Properties not affected by the interest deductibility proposals

This information sheet provides general information on the way that proposals the Government is introducing are likely to work.

Under existing rules, a person who owns a residential investment property is allowed to deduct the interest costs they incur from acquiring that property. This means that they can reduce the amount of tax they are required to pay. The Government intends to limit that ability to deduct interest to make residential properties a less attractive investment option and thus level the playing field for first home buyers.

Some properties, because of their physical structure or purpose, would not be affected by the proposed rules. This information sheet provides a quick overview of the types of properties **not** affected by the rules (so you will be able to deduct interest expenses for them where applicable).

These proposals will be considered by Parliament and may change.

The proposal

In general, any house, apartment, or other such building in New Zealand that a person could live in would be affected by these changes. Bare land that could be used for residential property will also be affected. It does not matter whether the property is rented out long-term, used for short-stay accommodation, or even left vacant.

You'll still be able to deduct interest for some properties

Certain properties will be unaffected by these rules. This means that if you satisfy the other requirements for claiming deductions, you will still be able to deduct interest for these properties.

Main homes are not affected by these changes. You generally can't claim interest deductions for private use, but if you use your main home to earn income (such as from a flatmate or boarder), you will be able to deduct some interest against that income.

Provided you meet the other requirements for claiming deductions, you will still be able to deduct interest against income from these unaffected properties:

- A portion of the main home if it is used to earn income (for example, from flatmates or boarders).
- Properties used as business premises (except for an accommodation business), like offices and shops. This includes residential properties to the extent they are used as business premises (for example, a house converted into a doctor's surgery).
- Hospitals, hospices, nursing homes, and convalescent homes.
- Retirement villages and rest homes.
- Hotels, motels, hostels, inns, campgrounds.
- Houses on farmland.
- Bed and breakfasts where the owner lives on the property.
- Employee accommodation.
- Student accommodation.
- Land outside New Zealand.

In addition, the proposals also include a land "business" exemption and a "development" exemption. For more information on this, see information sheet 4 – Exemptions for property development and new builds.

Māori collectively owned land and housing

The Government is proposing that land would not be affected by the proposals if it is collectively owned by a Māori authority (or entity eligible to be one) and used to provide housing to a member of the relevant iwi or hapū (papakāinga and kaumātua housing). Also unaffected would be land transferred as part of a Treaty settlement and certain types of Māori land title.

Emergency, transition, social, and council housing

If your property is used for emergency, transitional or social housing when you leased it to the Crown (for example, the Ministry of Housing and Urban Development or Kāinga Ora) or to a registered community housing provider then you can still claim interest deductions.

What if part of my property is affected and part is excluded?

If you own a piece of land which has both a residential property and excluded property on the same legal title such as a two-storey building with a shop on the ground floor and a flat on the top floor, you will still be able to deduct interest for the portion of the property which is excluded. You'll need to use a reasonable method to apportion the interest between the two.

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.