11 Property NZ (2025). Property Sector: New Zealand's Economic Powerhouse. Available at: https://www.propertynz.co.nz/media-releases/property-sector-new-zealands-economic-powerhouse

12 RBNZ (2025). Housing Price Indicator. Available at: https://www.rbnz.govt.nz/statistics/series/economic-indicators/housing

13 RBNZ (2025). Housing Price Indicator. Available at: https://www.rbnz.govt.nz/statistics/series/economic-indicators/housing

reality, it simply adds another burden to an already overtaxed economy. The same families and small businesses that have shouldered rising costs, higher interest rates, and record government spending will now be taxed again for the privilege of owning an asset.

Even judged by Labour's own goals, the policy cannot succeed. The projected revenue is negligible, highly volatile, and dependent on property inflation that Labour themselves claim to want to stop. In years when the market slows, the revenue will vanish.

Despite that, Labour has already spent the money before it's even been taken, pledging the money to worsening the demand crisis for primary healthcare. Labour will face a choice between breaking its funding promise or extending the tax to new targets.

That is why Labour's capital gains tax is the thin end of a deep wedge. It's designed to look modest, to present a small target heading into next year's general election. It's a first step on a long path backwards, that New Zealand cannot afford to take.

Wellington
October 2025

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