

**Start Date suggested 1 April 2019
either in full from that date or to be phased in over a two to three-year period.**

TAX LOSS RING-FENCING FOR RENTAL PROPERTY

At the end of March an issues paper was released outlining Labour's tax loss ring-fencing proposals. While it is not yet law and may not represent the final form of the rules, it is worth considering looking at some of the details.

The highlights are as follows:

Residential Land Only

The proposed rules will apply to residential land only. Aligning the ring-fencing rules with the bright-line rules, which also apply only to residential land.

Generally speaking, residential land is land that has a house on it. It will exclude commercial property, the main home, a mixed-use house (i.e. a Bach that is used both privately and to generate income) and residential land that is on revenue account (purchased for resale).

Losses Ring-Fenced Internationally



The application of the rules is not restricted solely to land in New Zealand. They are intended to apply to rental properties outside of New Zealand that are owned by New Zealand tax residents, e.g. a rental property purchased and owned in Australia by a New Zealand tax resident.

Portfolio Basis Offsets Allowed

The rules will see tax losses produced by a residential rental property unable to be offset against non-property income. The current paper talks about the ring-fencing applying on a 'portfolio' basis, meaning that profits and losses of different rental properties will be able to be offset against each other. Any surplus loss is then ring-fenced and offset against future property income. Property income includes taxable income on selling a residential property, for example under the bright-line rules.

If you have a residential rental property that runs at a loss feel free to contact us to see if there are restructuring options for you to consider.