

Changes to interest deductibility for residential property

As previously announced, the Government intends to remove the ability to deduct interest as an expense from income arising from residential property. This is intended to reduce investor pressure on house prices and make it easier for first home buyers to own their own homes.

For residential property acquired on or after 27 March 2021, interest will not be able to be deducted from 1 October 2021. For properties acquired before 27 March 2021 the ability to deduct interest will be phased-out over 4 years from 1 October 2021 as shown in the table below.

Date interest incurred	Percent of interest you can claim
1 April 2020 to 31 March 2021	100%
1 April 2021 to 31 March 2022 (transitional year)	1 April 2021 to 30 September 2021 - 100% 1 October 2021 to 31 March 2022 - 75%
1 April 2022 to 31 March 2023	75%
1 April 2023 to 31 March 2024	50%
1 April 2024 to 31 March 2025	25%
From 1 April 2025 onwards	0%

For tax purposes, a property is generally acquired on the date a binding sale and purchase agreement is entered into (even if some conditions still need to be met). Full information on when a property is acquired is found in QB 17/02 on

taxtechnical.ird.govt.nz.

The Government is consulting on the design of these changes, including the circumstances where these changes will not apply.

Exemption for property developments and new builds

Generally, anyone who:

- develops property for the purpose of adding a self-contained dwelling to it, or
- adds a self-contained dwelling to a property, or
- acquires a new build within a certain period of time

will continue to be able to deduct interest expenses in relation to some or all of that property if it is used to earn income.

The Government is seeking feedback on whether the new build exemption from the interest deductibility changes should apply to just early owners of a new build or to subsequent owners also, as well as the period of time the exemption should apply for. For more information on this proposal see chapters 6, 7 and 8 of the <u>Discussion Document</u>, or the <u>Treatment of new builds under the bright-line test and changes to interest deductibility and <u>Development Exemptions</u> summary sheets on</u>

taxpolicy.ird.govt.nz.

Types of property to be excluded from the changes

Generally, any property that is suitable for people to live in long-term will be affected by these proposed changes. However, some types of properties, like retirement villages, motels, and houses on farmland are proposed to be excluded. For more information on what is proposed to be included, what is not, and where feedback is being sought, see chapter 2 of the <u>Discussion Document</u> or the <u>What types of properties are affected by the interest deductibility changes</u> summary sheet on **taxpolicy.ird.govt.nz**.

Exemptions for certain organisations

Kāinga Ora and its wholly owned subsidiaries will be exempt from these changes. The Government is seeking feedback on whether any other organisation should be exempted.

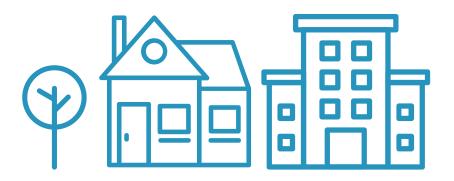
The Government proposes that these changes will apply to all companies, except those which have less than half their assets in residential property and are not <u>close companies</u>. Such companies have little effect on residential property prices and the compliance costs for them would be high. For more information see chapter 3 of the <u>Discussion Document</u> or the <u>Who is affected by the changes to interest deductibility summary sheet.</u>

Technical changes of ownership

The Government proposes that in some common situations where the legal ownership of a property changes, but the underlying economic ownership is the same, the treatment of interest also remains the same. Examples of this may include settling a property on a family trust, or a transfer to a look-through company. For more information see chapter 10 of the Discussion Document.

When tax is paid on income from a gain on sale

The common situation where income from buying and selling residential property is not taxed is one of the factors leading to these proposed changes in interest deductibility. The Government is therefore consulting on whether the treatment of interest should change when income from a gain on sale is taxed, such as under the bright-line test. The Government is also consulting on whether a portion of the interest may be deducted in some circumstances when the gain from sale is not taxed. For more information see chapter 5 of the Discussion Document or the Should interest deductions be allowed when property is sold? summary sheet on taxpolicy.ird.govt.nz.



The Government is seeking feedback throughout the <u>Discussion Document</u> on many technical details of how to bring about these proposed changes.