FOUNDATION LEGAL

New Government housing policy- released 23 March,2021 – Advice for Property Investors

This week the Government has announced changes to how property investments are taxed- and while some of the detail is yet to be confirmed, I wanted to get you up to speed with how it might impact you, your current investment property and potential future investment plans.

While there is no need to panic, its important you know how the changes could affect your cash flow.

If you are a Foundation Legal client who has bought or intends to buy a new-build property, the impact of these changes are likely to be minimal, because new-builds are exempt from the changes. We can't advise you the age of a property that qualifies as a new build, as the Government are consulting on the legislation. All I can say is that we will know more in good time!

The following is intended solely as a guide-if you would like to discuss how the changes might affect your specific situation, please contact your accountant.

The Key changes

1) **The 'bright-line' test increases from 5 years to 10 years.**
   That is, investment properties bought after the 27th of March 2021 will be subject to tax on any capital gain if they are sold within 10-years from acquisition (up from the current 5-year period). However, "new build" properties will be exempt and will remain subject to the current 5-year window.

2) **Interest costs will cease to be tax deductible.**
   Ordinarily, you would subtract your insurance, maintenance, interest, and other costs from the income you get from renting out your property, and you would pay tax on the profit. These changes mean you remove interest from that equation, so that will increase your profit in the eyes of the IRD, and you will be paying tax on a higher amount. The likelihood is you 'll have more tax to pay, which will most likely be funded from your personal cash flow. For properties bought after March 27th you will not be able to claim interest costs at all from October the 1st. For properties you already own this ability will be phased out over the next four years, starting in October this year. However, 'new build' properties will be exempt from these changes, subject to consultation determining the parameters of what constitutes a new build.

The Impact in dollars and cents

If your property is not classed as a new build, how much of the property's interest cost you can claim will start to diminish over the next your years.

While your exact tax liability is something you need to talk to your accountant about, based on the scenario below, of $700,000.00 of investment property debt at 3% interest, we estimate the approximate annual cost to be between $735-$1023 in year one, and between $5,880 and $8190 by the time it has been completely phased out.

Income Year	% of interest cost you can claim	Cash impact 28% company tax rate	Cash impact 30% personal tax rate	Cash impact 33% personal or Trust tax rate	Cash impact 39% personal tax rate
April 2021 – March 2022 (transitional year)	1 April – 30 September, 100% 1 October – 31 March – 75%	$735	$787.5	$866.25	$1,023.75
April 2022-March 2023	75%	$1,470	$1,575	$1,732.50	$2,047.5
April 2023-March 2024	50%	$2,940	$3,150	$3,465	$4,095
April 2024-March 2025	25%	$4,410	$4,725	$5,197.50	$6,142.5
April 2025 onwards	0%	$5,880	$6,300	$6,930	$8,190

Please note this scenario doesn't take into account any losses that can be carried forward from previous years and don't include any measures to offset the impact, such as increasing rents. You can work through how your tax liability might impact your personal situation and your options to offset it with your enable.me coach.

The Bright-line changes:

Whether you will have to pay tax on your property's capital gain depends on when you purchased, when you sell, and whether it was new or existing property.

As a guide:

New or existing	When purchased	Sold within 5 years	Sold within 10 years
New Build	After March 27 2021	Tax applies	Tax does not apply
Existing	After March 27 2021	Tax applies	Tax applies
Either New Build or Existing	After 29 March 2018, before 27 March 2021	Tax applies	Tax does not apply
Either New Build or existing	Before 29 March, 2018	Tax does not apply	Tax does not apply

It's also worth noting that if you are considering transferring a property into a new entity, this will likely trigger the restart of the bright-line test. If that transaction happens after the 27th of March, make sure you are comfortable with the applicable period being 10 years.

If you have any question, please do not hesitate to contact the team.