



Development exemption

To minimise the effect of the interest limitation proposals on the development and supply of new housing, interest incurred with respect to property developments will continue to be deductible. This exemption is intended to apply to any activity that results in a dwelling that qualifies as a new build (see the summary sheet [The treatment of new builds under the bright-line test and changes to interest deductibility](#) at taxpolicy.ird.govt.nz).

It is likely that most people undertaking development activities will need to pay tax on the eventual sale of the properties they develop.

However, the development exemption would still apply even if the eventual sale of the new properties is not taxable.

The exemption will apply regardless of whether the development activity is undertaken for the purpose of selling the properties or for the purpose of holding and renting out the properties.

Property development business

The exemption will apply to interest incurred in relation to development activities undertaken by anyone with a property development business (such as persons in the business of developing or dealing land or erecting buildings).¹

The exemption will apply to any properties acquired for the purposes of a property development business. However, if a property development business acquires residential property for a purpose other than property development then the interest limitation rules will apply. If the use of this land later changes and the land is developed, then interest related to the land will become deductible under the development exemption.

Other developments

The development exemption will also apply to development activity undertaken by a person that does not have a property development business. For these people the exemption will apply to interest incurred in relation to residential property that is used for subdivision, development or erecting a building for the purpose of creating 1 or more new builds.

¹ The sale of these properties will generally be taxable under section CB 7 of the Income Tax Act 2007

Other requirements for obtaining an interest deduction, the requirement that the interest has a sufficient connection with deriving taxable income at the time the interest is incurred will still need to be met to claim the deduction.

Qualifying interest and timing

The development exemption will apply to interest incurred in relation to the acquisition of land and any additional debt acquired for the development activity.

The exemption will apply from the point the development activity begins, for land acquired for:

- the purposes of development this will generally be when the land is acquired.
- a purpose other than development, the exemption will not apply until it begins to be developed.

The person undertaking the development activity will switch from the development exemption to the new build exemption once code compliance certificates are issued for the new dwellings.

Remediation

For taxpayers who carry out remediation work as part of a property development business the development exemption will apply to interest related to this remediation work.

Feedback is sought on whether remediation work undertaken by someone who does not have a property development business should also qualify for the development exemption and if so what remediation work should qualify. It is unlikely to be appropriate to apply the exemption to renovations that are not substantial (for example renovating a kitchen). However, it may be appropriate to apply the exemption to work that makes a building habitable or extends its life (for example earthquake strengthening).