Investment Information Guide

Whether you own one investment property or many, there are numerous financial factors that can impact the return on your investment and its long term viability.

It's important for all landlords to understand these factors, not only to ensure their investment is performing at its best, but to help make educated decisions around their property investment future.

Financially speaking, landlords must now navigate an ever-changing environment of lending rules, loan-to-value restrictions, interest deductibility changes, and more. Professional advice and experience is now more valuable to landlords than ever before, whether that be from an accountant, mortgage broker, or financial advisor.

This guide is designed to provide an overview of the key factors that can impact financial performance in the residential property investment market, and to highlight for landlords where professional advice must be sought.

Claimable Expenses

Many landlords aren't aware of the variety of claims that can be made on the expenses related to owning and running an investment property.

With changes to interest deductibility and tougher lending restrictions, it's now more important than ever for landlords to maximise the potential of their investment wherever possible.

Expenses You Can Claim

Insurance & rates

You can claim back the full cost of insuring your rental property and the council rates associated with the ownership of the property.

Interest

You can claim the interest charged on money you've previously borrowed for an existing rental property, however, from 1 October 2021 the ability to deduct interest for any new loans used to acquire a rental property has been removed (unless it's a newly built property).

Interest deductions are still allowed for an existing rental property purchased before 27 March 2021, however, this ability will gradually be phased out. See 'Interest Deductibility Changes' on page 10 for more details.

Fees & commission

You can claim 100% of the fees or commission paid to property managers who are managing the tenancy on your behalf. If you manage the tenancy yourself yet engage a property manager for select services, you can claim 100% of the expenses you incur for these services, e.g. tenant selection, consulting, or inspection-only services which many Ray White property managers offer to private landlords.

Accountant fees

You can claim the fees charged by an accountant for:

- Your accounts to be managed
- Tax returns to be prepared
- Advice

However, you can't claim for any costs involved in the initial set-up of your rental property.

Legal fees

Where your total legal fees for any given year are $10,000 or less, you can claim a deduction for the legal expenses involved with buying a rental property.

If you're in the business of providing residential rental accommodation, you can also claim legal fees incurred when selling a rental property from your portfolio.

Note: We advise speaking to your chartered accountant to ensure you meet the criteria to be classed as being 'in the business'.

Repairs & maintenance

You can claim back the costs for any repairs to the property or general maintenance. However, if you're doing the work yourself you can only claim for materials, not your own time.

If the work is an improvement to the property rather than a repair, then you can't claim that cost as an expense.

Examples of repairs and maintenance you may be able to claim:

- Replacing a broken shower head
- Plastering and painting a crack in the wall
- Replacing a blown element in a hot water cylinder

Examples where maintenance may be classed as a capital improvement and cannot be claimed:

- Renovating a rundown property to significantly improve or alter it before renting it out.
- Undertaking work that significantly improves a property, e.g. removing a deteriorated wall and replacing it with a new bedroom space.

The distinction between repairs and improvements can be tricky. If you're unsure whether work done on your property is repairs or maintenance we suggest you talk to a chartered accountant.

Other

Other costs you may be able to claim include:

- Body corporate fees
- Valuation fees
- Water rates (only if paid by the landlord)
- Gifts for tenants
- Travel associated with managing your property

You can't claim deductions for capital expenses, private expenses, or expenses that do not relate directly to your rental property.

Depreciation

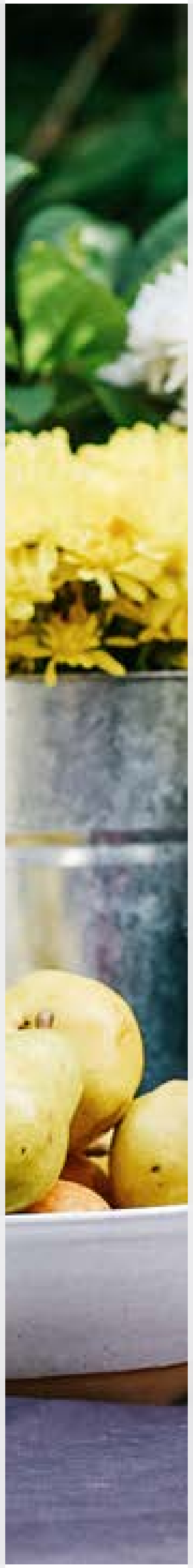
Depreciation is an allowance you can claim to cover the costs of wear and tear and general ageing of furniture and fittings you've bought for your rental property. You can combine assets worth less than $5,000, rather than depreciating them separately.

You cannot claim depreciation on the property's land or buildings, however, this wasn't always the case. This is a complex area and for more information we suggest you speak with a chartered accountant.

Low Value Assets

If you purchase an asset for your rental property that has a low value you can fully deduct the cost of that asset at the time of purchase, removing the need to depreciate the asset value over its useful life.

A low value asset is determined by its cost and for an asset purchased after 17 March 2021, its value must be less than $1,000 to be classified in this way.



Expenses You Can't Claim

You can't claim deductions for capital expenses, private expenses, or expenses that do not relate directly to your rental property.

Capital expenses are the costs of buying a capital asset or increasing its value: for example, the cost of buying the property and making improvements.

Private expenses are things you buy or pay for that are for your own benefit rather than to generate rental income.

Expenses you can't deduct from your rental income in your tax return:

- The purchase price of a rental property
- Any capital portion of mortgage repayments
- Interest on money you borrow for any purpose other than financing a rental property
- Costs associated with repairing or replacing any damaged part of the property if that work increases the property's value

Goods & Services Tax (GST)

GST is not charged on residential rent so this means you don't include rental income in your GST returns (if applicable).

Repairs or upgrades to a substandard investment property

You can't claim expenses incurred to bring a rental property up to the required condition necessary before it can be rented. This could be substantial repairs to an existing roof, or healthy homes compliance related work for items that didn't already exist at the property, e.g. installing a brand new underfloor moisture barrier.

For more detail on the claimability of healthy homes standard costs, see 'Healthy Homes Compliance Costs' on page 9.

Initial Costs

Any initial costs associated with finding an appropriate rental property, including the cost of valuing or checking the condition of a property before purchasing it.

Other Exceptions

If the property isn't rented for the full year: isn't occupied by tenants; isn't available to be rented out at any stage during the year; or is only available for rent for part of the year, then you can't claim the full year's ongoing costs such as rates, insurance and interest.

Healthy Homes Compliance Costs

The healthy homes standards create specific and minimum requirements for all New Zealand rental properties in respect of heating, insulation, ventilation, draught stopping, moisture ingress and drainage.

Rental properties must meet each of the five healthy homes requirements when any new or renewed tenancy agreement is signed. If a property does not yet meet any standard(s) at the time a tenancy agreement is signed, it must do so within 120 days of the tenancy start date.

Universal application of the standards and their requirements will apply to all tenancies from 1 July 2025, i.e. even a long-standing tenancy where no changes to the agreement have occurred must comply by this date.

If compliance work has not yet been completed, it's safe to assume most properties in New Zealand will need some form of work done to meet the standards and to prevent the risk of landlords incurring fines associated with non-compliance.

The ability to claim back any expenses incurred through healthy homes compliance work will vary depending on the existing condition of the property and what work needs to be done.

The rules around the tax deductibility of residential rental property expenses are, in theory, quite simple and the condition of the property on the day you acquired it establishes the benchmark.

Any subsequent expenditure incurred in getting the property back to that condition is a legitiate tax-deductible expense, but any spending on improving the property beyond the condition it was on that day is classed as capital improvements and is therefore non-deductible.

Examples:

Repairing a broken extractor fan that already exists to comply with the healthy homes standards is a claimable expense. Upgrading an existing extractor fan that is not powerful enough, or installing a new extractor fan where none existed previuosly would be a capital expense so that cost is not deductible.

Repairing an underfloor moisture barrier that has degraded over time would be classed as a repair and a claimable expense. Installing new underfloor moisture barriers that did not previously exist would be classed as a capital improvement so would not be a claimable expense.

If the healthy homes standards work required at your rental property is a mixture of upgrades, repairs and new installations, we recommend you speak with a chartered accountant to ensure you are complying with IRD requirements.

For more details on the specific healthy homes standards and what may be required at your property, please request a free copy of our Landlord Information Guide from your Ray White property manager.

Interest Deductibility Changes

Historically, landlords have been able to claim interest costs associated with their investment property borrowings to help offset losses during a specific financial period and reduce the amount of tax they are required to pay.

This ability to deduct interest costs is being removed by the current Government in a staggered approach, with the intention of helping level the playing field and to help better assist first home buyers.

How will it work?

Interest deductions on a residential investment property acquired on or after 27 March 2021 will not be allowed from 1 October 2021, unless an exemption applies.

Interest on loans for properties acquired before 27 March 2021 can still be claimed as an expense, however, the amount landlords can claim will gradually reduce over time until the ability to do so is completely phased out.

The following table outlines how the staggered removal of interest deductibility may look for you and your investment property.

Date interest expenses incurred	Percent of the interest that can be claimed
April 2020 – 31 March 2021	100%
April 2021 – 30 September 2021	100%
1 October 2021 - 31 March 2022	75%
1 April 2022 – 31 March 2023	75%
1 April 2023 – 31 March 2024	50%
1 April 2024 – 31 March 2025	25%
1 April 2025 onwards	0%

When is a property classed as being acquired?

For tax purposes, a property is generally classed as being acquired on the date a binding sale and purchase agreement is entered into. This remains the case even if the sale is not yet unconditional and there are conditions are still to be met, e.g. finance or LIM report, etc.

What if I refinance my investment loan after 27 March 2021?

Refinancing up to the level of the original loan will not affect the deductibility of your interest. If the original loan qualifies for phasing out, then the treatment remains the same.

Are there exemptions to the rule?

Some properties will not be affected by the interest deductibility rules due to their physical structure or purpose. In this guide, we will outline the exemptions most likely to affect landlords, however, you should seek professional advice if looking to exercise an exemption and ensure it correctly applies.

New Build Properties:

A new build is generally defined as a self-contained residence that receives a CCC confirming the residence was added to the land on or after 27 March 2020. This also includes self-contained residences acquired off the plans receiving their CCC on or after March 2020.

Importantly, a new build does not have to be made of new material or constructed on site, so can also include modular or relocated homes. If you convert an existing dwelling into multiple new dwellings, this can also qualify as a new build.

Interest claims on a new build property will be allowed in full for a period of 20 years from the date of CCC being issued.

Property Development:

Interest deductibility exemptions can apply to landlords who are developing, subdividing or building on land to create a new build residence (per the definition above). This does not exempt property developers as a group, but allows an exemption for land while it is in the process of being developed.

Emergency, Transitional, or Social Housing:

If a property is used for emergency, transitional or social housing, landlords can still claim interest deductions on their borrowing expenses. Examples of this may be renting your property through a registered community housing provider, such as Kainga Ora, or a specific Public Service department.

Main Homes:

While not specific to investment properties, it's important to note that main homes will not be affected by these changes. Generally speaking, interest deductions cannot be made on a property used for private use (e.g. your main home) and this remains unchanged.

The rules around interest deductibility exemptions can differ depending on your specific circumstances. Landlords should always seek the advice of a chartered accountant to ensure the most relevant rules are being applied to your situation, or visit ird.govt.nz for more information.

Airbnb vs Long Term Rentals

Airbnb and similar platforms can be seen by some landlords as an alternative option to obtain income through their investment property rather than a more traditional residential tenancy.

Before considering this route of income generation, landlords must ensure they are aware of the tax implications that are possible, and that these may vary between regions.

If you are evaluating the pros and cons of short-term accommodation vs long-term tenancies as the main income method for your investment property, these implications are something you should investigate.

Many councils across New Zealand are considering, or have already implemented, new rates specifically for property owners who utilise Airbnb. As an example, properties under the jurisdiction of the Auckland Council have seen significant rate increases if used for Airbnb purposes, and increases that can wipe out the gains derived through this short-term accommodation method of generating income.

We advise all landlords to carefully investigate and consider their options before starting on this process.

Whilst it may seem straightforward to rent a property on Airbnb, it is an equally straight forward process for the IRD and local council to monitor your activity in this space.

Unlike long-term residential accommodation, short-term accommodation is a taxable supply for New Zealand GST purposes and landlords need to be aware that once the property falls into the GST net there will be tax consequences.

A property will fall into the GST net if;

1. Short-term rental income from the property (or multiple properties held in the same entity) exceeds $60k. At this point the entity is obliged to register for GST
2. The entity that holds the rental property carries on another taxable activity. If the combined income exceeds the $60k threshold they will be obliged to register for GST
3. The entity is already registered for GST. In this case the short-term rental will become another taxable activity of the entity
4. The short-term rental income is below $60k but the entity chooses to voluntarily register for GST.

Once a property is in the GST net you are able to claim GST on the purchase price. However, there are specific rules which do not allow you to claim this all at once.

If you sell the property, or stop your short-term rental activity and deregister for GST you will be required to return 15% GST to the IRD on the sale of the property unless it is sold to another GST registered taxpayer, in which case it would be zero-rated.

This effectively creates a tax on any capital gain while the property was owned. This could possibly end up costing an owner more in GST than would have been made in profits from short term accommodation.

You should consider your financial goals when assessing the viability of short-term accommodation or long-term stable leases, as the reality may not be quite what it seems initially.

Investment Property & Ownership Structures

Picking the best ownership structure for your investment property is something that's often overlooked by prospective landlords, and for good reason. It's an area that is generally poorly understood without seeking professional advice. There are a number of benefits to picking a structure outside the common sole proprietorship/partnership model, e.g. owning it in your own name.

The following outlines the four main types of property ownership in New Zealand. Each provides a different mix of limited liability, compliance costs and tax efficiency.

Your own circumstances will be unique compared to another investor so the following information is intended as a guide only. We recommend that you seek appropriate professional advice before settling on any particular ownership structure for your rental property.

Sole proprietorship/ partnership

This is the most common form of property ownership in New Zealand. Your investment property is owned personally, with no limitation on personal liability.

This was a very simple and easy mechanism to offset business losses on personal income, however, changed on 1 April 2019 when ring fencing of tax losses on investment property came into effect.

Another advantage of sole proprietorship is that minimal compliance costs are associated with this popular structure.

Trust

Commonly known as a 'Family Trust', there are two main advantages to having your rental property owned by a trust.

Asset protection is the most obvious advantage as the beneficiaries of the trust don't actually own the assets held in trust. The trustees do so on behalf of the beneficiaries.

We recommend you seek professional advice from your lawyer about the finer points of trust law and asset protection if this is your intention.

From a taxation point of view, a trust provides you with the tax benefits of income splitting. You can send any taxable trust income to beneficiaries (anyone over 16, as you're limited to $1,000 per year for those aged 16 or under), who will then pay tax on this at their marginal tax rate. If this rate is less than the trust tax rate of 33% then you'll potentially have tax savings.

Compliance costs can be high for trusts and if income splitting is the reason for putting your investment(s) into a trust, do make sure that your tax savings outweigh any professional fees incurred during the year.

Landlords should seek professional advice before setting up a trust as the Trusts Act 2019 has implemented changes that can increase responsibility, compliance, and liability of all trustees so gaining expert advice in this area is encouraged.

Company

An investment property under this structure enjoys the benefits of limited liability because it is a completely separate and distinct legal entity from its owners, but there are limitations to the tax efficiencies that can be applied.

Companies will attract higher compliance costs and there are some possible complications with capital gains when selling any property to related parties.

Capital gains can only be distributed, tax-free, upon the wind up of a company. This fact needs to be considered if you are planning on holding multiple rental properties in the same company.

One of the tax benefits that companies enjoy is the automatic deductibility of interest, regardless of the intention of the loan. This is in contrast with the other business structures outlined here, where interest is only deductible on loans that were originally taken out on the property.

Again, there are complications around taking out loans and drawing cash out of the company, and it is a very different situation when compared to the sole proprietor/partnership model.

We recommend seeking the professional advice of a chartered accountant about whether a company structure is right for your investment.

Look through company

This is the successor to the Loss Attributing Qualifying Company (LAQC). It's an ownership model that still benefits from the limited liability of a standard company structure, but with the added benefit of being far more tax efficient.

Taxable profits or losses are passed straight through to its shareholders in proportion to their shareholdings, then tax is paid at their respective marginal tax rates.

This is a model that is less flexible in terms of tax when compared to the distribution options available to trusts, but compliance costs are generally lower than those of a trust.

Why Property vs Other Investments

Residential property has been a popular and rewarding investment choice for New Zealanders looking to get ahead, create wealth and secure their financial future.

While recent changes to the lending and taxation landscape have reduced some historically held benefits for investors, there are many reasons why residential property remains a hugely attractive investment choice.

Investment Stability: Despite all investments carrying some element of risk, investing in residential real estate is widely regarded as a low risk option, even leading to the well known saying 'safe as houses'.

Property is tangible and easy to understand, and its relative stability as an asset class cannot be ignored, similarly the long-term trends in capital gains echo the famously known quote -The only bad time to buy property is later.

Demand: Across almost all areas of New Zealand, we continue to see increasing levels of demand for the rental properties we have available. Ray White receives between 6,500 - 9,000 individual tenant applications every month, yet this translates to just 900 - 1,200 new secured tenancies, largely due to a lack of available rental stock.

Current net migration figures and the number of new arrivals coming to live in New Zealand add further to the predicted long-term demand for rentals. Without significant changes to the number of available rental properties, this demand will continue to place upward pressure on average rental prices.

Leverage: It's important to understand the role that leverage plays when investing in residential property, being the ability to borrow the bulk of the cost of buying a property, and then pay this back over time. You can't do this with shares, currency or most other forms of investment as banks often see these as too volatile

Leveraging gives investors the ability to benefit from capital gains on the full purchase price of the property, not just the initial deposit made. Imagine the following example of how to use property for leverage vs other investments:

You buy an investment property for $650,000 with a 20% deposit - possible with non bank lenders in the current LVR framework - and borrow the balance of $520,000 (don't forget, if the property is a new build your interest costs also remain tax deductible for 20 years).

Fast forward five years, you sell the property and achieve a sale price of $910,000 (a roughly 8% annual increase in property value) - what has happened to your initial $130,000 investment? It's doubled. Leveraging has allowed you to make a 100% capital return on your initial investment.

Capital gains: While growth in property prices is not guaranteed, nor is it something anyone can perfectly predict, it's safe to say that over time statistical trends show the value of a residential property will consistently move upwards.

Illustrating this upward trend, NZ house prices in the long-term (excluding Auckland) have increased in value at a rate of 6.5% per year (in the 30 years through to October 2022), with Auckland showing an annual rate of price increase of 7.4% for the same time period. (*Source: Real Estate Institute of New Zealand data*).

While there are many factors that influence an investor's achievable capital gains on rental property, it is of no doubt that residential property remains a secure long-term investment option that can provide real returns for the astute investor.

Landlords should always seek advice pertaining to their specific investment goals and needs, however, property investment provides much-needed housing for New Zealand tenants and allows landlords to reap the many benefits that remain vs other forms of investment.

New Build Strategies

Current Government housing policy and taxation rules have been designed to help level the playing field for first home buyers and encourage the supply of new housing, and only time will tell as to whether these changes have their desired outcome.

What we do know is that investors are now having to find ways to work around the

It is no secret that this country needs to increase its level of available housing if we are to satisfy current levels of tenant demand. Ray White New Zealand receives on average between 6,500 - 9,000 individual tenant applications every single month, yet we are only able to translate this to 900 - 1,200 new secured tenancies each month - and this is largely due to a lack of available rental stock.

In fact, more than 80% of our network have stated there is simply not enough property to satisfy demand, with the ability to rent our properties many times over to quality tenants, and for strong rental figures.

With this in mind, could new build properties be a way to help satisfy this demand and create a more attractive investment option for landlords?

There are many available benefits for landlords who consider this strategy, outside of the obvious increased demand and higher rental figures that new build properties can achieve. These benefits can include:

- **Interest Deductibility:** The ability for landlords to deduct interest costs from their investment property lending is gradually being phased out for existing properties, and is simply no longer available for any new investment property purchased.

  New build properties, however, are fully exempt from this rule and receive an exemption from this tax change for a full 20 years after a CCC is issued, leading to much lower tax costs for investors who purchase new build properties.

- **LVR Restrictions:** Lending to value restrictions are a measure of how much a bank will lend against a residential property compared to its value, with current LVR rules for investors requiring a minimum 35% deposit.

  New build properties, however, are fully exempt from LVR restrictions, making them a more attractive option for landlords needing to secure finance, especially when coupled with the ability to deduct interest costs on your lending.

- **Preferential Lending Rates:** While not available through all lending institutions, some banks currently offer significantly reduced lending rates for investors building a new rental property, or purchasing a home and land package.

  Investors should consider their financing options carefully, or speak to one of our Loan Market brokers to ensure you're making the most of the offerings currently available.

- **Housing Quality Requirements & Healthy Homes Standards:** Minimum requirements regarding the quality of a rental properties are now stricter than ever before, with the Healthy Homes Standards being just one, albeit significant, example of this. These requirements bring a layer of compliance costs, and even expensive delays, when existing properties have to be brought up to standard before they are tenanted. New build properties, however, are almost always fully compliant with current tenancy regulations, like the healthy homes standards, and allow investors to secure tenants, and their income stream, immediately.

Loan Market - Supporting Better Investment Decisions

A significant point of difference from our competitors, and one where Ray White provides real financial benefit to its investor clients, is through our sister company, Loan Market.

Loan Market is New Zealand's largest mortgage advice company, with more than 165 advisors settling over $6 Billion in mortgages per annum, and using the banks and lenders you know and trust.

Loan Market can provide landlords with expert advice on debt structures to ensure you are maximising the benefits of any investment lending, and help you obtain the best finance terms available in the market. As Loan Market advisers are paid by the lender, their service to landlords is generally free of charge and they can remove much of the stress associated with arranging finance.

The benefits of Loan Market extend far further than assisting clients with their more traditional services and products such as home loans, refinancing, investment loans, land and construction loans, and bridging loans. In the ever-increasingly regulated lending space, seeking the right professional advice can help save you thousands, and this is where Loan Market can help.

Recent changes we recommend landlords seek advice from our Loan Market team include, but are not limited to:

The Credit Contracts and Consumer Finance Act

The introduction of the CCCFA legislation places a duty on all lenders to scrutinise applicants' financial histories much more intensely. This means a landlord's financial activity can come under intense scrutiny: credit cards, personal loans, hire purchase agreements, and debts can all harm your application.

Our Loan Market advisers can talk you through it, and help you understand how to prepare for any finance application, and increase your chances of being successful.

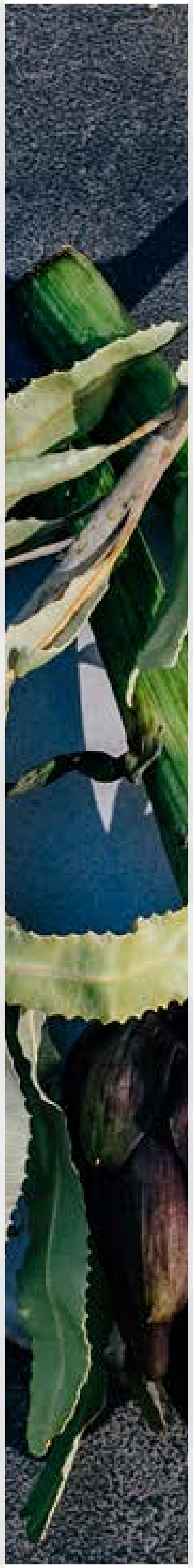
Debt to Income Ratios

Most banks have introduced Debt to Income (DTI) ratios, setting borrowing limits tied to the borrower's income, severely impacting the amount of money you're able to borrow. Even investors who previously had no problem being approved have been caught out – and there's an awful lot for borrowers to get their heads around.

The Loan Market team can help you understand your borrowing capacity through traditional lenders, but also the more flexible, and still secure, non-bank lending options.

Loan to Value Restrictions

Tighter LVR restrictions can severely limit a landlords ability to grow their portfolio, however, exemptions do apply in some situations, such as purchasing a new build investment property. Loan Market can assist you in how to best leverage your current position, or how to plan for the growth of your portfolio working within the current restrictions.



New Build Lending

New-build properties provide numerous financial benefits to investors vs existing housing stock, however, recent challenges in this space add complexity.

Labour shortages, escalating building costs, and critical materials shortages all mean that developers can be less likely to offer fixed-price contracts on new builds – which opposes banks' lending preferences in this space.

For these reasons, securing finance on a new build property can be difficult for investors struggling to find a flexible lender, however, Loan Market can help you navigate these waters and secure your new build investment goals.

To find out how Loan Market can help you achieve your financial goals, or if you simply feel it's time to seek professional advice and make the most of your investment portfolio, speak to one of our Ray White property managers, or visit loanmarket.co.nz

Home Office Expenses

Are you legitimately using part of your own home to run your rental business? If so, you can make a claim on some of your personal expenditure as a home office expense.

It's a simple calculation based on the proportion of your home used as a home office.

Start by adding up the personal expenditure on your own home, e.g. rent or mortgage interest, rates, insurance for the year etc.
Work out the floor area of your home in square metres, as well as the area of this total that is occupied by your home office.
Finally, divide the home office area by the total floor area. This is the percentage of your home expenses that can be claimed and offset against your rental income.

Square metre rate option

Instead of working out how much of your household expenses will be claimed, you can opt for the square metre rate option. This uses a rate the IRD sets each year based on the average cost of utilities per square metre of housing for the average New Zealand household, which is then applied to the floor area size of your home office.

This rate does not include premises costs of mortgage interest, rates or rent, and you can also claim a portion of these based on the percentage of floor area used.

Be sure that you are actually using this space as intended. The IRD are known to conduct home office inspections at random.

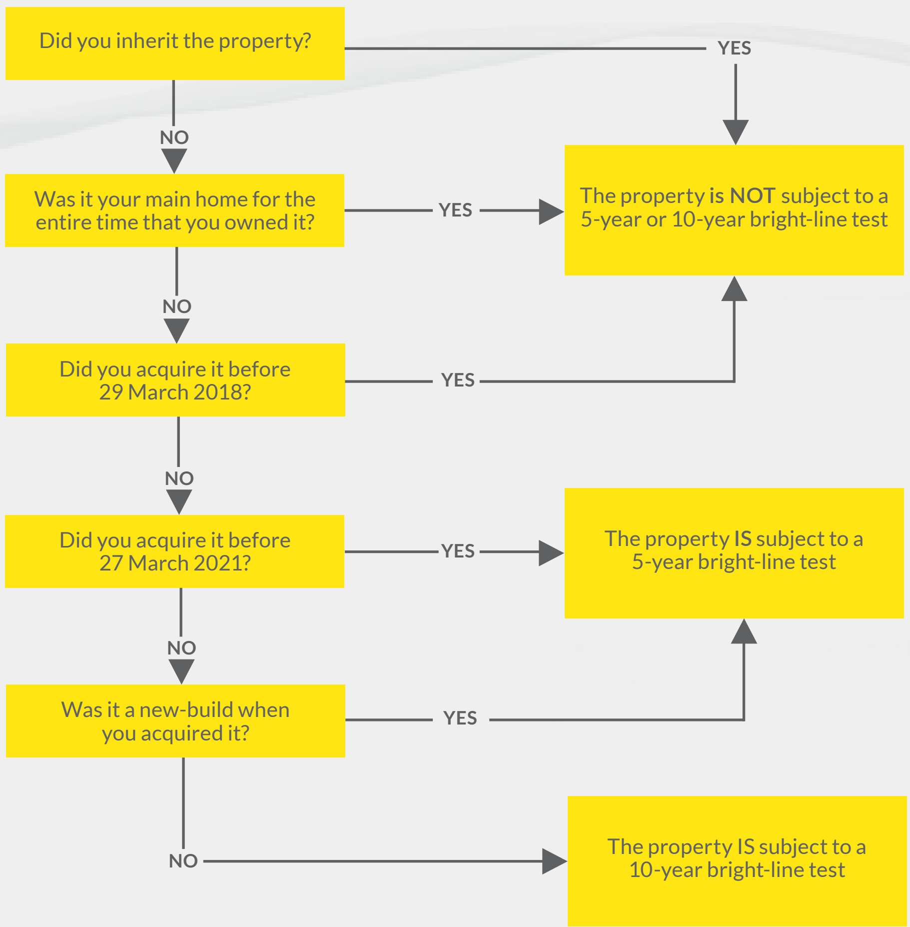
The Bright-line Property Rule

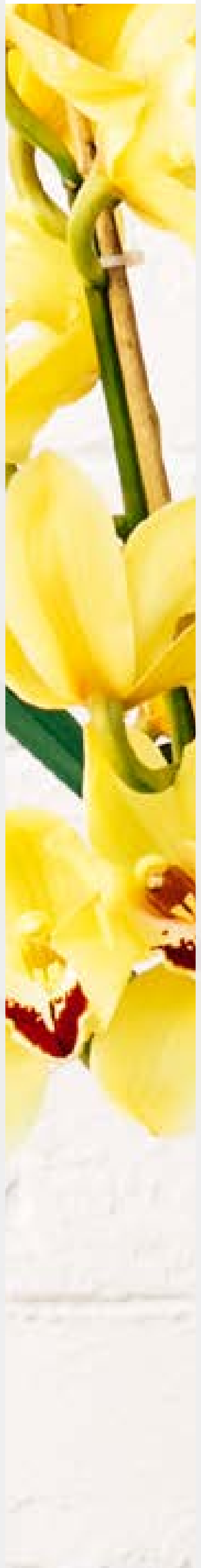
The bright-line property rule means that if you sell a residential property you have owned for less than a specified amount of time, you may have to pay income tax on any capital gains you have achieved since purchase. The bright-line period that applies in any given scenario will depend on when the property was acquired.

If a residential rental property is acquired on or after 1 October 2015 and is then sold or disposed of within the bright-line period, any gain in value may be taxable income. The bright-line property rule will apply if the property was purchased or acquired on or after:

- 29 March 2018 through to 26 March 2021 inclusive and is sold or disposed of within 5 years of purchase.
- 27 March 2021 and is sold or disposed of within 10 years of purchase (unless a new build).

The following diagram can illustrate how the bright-line rule may impact your specific situation:





Investors should note that the bright-line property rule does not apply when:

- The property is your family/main home and the main home exclusion applies (the rules that determine what a main home is are different for property acquired before, and for property acquired on or after, 27 March 2021).
- You inherited the property
- You're the executor or administrator of a deceased estate.

It's important to note that the bright-line rule does not replace existing property tax rules. Investors may still need to pay tax on property profits even if the bright-line rule does not apply.

Bright-line rule examples:

- John buys a house to add to his property investment portfolio. He rents it out for six years before deciding to sell it, at which point it is worth more than he originally paid. When he sells it, he will have to pay income tax on the profit he makes from the sale, because it's within the bright-line period.
- Sue buys a house for her daughter to flat in while she's at university. When Sue's daughter moves out she continues to rent it out to other students. Fast forward 15 years and Sue is about to retire so decides to sell the flat. She does not have to pay income tax on any profit made from the sale, because it is outside of the bright-line period.
- George and Huia buy a house for their growing family and live in it for the next five years, before it comes time to sell the property and move again into a bigger home. They do not have to pay income tax on the profit they make from the sale, because the bright-line test does not apply to the family home.

New build properties and the bright-line rule:

More recently, the bright-line rule has changed for those investors selling a new build property. If you purchase a new build property on or after 27 March 2021, then a 5-year bright-line property rule will apply (instead of the 10-year bright-line property rule). In order for a property to classify as a new build, it must meet the following requirements:

- The property must be acquired no later than 12 months after it receives its code compliance certificate (CCC).
- The property must have its CCC by the time you sell it.

This bright-line rule can be a complex area for landlords looking to sell their investment property and we recommend talking to a chartered accountant before making any decision if you find yourself in this situation.

Mixed-Use Assets

This is an area investors should be aware of if their property is not used as a long-term residential tenancy, or where in any given year the property is used as both a residential tenancy and a short-term holiday rental, e.g. Airbnb.

Changes to the Residential Amendments Act 2020 make this mixed-use scenario much more difficult for landlords to achieve, and the rules can be quite complex. We recommend speaking to a chartered accountant if you think your property falls into the 'mixed use' category.

Mixed-use asset rules apply to a property which is used for both private (by you, your family or associated people) and income-earning use in the same tax year. It must also be unused for 62 days of that year. These rules specifically exclude residential property used as a long-term rental.

You can opt out of these rules if your property earned less than $4,000 in that tax year, however, you won't be able to claim any expenses against this property if you choose this route.

There are three types of expenses associated with a mixed-use property:

- You can claim 100% of expenses related to renting out your property.
  An example of this type of expense would be advertising the property for rent, or repairs to damage by tenants.
- You can't claim any expenses that relate to the private use of your property.
  e.g. boats or equipment that are locked away when renting the property out.
- Finally, expenses that can't be deemed private or related to renting out the property need to be apportioned. Generally this would include any interest on loans secured against the property, rates and insurance etc.

The easiest way to describe this is with the following example:

Paul owns a mixed-use property in Waihi. He used it privately for 32 days, as well as renting it out for 45 days. The expenses that can be apportioned totalled $11,500.

Paul can claim $6,721 of these expenses against his rental:

$$\$11{,}500 \times \frac{45}{32+45} = \$6{,}721$$

There are more complicated rules at play around quarantining losses and what to claim if your property was sold during the tax year.

If this raises any questions for you around the use of your own investment property, we recommend you seek the advice of a chartered accountant.

Ray White_Know How to help landlords grow their investment

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