



# Changes to the bright-line property rule

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

Along with proposals to limit the deductibility of interest, the Government has also proposed the following changes to the bright-line property rule:

- a 5-year bright-line property rule for new builds acquired on or after 27 March 2021
- changes to the main home exclusion to ensure the main home is not taxed
- changes to how technical transfers of ownership are handled

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

The bright-line property rule means that if you sell a residential property you have owned for less than a specified period, you may have to pay income tax on any gain. The bright-line period that applies depends on when the property was acquired:

When the property was acquired	The bright-line period that applies
On or after 27 March 2021	10 years
Between 29 March 2018 and 26 March 2021 inclusive	5 years
Between 1 October 2015 and 28 March 2018 inclusive	2 years

For more information see the property section on Inland Revenue’s website at [ird.govt.nz/property](http://ird.govt.nz/property)

## New build bright-line property rule

If you acquire a “new build” on or after 27 March 2021, then a new 5-year bright-line property rule will apply (instead of the 10-year bright-line property rule). You must meet these requirements:

- You must acquire the new build no later than 12 months after it receives its code compliance certificate (CCC).
- Your new build must have its CCC by the time you sell it.

Generally, residential property will be considered a new build where a self-contained residence has been added to land, and it has received a CCC confirming this on or after 27 March 2020. Apart from the difference in length, the same rules that apply for the 10-year bright-line property rule will also apply for the bright-line property rule for new builds.

## Changes to the main home exclusion

The main home exclusion currently ensures the bright-line property rule does not apply to residential land if you use more than half the land for a main home.

However, the exclusion doesn’t apply if you use less than half the land for a main home. This means that if you use most of the land for a residential rental property and only have a small main home portion, and then you sell your land during the bright-line period, any gain on sale will be taxed. This happens even though you have a main home on the land.

The Government proposes to change the treatment where the main home portion is smaller than the rental property, so that any gain on sale will be apportioned. The gain that relates to the periods the property is used as a main home will not be taxed under the bright-line property rule. The portion of the gain that relates to the rental property would be taxed. This change will apply to all property acquired on or



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after 27 March 2021. This means it would apply to both the 5-year new build and 10-year bright-line property rules.

## **Technical changes of ownership will not affect the bright-line property rule**

Proposed rollover relief will allow you to change how you hold a property without triggering the bright-line property rule. When the legal ownership of a property changes but the effective ownership is the same, the transfer will be ignored if it is in one of the prescribed situations. This means the original owner will not be taxed on the realised gain on the property, and the new owner will be treated as having acquired the land when it was acquired by the original owner.

Relief will be provided for some transfers to family trusts and for transfers to or from look-through companies and partnerships. Specific relief is proposed for transfers of land subject to the Te Ture Whenua Māori Act 1993 and transfers to trusts as part of settling Treaty claims. This is consistent with the relief proposed for interest limitation purposes.

Rollover relief will only be provided if the amount received on transfer is equal to or less than the original owner's acquisition cost. No relief will be provided if the amount received is more, but the original owner will be taxed based on that amount if it is different to the market value of the property.

The rollover relief will apply to disposals of residential land occurring on or after 1 April 2022, even if the original date you acquired the property was before the introduction of the bright-line property rule.

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.

