

**Policy and Strategy,
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Bright-line test for sales of residential property

An officials' issues paper

June 2015

Prepared by Policy and Strategy, Inland Revenue, and the Treasury

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CONTENTS

CHAPTER 1	Introduction	1
	How to make a submission	1
CHAPTER 2	Summary of suggested changes	3
	Acquisition date and disposal	3
	Definition of "residential land"	4
	Main home exception	4
	Exceptions for relationship property and inherited property under the suggested changes	5
	Deductibility of expenditure	5
	Losses	5
	Land-rich companies and trusts	5
CHAPTER 3	Date of acquisition and disposal	7
	Date of acquisition	7
	Date of disposal	8
	Subdivision of an existing title	8
	Sales of the right to sell	9
	Transitional rules	9
	Disposals under insolvency	10
CHAPTER 4	Definition of "residential land"	11
	Suggested change	11
	Definition of "land"	12
CHAPTER 5	Main home exception	13
	Suggested change	13
CHAPTER 6	Exceptions for inherited property and relationship property	17
	Property transferred on the death of a person	17
	Property transferred under a relationship property agreement	21
CHAPTER 7	Deductions	25
	The cost of the property can be deducted	25
	Holding costs deductible to the extent sufficient nexus and not private in nature	25
CHAPTER 8	Treatment of losses	27
	Ring-fencing losses	27
	Losses from transfers to associated persons	28
CHAPTER 9	Land-rich companies and trusts	29
	Design of anti-avoidance rules	29
APPENDIX	Proposed wording for charging provision and main home exception	31

CHAPTER 1

Introduction

- 1.1 As part of Budget 2015, the Government announced that it would introduce a “bright-line” test for the sale of residential property. **The test will require income tax to be paid on any gains from the sale of residential property that is bought and sold within two years, with the exception of the main family home.**
- 1.2 The purpose of the bright-line test is to supplement the “intention test” in the current land sale rules. The intention test makes gains from the sale of real property purchased with an intention of resale taxable.
- 1.3 The intention test can be difficult to enforce due to its subjectivity. The bright-line test is intended to deal with the problem by supplementing the intention test with an unambiguous objective test.
- 1.4 The objective nature of the test means the bright-line test will make a sale of residential property taxable when the seller did not acquire the property with an intention of resale and when a person needs to sell property due to circumstances outside of their control. This is unavoidable for the bright-line test to achieve its goal of being objective and unambiguous.
- 1.5 For the bright-line test to be effective, the number of exceptions should be as few as possible, and tightly defined. However, we consider that some exceptions can be justified for types of acquisitions when the property is the main home of the seller or, in certain circumstances, when the seller did not intend to acquire the property.
- 1.6 This issues paper discusses the design of the bright-line test, where we have attempted to use existing rules in tax law where possible. This helps provide certainty for taxpayers, by using existing interpretations and guidance when applying the rules. Suggested wording for the charging provision and main home exception is provided in the Appendix. Officials are interested in feedback on the suggested changes outlined in this paper.

How to make a submission

- 1.7 Officials invite submissions on the suggested changes and points raised in this issues paper. Submissions should be addressed to:

Bright-line test for sales of residential property
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PO Box 2198
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