

# Effective Citizenship and Property Ownership

Keith Rankin, 4 June 2015

In principle, citizenship is universal, inclusive and binary. A person is either a citizen or a non-citizen; no half measures. In a formal sense, Citizenship (big 'C') of a nation is linked to birth or having gained Citizenship as a consequence of having previously gained permanent residence. Effective citizenship – or social citizenship – is a broader fuzzier concept that represents a mixture of membership rights and obligations. Yet it is still a binary concept; a tax-resident is an effective citizen, and a visiting tourist is not.

In practice however, certain groups of people are second-class citizens. On National Radio recently I heard about how immigrants especially value paid work that reflects the skills and experiences they bring with them to New Zealand. And that, where there are systematic barriers to gaining such employment, their ability to identify as New Zealanders is severely compromised.

Another divide is that of property ownership. And in New Zealand, property ownership that confers effective citizenship is assumed, narrowly, to mean 'ownership (outright or by mortgage) of the house that you live in'. Thus, to be a grade-one effective citizen of New Zealand you need to belong to a household that draws an income from paid employment, and you need to live in a house that you own.

A more inclusive definition of effective citizenship would require the following: tax residency, making a contribution (eg through present or past work, paid or unpaid, or participation in education), and property ownership.

## Property Ownership

I agree with Margaret Thatcher that property ownership is a desirable thing. She wanted to build in the United Kingdom 'a property-owning democracy' (see [her 1975 leader's speech](#)). But it's what we mean by property ownership that matters. To Thatcher it meant 'private property'. In the long-cultivated mythology of New Zealand, it means home-owner-occupation. Both of these concepts of property are too narrow.

To me, to be an effective citizen, you need access to income derived from two sources: one relating to your present or past contribution, and one relating to your equity in property. I have written elsewhere that all tax-residents do have a share in public equity, and almost every tax-resident in New Zealand does in fact draw an income from that equity (albeit income disguised by present norms of public sector accounting). This means that property ownership is implicit within the concept of tax-residency, and therefore all tax-residents who participate constructively in their communities are therefore effective citizens.

However, some will still feel more worthy as citizens if they own (and draw income from) private assets. Money in the bank – or Kiwi saver for that matter – is a form of private asset. However, our sense of worthiness really relates to 'real assets' rather than financial assets. For most that essentially means 'real estate' – land, a house, an apartment – though I would add ownership of commercial buildings and company shares as real assets.

Public policy to facilitate private ownership of real property is I think a good thing. But such policy should not accentuate home-owner-occupation over ownership of properties that someone else lives (or works) in, or over business equity.

## Every owner of land or buildings is a landlord

There is government help available for first home buyers. For example, money can be withdrawn from Kiwi Saver to use for a deposit. But the condition is that the buyer must then live in that house. It is in fact more responsible to your family and your society to buy a property that you can afford, and to live

near to where you work. Increasingly, and especially in Auckland, you cannot afford to buy the property that would be best for you to live in. Society is not well served if young families are forced to live on the outskirts of big cities, and parents have to undertake long expensive commutes to work. It is far more sensible to buy a rental house that you can afford (maybe in a different city), and to live (and create a home) in a rental house conveniently located to your work and/or the community you have roots in.

We need to look at housing the way our System of National Accounts does. It treats all owners of residential property as landlords. And all occupiers as tenants. Thus, it is incidental whether you are your own tenant or someone else's tenant. And, it is incidental whether you are your own landlord or someone else's landlord. There will be only two types of real estate: tenanted (including owner-occupied) or untenanted (meaning empty). The condition of government assistance to first home buyers would be that the property becomes somebody's home; not necessarily the owner's home.

### **Tax rules would need to be reformed.**

There's a widespread myth that 'investment' properties are subject to more favourable tax consideration. The problem is that tax rules differentiate between 'owner-occupied' and 'investment' properties (each having some advantages) when they should differentiate between tenanted and untenanted properties.

At present landlords who receive rent from themselves – rent that is included in a country's GDP – do not have to pay tax on that rental income. However, they cannot claim mortgage interest and repairs as a deductible cost, which 'investors' can. There are arbitrary advantages and disadvantages at present, according to whether a property is 'investor' or 'owner-occupied'.

If we treat all occupied houses as 'tenanted', then all rental income received would be subject to tax; albeit with two offsets. The first offset would be costs such as mortgage interest and repairs. The second offset would be rent paid. Thus a person receiving less rent for their house than what they pay for their (rented) home would not be subject to any tax on their rental income.

We might note here that retired mortgage-free owner-occupiers would not like this change to tax rules. Here it is helpful to have a universal pension scheme as we do. New Zealand Superannuation payments need to be set on the basis that every recipient pays rent, even if it's to themselves. Thus for retired people with mortgage-free homes, New Zealand Superannuation can be understood in part as a means through which they pay tax on their (implicit) rental incomes.

### **Effective citizenship and housing**

While effective citizenship is a broad and inclusive concept, we often feel more like true citizens (and feel accepted as true citizens) if we possess equity in private property. We can do much to make it easier for younger people to gain private property equity by recognising that all property owners are landlords and that all property dwellers are tenants. Thus we should make it as easy for first-time property buyers to buy properties that will be tenanted by someone else as to buy properties they themselves will live in.

The dream would be that not only can we all aspire to be landlords, but that all landlords can be good landlords providing good quality housing for whoever lives in our houses, be it our own family or another. Further, all rules around taxation of housing income should discriminate only against owners of untenanted (ie empty) properties.

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