



30 May 2023

Dear [REDACTED]

Thank you for your request made under the Official Information Act 1982 (OIA), received on 2 May 2023. You requested the following:

1. *How much revenue has been collected by IRD in each year since the BLT was introduced?*
2. *In each year, how much has been collected via the BLT by IRD compared to the budgeted amount forecast by IRD?*
3. *What degree of compliance does IRD assess has there been in relation to the Bright Line Test (BLT)? Please detail with percentages and amounts.*
4. *How many properties and people does the IRD assess failed to comply with the requirements of the BLT?*
5. *What steps are IRD taking to follow up those who failed to comply with the BLT?*
6. *What steps are being taken to ensure higher compliance?*
7. *How much penal tax does IRD assess is due by those who failed to comply with the BLT?*
8. *How many people have been taken to court for non-compliance with the BLT?*
9. *Please provide correspondence by the Inland Revenue Minister and the Finance Minister relating to compliance with the BLT.*

On 10 May 2023, we transferred question 9 of your request to the Minister of Revenue, Hon David Parker, under section 14(b)(ii) of the OIA.

Question 1

The total revenue collected by Inland Revenue in each year since the bright-line property rule was introduced in 2015 is outlined in the table below.

These figures were obtained from Inland Revenue's Annual Reports, which are published online: <https://www.ird.govt.nz/about-us/publications/annual-corporate-reports/annual-report>.

Financial Year	Total revenue (\$000)
2016	64,283,484
2017	70,086,920
2018	72,977,637
2019	79,479,280
2020	78,241,015
2021	94,528,362
2022	101,288,677

Question 2

The bright-line property rule is one of several provisions under the Income Tax Act 2007, which taxes income from property sales. As bright-line is not a tax, Inland Revenue does not capture the amount of revenue collected that is specifically attributed to bright-line compliance.

Your request for this information is therefore refused under section 18(g) of the OIA, as the information is not held by Inland Revenue, and we do not believe it is held by another agency.

Question 3 and 4

Estimates are unreliable and rarely assist Inland Revenue in targeting non-compliance. For something such as the bright-line property rule, which is not a tax, an estimate is even less reliable. Inland Revenue is unable to provide a total compliance rate, including an estimate, as this would require an audit of all taxpayers.

As mentioned to you in our response of 14 April 2021 (21OIA1490), there is a delay between the time a property is sold and when the income information is declared on an income tax return. If required, Inland Revenue may commence an audit after a taxpayer has filed an income tax return. Currently, the level of compliance can only be measured for the year ending 31 March 2020 and earlier, due to the timing of the income tax year and when returns are filed.

Year ending 31 March 2020

In the tax year ending 31 March 2020, the total number of property sales that occurred within the bright-line period was 27,045. Of these, 7,994 were subject to the bright-line property rule based on the information Inland Revenue held at the time. The remainder were excluded as they were either main homes, inherited, or sold by developers or property dealers who pay tax on those sales under other taxing rules.

Of the 7,994 sales that were subject to the bright-line property rule, 46% were included in an income tax return. We are unable to provide an accurate assessment of how many people failed to comply with the bright-line property rule for this period as investigations into the remaining 54% (4,316 properties) are ongoing. Your request for this information is therefore refused under section 18(g) of the OIA as the information is not held by Inland Revenue, and we do not believe it is held by another agency.

Earlier years

Of the people who Inland Revenue believed were most likely to avoid their obligations in years ending prior to the year ending 31 March 2020, investigations showed that most of those people were meeting the requirements of the bright-line property rule.

- 37% of property sales were not subject to the bright-line property rule. Many were subject to the main home exclusion, however, some applicants failed to indicate that the property was their main home.
- Of those who were subject to the bright-line property rule, 74% had declared the income from the sale of their property in their income tax return, however, the information was not correctly entered on their return.
- Of those that had tax outstanding, 80% corrected their return when they were contacted by Inland Revenue.

Questions 5 & 6

As mentioned to you in our response of 14 April 2021, Inland Revenue continues to assist people in correcting mistakes as part of Inland Revenue's 'right from the start' compliance approach. However, Inland Revenue can pursue those who do not meet their tax obligations through audits and prosecutions, depending on the nature of the tax error.

Inland Revenue continues to encourage people to meet their bright-line property rule obligations by:

- Informing people of their obligations through advertising and encouraging them to get it right from the start.
- Developing tools and resources to make the process easier for customers (e.g., *IR1227 Bright-line property tax guide*, updated web content and the property tax decision tool).
- Contacting customers to review their property sales tables in MyIR and prepopulating the *IR833 Bright-line residential property sale information* form to confirm bright-line sales at the end of the tax year.

Additionally, Inland Revenue improves the targeting of its investigations by continually refining its data analysis.

Question 7

From the introduction of the bright-line property rule to 25 May 2023, a total of \$76,411 in shortfall penalties has been imposed as a result of non-compliance with the bright-line property rule.

Question 8

Inland Revenue provides its customers with many opportunities to comply with the bright-line property rule voluntarily as part of our 'right from the start' compliance approach. Any prosecution action as a result of non-compliance is a last resort. To date, there have been no prosecutions in relation to compliance with the bright-line property rule.

Right of review

If you disagree with my decision on your OIA request, you can ask an Inland Revenue review officer to review my decision. To ask for an internal review, please email the Commissioner of Inland Revenue at: CommissionersCorrespondence@ird.govt.nz.

Alternatively, under section 28(3) of the OIA, you have the right to ask the Ombudsman to investigate and review my decision. You can contact the office of the Ombudsman by email at: info@ombudsman.parliament.nz.

If you choose to have an internal review, you can still ask the Ombudsman for a review.

Publishing of OIA response

Please note that Inland Revenue regularly publishes responses to requests that may be of interest to the wider public on its website. We consider this response is of public interest so will publish this response in due course. Your personal details or any information that would identify you will be removed prior to it being published.

Thank you for your request.

Yours sincerely



Bernie Newman
Customer Segment Leader, Small & Medium Enterprises