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Confusing consultation paper

The Government has released a 143-page discussion paper on removing mortgage interest tax deductibility on investment properties and the extension of the Bright line test.

“New Zealand Property Investors Federation (NZPIF) believes that this discussion document is confusing and still leaves the interpretation of these new housing policies up for debate” said Sharon Cullwick, executive officer of the NZPIF.

Both policies were released in March and the aim was to help first home buyers and disincentivise rental property providers. There are gaps in the design of these policies and it is significant that Treasury, Inland Revenue and Ministry of Housing all opposed their introduction until further information could be obtained and impact assessment statements could be undertaken.

Owners of residential property acquired on or after the 27th March will not be able to use the mortgage interest as a tax deduction. For property acquired before this date, the ability to deduct interest will be gradually phased out until 31st March 2025. Exemptions are proposed for property developers and for owners of new builds. In addition, initial or early owners of new builds would be subject to a five year Bright line test, rather than the new ten year test. It is proposed a new build, which has been added to residential land, will generally be a self-contained dwelling with its own kitchen and bathroom, and will have received a code of compliance certificate. However, the discussion document does not identify how long a new build is a new build and therefore for how long you will be able to claim the interest as a taxable expense.

NZPIF is completely opposed to removing interest as a legitimate tax-deductible expense, especially as the government plans to exempt Kāinga Ora, formerly Housing New Zealand, from the new rules, allowing it to continue to deduct interest as a business expense. NZPIF joined with Tenants Protection in Christchurch and The First Home Buyers Club to write to the Minister of Finance opposing the changes and requesting the withdrawal of this new policy. The removal of tax deductibility on investment properties does not help tenants or first home buyers as was intended. It is likely that there will be an increase in rents plus a reduction in rental property supply thus making it harder for first home buyers to save for a deposit. NZPIF presented this letter to five Government Ministers, but the request was rejected.

The consultation paper is open for discussion until 12th July, and will be passed through Parliament by 1st October 2021. Property investors are encouraged to forward their submissions to make the most of the short consultation period allowed.

Sharon Cullwick
NZPIF Executive Officer
NZ Property Investors’ Federation