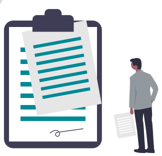
Inland Revenue
Te Tari Taake

SUMMARY:
2022 changes to property tax and trusts
March 2022

This summary accompanies our webinar: *2022 changes to property tax and trusts*

ird.govt.nz/2022-changes

Additional reporting requirements for trusts



From 1 April 2021, trusts will be required to provide financial summaries as part of their IR6 annual returns.

Trusts will also be required to provide information about settlements, settlors, beneficiaries, distributions and persons with power of appointment for the Trust.

This includes:

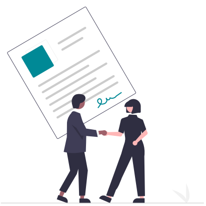
- Financial summaries with a statement of profit or loss as well as a statement of financial position.
- The details of any person who has made a settlement on a Trust, as well as the amount and nature of any settlement made from 1 April 2021.
- The details of any person who has received a distribution from a Trust and the amount of the distribution.
- The details of people who have the power to appoint or dismiss a trustee, to add or remove a beneficiary, or to amend the trust deed.

The new requirements apply from the 2021-22 tax year onwards.

Exemptions for trusts

Any trust that makes income in a year must provide additional disclosures, however if your trust falls under one of the following categories, you will not be required to provide additional disclosures for that year:

- Eligible to be a Māori authority
- Non-active trust
- Foreign trust
- Charitable trust
- Widely-held superannuation fund
- Employee share scheme
- Debt funding special purpose vehicle
- Energy lines trust



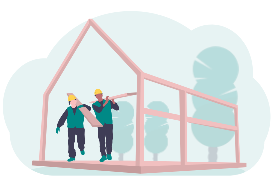
10-year bright-line rule for property

Bright-line property rule has been extended to 10 years.

Applies to properties purchased on or after 27 March 2021.

Residential properties may be subject to income tax on any profit made, if sold within 10 years.

5-year bright-line rules for property



A shorter bright-line period of 5 years is expected to be introduced for new builds.

Applies for the initial owners.

New builds purchased off the plans and new builds constructed on land already owned will also qualify for the 5 year bright-line period.

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Main home exclusion

There are changes to the main home exclusion where a main home and rental property are on the same land:

- If the main home is >50% of the land, it will be excluded from the bright-line property rule
- If the main home is <50% of the land, any gain on sale will be apportioned between the main home (untaxed) and the rental property (taxed)

Limiting interest deductibility

The ability to claim interest on loans for residential property as an expense is being phased out.

For residential property acquired on or after 27 March 2021, interest will be denied as an expense from 1 October 2021, unless an exclusion or exemption applies.

For property acquired before 27 March 2021, the ability to deduct interest on existing loans is being phased out over 4 years, ending 31 March 2025.

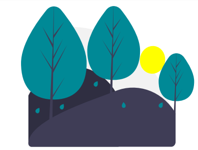
Interest on new loans drawn down on or after 27 March 2021 will not be deductible.

Exemptions and exclusions

The proposed new interest limitation rules will apply to properties that are suitable to be used for long-term residential accommodation.

Some types of residential accommodation will be excluded from the rules. These are generally properties unsuitable for use as long-term accommodation or for first home buyers.

Māori title land



Certain Māori title land is not subject to interest limitation, along with certain land owned by Māori authorities.

Māori Authorities

Many Māori authorities or companies wholly owned by a Māori authority won't be subject to interest limitation.

The interest limitation rules will only apply if more than 50% of their assets are types of residential property subject to the rules.

This includes entities eligible to be Māori authorities where that election has not been made.

Land business exemption

Applies for interest relating to land held as part of a business which develops, subdivides, or deals in land, or which erects buildings on land.

Interest relating to remediation work and other expenses from the ownership and development of the land will also qualify if this exemption applies.

Development exemption

You may qualify for the development exemption if you undertake a one-off development for the purpose of creating a new build.

New build exemption

The exemption will apply to the initial owners and any subsequent owners for 20 years from the date of the CCC.

THANK YOU!