



# Who is affected by the changes to interest deductibility?

As previously announced, the Government intends to remove the ability to deduct interest as an expense from income arising from residential property. For residential property acquired on or after 27 March 2021, investors will no longer be able to deduct interest costs from 1 October 2021. For properties acquired before 27 March 2021, investors' ability to deduct interest will be phased-out over 4 years from 1 October 2021. This is intended to reduce pressure on house prices and make it easier for people to own their own home. For more information see paragraphs 1.12 to 1.16 of the [Discussion Document](#) at [taxpolicy.ird.govt.nz](http://taxpolicy.ird.govt.nz).

Property developers will not be exempted, but the development activity will be. Read the [Development exemption](#) summary sheet for information on how interest incurred on property developments will continue to be deductible.

The Government intends these changes to apply regardless of the type of taxpayer that takes on the loan. However, for companies with many different types of assets and sources of funds, allocating interest cost to individual properties is difficult and costly. Such companies are unlikely to be adding to house price pressures, and their loans will usually be used to acquire other business assets instead of residential property.

To target the changes appropriately they are proposed to apply to the following taxpayers using loans to acquire residential property:

- Trusts
- Partnerships and limited partnerships
- Close companies (where 5 or fewer people own more than 50% of the company), including look-through companies
- Any company where residential property makes up more than 50% of its assets. The Government seeks feedback on how to define these companies, including how new builds are treated in this calculation - see paragraphs 3.1 to 3.16 of the [Discussion Document](#)
- Individuals (everyone else buying a property).

Kāinga Ora and its wholly-owned subsidiaries are proposed to be excluded from the interest deductibility changes because Kāinga Ora provides social housing. Other social housing providers will not be affected by the rules if they are charities or otherwise tax exempt. The Government seeks feedback on whether other entities should be excluded and, if so, why.

The changes will also apply to any taxpayer borrowing money to invest in an entity where residential property makes up a significant part of the entity's assets. The Government seeks feedback on how to define these entities, how the limits to interest deductibility should be calculated (paragraphs 11.4 and 11.5 of the [Discussion Document](#)), and how look-through companies and partnerships should be treated (paragraph 11.24 of the [Discussion Document](#)).

