



Inland Revenue
Te Tari Taake

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Bright-line property tax

Introduction

This guide will help if you have bought and sold residential properties. It is not intended for people in the business of property speculating, dealing, developing or building who include property sales as business income in their income tax return. If you have purchased and sold several residential properties or you're a commercial operator, we recommend you use a tax agent.

This guide explains:

- how the bright-line property rule applies
- what is residential property, business premises and farmland
- how bright-line applies to new builds
- the exclusion for main home
- rollover relief for ownership transfers of inherited property, relationship property and non-individuals
- what expenses you can deduct from this income for tax purposes
- what bright-line income to include in your income tax return
- what happens if you sell the property for a loss.

Properties affected by a North Island adverse weather event and purchased by the Crown or local authority are not taxable under the bright-line property rule. For more information refer to ird.govt.nz/2023-weather-events

Changes to the bright-line property rule

From 1 July 2024 the bright-line property rule is changing:

- If you sell a property on or after 1 July 2024 the bright-line property rule will only apply if the property is sold within 2 years of purchasing it.
- An exclusion for selling your main home will still be available but the criteria is changing.
- The rollover relief rules will be extended to the associated person rules. This will be limited to situations where the transferor and the transferee are associated for 2 years before the transfer. You will only be able to claim rollover relief once in any 2-year period.

If you sell a property before 1 July 2024 the current rules apply.

For more information about the upcoming changes, see ird.govt.nz/bright-line-changes

ird.govt.nz

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Part 1 - General

Bright-line property rule

The bright-line property rule means if you sell a residential property within a certain period of time after acquiring it, you may have to pay tax on any profit made through the property increasing in value.

The bright-line property rule applies to residential property purchased or acquired on or after:

- 1 October 2015 through to 28 March 2018 and sold within 2 years.
- 29 March 2018 through to 26 March 2021 and sold within 5 years.
- 27 March 2021 and sold within 5 years to the extent the property has a qualifying 'new build' on it when sold or 10 years for all other properties.

You'll find more information about what qualifies as a new build in Part 2 of this guide.

If you sell residential land within the relevant bright-line period for your property, and no exclusions or rollover relief apply, then you will have to pay tax on any profit you've made on the sale or disposal of the property. This also applies to overseas residential property.

Note

Your purpose or intention for purchasing or selling the property is not relevant for the bright-line property rule. However, there are other land taxing provisions that should be considered before the bright-line property rule is applied. Those provisions may take into account your intention or purpose in acquiring the property.

You can use the property tax decision tool on our website to work out if you need to pay tax on the sale of your property. For more information go to ird.govt.nz/brightline

When a property is acquired

In a typical sale and purchase, a property is acquired for tax purposes when there is a binding sale and purchase agreement between the vendor and purchaser. This includes when the vendor accepts an offer with standard conditions that are still to be satisfied such as obtaining finance or a building report. For tax purposes the property is acquired by the purchaser at the date the vendor accepts the offer, and not on a later date when those conditions are satisfied or settlement occurs. For more information on when a property is acquired, go to taxtechnical.ird.govt.nz and refer to **Question we've been asked (QB) 17/02: Date of acquisition of land, and start date for 2-year bright-line test**.

The date a property is acquired determines which bright-line period applies (2, 5 or 10 years). This will also determine which set of rules relating to the main home exclusion and change of use will apply to the property. For more information about exclusions see Part 3 of this guide.

Note

A property acquired on or after 27 March 2021 is treated as having been acquired before 27 March 2021, if an offer was made by the purchaser on or before 23 March 2021 and the offer could not be revoked or withdrawn before 27 March 2021 (for example by tender).

In this case the 5-year bright-line period applies.

Residential property

Residential property includes land:

- with a house on it
- the owner has an arrangement to build a house on, or
- that is a bare section the owner can build a house on under local district plan rules.

Example

Robert buys a section zoned for residential purposes in June 2020. He plans to build a home for his family. His situation changes and he sells the section in August 2021 within the 5-year bright-line period.

Even though there is no house on the land at the time of sale, it is subject to the bright-line property rule.

Note

The bright-line property rule also applies to overseas residential property.

Business premises

The bright-line property rule does not apply to residential property that has been used predominantly as business premises.

The business premises exclusion does not require the property is used as business premises by the owner; it may be rented out by the owner to other persons to use as their business premises.

However, this exclusion does not apply when a residential property is rented out for residential purposes such as a residential rental property.

Example

Natalie purchased a 'live-work' warehouse/apartment on a single legal title. The property is a 100m² warehouse on the ground floor and a 60m² 1-bedroom apartment on the first floor.

Natalie leased the entire property to a tenant who operates a business from the ground floor. The tenant lives above the business in the 1-bedroom apartment. Natalie sold the property within the bright-line period to raise funds to start her own business. The 'work' component of the 'live-work' warehouse/apartment is bigger than the 'live' component of the property. The property is predominantly used as business premises and is therefore not subject to the bright-line property rule.

If the first floor was more than 100m² the bright-line property rule would apply, as the property is 'residential land'. This is on the basis the property is 'predominantly used as a place of residence or abode'.

For more information go to taxtechnical.ird.govt.nz and refer to **Question we've been asked (QB) 19/13: Income tax - When does the business premises exclusions to the bright-line test apply?**

Note

For residential properties acquired on or after 27 March 2021, the business premises exclusion does not apply if the property is used by a person predominantly as business premises for the business of supplying accommodation, and the house is not the owner's main home.

For more information go to **Tax Information Bulletin (TIB), Vol 33, No 6 (July 2021)** page 21.

Farmland

Residential property does not include farmland where the property is:

- being worked in the farming or agricultural business by the owner of the property, or
- capable of being worked as a farming or agricultural business because of its area and nature.

Example

Lee owns a 2 hectare lifestyle block including house, vegetable garden and shed. Lee rents out the property to a family who graze 10 sheep and make \$2,000 a year selling the stock at the public livestock auction.

The farmland exclusion does not apply because Lee is not carrying on a farming or agricultural business. The land is not suitable to be worked as a grazing business without significant investment or modification. Also, while income is derived from grazing, the amount of income is not sufficient to cover what it costs to hold and operate the land as a farming business.

If Lee sells the property within the bright-line period, any gain made on disposal will be taxable.

For more information go to taxtechnical.ird.govt.nz and refer to **Question we've been asked (QB) 18/17: Income tax – bright-line test – farmland and main home exclusions – sale of lifestyle blocks** for detailed discussion on what is farmland.

Subdividing farmland

If you subdivide farmland and sell a portion of it, the subdivided portion of the land needs to be worked, or be capable of being worked, as a farming or agricultural business for the farmland exclusion to apply.

When land is subdivided the start date for the bright-line period, is the date the owner originally acquires the undivided land.

Example

Jean and Robin own 150 hectares of land for dairy farming business. After 2 years, Jean and Robin decide to subdivide 2 hectares of the land which includes a 3-bedroom house which has been empty since the land was purchased.

Even though the 150 hectares was farmland before the land was subdivided, the 2 hectares of land is no longer viable to be worked or capable of being worked, as a farming or agricultural business. The 2 hectares including house is now considered residential land which is subject to the bright-line property rule.

Fact variation:

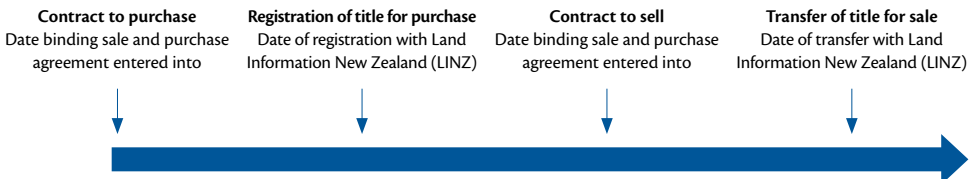
If Jean and Robin lived in the house, the main home exclusion may apply if the house was used as their main home during the bright-line period.

Bright-line period start and end dates

The date you acquire a property is generally the date a binding sale and purchase agreement was entered into for the purchase of the property. This determines which bright-line period applies.

There are other dates that are relevant for figuring out whether your property sale is taxable under the bright-line property rule.

For standard purchases and sales of land, your bright-line period starts when the legal title is transferred to you under the Land Transfer Act 2017 (usually the settlement date) and ends when you enter into a binding sale and purchase agreement to sell the property.



Example

Marie signs an agreement to buy a residential property on 19 March 2021 for short-stay accommodation. The transfer to Marie is registered on the title with LINZ on 17 May 2021.

She decides to sell the property and signs an agreement on 26 March 2024. The transfer is registered on the title on 31 April 2024.

The start date for the bright-line period is 17 May 2021 (the day the transfer to Marie is registered) and the end date is 26 March 2024 (the day the agreement for sale is entered into).

There are several other situations where land is acquired and disposed of that do not follow the standard land sale process. For these situations, there are separate rules for when the bright-line period starts and ends.

Start date

The table below shows various types of purchase/acquisition and the date the bright-line period starts for each.

Type of purchase/acquisition	Date to use
Standard purchase of property	Date of registration of transfer with Land Information New Zealand (LINZ)
Purchase/acquisition where no registration of title occurs prior to the sale/disposal date, for example a purchase off the plan	Date you acquired a first interest in the property, for example the date of contract
Acquiring new titles on subdivision of land where the title for the undivided property was registered to you before the subdivision	Date of registration of the title for the undivided property
Acquiring property by way of subdivision of property where the title for the undivided property was not registered to you before the subdivision	Date you acquired an interest in the undivided land, for example the date of contract
Land acquired as the result of the completion of a land development or subdivision where acquisition was contingent upon completion for example a purchase off the plan	Date of the contract to acquire the land
Freehold estate converted from a lease with a perpetual right of renewal	Date the leasehold estate was granted

Purchase off the plan

A purchase off the plan occurs when a person enters into a contract to purchase a parcel of land being developed or subdivided. At the time the person enters into the contract, the title does not yet exist (as the land needs to be subdivided or developed before a separate title can be issued). The person agrees to acquire registered title in the land once a separate title exists.

In this situation, the person may use an earlier start date than would be the case under the standard rule. The start date is the date the person enters into an agreement for the sale and purchase of the land.

Example

2 July 2016
Denise enters into a contract to purchase land off the plan

1 September 2018
Title is registered to Denise

1 March 2019
Denise enters into a contract to sell

1 April 2019
Transfer of title for sale



The 2-year bright-line period applies, because Denise entered into the contract to purchase of the plans before 29 March 2018. Denise is not subject to the bright-line property rule as the start date for the bright-line period is 2 July 2016 (the date she entered into a contract to purchase off the plan) and the end date is 1 March 2019 (the date she entered into a contract to sell).

Subdivided land

The start date for the bright-line period when land is subdivided is the date the owner originally acquired the undivided land.

Example

1 May 2016
Title for residential land is registered to Bob

1 May 2021
Bob subdivides the land into 2 sections and builds a house on the second section

1 May 2022
Bob enters into an agreement to sell the second section to Carl



The start date for the bright-line period is 1 May 2016 and the end date is 1 May 2022. Bob's sale of the second section to Carl is not subject to the bright-line property rule. However, Bob may still need to consider whether any of the other land provisions apply.

For more information go to [taxtechnical.ird.govt.nz](https://www.taxtechnical.ird.govt.nz) and refer to our **Question we've been asked (QB) 18/16: Income tax-bright-line test-main home exclusions-sale of subdivided section**.

Conversion of a lease with a perpetual right of renewal into freehold title

When a person has a lease with a perpetual right of renewal which they then convert into freehold land, the start date for the bright-line period is the date the person is granted the lease. This is consistent with other tax provisions that treat a lease with a perpetual right of renewal similar to freehold estates.

Example



The 2-year bright-line period applies, because Kelly was granted the lease with perpetual right of renewal before 29 March 2018. The start date for Kelly's bright-line period is 1 July 2016 (the date the lease with perpetual right of renewal was granted) and the end date is 1 April 2019 (the date she entered into agreement to sell the land).

Gains from Kelly's sale of the land are not taxable under the bright-line property rule.

Contract with purchaser and/or nominee

Often when someone enters into a contract to buy land, the person is named as the purchaser and/or nominee. Before settlement, the person may choose to nominate someone else to complete the purchase (for example, a family trust).

In this situation, the bright-line period starts for the nominee on the date the transfer of title is registered to them (this typically happens on the settlement date). If there is no registered transfer of the land, the bright-line period will start on the date they were nominated as purchaser.

This situation will not give rise to any potential bright-line implications for the nominator (the original named purchaser). This is because the nominator does not transfer their interest in the land to the nominee when they make the nomination (there is no disposal). When the legal title is transferred to the nominee, the nominator's interest in the land simply ceases to exist, it is not disposed of.

Example

1 January 2017

Andrew enters into agreement to purchase land. Under the agreement, title to the land is to be given to Andrew or his nominee

1 February 2017

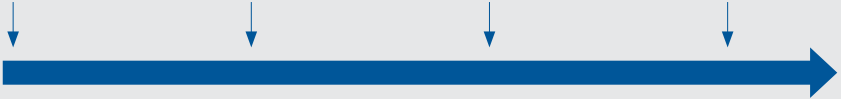
Andrew nominates his family trust as the person to acquire the property

1 March 2017

Registered title is transferred to the family trust

1 January 2020

The family trust enters into an agreement to sell land to Carl



Andrew acquired an interest in land (the right to purchase the land) on 1 January 2017, the date he entered into the sale and purchase agreement. The nomination of the family trust as purchaser does not give rise to any bright-line implications for Andrew. This is because Andrew did not transfer his interest in the land to the family trust when he made the nomination, so there is no disposal of land by him. On settlement, when legal title transferred to the family trust, Andrew's interest in the land ceased to exist, it was not disposed of.

The bright-line period starts on 1 March 2017 for the family trust, which is the day the legal title to the property is registered to the trust.

For more information on what start date to use, go to taxtechnical.ird.govt.nz and refer to **Question we've been asked (QB) 17/02: Date of acquisition of land, and start date for 2-year bright-line test.**

End date

There are situations when land is disposed of but there is no agreement in place to dispose of the property.

The table below shows various types of disposal and the date to use for the bright-line period end date.

Type of sale/disposal	Date to use
Standard sale of land, including transfer or disposal of property under an agreement	Date you entered into an agreement for sale, transfer or disposal
Gifting of property	Date the gift was made (generally registration of title)
Compulsory acquisition of property by the Crown, a local authority or a public authority	Date of compulsory acquisition
Mortgagee sale	Date the property is disposed of by or for the mortgagee as a result of the mortgagor's default
Disposals not covered above	Date you disposed of the property

Note

If more than 1 type of sale/disposal applies - use the earliest date.

Gifts

For gifts, the end date for the bright-line period is the date the person makes the gift of the residential land. This is the date when the donor has done everything necessary to transfer the property and render the settlement binding. This means for a gift of a registrable interest in land, the date the interest is registered.

Example

1 May 2016

Title is registered to Helen
(purchase price \$400,000)

1 January 2017

Helen says she will gift the land to Ian

1 February 2018

Helen registers the transfer of land to Ian
(market value \$450,000)



Presuming Helen entered into the contract to purchase the land on or after 1 October 2015, the 2-year bright-line period applies (the 2-year period applies for land acquired on or after 1 October 2015 through to 28 March 2018). The start date for the bright-line period for Helen is 1 May 2016 (the date title is registered to Helen) and the end date is 1 February 2018 (the date title is transferred to Ian). Helen's disposal of the land will be taxed under the bright-line property rule because she disposed of the land by gifting it to Ian within 2 years of acquiring it.

Under ordinary tax rules, gifts of land are treated as if they are transferred at market value. As a result, Helen is deemed to have transferred the land to Ian at market value and the \$50,000 gain is taxable.

Part 2 - New builds

5-year new build bright-line period

The 5-year new build bright-line period applies to residential land acquired on or after 27 March 2021 if it meets all of the following requirements:

- It is new build land.
- It is acquired before, or no later than 12 months after, it became new build land. For example, the 5-year new build bright-line period will apply where you acquire an existing new build no later than 12 months after it receives its code compliance certificate (CCC); you add a new build to land you already own; or you acquire a new build off the plans.
- There is a self-contained residence at the time you dispose of the land or when settlement occurs. An exception to this requirement applies where the new build was destroyed by a natural disaster or fire.

Land does not qualify for the 5-year new build bright-line period if there is only an agreement in place to construct a new build on the land at the time of sale.

Apart from applying for a shorter period of time (5 years instead of 10 years), the rules that apply for the 10-year bright-line period also apply to new builds. This includes the rules relating to the main home exclusion. For more information about the main home exclusion, see Part 3 of this guide.

Example

Catherine purchases a newly built house from a developer in May 2022. The property was issued with a CCC in April 2022. She sells the property to Peter in January 2023. The 5-year new build bright-line period applies to the land, rather than the 10-year bright-line period, because Peter has acquired the new build no later than 12 months after it received its CCC.

Peter sells the property in December 2028. As he has sold the new build more than 5 years after acquiring it, he is not subject to tax under the bright-line period for new builds.

If Peter had acquired the property in January 2024, instead of January 2023, then the 10-year bright-line period would apply to the land. Peter would not qualify for the 5-year new build bright-line period, because he acquired the land more than 12 months after the new build received its CCC. If he sells the property in December 2028, he will have sold it within 10 years of acquisition, so his gains on the land would be subject to tax under the 10-year bright-line period.

Irrevocable offer made on or before 23 March 2021

The 5-year new build bright-line period does not apply to property acquired on or after 27 March 2021 as a result of an offer made by the purchaser on or before 23 March 2021, if the offer could not be revoked before 27 March 2021. An irrevocable offer is one that cannot be withdrawn before a certain time. For example, it is common as part of the tender process to sign a tender document that states the person cannot withdraw their offer until 5 working days after the tender has closed.

In this case, the property is treated as having been acquired before 27 March 2021. While a 5-year bright-line period also applies, the main home exclusion rules for properties acquired before 27 March 2021 are different to the rules for properties acquired on or after 27 March 2021. For more information about the main home exclusion see Part 3 of this guide.

Example

James submits an offer for a new build property as part of a tender process that closes on 23 March 2021. The new build received its CCC on 10 May 2020. The tender document states that the offer cannot be withdrawn until 29 March 2021. The vendor accepts the offer on 27 March 2021 and the sale and purchase agreement is signed.

While James acquired the land on 27 March 2021, the carve-out for irrevocable offers made on or before 23 March 2021 applies.

So, the existing 5-year bright-line period applies to James, rather than the 5-year new build bright-line period. The existing 5-year bright-line period applies for the same period as the 5-year new build bright-line period, and the 2 rules share the same settings, with only 1 key difference. This key difference is that the existing 5-year period has no time or space-based apportionment for main homes.

If James had made an offer on 27 March 2021 and the same facts applied as above, except that James did not make this offer until 27 March 2021, then the 5-year new build bright-line period and associated main home exclusion and change in use rules would apply instead.

What is new build land?

New build land generally means land that:

- a self-contained residence or abode has been added to
- has received its code compliance certificate (CCC) issued under the Building Act 2004 on or after 27 March 2020 confirming this. There are some exceptions that apply.

New build land includes any areas of land that are exclusively used by residents of the self-contained new build residence. It also includes a reasonable proportion of the shared areas of land (for example, a shared driveway or outdoor entertainment area).

Example

Jayden acquires bare land on 7 August 2025. A new build is added to the land and its CCC is issued on 1 December 2028, at which point it satisfies the definition of 'new build land'. Jayden sells the land on 14 November 2031.

The 10-year bright-line period does not apply because Jayden has sold 'new build land'. Jayden will not be taxed under the 5-year new build bright-line period as more than 5 years have passed since he acquired the land on 7 August 2025.

Assuming the same facts as above, except on 22 March 2029 a flood severely damages Jayden's property and the new build is destroyed. Jayden then sells the bare land on 14 November 2031. The 5-year new build bright-line period will still apply to Jayden's property, as the new build was destroyed by a natural disaster.

Again, assuming the original facts as above, except the new build does not receive its CCC because it is poorly constructed. The 5-year new build bright-line period does not apply to Jayden's property, because it never satisfied the definition of 'new build land'. He is therefore taxed under the 10-year bright-line period when he sells the property on 14 November 2031, as he has sold the property within the 10-year bright-line period.

Meaning of self-contained

'Self-contained' means the residence or abode needs to have its own kitchen, bathroom, and entrance. The entrance can be from a shared accessway, for example a hallway shared by a block of flats in the same building.

Example

Kate owns residential land with an existing dwelling on it. She adds a sleep-out to the property, which she intends to rent out, behind the existing dwelling. The sleep-out can function as an extra bedroom, but it does not have its own kitchen and bathroom. Anyone staying in the sleep-out has to use the kitchen and bathroom located in the existing dwelling. Having no kitchen and bathroom means the sleep-out is not self-contained and is therefore not considered a new build. The land attributable to the sleep-out does not satisfy the definition of new build land.

Assuming the same facts, 6 months later, Kate renovates the sleepout and adds a kitchen and bathroom. The building work receives its CCC on 3 December 2021. As the sleep-out is now self-contained, and it received its CCC after 27 March 2020, it qualifies as a new build. The land the new build is on, any land used exclusively by the residents of the new build, and a reasonable proportion of any shared areas, is considered new build land. The remainder of the land (attributable to the existing dwelling) is not considered new build land.

Construction of new build

When you construct a new build, it does not have to be made of new material or constructed onsite. A new build can include a modular or relocated home. For example, where you relocate an old dwelling to residential land, that land can qualify as new build land once a CCC is issued confirming the dwelling has been added to the land.

Different types of new build land

Residential land which has a place configured as a self-contained residence or abode will qualify as new build land if 1 or more of the following are satisfied.

Category of new build land	Examples
A code compliance certificate (CCC) has been issued on or after 27 March 2020 evidencing that the residence was added to the land.	A self-contained residence is constructed on (or relocated onto) the land.
A CCC has been issued on or after 27 March 2020 evidencing a place already on the land has been converted into the self-contained residence.	<p>A commercial building is converted into 1 or more self-contained residences.</p> <p>An existing home is converted into 2 or more self-contained residences.</p>
Local or building consent authority ¹ records show that the conversion of the place from a hotel or motel into 1 or more self-contained residences was completed on or after 27 March 2020.	A hotel is converted into individual self-contained units or apartments.
<p>The place was removed from the earthquake-prone buildings (EPB) register on or after 27 March 2020, and either:</p> <ul style="list-style-type: none"> received a CCC on or after 27 March 2020 evidencing that building work to remediate the place is complete, or local or building consent authority records show that the building work to remediate the place was completed on or after 27 March 2020 and was verified by a suitably qualified engineer. 	An existing apartment block that is on the EPB register is remediated and then removed from the register.
The place was not previously weathertight, but a CCC has been issued on or after 27 March 2020 evidencing that at least 75% of the place's cladding has been replaced.	An existing self-contained residence that has weathertightness issues is re-clad to fix those issues.

Adding a new build does not restart the bright-line period

To be subject to income tax under the 5-year new build bright-line rule, the bright-line disposal date for the land must be within 5 years of the date of acquisition. The bright-line disposal date is generally the date there is a binding sale and purchase agreement between the vendor and purchaser. This includes when the vendor accepts an offer with standard conditions that are still to be satisfied.

¹'Building consent authority' has the meaning given to it in the Building Act 2004.

Adding a new build to land after acquiring it does not restart the bright-line period from the date the new build is added. The start of the bright-line period remains the same, which for most people is the date property ownership is registered to them with Land Information New Zealand (LINZ) (see Part 1 of this guide for further information).

It does not matter if the land was commercial land at the time it was acquired if it has since been converted into residential accommodation – the bright-line period still starts at the time the land was transferred to the person.

Example

Bob signs an agreement for sale and purchase to purchase a section in Kilbirnie on 1 March 2023. Settlement occurs and title is transferred on 12 April 2023. Bob adds a new build to the section.

The new build receives its CCC on 2 June 2025. Bob sells the property on 9 October 2029. The bright-line period begins on 12 April 2023 (when title was transferred to Bob) and not from 2 June 2025 (when the new build receives its CCC).

Bob is only taxed on the gains on sale if he sells the property by 11 April 2028 (that is, within 5 years of when title for the property was transferred to Bob).

Since Bob has sold the land outside of that period, the 5-year new build bright-line period does not apply.

Apportionment for land with a new build and a non-new build on it

In cases where there is a new build and an existing house (non-new build) on the same legal title:

- only the portion of the land with the new build on it qualifies for the 5-year new build bright-line period, and
- the portion of the land with the non-new build on it is subject to the 10-year bright-line period.

Any gain on the sale of the property may need to be apportioned between the new build land and the non-new build land. The apportionment must be done using a land area test (see the following example). This means a valuation-based apportionment approach cannot be used.

The portion of land that relates to each dwelling includes the land immediately beneath the dwelling, as well as outdoor areas exclusive to the dwelling, and a reasonable proportion of shared areas.

Example

Richard purchased an 800m² property with an existing villa, for \$1 million in April 2022. Richard rents out the villa.

In 2025, Richard builds a new house on the same site, on the same title. The cost of the new build is \$400,000. Richard also rents out the new build.

After constructing the new build, Richard's 800m² property consists of the following areas:

- existing build and land portion 400m²
- new build and land portion 350m²
- a common area (a shared driveway) of 50m²

The total cost for the land and new build is \$1.4 million.

In 2028 Richard sells the property for \$3 million, making a total gain on sale of \$1.6 million. Richard's calculation under the bright-line property rule is as follows:

New build

The 375m² new build land portion (including 25m² of the shared driveway) is subject to the 5-year new build bright-line period. This is 46.9% of the total 800m² land area.

The time from when Richard acquired the property in 2022, until he sells it in 2028, is more than 5 years. It does not matter the new build was only constructed in 2025 as the new build bright-line period applies when there is a new build on the land when it is sold. This means 46.9% of the gain is not taxed on sale.

Existing (non-new) build

The 10-year bright-line period applies to the existing villa and land portion as it was acquired after 27 March 2021 and is disposed of within 10 years.

The existing villa and land is 425m² (including 25m² of the shared driveway), making up 53.1% of the remaining land area.

The calculation for the gain on sale is: $(\$3,000,000 - \$1,400,000) \times 53.1\% = \$849,600$

Richard will pay tax on \$849,600.

For more information on the 5-year new build bright-line period see **Tax Information Bulletin (TIB), Vol 34, No 5 (June 2022)** page 122.

Part 3 - Main home

Main home exclusion

A property will not be taxed under the bright-line property rule if the main home exclusion applies. You must have lived in the property as your main home for it to apply.

To get the full main home exclusion you need to meet the main home exclusion criteria below. Different rules apply depending on when you acquired the property.

Full main exclusion

Date property acquired	Main home exclusion criteria
Before 27 March 2021	<p>You must have:</p> <ul style="list-style-type: none"> used more than 50% of the property's area as your main home (including things like the yard, gardens, and garage) used the property as your main home for more than 50% of the time.
On or after 27 March 2021	<p>You must have:</p> <ul style="list-style-type: none"> used more than 50% of the property's area as your main home (including things like the yard, gardens, and garage) used the property as your main home for 100% of the time. This includes any period of up to 12 months where it was not used as your main home (for example, a period between moving out and when the property is finally sold).

Partial main home exclusion

If you acquired your property on or after 27 March 2021 and you do not meet the above criteria for the full exclusion, you are eligible for a reduction in the amount of tax you need to pay based on how much of and for how long the property was used as your main home. For more information on how to calculate this reduction, see the 'Properties acquired on or after 27 March 2021' section in this part of the guide.

Note

The date a property is acquired is usually the date a binding sale and purchase agreement is entered into (even if some standard conditions like getting finance or a building report still need to be met). For more information on when a property is acquired go to [taxtechnical.ird.govt.nz](https://www.taxtechnical.ird.govt.nz) and refer to **Question we've been asked (QB) 17/02: Income tax - date of acquisition of land, and start date for 2-year bright-line test.**

Only 1 main home

Your main home is the property where you lived for most of the time. You can only have 1 main home. It's important to note that having the intention to use the property as your main home is not enough, you must have actually used it for this purpose.

The main home exclusion will not apply when only a family member and not the owner has used the property as their main home.

More than 1 home

If you have more than 1 home, your main home is the property you have the greatest connection with. This depends on:

- the amount of time you spend living in each home
- where your immediate family (if any) lives
- where your personal property is kept
- where your social ties are strongest
- your use of each home
- what other ties (for example employment, business and economic) you have with the surrounding community.

Example

Lisa rents an apartment in Wellington, where she lives with her son. The apartment is close to her office from which she runs her consulting business. She is a member of a local tramping club and is on the Board of Trustees of her son's local school.

She owns a house on Lake Taupō with views over the lake. She does not let the Lake Taupō property out when she is not using it. She spends 5 weeks with her son in this property over Christmas and New Year, and also uses the property for 4 weekends during the ski season.

When Lisa sells the Lake Taupō property, she cannot use the main home exclusion because it is not her main home. It is not the property with which she had the greatest connection.

Using the exclusion for 2 properties

It is possible to use the exclusion for 2 properties you own at the same time.

An example is when you live in 1 house as your main home and then you move into a new house while trying to sell the first property. The original house may satisfy the requirements to be your main home for the period before moving into the new house. The new house may also satisfy the requirements to be your main home for the subsequent period.

The ownership overlap of the properties does not mean the original home fails to satisfy the requirements to be a main home for the period you own it. If you sell both properties within the relevant bright-line period, you are able to use the main home exclusion for both properties (if they both satisfy the requirements to be your main home for the different periods).

Example

Amy purchases and moves into a property on 1 February 2021 in Napier. Amy decides to move as the house is too small and puts her house on the market. She buys another, larger house on 31 October 2021 and moves in immediately. In November 2021 Amy is promoted to a role in Auckland. She puts the second property on the market and they both sell on 31 December 2021.

The diagram illustrates the timeline of Amy's property ownership and main home status. It features two horizontal bars representing the duration of each property as a 'Main home'. The first bar is blue and spans from 1 February 2021 to 31 October 2021. The second bar is green and spans from 31 October 2021 to 31 December 2021. Vertical arrows point to the start and end dates of each property's ownership. The text above the bars indicates the events: '1 February 2021 Amy purchases property 1', '31 October 2021 Amy moves out of Property 1', '31 December 2021 Amy sells property 1', '31 October 2021 Amy purchases property 2', and '31 December 2021 Amy sells property 2'.

1 February 2021
Amy purchases property 1

31 October 2021
Amy moves out of Property 1

31 December 2021
Amy sells property 1

31 October 2021
Amy purchases property 2

31 December 2021
Amy sells property 2

Main home

Main home

The main home exclusion is available for both of Amy's properties. Property 1 was the main home for 9 of the 11 months of the bright-line period. Property 2 was the main home for the entire time of the bright-line period.

Limits to claiming the main home exclusion

You can only use the main home exclusion twice in 2 years. If you sell your home within the bright-line period and you have already claimed the exclusion twice in the previous 2 years, you will need to pay tax under the bright-line property rule on the sale of that property.

Example

Property	Bright-line period start – registration of title for purchase	Bright-line period end – date sale and purchase agreement entered into	Title Transfer for sale
1	26 Jul 2022	7 Nov 2023	7 Dec 2023
2	7 Dec 2022	9 Dec 2024	23 Jan 2025
3	23 Jan 2025	15 July 2025	4 Aug 2025

Emma has purchased and sold 3 properties and lived in all of them the entire time of the bright-line period. Both properties 1 and 2 were sold within their bright-line periods.

Emma claimed the main home exclusion for properties 1 and 2 and therefore the bright-line property rule did not apply to the sale of these 2 properties. The bright-line periods for properties 1 and 2 ended on 7 November 2023 and 9 December 2024 respectively.

Emma enters into an agreement to sell property 3 on 15 July 2025. As of 15 July 2025, Emma had already claimed the main home exclusion on 2 previous occasions within 2 years of 15 July 2025 (7 November 2023 and 9 December 2024). This means she is unable to claim the main home exclusion for property 3. Any gain on the sale of property 3 is taxable under the bright-line property rule.

If you (either alone or with a group or persons) have a regular pattern of either buying and selling or building and selling your main home, you cannot claim the main home exclusion even if you or your family live in the property before it is sold. This means you will need to pay tax under the bright-line property rule on any gain made.

Determining whether there is a regular pattern can be complex. If you have purchased and sold several properties it is recommended you seek advice from a tax advisor.

For more information see our **Tax Information Bulletin (TIB), Vol 33, No 6 (July 2021)** page 22 and **Question we've been asked (QB) 16/07: Income tax – Land sales rules, main home and residential exclusions, regular pattern of acquiring and disposing, or building and disposing at taxtechnical.ird.govt.nz**

Co-owners

Co-owners of property can have different main homes. On disposal, the bright-line property rule will only apply to an owner who has not used the property as their main home. For example, a person living in one city may have a different main home from their spouse or partner living in another city. The partner who co-owns the property and has not used it as their main home is required to pay income tax on their portion of any profit made when the property is sold, if sold within the bright-line period.

Where property is held:

- By joint tenant co-owners (that is, they do not have distinct shares in the property), profits/losses are allocated equally between owners.
- By tenants in common co-owners (that is, where each owner has a distinct share in the property), profits/losses are allocated according to each owner's share of the property.

Main home held in trust

A residential property held in trust can use the main home exclusion if the property sold was the main home of a beneficiary of the trust and 1 of the following apply:

- the principal settlor does not have a main home, or
- it is the main home of the principal settlor of the trust that is being sold.

If a principal settlor of a trust has a main home that is not the one being sold by the trust, the main home exclusion cannot apply to any property owned by the trust.

Who is a principal settlor?

A principal settlor is the person who has provided the greatest (or equal greatest) value to the trust based on the market value of settlements on the trust. The principal settlor is a different concept from the settlor recorded in the Trust Deed.

The principal settlor will need to be established by examining the settlements for the trust.

For the purposes of determining a principal settlor, all provisions of value are counted except for the provision of services at below market value. If there are multiple people who have provided the equal greatest value to the trust, they are all considered principal settlers.

In addition, a person is not a principal settlor if they have provided an unconditional 'no-strings attached' gift to the trust. A transfer of value will also be disregarded unless that transfer is by:

- a beneficiary
- a trustee
- a person with the power of appointment or removal of trustees
- a person with a contingent interest in the trust property, in the case that the trust fails, or
- a decision-maker under the trust.

Example

According to a Trust Deed, Joe and Anna are trustees and their children are beneficiaries of the trust. The settlor of the trust was Rangi, who provided \$10 to settle the trust.

Joe and Anna settled \$500,000 on the trust, to be managed with in accordance with the terms of the trust deed. The trust later purchased a property. Joe and Anna lived in the property with their children until it was sold a year later.

By settling \$500,000 on the trust Joe and Anna became the principal settlers of the trust, even though they are not recorded as settlers on the Trust Deed.

The property sold by the trust was the main home of the principal settlers of the trust and the beneficiaries of the trust, and therefore the main home exclusion applies.

Example

Aaron has 2 properties, a family home which he lives in, and a student flat which his son lives in while studying. Aaron settles the student flat in a trust and makes his son a discretionary beneficiary of the trust.

The trust cannot use the main home exclusion because Aaron, the principal settlor of the trust, has another main home.

Properties acquired before 27 March 2021

For a property acquired between 1 October 2015 and 26 March 2021 you can claim the main home exclusion if you:

- used more than 50% of the property's area as your main home, and
- used the property as your main home for more than 50% of the time of the bright-line period.

If either of these is less than 50%, then the main home exclusion does not apply and you will need to pay tax on any profit.

Area of land usage

To be a 'main home', more than 50% of the area of the land must have been used. To calculate this you need to consider all areas including the yard, gardens and garage.

In some circumstances, you will be required to determine the area of land used for your private residential purposes and the area of land used for other purposes.

For example, when a single property has been used by you partly as a residential home and partly as a rental property, you will need to determine the relative areas of each. In some cases, you may have determined the relative areas in working out any tax deductions you can claim for example, insurance and rates.

Example

Mele owns a property which is 600m². The property includes a house (500m²) and a fenced off flat (100m²). She lives in the flat and the house is rented out.

The main home exclusion does not apply because Mele is living in the flat which is 100m² and less than 50% of the total property area.

Example

In February 2019, Priyanka buys a country store that has living quarters attached. She resides in the living quarters and runs a retail business from the front of the property. She calculates that the retail business uses 45 percent of the property and claims expenses (insurance and rates) on that basis against the retail income. Priyanka sells the property. Priyanka is not able to use the business premises exclusion as the land is not used predominantly for her retail business (45%).

However, Priyanka can use the main home exclusion in full because the property was purchased prior to 27 March 2021 and she has used it predominantly (55%) as her main home during the time of the bright-line period.

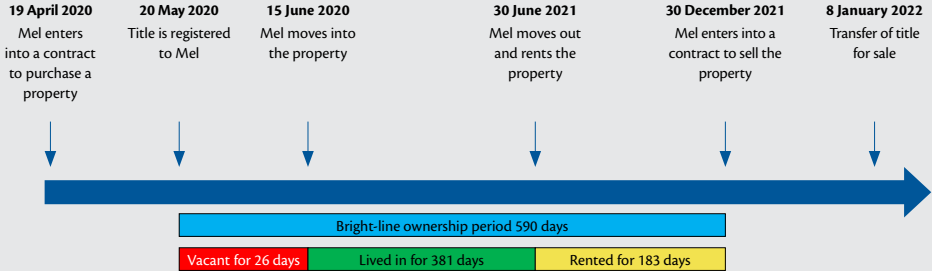
Living in your main home

You must have lived in the property as your main home. Your intended use of the property is not relevant. The main home exclusion does not apply when only a family member (and not you) has used the property as their main home.

The property must have been used as your main home for more than 50% of the time of the bright-line period. However, the property does not need to have been used without interruption as your main home. For example, a main home can be rented out for short periods while you are on holiday or before settlement of the sale of the property, as long as the total time it was not used as your home is less than the total time it was used as your home.

Example

Main home exclusion applies - Land area used more than 50% and lived in for more than 50% of the time



On 19 April 2020, Mel entered into an agreement to purchase a property. Title was transferred to Mel on 20 May 2020. Mel lived in the property from 15 June 2020 to 30 June 2021. On 30 December 2021, Mel entered into an agreement to sell the property and the title was transferred to the new owner on 8 January 2022.

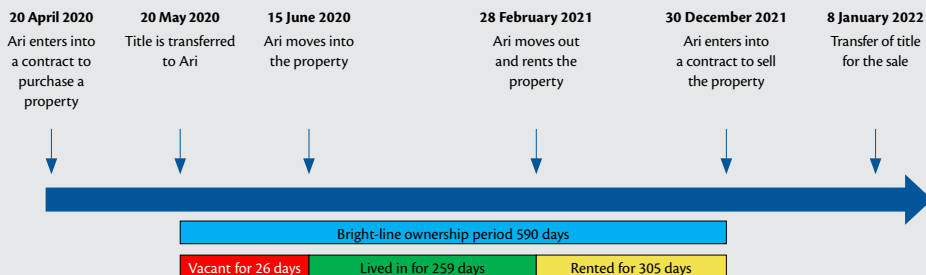
The bright-line period is 590 days, starting on 20 May 2020 and ending on 30 December 2021.

Mel lived in the property for 381 days, using it as her main home 65% of the time during the bright-line period (381 / 590 days).

The main home exclusion applies as the property was purchased prior to 27 March 2021 and the property has been used by Mel as her main home for more than 50% of the time. Any gain on sale is not taxable under the bright-line property rule.

Example

Main home exclusion does not apply - Land area used more than 50% and lived in for less than 50% of the time



On 20 April 2020, Ari entered into an agreement to purchase a property. Title to the property was transferred to Ari 20 May 2020. Ari lived in the property from 15 June 2020 to 28 February 2021. On 30 December 2021, Ari entered into an agreement to sell the property and the title was transferred to the new owner on 8 January 2022.

The bright-line period is 590 days, starting on 20 May 2020 and ending on 30 December 2021.

Ari lived in the property for 259 days, using it as her main home 44% of the time during the bright-line period (259 / 590 days). Since the property was purchased prior to 27 March 2021, the main home exclusion does not apply because the property was used by Ari as her main home for less than 50% of the bright-line period. Ari's gain on the sale is taxable.

No reduction in tax is available for Ari's main home use because this property was purchased prior to 27 March 2021, before the apportionment rules were introduced.

Construction period

When you build a new home, you can ignore the construction period when determining if your usage of the property qualifies for the main home exclusion. Only look at your usage for the period before construction began, and from when construction was completed to when the property was sold.

Construction is the work to build or erect the home, including the design phase. Construction is usually considered complete when the code compliance certificate is issued under the Building Act 2004. The exact length of the construction period depends on the facts and circumstances of each case.

Example

Main home exclusion applies – Off the plan purchase with construction delays

On 1 December 2019, Ben entered into an agreement to purchase a property off the plan in a new development. Construction was due to be completed in early 2021, but due to delays, construction was not completed until 2 June 2022.

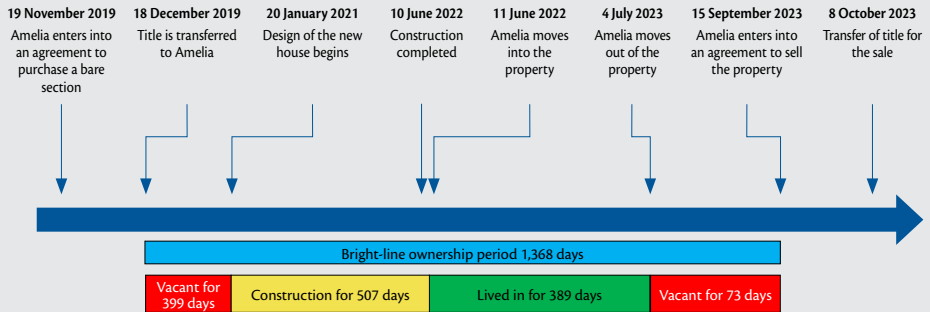
Ben moved into the property immediately following settlement on 3 June 2022 and used it as his main home until he entered into an agreement to sell the property on 4 December 2023.

Ben can ignore the 30-month construction period and only look at the period from 3 June 2022 to 4 December 2023 when determining whether he qualifies for the main home exclusion. He qualifies for the main home exclusion because he lived in the property as his main home for that whole period.

Any gain on sale is not taxable under the bright-line property rule.

Example

Main home exclusion does not apply – Construction period



On 19 November 2019, Amelia entered into an agreement to purchase a bare section. The title was transferred to Amelia on 18 December 2019 and on 20 January 2021 the design of the new house began. Construction was completed on 10 June 2022.

Amelia moved into the house on 11 June 2022 and used it as her main home until 4 July 2023.

Amelia entered into an agreement to sell the property on 15 September 2023 and the title was transferred to the new owner on 8 October 2023.

Summary of Amelia's situation

- **The bright-line period** is 1,368 days, from 18 December 2019 to 15 September 2023.
- **Total vacant days** is 472 days. This is the period before construction from 18 December 2019 to 19 January 2021 (399 days) and when Amelia moves out of the property to the end of the bright-line period from 5 July 2023 to 15 September 2023 (73 days).
- **The construction period** is 507 days from 20 January 2021 to 10 June 2022.
- **Amelia lived in the property** for 389 days from 11 June 2022 to 4 July 2023.

To work out if the main home exclusion applies, Amelia can ignore the 507 construction days in the bright-line period, 861 days (1,368 – 507) is the total days used to calculate the main home exclusion.

Amelia used the property as her main home for 389 days, so it was used as her main home for 45% of the time (389 / 861 days).

The main home exclusion does not apply to Amelia because the property was used as her main home for less than the 50% of the bright-line period. Amelia's gain on the sale is taxable.

Properties acquired on or after 27 March 2021

For properties acquired on or after 27 March 2021, you can claim the main home exclusion in full if you:

- used more than 50% of the area of the land as your main home, and
- used the property as your main home for the entire time of the bright-line period. This can include any period of up to 12 months where the property was not used as your main home.

If you qualify for the full main home exclusion, you don't need to pay any tax on the profit on sale.

If you don't qualify for the full main home exclusion, you can still claim the main home exclusion for any period or periods the property was actually used as your main home. This means you can reduce the amount of tax you need to pay based on how much of the property you used as your main home and for how long.

Non-main home days within 12-month period

If the property has not been used as your main home for any period of 12 months or less, these days are still treated as main home days.

For example, if you take a few months to move into a property, or you own it for a few months after moving out, those days are treated as main home days.

You can have more than 1 of these periods 'treated as' main home days as long as they are not back-to-back with each other. For more information see our **Tax Information Bulletin (TIB), Vol 34, No 5 (July 2022)** page 126.

Qualifying non-main home days for a period 12 months or more

Days you do not live in the property as your main home, for periods longer than 12 months, can qualify for the main home exclusion if you:

- built a new home and the construction period was reasonable, and you lived in the property
- needed to vacate the property for a reasonable period to repair damages for a North Island flooding event

What’s reasonable depends on the facts and circumstances.

Example

Main home exclusion applying to reasonable construction period

Riley purchased bare land in April 2021 to construct a house. The construction period took longer than expected due to delays with their local council, supply constraints for building materials, and difficulties finding a qualified builder. It took 2 years before the house was completed and Riley could move in. As the construction period is reasonable, and Riley lived in the property after construction was completed it qualifies as main home days.

Reducing the amount of tax to pay based on actual usage

If you don’t qualify for the full main home exclusion because you have not used the property as your main home for 100% of the time (including the days that can be ‘treated as’ your main home) or if less than 50% of the area has been used as your main home, then an apportionment calculation reduces the amount of tax you need to pay under the bright-line property rule.

The following formulae for ‘reduced income’ and ‘reduced cost’ are used to calculate what portion of your income and expenses relate to your main home use. Subtract these from your total sale price and total cost of the property in your **Bright-line residential property sale information - IR833** form:

- sale price – reduced income (Box 6)
- cost – reduced cost (Box 7)

For more information on how to complete the IR833 and your income tax return see Part 5 of this guide.

This is how you calculate ‘reduced income’ and ‘reduced cost’:

Reduced income:

$$\text{sale price} \times \frac{(\text{'non-predominant main home days'} \times \text{'main home \%'}) + \text{'predominant main home days'}}{\text{'Total days'}}$$

Reduced cost:



$$\text{cost} \times \frac{(\text{'non-predominant main home days'} \times \text{'main home \%'}) + \text{'predominant main home days'}}{\text{'Total days'}}$$

The terms of the formula are defined as follows:

- **Sale price** is the full amount the property was sold for.
- **Cost** is what was paid for the property and any capital improvements.
- **Non-predominant main home days** is the total number of days in the bright-line period where 50% or less of the land was used as your main home. This includes any days that qualify as 'treated as' main home days, but excludes 'treated as' days that are counted under 'predominant main home days'. If there is only 1 dwelling on the property, then you generally don't need this calculation.
- **Main home %** is the percentage of the land used as the main home during the non-predominant main home days. If there is only 1 dwelling on the property, then you generally don't need this calculation.
- **Predominant main home days** is the total number of days in the bright-line period where more than 50% of the land was used as your main home. This includes any days that qualify as 'treated as' main home days.
- **Total days** is the total number of days in your bright-line period for the property. See Part 1 of this guide but for most people the bright-line period generally starts on the date the property is transferred to you and ends on the date a binding sale and purchase agreement to sell the property is entered into.

Example

2 houses on 1 legal title

<p style="text-align: center;">Main house 65% of land area</p> <p style="text-align: center;"></p> <p style="text-align: center;">If the main house is lived in, those days will be predominant main home days</p>	<p style="text-align: center;">Minor dwelling 35% of land area</p> <p style="text-align: center;"></p> <p style="text-align: center;">If the minor dwelling is lived in, those days will be non-predominant main home days</p>
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If the main house is lived in, those days are 'predominant main home days' for the formula. This is because the main house uses more than 50% of the total land area (including yard, gardens and garage). Tax is not payable under the bright-line property rule for any days that are predominant main home days.

If the minor dwelling is lived in, those days are 'non-predominant main home days' for the formula. This is because the minor dwelling uses less than 50% of the total land area. Tax is payable under the bright-line property rule for non-predominant main home days, but only to the extent (by land area) the property is not used as the main home.

If you have some days that are 'treated as' main home days, but the continuous period is between 'predominant main home days' and 'non-predominant main home days', those days can only be treated as 'non-predominant main home days'. This could occur for example, if you lived in the main house, moved elsewhere for 6 months and then moved into the minor dwelling. The 6 months are counted as main home days for the minor dwelling.

Example

Full main home exclusion - most of the land area used for the main home for 100% of the time

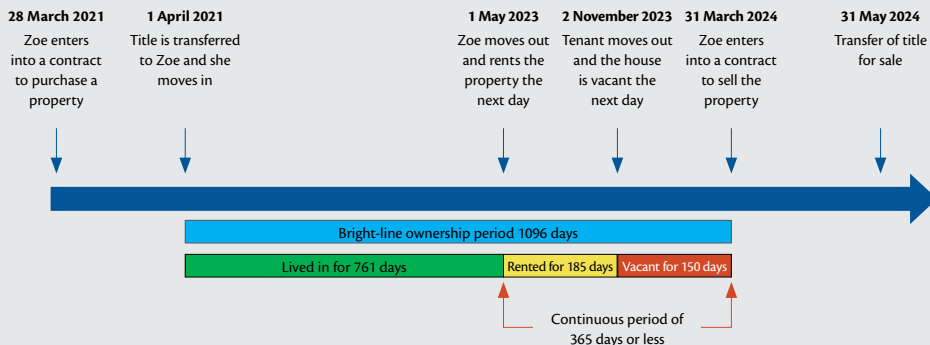
Louis has 2 houses on a property. The large house uses 55% of the land and the smaller house uses 45%. Louis lives in the large house and rents out the smaller house for the entire time of the bright-line period. The property was purchased on 13 March 2022 and sold on 31 December 2029.

Since the property was purchased after 27 March 2021 and disposed of within 7 years, the 10-year bright-line period applies.

However, as the house and land portion used by Louis is more than 50% of the entire property, and he has lived in the large house for the entire time of the bright-line period, Louis qualifies for the full main home exclusion and is not taxed on the gain under the bright-line property rule.

Example

Full main home exclusion – Property used as the main home for less than 100% of the time, but non-main home days within 12-month continuous period



On 28 March 2021, Zoe entered into an agreement to purchase a property. Title to the property was transferred to Zoe on 1 April 2021. Zoe lived in the property from 1 April 2021 to 1 May 2023 and the property was rented and also vacant after that date. On 31 March 2024, Zoe entered into an agreement to sell the property and the title was transferred to the new owner on 31 May 2024.

The bright-line period is 1096 days, starting on 1 April 2021 and ending on 31 March 2024.

Zoe lived in the property for 761 days, using it as her main home. Zoe did not live in the property for 335 days (the 185 rental days plus the 150 vacant days), however those days are counted as her main home days. This is because this period is 365 days or less, the start of the vacant period is immediately after Zoe moved out, and the end of the vacant period is immediately before the end of the bright-line period. Zoe's total main home days is therefore $761 + 335 = 1096$ days.

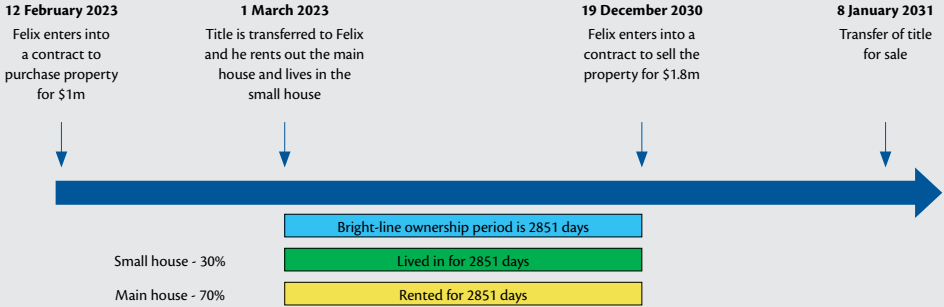
The full main home exclusion applies and Zoe's gain on the property is not taxable under the bright-line property rule. This is because the entire property was used by Zoe as her main home (or treated as being used as her main home) for all of the days in the bright-line period.

Fact variation:

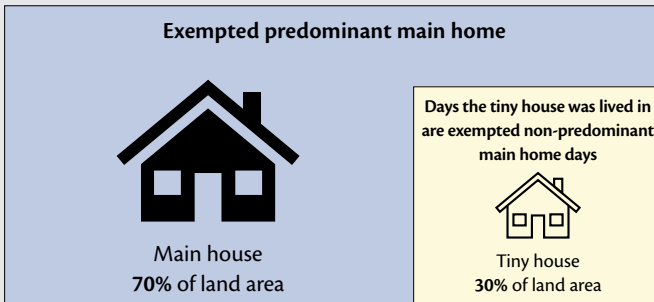
If Zoe had moved out on 20 March 2023 and rented the property from that point, the period it was not Zoe's main home would be more than 365 days and those days would not be treated as main home days. An appointment calculation would be required, with tax being payable under the bright-line property rule for the non-main home days.

Example

Partial main home exclusion – Less than 50% of the land area used for the main home for 100% of the time



Land area



On 12 February 2023, Felix entered into an agreement to purchase a property for \$1,000,000 and the title to the property was transferred to Felix on 1 March 2023. The property has 2 houses, with the main house comprising 70% of the total land area and the smaller house (a tiny home) comprising 30%.

On 19 December 2030, Felix enters into an agreement to sell the property for \$1,800,000 and the title is transferred to the new owner on 8 January 2031.

Felix lives in the small house and rents out the main house from 1 March 2023 until early January 2031. This covers the entire bright-line ownership period from 1 March 2023 (when the title was transferred to Felix) until 19 December 2030 (when the contract for sale is made).

The property is taxable under the bright-line property rule as it is sold within 10 years. Felix does not qualify for the full main home exclusion because he did not use more than 50% of the property as his main home, but he does qualify for a reduction in the amount of taxable income based on the land area taken up by his tiny home.

The 'reduced income' calculation:

$$\text{Sale price} \times \frac{(\text{non-predominant main home days} \times \text{main home \%}) + \text{predominant main home days}}{\text{total days}}$$

Applying the terms in the formula to Felix's situation:

- **Sale price** is \$1,800,000 (being how much Felix sold the property for).
- **Cost** is \$1,000,000.
- **Non-predominant main home days** is 2,851 (the number of days within the bright-line period that Felix lives in the small house – this is 1 March 2023 to 19 December 2030).
- **Main home %** is 30% (being the percentage of the land area of the tiny house used by Felix as his main home).
- **Predominant main home days** is 0 (because Felix did not live in the main house so he did not use more than 50% of the land as his main home for any days).
- **Total days** is 2,851 days (Felix's bright-line period starts on 1 March 2023 and ends on 19 December 2030).

Applying the formula to Felix's situation:

$$\$1,800,000 \times \frac{(2,851 \text{ days} \times 30\%) + 0}{2,851} = \$540,000$$

\$540,000 is the portion of the sales price that relates to Felix's main home use and is not subject to tax under the bright-line property rule.

Felix then subtracts this \$540,000 from his total sale price to give him the amount that he needs to return as gross income in his tax return: \$1,260,000 (being \$1,800,000 – \$540,000). In Felix's IR833 form this figure will go into box 6 (sales price).

Felix is allowed a deduction for the cost of the property. While Felix paid \$1,000,000 for the property, he cannot deduct this full amount because some relates to his main home use. The 'reduced cost' calculation:

$$\text{cost} \times \frac{(\text{non-predominant main home days} \times \text{main home \%}) + \text{predominant main home days}}{\text{total days}}$$

Applying the terms in the formula to Felix's situation:

- **Cost** is \$1,000,000 (being how much Felix paid for the property).
- **Non-predominant main home days** is as above, 2,851 (the number of days within the bright-line period that Felix lives in the small house – this is 1 March 2023 to 19 December 2030).
- **Main home %** is as above, 30% (being the percentage of the land area of the tiny house used by Felix as his main home).
- **Predominant main home days** is as above, 0 (because Felix did not live in the main house so he did not use more than 50% of the land as his main home for any days).
- **Total days** is as above, 2,851 days (Felix's bright-line period starts on 1 March 2023 and ends on 19 December 2030).

$$\$1,000,000 \times \frac{(2,851 \times 30\%) + 0}{2,851} = \$300,000$$

\$300,000 is the portion of Felix's purchase price that relates to his main home use and is not able to be deducted as an expense against his bright-line income.

Felix subtracts this \$300,000 from his purchase price to give him the amount he can claim as a deduction in his income tax return: \$700,000 (being \$1,000,000 - \$300,000). In Felix's IR833 form this figure will go into box 7 (purchase price).

These 2 calculations mean that of Felix's \$1,800,000 sale, Felix is taxed on a gain of \$560,000 (\$1,260,000 - \$700,000). Income tax is calculated on the \$560,000 gain at Felix's marginal tax rate.

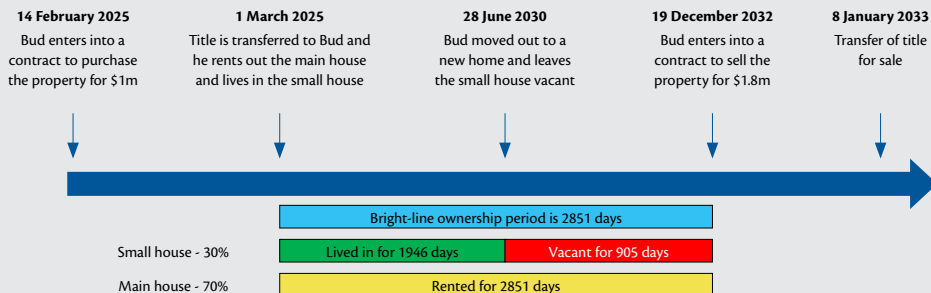
Felix is required to complete the **Bright-line residential property sale information - IR833** form. Felix will need to add the following to his IR833 form:

- Sales price - box 6 enter \$1,260,000
- Purchase price – box 7 enter \$700,000

To work out other deductible expenses go to Part 5 of this guide.

Example

Partial main home exclusion – Less than 50% of the land area used for the main home, for less than 100% of the time



On 14 February 2025, Bud enters into an agreement to purchase a property for \$1,000,000 and the title is transferred to Bud on 1 March 2025. The property has 2 houses, with the main house comprising 70% of the total land area and the smaller house comprising 30%. On 19 December 2032, Bud enters into an agreement to sell the property for \$1,800,000 and the title is transferred to the new owner on 8 January 2033.

Bud lives in the small house from 1 March 2025 until 28 June 2030 when he moves into his new home and the small house remains vacant. The main house is rented out from 1 March 2025 to 19 December 2032 until it is sold.

The property is taxable under the bright-line property rule as it is sold within 10 years. As the property was purchased after 27 March 2021, Bud does not qualify for the full main home exclusion because he did not use more than 50% of the land as his main home for the entire bright-line period. However, Bud is entitled to a reduction in the amount of tax he pays because he did use some of the property as his main home.

The 'reduced income' calculation:

$$\text{sale price} \times \frac{(\text{non-predominant main home days} \times \text{main home \%}) + \text{predominant main home days}}{\text{total days}}$$

Applying the terms in the formula to Bud's situation:

- **Sale price** is \$1,800,000 (being how much Bud sold the property for)
- **Non-predominant main home days** is 1,946 (the number of days within the bright-line period that Bud lives in the small house – this is from 1 March 2025 to 28 June 2030).
- **Main home %** is 30% (being the percentage of the land area of the smaller house used by Bud as his main home).
- **Predominant main home days** is 0 (because Bud did not live in the main house so he did not use more than 50% of the land as his main home for any days).
- **Total days** is 2,851 days (Bud's bright-line period starts on 1 March 2025 and ends on 19 December 2032).
- Applying the formula to Bud's situation:

$$\$1,800,000 \times \frac{(1,946 \text{ days} \times 30\%) + 0}{2,851} = \$366,586.46$$

The \$366,586.46 is the portion of the sales price that relates to Bud's main home use and is not taxed under the bright-line property rule. Bud subtracts this \$366,586.46 from his total sale price to give him the amount that he needs to return as gross income in his tax return: \$1,433,413.54 (being \$1,800,000 – \$366,586.46). In Bud's IR833 form this figure will go into box 6 (sales price).

Bud is allowed a deduction for the cost of the property. While Bud paid \$1,000,000 for the property, he cannot deduct this full amount because some relates to his main home use. The 'reduced cost' calculation:

$$\text{cost} \times \frac{(\text{non-predominant main home days} \times \text{main home \%}) + \text{predominant main home days}}{\text{total days}}$$

Most of the terms in this formula are the same as above:

- **Cost** is \$1,000,000 (being how much Bud paid for the property)
- **Non-predominant main home days** is as above, 1946 (the number of days within the bright-line period that Bud lives in the small house – this is from 11 March 2025 to 28 June 2030).
- **Main home %** is as above, 30% (being the percentage of the land area of the smaller house used by Bud as his main home).
- **Predominant main home days** is as above, 0 (because Bud did not live in the main house so he did not use more than 50% of the land as his main home for any days).
- **Total days** is as above, 2,851 days (Bud's bright-line period starts on 1 March 2025 and ends on 19 December 2032).

Bud's reduced cost calculation is:

$$\$1,000,000 \times \frac{(1,946 \times 30\%) + 0}{2,851} = \$204,770.26$$

\$204,770.26 is the portion of Bud's purchase price that relates to his main home use and is not able to be deducted as an expense against his bright-line income.

Bud subtracts this \$204,770.26 from his purchase price to give him a total deduction of \$795,229.74 (being \$1,000,000 - \$204,770.26). In Bud's IR833 form this figure will go into box 7 (purchase price).

These 2 calculations mean that of Bud's \$1,800,000 sale, Bud is taxed on a gain of \$638,183.80 (being \$1,433,413.54 - \$795,229.74). Income tax is calculated on the \$638,183.80 gain at Bud's marginal tax rate.

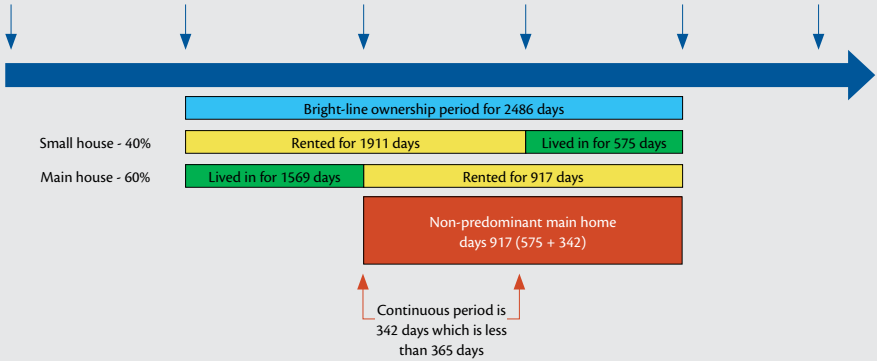
Bud is required to complete the **Bright-line residential property sale information - IR833** form. Bud will need to add the following to his IR833 form:

- Sales price - box 6 enter \$1,433,413.54
- Purchase price – box 7 enter \$795,229.74

Example

Partial main home exclusion – Land with 2 houses and both lived in by the owner at different times

12 February 2022	13 March 2022	28 June 2026	6 June 2027	31 December 2028	8 January 2029
Gordon enters into a contract to purchase the property for \$1m	Title is transferred to Gordon and he lives in the main house and rents out the small house	Gordon moves out of the main house and moves overseas	Gordon returns from overseas and moves into the small house	Gordon enters into a contract to sell the property for \$1.8m	Transfer of title for sale



On 12 February 2022, Gordon enters into an agreement to purchase a property for \$1,000,000 and the title is transferred to Gordon on 13 March 2022. The property has 2 houses, with the main house comprising 60% of the total land area and the smaller house comprising 40%. On 31 December 2028, Gordon enters into an agreement to sell the property for \$1,800,000 and the title is transferred to the new owner on 8 January 2029.

Gordon lives in the main house from 13 March 2022 until 28 June 2026 (1,569 days) when he moves overseas for work. The main house is then rented from 29 June 2026 until it is sold on 31 December 2028 (917 days).

The small house is rented out from 13 March 2022 to 5 June 2027 (1,911 days). When Gordon returns from overseas, he moves into the small house on 6 June 2027 until it is sold on 31 December 2028 (575 days).

Gordon was only overseas for 342 days, which is less than 12 months. These days are 'treated as' non-predominant main home days.

Gordon is taxed on the sale of the property under the bright-line property rule as it is sold within 10 years. As the property was purchased after 27 March 2021, Gordon does not qualify for the full main home exclusion because he did not use more than 50% of the land as his main home for the entire time of the bright-line period. However, Gordon is entitled to a reduction in the amount of tax he pays because he did use some of the property as his main home.

For the purposes of the 'reduced income' and 'reduced cost' formulae, Gordon's relevant numbers are:

- **Sale price** is \$1,800,000.
- **Cost** is \$1,000,000.
- **Non-predominant main home days** is 917 (being the 342 days Gordon is overseas from 29 June 2026 to 5 June 2027 and the 575 days Gordon lives in the small house from 6 June 2027 to 31 December 2028). The 342 days Gordon was overseas qualify as 'treated as' non-predominant main home days because they are a continuous period of 365 days or less and adjoin 2 periods of main home use.²
- **Main home %** is 40% (being the percentage of the land area used by the small house).
- **Predominant main home days** is 1,569 days (being the days Gordon lives in the main house from 13 March 2022 to 28 June 2026).
- **Total days** is 2,486 days (Gordon's bright-line period starts on 13 March 2022 and ends on 31 December 2028).

Using the apportionment formula, Gordon's reduced income calculation is:

$$\text{sale price} \times \frac{(\text{non-predominant main home days} \times \text{main home \%}) + \text{predominant main home days}}{\text{total days}}$$

² Note that the period Gordon is overseas cannot qualify as predominant main home days as that definition requires the start and end of the period to adjoin either the start/end of the bright-line period or a period where the land has been used predominantly for a dwelling that was a main home. This is not satisfied in Gordon's case as when he returns from overseas he lives in the smaller house (that is the land is not being used predominantly for a dwelling that was a main home).

Applying the reduced income formula to Gordon's situation:

$$\$1,800,000 \times \frac{(917 \text{ days} \times 40\%) + 1,569}{2,486} = \$1,401,625.10$$

The \$1,401,625.10 is the portion of the sale price that relates to Gordon's main home use and is not taxed under the bright-line property rule. Gordon subtracts this \$1,401,625.10 from his total sale price to give him the amount that he needs to return as gross income in his tax return: \$398,374.90 (being \$1,800,000 – \$1,401,625.10). In Gordon's IR833 return this figure will go into box 6 (sales price).

Gordon is allowed a deduction for the cost of the property. While Gordon paid \$1,000,000 for the property, he cannot deduct this full amount because some relates to his main home use. The 'reduced cost' calculation:

$$\text{cost} \times \frac{(\text{non-predominant main home days} \times \text{main home \%}) + \text{predominant main home days}}{\text{total days}}$$

Applying this to Gordon's situation, Gordon's 'reduced cost' is:

$$\$1,000,000 \times \frac{(917 \times 40\%) + 1,569}{2,486} = \$778,680.61$$

\$778,680.61 is the portion of Gordon's purchase price that relates to his main home use and is not able to be deducted as an expense against his bright-line income.

Gordon subtracts this \$778,680.61 from his purchase price to give him a total deduction of \$221,319.39 (being \$1,000,000 - \$778,680.61). In Gordon's IR833 form this figure will go into box 7 (purchase price).

These 2 calculations mean that of Gordon's \$1,800,000 sale, Gordon is taxed on a gain of \$177,055.51 (being \$398,374.90 - \$221,319.39). Income tax is calculated on the \$177,055.51 gain at Gordon's marginal tax rate.

Gordon is required to complete the **Bright-line property sale information - IR833** form. Gordon will need to add the following to his IR833 form:

- Sales price - box 6 enter \$398,374.90
- Purchase price – box 7 enter \$221,319.39

To work out other deductible expenses go to Part 5 of this guide.

Subdivided property and the main home exclusion

Example

Sale of subdivided section of land with no house

Ling acquires a property as his main home and, due to a change of circumstances, decides to subdivide it after 2 months and sell off the back part of the original section. Two new certificates of title were issued on the subdivision – 1 for the subdivided section with the house and 1 for the subdivided section at the rear of the property that was previously used as the backyard. Ling continues to enjoy the land in the section as his backyard until he eventually manages to sell that section 12 months later.

The sale of the backyard section is within the bright-line period that would have applied for the undivided property. Ling can use the main home exclusion for the sale because the land in the backyard section was used predominately in connection with a house that was Ling's main home, for the entire time of the bright-line period.

Example

Sale of subdivided section of land with house

Instead of using the rear section as his backyard, Ling constructed a new dwelling (with a small garden and a garage) immediately after the registration of the title.

The main home exclusion will not apply to the sale of the section of land with the new house (the former backyard) because the land in that section was not used predominantly a dwelling that was Ling's main home for most of the time during the bright-line period. Ling's bright-line period is 14 months, but only used the land in the subdivided section for his main home for 2 months.

For more information go to taxtechnical.ird.govt.nz and refer to **Question we've been asked (QB) 18/16: Income tax - bright-line test - main home exclusion - sale of subdivided section.**

Part 4 - Ownership transfers

Rollover relief

Rollover relief means the person transferring land to you will not be taxed at the time of the transfer, and we treat you as having purchased the property at the same time and for the same price as the person you received it from. This means the bright-line property rule looks at how long both you and the previous owner held the property for.

Rollover relief is available for property that has been transferred:

- under a relationship property agreement
- under a resident's restricted amalgamation

Rollover relief also applies the following transfers of residential land occurring on or after 1 April 2022:

- certain transfers to or from family trusts
- certain transfers to or from look-through companies and partnerships
- transfers within tax consolidated groups of wholly-owned companies
- certain transfers of land subject to Te Ture Whenua Māori Act 1993 and transfers as part of settling Te Tiriti o Waitangi - Treaty of Waitangi claims.

Relief is available for transfers made on or after 1 April 2022 even if the original acquisition pre-dates the introduction of the bright-line property rule in 2015.

Amount paid for the transfer

Rollover relief is provided if the amount paid for the transfer is equal to or less than the original owner's acquisition cost, although this requirement does not apply for transfers within tax consolidated groups.

Whether there is full rollover relief (no bright-line tax to pay) or partial rollover relief (possibly some bright-line tax to pay) depends on whether there is payment for the transfer and if so, how much.

Full rollover relief

Full rollover relief applies if the amount you receive for the transfer is equal to or less than the previous owner's (transferor's) acquisition cost. This means you are treated as having acquired it at the same price and at the same time as the previous owner, and the previous owner is treated as having disposed of the land at cost. This means there is no bright-line tax to pay at the time of the transfer.

Partial rollover relief

Partial relief is provided if the amount you receive for the transfer is more than the previous owner's acquisition cost but is less than the market value of the land. In this case both of the following apply:

- you are treated as having acquired the land at the time that the previous owner acquired it but for the actual sale price you paid rather than the market value
- the previous owner is also treated as having disposed of the land for the actual sale price rather than its market value.

This means the previous owner may be taxed on the difference between the actual sale price and their acquisition cost if the transfer is made within the bright-line period. The actual sale price will also be your acquisition cost, which you will be able to deduct if you go on to sell the property and the bright-line property rule applies. The bright-line period will not restart even if the previous owner had to pay tax on the transfer under the bright-line property rule.

Note

For more information on rollover relief go to **Tax Information Bulletin (TIB), Vol 35, No 6 (July 2023)** pages 97 to 121.

Relationship property agreements

Full rollover relief applies to transfers of property under a relationship property agreement (between defacto partners, civil union partners, or spouses) under the Property (Relationships) Act 1976. This means there is no tax to pay under the bright-line property rule.

However, any subsequent sale of the transferred property may be subject to the bright-line property rule.

If you are the recipient of the property and later sell it within the applicable bright-line period of 2, 5 or 10 years, which starts from the date the property was first acquired in the former relationship, you will pay income tax on any gain you make unless you qualify for the full main home exclusion. For more information about the main home exclusion, refer to Part 3 of this guide.

Example

After saving for 5 years, Emily and Carl purchased their first investment property in November 2021. They separated 12 months later. In May 2023 the property is transferred into Carl's name as part of their relationship property agreement. In July 2023 Carl sells the property for more than the original purchase price.

No tax liability arises on the transfer of Emily's share to Carl in May 2023. A tax liability does however arise under the bright-line property rule in July 2023 when Carl sells the property, as the sale is within 10 years of the original acquisition date in November 2021.

Example

Alex purchased a rental property on 1 September 2021. On 2 May 2023 the property was transferred to Karen, under a relationship property agreement.

This transfer is not subject to the bright-line property rule because it was made under a relationship property agreement.

Karen sells the property in an agreement dated 1 April 2027.

As the transfer to Karen was part of a relationship property agreement, the bright-line period start date is 1 September 2021 and not 2 May 2023 when it was transferred to Karen. The sale is taxable as the property was sold within the 10-year bright-line period (1 September 2021 to 1 April 2027 is less than 10 years).

Income will be calculated using the price Karen sold the property for on 1 April 2027 with a deduction for how much Alex paid for the property on 1 September 2021.

Example

Coral and her husband Ron purchased a rental property on 9 September 2021.

Coral and Ron separated. As neither of them wanted to keep the property, they sold it to a third party on 17 March 2027.

Since the property was not transferred to either of them under a relationship property agreement, but sold to a third party, rollover relief does not apply. Instead, the bright-line property rule applies and the transaction is taxable as the property was sold within the 10-year bright-line period.

Example

David and his wife Susan purchased a rental property on 20 July 2022.

David and Susan decided to separate. David and Susan agreed that as part of the settlement, David would pay \$100,000 to Susan. David has trouble raising the funds to pay Susan. They agree to sell the rental property so David can pay Susan the \$100,000 from his share of the proceeds of the sale. David and Susan sell the property to a third party under an agreement dated 24 October 2027.

Relationship property rollover relief only applies to the transfer of property between spouses or civil union or de facto partners under a relationship property agreement. The rental property was not transferred to one of them under a relationship property agreement but sold to another party and so does not qualify for rollover relief.

The bright-line period starts on 20 July 2022 and ends on 24 October 2027. Therefore, the sale is taxable as the rental property was sold within the 10-year bright-line period.

Transfers to or from family trusts

Rollover relief applies to transfers of residential property to or from family trusts on or after 1 April 2022, provided the rollover trust meets the following:

- each transferor (in the case of transfers to a trust) or each transferee of the property (in the case of transfers from a trust back to the settlor) is both a settlor and beneficiary of the trust
- at least 1 of those transferors or transferees of the property is also a principal settlor of the trust
- all principal settlors are beneficiaries of the trust
- all principal settlors are close family associates
- all beneficiaries are close family beneficiaries

Two people are close family associates if they're:

- a relative within 4 degrees of blood relationship of the person and the relative's civil union partner, de facto partner or spouse
- the person's civil union partner, de facto partner, or spouse, and a relative within 4 degrees of blood relationship of the person's partner/spouse.

This includes relatives by adoption, as well as stepchildren and in-laws.

Some common examples of close family associates include the principal settlor's:

- parents and children, stepparents and stepchildren, parents-in-law and children-in-law
- siblings, step-siblings and siblings-in-law
- grandchildren and grandparents
- aunts and uncles, nieces and nephews
- cousins
- great-grandchildren and great-grandparents
- great-aunts and great-uncles, great-nieces and great-nephews
- great-great-grandchildren and great-great-grandparents.

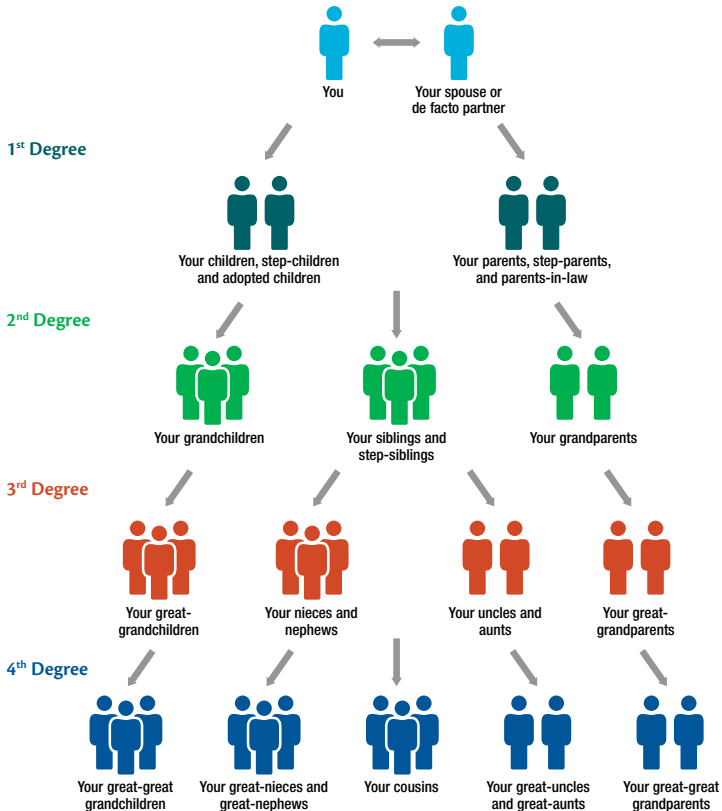
Further information on how degrees of association are determined in family situations can be found in **A guide to associated persons definitions for income tax purposes – IR620** available at ird.govt.nz/forms-guides

A close family beneficiary is broadly:

- a principal settlor
- a close family associate of another beneficiary who is also a principal settlor
- a company in which a 50% or more voting interest, or a 50% or more market value interest if a market value circumstance exists, is owned by a beneficiary of the trust that is:
 - (i) a principal settlor of the trust
 - (ii) a close family associate of another beneficiary that is a principal settlor of the trust
- a trustee of another trust with at least 1 beneficiary that is a close family associate of a beneficiary of the first trust
- a charity registered under the Charities Act 2005 or any association, club, institution, society, organisation or trust not carried on for the private profit of any person whose funds are applied wholly or principally to any civic, community, charitable, philanthropic, religious, benevolent, or cultural purpose.

The following example shows 4 degrees of relationships:

Four degrees of relationships



Example

Joan has no children and wants to set up a family trust for the benefit of her nephew, George, and his family. The trust's assets include Joan's house in Auckland, a holiday home in Waihi and some other financial assets.

The beneficiaries of the trust are Joan, George, his partner Charlotte, their 2 children, Jack and May, and George's son, Eli, from a previous relationship. Joan loves animals and has been a long-time volunteer for the SPCA, so she also lists the SPCA as a beneficiary of the trust.

The relationships of the beneficiaries are as follows:

- George: 3 degrees of blood relationship from Joan
- George's partner, Charlotte
- George's children, Jack, May and Eli: 4 degrees of blood relationship from Joan
- SPCA: registered charity under the Charities Act 2005

All the beneficiaries are close family beneficiaries and Joan's trust meets the requirements of a family trust eligible for rollover relief.

For rollover relief to apply when the trustees of a family trust of the type described in the next example transfer the property back to its original settlors, each recipient's share of the interests in the property (relative to the share held by the other recipients) has to be the same as in the original transfer of the property to the trust.

If a transfer does not satisfy all of the requirements, it may be subject to tax under the bright-line property rule based on the market value of the property at the time of transfer.

Full rollover relief is provided if the amount paid for the transfer is equal to or less than the original owner's acquisition cost. The recipient is deemed to have acquired the property at the same time and for the same cost as the original owner and the transferor (the original owner) does not have a tax liability under the bright-line property rule.

Partial relief is provided if the amount paid for the transfer exceeds the original owner's acquisition cost but is less than the market value of the land. In this case, the transfer is deemed to have occurred for the amount of consideration provided for the transfer (rather than the market value). The transferor may be taxed based on this amount if the transfer is made within the bright-line period. This amount is also the recipient's acquisition cost, but the recipient's bright-line period starts at the same time as the original owner's did (not when the transfer was made).

If the trust subsequently sells or transfers the property to a beneficiary who was not the original owner of the property, this disposal may be taxed under the bright-line property rule based on the property's market value.

Example**Full rollover relief**

Sunita and Rangī purchase residential property in their own names for \$1.1 million on 17 October 2021. On 10 July 2023 Sunita and Rangī decide to settle the property on a family trust with Sunita's sister and her sister's spouse as the trustees. Sunita, Rangī and their children are beneficiaries of the trust. The only property settled on the trust is the residential property and the trustees provide consideration of \$1.1 million (even though the market value of the property has increased to \$1.3 million).

The trustees then sell the residential property for \$1.7 million on 31 January 2027. Sunita and Rangī are both beneficiaries of the trust. Sunita and Rangī are also both principal settlors (given that the trust has no other property). Sunita and Rangī are associated through marriage, and both non-settlor beneficiaries (their 2 children) are associated with a principal settlor.

Rollover relief means Sunita and Rangī are not subject to tax under the bright-line property rule on the disposal of their residential property to the trustees of their family trust on 10 July 2023. This is because the consideration paid by the trustees to Sunita and Rangī is equal to the price they originally paid for the property.

The trustees are treated as having the same bright-line start date that Sunita and Rangī had (17 October 2021, rather than 10 July 2023 when the property was settled on the trust). However, the trustees' sale of the land on 31 January 2027 is within the 10-year bright-line period, so the sale is subject to income tax under the bright-line property rule unless any of the exclusions apply.

Example**Partial rollover relief**

Neo acquired residential property on 3 March 2017 for \$500,000. On 29 October 2022, Neo settles the residential property on a trust with him and his son, Archie, as beneficiaries of the trust. Neo's outstanding mortgage is \$400,000. The trustee provides consideration of \$600,000, of which Neo uses \$400,000 to discharge his outstanding mortgage.

Since Neo purchased the property on 3 March 2017 the 2-year bright-line period is applicable, however, there is no tax liability under the bright-line property rule because Neo held the land for more than 2 years.

Partial relief applies to ensure the bright-line clock is not restarted, meaning the trustee takes on Neo's bright-line acquisition date of 3 March 2017 but not Neo's acquisition cost of \$500,000. The trustee's cost base is instead the amount of consideration it provided, being \$600,000.

Transfers for family trust back to settlors

As well as meeting the rollover trust criteria, another rule applies for a transfer from a trust to a settlor or group of settlors (transferees) where the transferees had transferred the property to the trust. For rollover relief to apply, all transferees must be principal settlors at the time the trustee acquired the property and at the time the trustee transfers the property. Full rollover relief will only apply if proportionally the same amount of land they had originally transferred to the trustee.

Rollover relief will not apply to transfers to settlors who are not principal settlors of the trust either at the time the property was acquired by the trust or at the time the trust transfers the property. This means a beneficiary of the trust cannot become a principal settlor immediately before the land is transferred to them.

Example

In 2005, Maya settles a new family trust, with herself, her partner Blake and their children, Jack and Sean, as the beneficiaries of the trust.

- In 2007 Jack makes substantial settlements on the trust to become the principal settlor.
- In 2009, Jack acquires an investment property for \$250,000. He later sells it to the trust in May 2019 for \$600,000.
- In November 2022, the trust sells the property back to Jack for \$600,000, even though the market value of the property is now over \$1 million. At the time of the sale, Jack is still the principal settlor of the trust.

As the amount paid by Jack for the property is equal to the amount the trustee originally paid for the property, full rollover relief applies to the transfer. This means the trust is not subject to tax under the bright-line property rule on the transfer of the property to Jack in November 2022. This is because the trustee is treated as disposing of the land at cost, meaning their net income under the bright-line property rule is zero.

Jack is treated as having an acquisition date of May 2019 for the land (being the date the trustee acquired the property) and a cost base of \$600,000.

Resettlement of family trust

Rollover relief is also available for a resettlement transaction where the trustees of the trust transfer the property to a new trust, provided that the following apply:

- each family member beneficiary of the resettled trust is either a beneficiary of the first trust or a close family associate of a principal settlor of the first trust
- both trusts meet the criteria relating to the principal settlors and beneficiaries meaning that all principal settlors are beneficiaries of the trust, all principal settlors are close family associates, and all beneficiaries are close family beneficiaries.

Example

Jay is the principal settlor and a beneficiary of her family trust (trust A), which is a qualifying family trust for rollover relief. In May 2022 the trust property, which includes residential land, is resettled on a new family trust (trust B).

The beneficiaries of the new family trust B include relatives of Jay who are within 4 degrees of blood relationship, their spouses, and 2 registered charities. Trust B has 1 other principal settlor, Ralph, who is also a beneficiary.

The principal settlors, Jay and Ralph, are married and are therefore close family associates. All beneficiaries are close family beneficiaries.

The transfer to trust B is for zero consideration, which is less than the cost of the land to the trustee of trust A. This means the transfer of the residential land from trust A to trust B qualifies for full rollover relief.

This means Jay, as trustee of trust A, is treated as disposing of the land at cost. Jay's income arising under the bright-line property rule is zero, and the trustees of trust B have the same bright-line start date and cost of the land as Jay had.

Family and close relationship transactions

It is becoming more common for ownership of a property to change from parents to children as part of parents assisting their children to own their first home. Rollover relief is not available in this situation.

Note

Family and close relationship transactions are when the ownership of residential land (that is not a main home) changes from:

- parents to their child to assist the child with buying their first home;
- one partner to themselves and their new partner; and
- all the beneficiaries who inherit the land under a will or rules of intestacy to some of the beneficiaries.

For more information go to [taxtechnical.ird.govt.nz](https://www.ird.govt.nz) and refer to **Interpretation Statement (IS) 23/02: Income tax – Application of the s CZ 39 5 year bright-line test to certain family and close relationship transactions**.

If parents are co-owners and later sell their share to their children, the bright-line property rule may apply.

Additionally when residential land subject to the bright-line property rule is disposed of for no consideration or for inadequate consideration, the amount deemed to be received is the market value at the time the property is transferred or sold.

Transfer of property from one trustee to another

Where a property is transferred from one trustee to another trustee of the same trust, the transferee is treated as having acquired the property on the earliest day that the land was transferred to a trustee of the trust. The change in trustees will not restart the bright-line clock.

Transfers to or from look-through companies (LTCs) and partnerships

Rollover relief applies if a person transfers residential property to themselves in another capacity on or after 1 April 2022. This essentially provides rollover relief for transfers between LTCs and the LTC shareholders or between partnerships and the partners.

Full rollover relief is provided if the amount for the transfer is equal to or less than the original owner's acquisition cost. The recipient is deemed to have acquired the property at the same time and for the same cost as the original owner and the transferor (the original owner) does not have a tax liability under the bright-line property rule.

Partial relief is provided if the amount for the transfer exceeds the original owner's acquisition cost but is less than the market value of the land. In this case, the transfer is deemed to have occurred at the amount paid for the transfer (rather than market value). The transferor may be taxed based on this amount if the transfer occurs within the bright-line period. This amount is also the recipient's acquisition cost, but the recipient's bright-line period starts at the same time as the original owner's did (not when the transfer was made).

Example

Eddie owns all the shares in Baxter Limited, a look-through company. Baxter Limited owns several properties that it rents out as short-stay holiday accommodation on the internet.

Eddie purchases a new build in Invercargill to live in for \$500,000, but he is unable to relocate because of work commitments in Auckland. Eddie's bright-line period for the new build property begins on 4 April 2022, being the date title was registered. The CCC for the property was issued on 11 November 2021. Since Eddie purchased the property within 12 months after its CCC date, the applicable bright-line period, if Eddie decides to sell the property is the 5-year new build bright-line period.

Eddie decides to transfer the Invercargill property to Baxter Ltd to rent out as part of its holiday accommodation business on 14 September 2022 at the same price he paid for it (\$500,000). Because Eddie was the sole owner of the Invercargill property and holds all of the shares in Baxter Ltd, and the transfer of the property to Baxter Ltd was made at cost, full rollover relief applies and the property transfer to Baxter Ltd will not be subject to tax under the 5-year bright-line period for new build.

Baxter Limited's bright-line period for the Invercargill property begins on 4 April 2022 (the date the property was transferred to Eddie). Baxter Limited sells the Invercargill property to a third party on 4 May 2028. The period 4 April 2022 to 4 May 2028 exceeds the 5-year new build bright-line period and the sale is not subject to tax under the bright-line property rule.

Eddie purchases an apartment in Auckland city for \$650,000 and the title registration occurs on 1 October 2022. In 2028, when Baxter Limited sells the Invercargill property, Eddie decides to sell the Auckland apartment to Baxter Limited to maintain the size of its property portfolio. This occurs on 24 October 2028 and the amount of the transfer is \$700,000 which is less than the property's market value.

Partial relief is available for the transfer of the Auckland apartment. Because the amount for the transfer (\$700,000) is more than Eddie's original acquisition cost (\$650,000) and the transfer is within the 10-year bright-line period, Eddie is taxed on this \$50,000 gain. Without this partial relief, Eddie would have been taxed on the difference between the market value and his original acquisition cost. Baxter Limited's bright-line period starts on 1 October 2022 – the date the title was originally transferred to Eddie, rather than the date of the transfer from Eddie to Baxter Limited

Transfers to or from family trusts involving different capacities (LTCs and partnerships)

Rollover relief extends to transfers to family trusts, where the transferors or transferees may similarly have different capacities in relation to the rollover trust criteria set out above. For example, a transferee may be a settlor of the trust in their personal capacity and be a beneficiary as an LTC owner, or they may have transferred the land to the trust in their personal capacity and acquire it back from the trust as a partner in a partnership.

Example

Mr and Mrs Yong are 50:50 partners in the Yong Family Partnership. The Yong Family Partnership is the principal settlor of the Yong Family Trust. Mr and Mrs Yong are beneficiaries of the Yong Family Trust.

In April 2018, the Yong Family Partnership transferred a residential property to the Yong Family Trust. In January 2023, the trustees of the Yong Family Trust transfer the property to Mr and Mrs Yong in their personal capacity in equal 50:50 shares for nil consideration (that is, the sale price is zero), rather than transferring it back to the Yong Family Partnership.

Rollover relief applies to the transfer from the Yong Family Trust to Mr and Mrs Yong, and allows Mr and Mrs Yong to transfer property to the trust in 1 capacity (settlers) and receive it back from the trust in a different capacity (beneficiaries of the trust), as long as the proportion of their interest remains the same.

Fact variation

If the Yong Family Partnership settled residential property to the Yong Family Trust in 2006, any subsequent transfers by Mr and Mrs Yong will not be taxed under the bright-line property rule because the trustees' bright-line start date was before bright-line was introduced.

Certain transfers of residential land subject to Te Ture Whenua Māori Act 1993 to or from trusts

Rollover relief also applies to transfers of residential land subject to Te Ture Whenua Māori Act 1993 to a trust provided that:

- the trust is either a Māori authority, or is eligible to elect to be a Māori authority, because it receives and manages on behalf of Māori claimants, assets that are transferred by the Crown as part of a settlement of a claim under Te Tiriti o Waitangi
- all relevant transfers to the trust are made by people who are beneficiaries of the trust, and
- all beneficiaries of the trust are either members of the same iwi or hapū, or descendants of the same tipuna (living or dead).

If these requirements are satisfied, the receiving trustee's bright-line acquisition date for the land is the same as that of the person who transferred the property (and not the date of the transfer).

Full rollover relief is provided if the amount for the transfer is equal to or less than the original owner's acquisition cost. In this case, the transferor (the original owner) does not have a tax liability under the bright-line property rule and the trust (the recipient) is deemed to have acquired it at the same price as the original owner.

Partial relief is provided if the amount for the transfer exceeds the original owner's acquisition cost but is less than the market value of the land. In this case, the transfer is deemed to have occurred at the amount of consideration provided for the transfer (rather than the market value). The transferor may be taxed on this amount if the transfer is made within the bright-line period. This amount is also the trust's acquisition cost, which will be able to be deducted if the trust goes on to sell the property and is subject to tax under the bright-line property rule.

Example

Transfer from trustee of Māori family to a trust eligible to be a Māori authority

Rewi and several family members own interests in a large parcel of land in Pukemoremore, subject to Te Ture Whenua Māori Act 1993. All the family members are descendants of Rewi's late great-great-grandfather. Several townhouses are built on the land, and all of these are rented out to tenants.

Rewi and his relatives decide to sell their interests in the land to a family trust that was settled by Rewi for the benefit of all surviving descendants of the great-great grandfather. The new family trust is eligible to be a Māori authority and has elected to do so. The transfer of property to the new family trust is equal to the amount paid by Rewi even though the market value is higher.

Full rollover relief applies to the transfer of property to new family trust. In this case, Rewi is the settlor of both trusts, and the beneficiaries of the new family trust are all descendants of the same tipuna. This means the property transfer is not subject to the bright-line property rule, because the trustee would be treated as disposing of the land at cost, meaning the net income arising is zero.

There are 4 categories of property transfer that may qualify for rollover relief:

- Transfers by settlors of a Māori family trust to the trustees.
- Transfers back to the settlors who first transferred the property to the Māori family trust.
- Resettlement transactions, where the trustees of a Māori family trust resettle the property on a new, related trust.
- Transfers to certain trusts if the land is part of the settlement of a claim under Te Tiriti o Waitangi.

Transfers to Māori family trust

You can get rollover relief for transfers of residential land if the land is covered by Te Ture Whenua Māori Act 1993, and all the following apply:

- the trustee of the trust is either a Māori authority, or is eligible to be a Māori authority
- all relevant transfers to the trust are made by people who are both settlors and beneficiaries of the trust
- all beneficiaries of the trust are members of the same iwi or hapū, or descendants of the same tipuna (living or dead).

Transfers from Māori family trust back to settlors

You can get rollover relief for a transfer of residential land back to the settlor (or settlors) who originally transferred the property to the trust if all the following apply:

- the trustee of the trust is either a Māori authority, or is eligible to elect to be a Māori authority
- in addition to being settlors, the recipients are also beneficiaries of the trust
- all beneficiaries of the trust are either members of the same iwi or hapū or descendants of the same tipuna
- the land is subject to Te Ture Whenua Māori Act 1993
- the recipients get proportionally the same amount of land they had originally transferred to the trustees

Resettlements of Māori family trust

Example

Transfer from trustee of Māori family trust back to the settlors of a trust

Before 2010 Aroha and several members of her extended whānau, who are all members of the same iwi, held interests in a parcel of land in Kaitaia subject to Te Ture Whenua Māori Act 1993. In August 2010, Aroha and members of her family sold their interests in the land to a trust that was settled by Aroha and her brother, Tane, for \$5 million. Aroha, Tane and the rest of the whānau holding interests in the land were at the time beneficiaries of the trust and still are.

On 28 May 2022, the trustees of the trust sold the interests in the land back to the members of the whānau for \$5 million, being the same amount the trustees had originally paid for the land. The market value of the land at that time was \$10 million.

Because the transfer was made at cost, full rollover relief applies. This means the whānau who purchased their interests back have a bright-line start date of August 2010, being the date the land was originally transferred to the trustees of the trust at the cost of \$5 million. The bright-line clock is not reset for Aroha, Tane and their whānau who repurchased their interests in May 2022. As their bright-line start date is August 2010, a future disposal by the interest holders will not be subject to the bright-line property rule.

Rollover relief is available for a transfer of residential land held by trustees of a trust (trust B) that is either a Māori authority, or is eligible to elect to be a Māori authority, resettled to another eligible trust (trust A).

This applies if at the time of the land transfer from trust B to trust A, all the following apply:

- the beneficiaries of trust B are the same as for trust A
- all beneficiaries of each trust are either members of the same iwi or hapū or descendants of the same tipuna
- the land is subject to Te Ture Whenua Māori Act 1993.

If the above requirements are met, a person holding residential land as trustee of trust A, where land was transferred to them from trust B, has the same bright-line acquisition date for the land that trust B had.

Rollover relief is also available for a transfer of residential land back to the original settlor of the trust provided that the same conditions set out above are met at the time of the transfer, that is:

- the trust is either a Māori authority, or is eligible to be a Māori authority
- all relevant transfers to the original settlors of the trust are to people who are beneficiaries of the trust
- all beneficiaries of the trust are either members of the same iwi or hapū or descendants of the same tipuna, and
- the land is subject to Te Ture Whenua Māori Act 1993.

The land transferred back to the original transferor by the trustees of the trust must either be:

- the same land they originally settled on the trust, and all other original transferors also get their land back, or
- in part the same land they originally settled on the trust if that part and all other transfers back to other original transferors are in the same proportions as in the original settlement.

Land transferred as part of a settlement under Te Tiriti o Waitangi

If you are transferred residential land on or after 1 April 2022 as part of a settlement of a claim under Te Tiriti o Waitangi, you may qualify for rollover relief.

Settlements of claims under Te Tiriti o Waitangi can be a multi-stage process. The Crown will generally transfer Tiriti settlement property to a single governance entity known as post-settlement governance entity (PSGE). This entity may act on behalf of several groups, for example, different hapū, or as a collective for a number of iwi groups. The PSGE will then transfer settlement assets to different members of the claimant group under the deed of settlement or settlement legislation.

Rollover relief is provided when residential land is transferred if the land is:

- subject to Te Ture Whenua Māori Act 1993,
- part of the settlement of a claim under Te Tiriti o Waitangi, and
- transferred to a trustee of a trust that is a Māori authority, or is eligible to be a Māori authority, under section HF 2(3)(e)(i) (that is, on behalf of Māori claimants, the trustee receives and manages assets that are transferred by the Crown as part of the settlement of a claim under Te Tiriti o Waitangi).

This provides rollover relief for the transfer of Treaty settlement residential land from the PSGE to a member of the claimant group, for example, hapū.

If the above requirements are met, the recipient trustee has, for the purposes of the bright-line property rule, acquired the land for its market value at the time the Crown transferred the land.

At the exact time of the Treaty settlement it may not be possible to work out the market value of the land. In this case, a reasonable estimate shortly after settlement (for example, determined for insurance purposes) is acceptable.

Full rollover relief is provided if, for the transfer of the residential property from the PSGE to the receiving trust, the consideration is less than or equal to this value. In this case, the PSGE does not have tax to pay under the bright-line property rule. The receiving trust is deemed to have the same bright-line start date as the PSGE and is deemed to have acquired the property at its market value when it was transferred by the Crown. If the receiving trust then sells the property and is subject to tax under the bright-line property rule, it is permitted to deduct that market value figure to calculate its taxable income.

Partial relief is provided if the consideration for the transfer exceeds this value (the market value of the property at the time it was transferred by the Crown to the PSGE). The PSGE may be subject to tax under the bright-line property rule on the amount received. The member of the claimant group who receives the residential land from the PSGE is deemed to have acquired the property for that amount, but their bright-line period starts at the same time the PSGE's did (and not when the transfer is made).

Changes in co-ownership

When there is a change to the shares that co-owners have in residential property, or when a co-owner is added or removed, the disposal of the share that changes hands may come under the bright-line property rule.

The start of the bright-line period should reset only for the ownership share that has changed hands.

Joint tenancy to tenancy in common (and vice versa)

Where you change from joint tenancy to tenancy in common with no change to the proportion of the shares held, the acquisition date used for the bright-line property rule does not change and the bright-line period start date does not reset when the title is transferred.

This also applies if the change is from tenancy in common to joint tenancy.

Example

In August 2019 Tony and Michael bought a rental property as joint tenants. 2 years later, they decide if 1 of them dies, they want the share of the partner who dies to go to that partner's children. In June 2021, the title transferred to change their ownership of the property from a joint tenancy to a tenancy in common (50:50).

For the bright-line property rule to apply, there must be a disposal of residential land by either Tony, Michael, or both. They are not treated as having disposed of land for the purposes of the bright-line property rule. Tony and Michael own the same land (the estate in fee simple) before and after the transfer.

Before the transfer, they each had an interest in the entire property and an equal 50% separate share. After the transfer, they each still have an interest in the entire property, and they each now have a 50% share.

The acquisition date is not reset in June 2021 when the title transferred to change the form of co-ownership of the property.

If Tony and Michael dispose of the property in the future, the bright-line period starts in August 2019 when the property was first acquired by Tony and Michael.

Acquiring and removing shares

If you own part of a residential property and then acquire an additional share in the same property, you will have different bright-line start dates for those respective shares in the property.

Where a share in residential land is acquired before 27 March 2021 and a further share in the same land is acquired on or after 27 March 2021, when the land is sold it will all fall into the bright-line period that applied at the time the first interest in the land was acquired. The original bright-line period starts from the date each increase in share takes place.

Example

Hina and Andy entered into a binding agreement to buy a rental property as tenants in common on 30 June 2018. Hina owns 50% and Andy owns 50%. Settlement was on 31 July 2018. Hina sells her shares to Andy on 31 August 2021 at market value. The title is transferred to Andy who now owns 100% of the property.

For the purposes of the bright-line property rule, Hina has disposed of her 50% interest in the land. This disposal is income under the bright-line property rule, as the disposal was within the applicable bright-line period of 5 years. Hina can deduct the amount she paid for her share of the property.

If Andy then sells the rental property shortly afterwards, he will also be subject to the 5-year bright-line period, because he entered into a binding sale and purchase agreement on 30 June 2018 to acquire the original share in the property. This determines which bright-line period applies (2, 5 or 10 years) for both shares Andy purchased. The 5-year bright-line period will apply as follows:

- 50% share purchased on 31 July 2018, if sold before 31 July 2023
- 50% share purchased on 31 August 2021, if sold before 31 August 2026.

Example

Acquiring and disposing of part shares

In July 2018, Alisha and Hans bought a rental property as tenants in common, each owning a 50% share. Alisha's financial position changes in 2020. She asks Hans if he is interested in buying out part of her share of the property. He is keen to do this, so he buys half of Alisha's 50% interest at market value.

LINZ registers the transfer in December 2020 to show the land is now held 25% by Alisha, and 75% by Hans. This means for the purposes of the bright-line property rule, Alisha has disposed of a 25% interest in the land. Alisha's 25% interest sold to Hans is income to Alisha under the bright-line property rule since the disposal was within the 5-year bright-line period.

Alisha can deduct half the amount she paid for her original 50% share of the property, because she has sold 25% of her original share.

Hans' bright-line clock is not restarted in December 2020 in relation to his original 50% share, nor is Alisha's in relation to the 25% share she has retained. However, the bright-line clock does restart for the 25% share transferred by Alisha to Hans, with Hans having a December 2020 bright-line acquisition date in relation to that 25% share.

Subdividing co-owned land

Sometimes people pool resources to purchase land, becoming co-owners. Co-owners may then subdivide and allocate the land based on their original ownership interests. This is known as partitioning. In some circumstances the subdivision may be treated as a disposal of land at market value under the bright-line property rule or other property taxing rules.

The bright-line property rule or other property tax rules do not apply if the value of the partitioned land matches the interests you and your co-owners had in the undivided land. The value includes your contributions as co-owners to development and building costs.

If the land of a co-owner's partitioned interest after subdivision is more than their original co-ownership interest in the undivided land, the difference may be taxable.

If the difference is 5% or more of the smallest co-owner's original interest, the full difference is taxed under the bright-line property rule or other property tax rules.

If the difference in allocations is less than 5% of the smallest co-owner's original interest, the difference is not taxable. A difference could happen because of the land topography (landscape).

Example

Allocation not proportional to original shares

Maggie and Jordan are co-owners in a residential property purchased for \$1 million. Maggie contributed \$750,000 (holding 75% interest) and Jordan contributed \$250,000 (holding 25% interest). They subdivide the land in 2 and allocate the parcels to themselves.

Due to the landscape, Maggie's land allocation changes to 74% and Jordan's to 26%.

Because the difference between Jordan's original holding and the new allocation is less than 5% the transaction is not taxed under the bright-line property rule or other property taxing rules (5% of 25% is 1.25%).

For more information go to [taxtechnical.ird.govt.nz](https://www.ird.govt.nz/taxtechnical) and see our **Interpretation Statement (IS) 22/03: Application of the land sales rule to co-ownership changes and changes of trustees** and **Tax Information Bulletin (TIB), Vol 35, No 6 (July 2023)** pages 124 to 126.

Transfers of deceased estate and inherited property

The bright-line property rule provides an exemption for transfers of an estate following the owner's death.

The transfers from the deceased person to the executor or administrator of the estate, and from the executor or administrator to the beneficiary, are treated as taking place at the total cost of the land to the deceased person (rather than at the land's market value) at the date of transfer. The effect is no tax liabilities arise under the bright-line property rule for these transfers.

The subsequent sale or disposal of the inherited property by the beneficiary is also not taxable under the bright-line property rule.

Example

Ali bought a house as a private residence for himself in May 2021. According to Ali's will, his son Omar will inherit the property.

At the time of Ali's death, the property is transferred to the executor under Ali's will in April 2022. As part of distributing the assets, the executor transfers the property to Omar, the beneficiary in August 2022.

The transfer of the property from Ali's estate to the executor, and on to Omar (the beneficiary), is excluded from the bright-line property rule. This means there is no tax to pay.

Any subsequent disposal by Omar is also exempt, so if he later sells the property, there will be no tax to pay under the bright-line property rule.

Transfer of inherited property to a qualifying trust

From 1 April 2022, the transfer of inherited residential property from the beneficiary to a qualifying family trust may qualify for rollover relief.

Example

Omar transfers the property he inherited from his father, Ali, to the Omar family trust in May 2023. Omar is the principal settlor and a beneficiary of the trust (which qualifies as a rollover trust) at the time of transfer.

Because the transfer was made after 1 April 2022, rollover relief applies to the transfer from Omar to the family trust, meaning the exclusion from the bright-line property rule for inherited property is rolled over to the trustees of the family trust.

If the trustees dispose of the property, they will have the same bright-line tax treatment that Omar had on disposal – that is, the disposal is exempt from the bright-line property rule and there is no bright-line tax to pay.

Non-inherited portion

If the beneficiary acquires any part of that property other than by inheritance, that portion may be subject to the bright-line property rule when subsequently sold. This can happen if multiple people inherit a property and 1 of the beneficiaries decides to transfer their share to the others.

Example

Paul and Mel are each left a half-share in a residential property in Erica's will.

Mel sells her half-share to Paul at market value on 12 April 2019. Paul becomes the sole owner of the property. He subsequently sells the property on 15 March 2020.

Because Paul has sold the property within 5 years of buying Mel's half-share, he will pay tax on 50% of any gain he makes on the sale.

Part 5 - Deductions

The cost of the property

If you sell a property subject to the bright-line property rule, you can claim a deduction at the time of sale for the cost of the property.

The cost of the property includes:

- the amount you paid to acquire the property (that is, the initial purchase price of the property)
- expenditure related to the acquisition, for example lawyers, valuers, surveyors and real estate agents fees
- any capital improvements to the property made after acquisition, such as renovations
- expenditure related to the disposal, for example lawyers, real estate agent fees.

Examples of evidence relevant to a claim for a deduction for the cost of the property include:

- Signed copy of the agreements for sale and purchase when the property was first purchased, and the on sale of the property.
- Settlement statements issued for both the purchase and the sale of the property.
- Evidence of other costs incurred on the purchase and on sale, for example invoices for lawyers, valuers, surveyors or real estate agents fees.
- Documents supporting any capital improvements to the property made after acquisition such as renovations, for example evidence of resource consent fees, architectural fees, engineers fees, invoices for labour and building materials.

You cannot include anything you have already claimed a deduction for previously, for example if you were able to claim any of the above deductions related to acquiring the property in the year you acquired it.

Note

For properties acquired after 27 March 2021, a land apportionment formula for the cost of the property and any improvements may be required if there has been some main home use of the property to reduce the amount of 'cost' you can deduct. For more information see Part 3.

Holding costs

During the period you own the property, you may incur periodic non-capital costs related to holding the property. These are referred to here as holding costs and include things such as interest, insurance, rates and repairs, and maintenance expenses.

Where holding costs are deductible, this must generally be done in the income year they are incurred. In the year of sale for rental properties, holding costs may have already been claimed in your income tax return against rental income. You must make sure you have not double claimed these expenses.

Depreciation

If you have claimed depreciation on any asset and sell the asset for more than its adjusted tax value, you'll have to include the difference between the sale price and the adjusted tax value in your taxable income.

Claiming a bright-line loss

You can only claim the bright-line loss on the sale of a residential property you owned against gains made on other:

- bright-line property sales, or
- land sales taxable under the land sale taxing provisions.

You cannot offset a bright-line loss against your other income, such as salary and wages, rental, or business income.

This also applies to bright-line losses for properties owned by a trust. Losses cannot be distributed to beneficiaries of the trust.

Limiting bright-line losses claimed

The loss amount you can claim in an income year is limited to the amount of bright-line and other net land sale income you have in the same income year.

Note

Net land income is the gain made from taxable land sales in an income year.

If you cannot claim the full loss in the income year of sale, the balance is carried forward to future years where it may be claimed against other bright-line or net income from land sales taxable under the land sale provisions.

For information about how to complete your income tax return including how to record a loss, see page 68.

Carrying forward bright-line losses for a company

A bright-line loss from the sale of a property owned by a company cannot be carried forward to a future year if the continuity test is not satisfied.

For more information about ownership continuity test, see [taxtechnical.ird.govt.nz](https://www.ird.govt.nz/taxtechnical/ird.govt.nz) and refer to **Interpretation Statement (IS) 22/07 Company losses – ownership continuity, sharing and measurement**, page 13.

Example

In June 2020 Zac sells residential land taxable under the bright-line property rule. Zac acquired the land for \$600,000 and sold it for \$540,000. For the 2021 income year, Zac also earned an \$80,000 salary.

The \$60,000 loss for the sale of residential land is ring-fenced, it can only be used to offset income from other land sales. Zac cannot use the \$60,000 loss to offset his salary income.

In August 2022 Zac sells land he purchased with an intention of resale (so the sale is taxable). Zac made a gain of \$100,000 from the sale. Zac can offset the previous \$60,000 bright-line loss against the \$100,000 gain. As a result, Zac only pays tax on \$40,000 of the gain in the 2023 income year.

Note

To address the risk of people using land-rich companies and trusts to circumvent the bright-line property rule, specific anti-avoidance rules apply. For more detail about these rules, see **Tax Information Bulletin, Vol 28, No 1 (February 2016)** page 89.

Bright-line residential property sale information - IR833 form

Complete a **Bright-line residential property sale information - IR833** form for each residential property you have sold or disposed of that is taxable under the bright-line property rule. This can be completed during the income year or can be completed at the end of the income year and attached to your income tax return. The IR833 form can be found at ird.govt.nz/forms-guides



Bright-line residential property sale information

IR833
April 2023

Follow the flowchart to check if you need to fill out this form. Refer to the notes on the following pages to help you complete the form.

Tax year ending

Your name IRD number

Bright-line property rule

Is this property sale subject to the bright-line property rule? **1** Yes
 No (You do not need to complete this form)

Property title number **2**

You'll find this information on the land title as the Identifier. For example, XA87A/809

Property address **3**

Date of purchase/acquisition **4**

Day Month Year

Date of sale/disposal **5**

Day Month Year

To determine which dates to use, refer to the notes on page 4.

Property sale income

Sale price **6** \$

Expenses

Purchase price **7** \$

Deductible expenses **8** \$

Total costs **9** \$
Add Boxes 7 and 8.

Net profit (loss)

Subtract Box 9 from Box 6 and print in Box 10. Use a negative sign if a loss. For example, -1234.56 **10** \$

Percentage of property ownership **11** %

If the property is owned by more than 1 person, enter the percentage of the property owned by you or the entity. For example, if the property was purchased by you and your partner as an investment property, and you own half of it, the percentage will be 50%. If you do not share ownership of the property, copy the amount in Box 10 to Box 12.

Your share of net profit (loss)

Your share of net profit (loss) from your property sale. If you share ownership of the property, calculate this by multiplying the total net profit (loss) (Box 10) by the percentage of property ownership (Box 11).

12 \$

If the figure in Box 12 is a net profit, include it in the Net bright-line profit box in the Income and expenses from residential property question in your income tax return. If you have a bright-line loss, do not include it in your income tax return and instead keep your own record of all bright-line losses you have made.

Take a copy for your records and send this page with your income tax return. Alternatively you can complete this form in myIR as part of your income tax return.

Note

If you are filing your income tax return using myIR, the net profit amount in the IR833 will not pre-populate into your income tax return. You must add this manually by ticking the 'Income and expenses from residential property' income type on the 'Build your return' page and include your share of the net profit in the 'Net bright-line profit' box (for the 2023 year). For earlier years, include your net profit in the 'Total residential income' box.

If you have a bright-line loss, do not include it in your income tax return and instead keep your own record of all bright-line losses you have made. The loss must be carried forward to a later income year when it can be used to offset bright-line income or net income from other taxable land sales.

Completing your income tax return

Include your share of the net profit from the sale of a residential property taxable under the bright-line property rule in your income tax return. Usually, the date of settlement will determine the income tax year the income should be included.

Residential land withholding tax (RLWT)

If you're an offshore RLWT person you may have RLWT deducted from your residential property sale/disposal.

If you're including a taxable property sale in your end-of-year income tax return then you're entitled to claim the RLWT deducted as a tax credit, reducing your tax to pay.

You may be able to claim the difference between the RLWT deducted, and the RLWT calculated based on your estimated net profit on property-related income. For example, residential land acquired on or after 27 March 2021 and sold with new build and non-new build on the same legal title, must have RLWT deducted from the full sale price if it is sold within 10 years – even if the sale is outside the 5-year new build bright-line period that applies for some of the land. In this situation, a refund claim can be made for the RLWT paid on the new build portion that is not subject to tax. To work out how to apportion the land to determine the portion of the land attributable to the new build (and so subject to the 5-year bright-line period), see Part 2 of this guide.

If you acquired the property on or after 27 March 2021, you can apply for a repayment of RLWT if the property is not eligible for the main home exclusion in full but you used:

- less than 50% of the area of the land as your main home, or
- the property as your main home on some days during the time of the bright-line period.

For more information about how to calculate the main home exclusion see Part 3 of this guide.

For more information about residential land withholding tax, go to ird.govt.nz/rlwt

Record keeping

You need to keep all your records for at least 7 years. You do not need to send your records or working papers with your income tax return, but you must keep them in case we want to see them.

You must keep records to be able to calculate the income and expenses. These include:

- a record of all receipts and payments
- bank statements
- invoices and receipts
- working papers for all calculations
- a list of assets and receipts with cost price and purchase date
- a copy of any loan mortgage agreement

If you purchased a residential property on or after 27 March 2021 and you want to claim the main home exclusion you must have records to support the claim for each of the years in the bright-line period (that is, the records may potentially relate to up to 10 tax years).

Records must be in English or Māori, unless we've given you written authority to keep them in another language.

For more information refer to **Record keeping – Getting it right – IR955** and **Record keeping – checklist – IR1008**.

Part 6 - Services you may need

0800 self-service number

Our 0800 self-service number, 0800 257 777, is open 7 days a week. Make sure you have your IRD number ready when you call.

For access to your account-specific information, you'll need to be enrolled with voice ID or have a PIN.

When you call, confirm what you want from the options given. If you need to talk with us, we'll re-direct your call to someone who can help you.

Need to speak with us?

Have your IRD number ready and call us on one of these numbers.

General tax, tax credits and refunds	0800 775 247
Employer enquiries	0800 377 772
General business tax	0800 377 774
Overdue returns and payments	0800 227 771

Find out more at ird.govt.nz/contact-us

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your tax and entitlements under the Acts we administer. We may charge penalties if you do not.

We may also exchange information about you with:

- some government agencies
- another country, if we have an information supply agreement with them, and
- Statistics New Zealand (for statistical purposes only).

You can ask for the personal information we hold about you. We'll give the information to you and correct any errors, unless we have a lawful reason not to. Find our full privacy policy at ird.govt.nz/privacy

Publications

These publications contain information that may be useful. You can get copies of our forms and guides at ird.govt.nz/forms-guides For **Tax Information Bulletins** and **Questions we've been asked** go to taxtechnical.ird.govt.nz

Associated persons definitions for income tax purposes - IR620

Use this guide to work out if someone is associated to you.

Penalties and interest - IR240

A guide to help you understand the different types of penalties and interest we may charge if you do not file or pay on time. It also tells you how you can reduce or avoid penalties.

Rental income - IR264

Explains the tax rules for people who rent out residential property and holiday homes.

Provisional tax guide - IR289

Tells you what provisional tax is and how and when it must be paid.

Record Keeping – IR995 and IR1008

Explains recording keeping requirements.

Deducting residential land withholding tax (RLWT) - IR1095

Helps you work out whether you're a withholder, if you need to deduct RLWT from a residential land sale or disposal and your obligations.

Tax Information Bulletin (TIB), Vol 28, No 1 (February 2016)

Pages 78 to 91.

Tax Information Bulletin (TIB), Vol 30, No 5 (June 2018)

Page 76.

Tax Information Bulletin (TIB), Vol 33, No 6 (July 2021)

Pages 13 to 27.

Tax Information Bulletin (TIB), Vol 34, No 5 (June 2022)

Pages 119 to 148

Tax Information Bulletin (TIB), Vol 35, No 6 (July 2023)

pages 97 to 121

Question we've been asked (QB) 16/07

Income tax – Land sales rules, main home and residential exclusions, regular pattern of acquiring and disposing, or building and disposing.

Question we've been asked (QB) 17/02

Date of acquisition of land, and start date for 2-year bright-line test.

Question we've been asked (QB) 18/16

Income tax-bright-line test- main home exclusion-sale of subdivided section.

Question we've been asked (QB) 18/17

Income tax-bright-line test- farmland and main home exclusions-sale of lifestyle blocks.

Question we've been asked (QB) 19/13

Income tax - When does the business premises exclusions to the bright-line test apply?

Interpretation Statement (IS 22/03)

Application of the land sales rule to co-ownership changes and changes of trustees.

Interpretation Statement (IS 23/02)

Application of the s CZ 39 5 year bright-line test to certain family and close relationship transactions



Te Kāwanatanga o Aotearoa
New Zealand Government