

NZPIF POSITION STATEMENT: MAY 2021

BRIGHT LINE EXTENSION TO 10 YEARS

Background

Under NZ tax laws, Property Traders pay tax on any increase in property value while Investors (rental property providers) pay tax on rental income. If your intention was to sell the property, then you were a trader. To avoid paying tax, some Traders claimed their intention was to buy the property as a rental, but they changed their minds and sold it, thereby avoiding paying tax on any increase in the property's value.

To address this, the National Government introduced the Bright Line Test in 2015 as a way to strengthen the 'purchase with intention' rules. This was applied to any purchase of a property that was not a person's main home within 2 years of purchase. Any profit made from the sale will be added to the person's income and subject to their marginal tax rate.

In March 2018 the Coalition Government extended the Bright Line Test to 5 years.

In March 2021 the Labour Government announced a number of changes to housing policies including extending the Bright Line Test from 5 to 10 years. This was passed into legislation on the same day it was introduced. New builds will remain at the existing 5 years, however at the time of writing the details of this are still in consultation. Main homes and inherited property remain exempt. (Some changes affect a property that is both an own home and a rental). The tax is still paid at your marginal income tax rate - up to 39%. apply to properties purchased on or after the 27th March 2021.

These changes will be implemented from 1st October, 2021.

NZPIF conducted a survey to gauge membership opinion on this issue. 69.2% of respondents did not think they would, or hoped they wouldn't, be affected by the extension of the Bright Line Test.

NZPIF position on the extension of the Bright Line Test

- NZPIF opposes the extension of the Bright Line Test.
- The Bright Line Test did not need to be extended to five years, let alone 10 years. It was first brought in as a way of ensuring traders/speculators paid any tax they owed; however, it has now become a partial capital gains tax against rental property providers.
- The Bright Line Test is a disincentive for people to provide rental homes, reducing supply when we already have a shortage and putting pressure on rental prices to increase.
- NZPIF would like exceptions for compassionate grounds, such as: relationship separation where the property cannot be transferred between entities, terminal illness and the loss of

a job, where the person has to sell before the 10-year period. There is also no main home exemption for homes lived in by a Trust beneficiary only for the Trust principal settlers.

- At longer than 2 years, the NZPIF believes a 'lock-in affect' takes hold, where the property would be better used for another purpose rather than being held for 10 years.
- The NZPIF believe the Bright Line Test should be two years and return to its original purpose as strengthening 'purchase with intention' rules for property traders/speculators.