



The treatment of new builds under the bright-line test and changes to interest deductibility

The Government recently changed the bright-line test for residential property to 10 years, and announced it will change the rules on interest deductibility - for more information on this see sections 1.12 to 1.16 in the [Discussion Document](#). In both cases the Government said that new builds would be treated favourably, in order to help address New Zealand's housing supply shortage. The Government is now consulting on how to design a 5-year bright-line test for new builds and how to exempt them from most or all of the interest deductibility changes.

What is a new build

Generally, it is proposed that residential property would be considered a new build where a self-contained dwelling (with its own kitchen and bathroom, and that has received a code compliance certificate) has been added to residential land. But the Government is seeking feedback on the specific definition, as laid out below.

A new build for these purposes is proposed to be:

- a dwelling added to vacant land
- an additional dwelling added to a property, whether stand-alone or attached
- a dwelling (or multiple dwellings) replacing an existing dwelling
- a dwelling created by renovating an existing one to create 2 or more. For example, turning a 6-bedroom dwelling into 2 3-bedroom dwellings (both with their own bathrooms and kitchens)
- a dwelling converted from commercial premises. For example, an office block converted into apartments.

Where a dwelling is added to land, it does not need to be a new building, nor constructed on-site, to be a new build. This means that modular and relocated homes can qualify.

Significantly renovating a previously uninhabitable dwelling so that it becomes habitable increases housing supply, so these properties could theoretically be considered new builds.

However, it appears difficult to implement this in a practical manner. Feedback is sought on whether there is a way such renovations could be included in the definition of a new build in an uncomplicated way - see chapter 7 of the [Discussion Document](#).

Renovations and remediation work that does not create an additional dwelling is not considered a new build. For example, adding a bedroom to an existing dwelling is not considered a new build.

New build bright-line test

The 10-year bright-line test only applies to properties acquired on or after 27 March 2021. If a property is considered a new build it will instead be subject to a 5-year new build bright-line test. It is proposed that the new build bright-line test would apply to anyone who:

- adds a new build to the property (so long as the new build receives its code compliance certificate before they sell it), or
- acquires a new build no later than 12 months after it received its code compliance certificate.

Apart from applying for 5 years instead of 10, the rules that apply for the 10-year bright-line test also apply for new builds. For more information on how it is proposed the new build bright-line test would work, refer to chapter 9 of the [Discussion Document](#).

Exemptions for new builds from the interest deductibility changes

When a property is a new build it will generally be exempt from the proposed changes to interest deductibility. The effect of the exemption is that the owner could claim interest relating to the new build as an expense against their income from residential property.

New build exemption proposals

Exemption applies to anyone who:	Exemption applies from:
Develops a property to add a new build to it - see the Development Exemption summary sheet on taxpolicy.ird.govt.nz or chapter 6 of the Discussion Document .	From the date the new build receives its code compliance certificate. The development exemption may apply before this.
Adds a new build to the property - see chapters 7 and 8 of the Discussion Document .	From the date the new build receives its code compliance certificate. The development exemption may apply before this.
Acquires a new build no later than 12 months after it receives its code compliance certificate. This includes completed new builds and those acquired off the plans.	From the date of acquisition.

The people mentioned in the above table are termed 'early owners' of the new build. The Government is considering whether subsequent owners should also be exempt from the changes, and for how long any exemption might last. It is considering 3 options:

- **Option 1:** 'early owners' are exempt for the entire time they own the property
- **Option 2:** the same as option 1, plus any subsequent owners are exempt for a fixed period after the new build received its code compliance certificate (such as 10 or 20 years), or
- **Option 3:** all owners of a new build are exempt for a fixed period after the new build received its code compliance certificate (such as 10 or 20 years).

To be exempt from the interest deductibility changes, a new build must also have received its code compliance certificate on or after 27 March 2021, unless its owner qualifies for the transitional rule. The transitional rule applies to exempt 'early owners' of new builds that received a code compliance certificate before 27 March 2021, if they acquired the new build on or after 27 March 2021 (and no later than 12 months after the code compliance certificate was issued).

