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## Government housing policy changes

**On 23 March 2021 the Government released a number of housing policy changes targeted to increase the supply of houses and decrease residential property investor demand.**

**The policies include changes to interest deductibility, an extended bright-line test period, a new \$3.8 billion "Housing Acceleration Fund" and increases to first home buyer income caps and house price caps in targeted regions.**

**Time will tell whether these changes have a material impact on cooling the residential property market. Below is a high level summary of these changes.**

### **Interest deductibility**

The current tax system will be changed so that property owners will no longer be able to claim interest on loans used for residential properties as an expense against their income from those properties. This means property investors will have increased tax bills.

The Government will consult on these changes – and in particular if there are to be exemptions

to these new rules for "new builds" (to try and incentivise new house construction).

There will be different interest claiming rules depending on when a property was purchased, but regardless, if the property was purchased before 27 March 2021, the amount of interest that can be claimed as an expense will be reduced over the next 4 income years until it is completely phased out.

### **The bright-line test**

The bright-line test was introduced in 2015 for the sale of residential property. This test supplemented the existing "intention test" in the land sale tax rules.

The bright-line test was introduced as it is easier for the Inland Revenue Department to enforce and determine whether profits from the sale of a residential property are taxable.

Subject to certain exemptions (mentioned below), from 27 March 2021, the bright-line test period is extended to 10 years. This means a purchaser of a property on or after 27 March 2021 will be liable to pay tax on any profit it realises from a sale of that property within 10 years from the date it acquired the property.

Purchasers need to carefully consider when they "acquired" their property when determining which bright-line test applies.

### **Bright-line test exemptions**

Residential properties which have been used as the seller's main home for the entire time they owned it will continue to be exempt from the bright-line test.

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However, there will be new "change of use" rules which apply if the property is not used as the seller's main home for more than 12 months at a time during the 10 year bright-line period. The seller of a property subject to the "change-of-use" rules may be required to pay income tax on a proportion of the profit from a sale during that 10 year period.

"New build" houses will be exempt from the 10 year bright-line test – but will continue to be subject to the 5 year bright-line test. In coming weeks legislation will define what is a "new build" - but it is intended to include properties that are acquired within a year of receiving their code compliance certificate under the Building Act 2004.

The other current bright-line exemptions will continue to apply, for example, where a person inherits a property, or where the main home is owned by a trust and is the main home of the settlor of that trust.

### **\$3.8 billion Housing Acceleration Fund**

The Government intends to set aside \$3.8 billion to accelerate housing supply in the short to medium term by investing in infrastructure required for housing developments like roads and pipes to homes.

### **First home buyers**

In certain circumstances, first home buyers are eligible for a First Home Grant or a First Home Loan – subject to the house being below a certain price and the buyer's income not exceeding a certain amount.

The Government will increase the house price cap in certain regions and the income caps.

### **Want to know more?**

If you have any questions about the above changes, please contact our specialist [Commercial Property](#) and [Residential Property](#) Teams.