



Interest deductibility proposals at a glance

The Government intends to limit the ability to deduct interest to make residential properties a less attractive investment option and to help level the playing field for first home buyers.

The proposal is that, from 1 October 2021, interest will not be deductible for residential property acquired on or after 27 March 2021. For properties acquired before 27 March 2021, generally investors' ability to deduct interest will be phased out between 1 October 2021 and 31 March 2025. Some properties are excluded from these rules and some exemptions are proposed.

This information sheet provides a quick overview of the proposals. These proposals will be considered by Parliament and may change.

Phasing out interest deductions for properties acquired before 27 March 2021

| Date interest incurred | Percentage of the interest that can be claimed |
|-----------------------------------|--|
| 1 April 2020 to 31 March 2021 | 100% |
| 1 April 2021 to 30 September 2021 | 100% |
| 1 October 2021 to 31 March 2022 | 75% |
| 1 April 2022 to 31 March 2023 | 75% |
| 1 April 2023 to 31 March 2024 | 50% |
| 1 April 2024 to 31 March 2025 | 25% |

Acquired date for tax purposes

For tax purposes, a property is generally acquired on the date a binding sale and purchase agreement is entered into (even if some conditions still need to be met).

An investment could also qualify for phased-out deductions even if they acquired the property on or after 27 March 2021 provided they did so as a result of an irrevocable offer made on or before 23 March 2021.

Full information on when a property is acquired can be found in QB 17/02 available on taxtechnical.ird.govt.nz

Generally, any residential investment property in New Zealand that is suitable for people to live in long-term will be affected by these proposed changes. Typically, this would mean a house or an apartment, whether it is used for providing short-term or long-term accommodation.

Exemptions

To minimise any impact on housing supply, property development and new builds will be exempt from the proposed rules.

For more information on this, see information sheet 4 – [Exemptions for property development and new builds](#).

Types of property to be excluded from the changes

The main home is not affected by these proposals.

Commercial property unrelated to the provision of accommodation is not affected by the interest limitation proposal.



The following types of residential property are proposed to be excluded from the rules:

- Main home – the interest limitation proposal would not apply to interest related to any income-earning use of an owner-occupier’s main home, such as a flatting situation.
- Farmland.
- Certain Māori land, papakāinga and kaumātua housing, and land transferred as part of a settlement under te Tiriti o Waitangi/Treaty of Waitangi.
- Emergency, transitional, social, and council housing.
- Commercial accommodation such as hotels, motels, and hostels (but not short-stay accommodation provided in a residential dwelling).
- Care facilities: hospitals, nursing homes, hospices, and convalescent homes.
- Retirement villages and rest homes.
- Employee accommodation.
- Student accommodation.
- Land outside New Zealand.

For more information on this, see information sheet 2 – [Properties not affected by the interest deductibility proposals](#).

Exclusions for certain organisations

To reduce compliance costs, it is proposed that the interest limitation rules will not apply to most companies where their core business does not involve residential land. These are companies where residential property (including new builds) makes up less than half their total assets.

Companies where five or fewer individuals or trustees own 50% or more of the company (referred to as close companies) will generally have to apply the rules even if their core business does not involve residential land. An

exception is proposed for close companies that are Māori authorities or wholly-owned by a Māori authority. Such companies are distinct from other close companies, as they are accountable to a larger member group.

Kāinga Ora and its wholly-owned subsidiaries are proposed to be excluded from the interest deductibility changes because they provide emergency, transitional and social housing.

For more information on this, see information sheet 3 – [How the rules work for certain entities](#).

Will interest deductions be permanently denied in all cases?

Previously denied interest deductions may be available when residential property is sold if the sale is taxable, although the deduction may be limited to the gain on sale.

What is the process from here?

The proposals discussed here will need to be considered by the Finance and Expenditure Committee (a parliamentary select committee). As part of its process, the Committee will usually call for public submissions on the proposals. Typically there is a six-week submission period. The Committee will then usually make its recommendations to Parliament. The proposals presented in these information sheets may change as a result of the select committee and parliamentary processes.

To make a submission to the Committee, see www.parliament.nz/en/pb/sc/how-to-make-a-submission

Other information sheets on the proposals are available on Inland Revenue’s [tax policy website](#). Detailed commentary on the draft legislation will also be published shortly to help inform public submissions on the proposals.

This information sheet provides a brief description of the Government’s proposals. It does not attempt to provide comprehensive coverage. For full details of the proposals refer to the Supplementary Order Paper.

