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Why the tax NZ never wanted to talk about is back on the political agenda in 2026

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New Zealand has long stood out among comparable economies not for what it taxes, but for what it doesn't.

Perhaps nowhere is that more apparent than in its lack of a comprehensive capital gains tax: a measure used by counterparts including Australia, Canada, the United States and the United Kingdom.

In basic terms, this tax applies when an asset is sold for more than it was purchased for. The gain is treated as income and taxed accordingly.

While its absence has helped New Zealand to maintain a relatively simple tax system, it increasingly raises concerns about fairness, economic balance and the sustainability of government revenue.

For decades, that debate has largely been a political dead end, with successive governments concluding the electoral risks outweigh the policy benefits.

For at least one mainstream party, that now appears to be changing. After years of ruling one out under Jacinda Ardern, centre-left Labour recently proposed to introduce a targeted capital gains tax to fund free healthcare such as GP visits.

Parties to the right of Labour remain opposed to a capital gains tax – National argues it would add complexity and stifle economic growth – while those to its left generally support some form of broader taxation of wealth or capital.

In any case, the coming elections mean voters are likely to hear renewed debate about the tax. This is arguably overdue, given the mounting pressures on a tax system becoming increasingly harder to sustain.

The problem with taxing work more than wealth

New Zealand's Treasury and Tax Working Group have repeatedly pointed out the country relies more on taxing wages than many comparable countries do.

This means workers shoulder a large share of the tax burden, while gains from rising asset values – particularly property – are often lightly taxed or not taxed at all.

This imbalance creates a structural issue. Two people can experience the same economic gain, one through wages and the other through asset appreciation, but face very different tax outcomes. Over time, this undermines the principle of fairness in the tax system.

Inland Revenue data and analysis have also highlighted how difficult it is to tax capital gains under the current system. Instead of a clear rule, taxation depends on intent, timing and technical classifications. This creates uncertainty and allows some gains to fall outside the tax net altogether.

The absence of a broad capital gains tax is not neutral; it advantages certain types of investment. Property, in particular, has benefited from favourable tax treatment.

New Zealand's lack of a capital gains tax is a major point of difference compared to countries like Australia, which taxes gains more comprehensively. This has contributed to a perception, particularly among overseas investors that New Zealand offers relatively generous treatment of property investment.

There are benefits to this. Foreign investment can support economic activity, provide capital and stimulate development. Australian investors, for instance, have at times looked to New Zealand property markets due to fewer restrictions and favourable tax settings.

However, the gains from these investments are not evenly shared. Property appreciation largely benefits those who already own assets, contributing to wealth concentration. Meanwhile, younger or lower-income households who rely primarily on wages continue to pay tax at full rates.

In effect, the current system can amplify inequality by rewarding capital much more favourably than labour.

A capital gains tax would broaden the tax base by bringing asset-based income into the system. This does not necessarily increase overall taxation, but rather changes who pays and how.

Would a capital gains tax make a difference?

Labour's proposal is relatively targeted. It focuses mainly on investment and commercial property, while exempting the family home, KiwiSaver, farms and inheritances.

As with any tax proposal, the question is not only who would pay, but how it would affect behaviour and economic activity.

A common concern is that capital gains taxes discourage investment or reduce house prices. Supporters argue the opposite: that taxing gains can reduce incentives to favour property over other productive investments and help broaden the tax base.

Research shows tax settings influence not whether but where capital is invested, while international experience indicates capital gains taxes tend to have gradual rather than dramatic effects on property markets.

At the same time, economists have identified potential downsides, including added compliance costs, valuation challenges and incentives for investors to defer asset sales.

Introducing a capital gains tax would therefore involve trade-offs. Inland Revenue would need systems to track gains, taxpayers would likely face additional record-keeping requirements and policymakers would need to decide how assets are valued and which exemptions apply.

Ultimately, the debate is not simply about raising revenue, but the future of New Zealand's tax system.

As wealth becomes increasingly tied to asset ownership, questions about how different forms of income are taxed are unlikely to go away. Whether a capital gains tax is the right answer remains contested.

But continuing to rely so heavily on income taxes is becoming harder to justify.

Expanding the tax base to include capital gains is one option for rebalancing the system, improving fairness and supporting the long-term funding of public services.

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