PROPERTY TAX MEASURES – FACT SHEET

Summary

- **The Budget will include steps to bolster the tax rules on property transactions and to help Inland Revenue enforce them.**

- **These measures will ensure that property investors pay their fair share of tax – whether they are from New Zealand or overseas.**

What is changing?

The Budget will provide $29 million of extra funding specifically for Inland Revenue to increase its property tax compliance activities, taking its total budget in this area over the next five years to $62 million. This follows an extra $33 million for property compliance and enforcement since Budget 2010.

After consultation, the following will be required when any property is bought and sold from 1 October this year:

- All non-residents and New Zealanders buying and selling any property other than their main home must provide a New Zealand IRD number as part of the usual land transfer process with Land Information New Zealand.
- All non-resident buyers and sellers must provide their tax identification number from their home country, along with current identification, such as a passport.
- To ensure that our full anti-money laundering rules apply to non-residents before they buy a property, all non-residents must have a New Zealand bank account before they can get a New Zealand IRD number.
- In addition, a new "bright line" test will be introduced for non-residents and New Zealanders buying residential property, to supplement Inland Revenue's current "intentions" test. Under this new test, gains from residential property sold within two years of purchase will be taxed unless the property is the seller's main home, inherited from a deceased estate or sold as part of a relationship property settlement. The new test will apply to properties bought on or after 1 October.

What's the purpose of these measures?

Under New Zealand's existing tax laws, anyone who buys a property with the intention of selling it for a gain is liable for tax on any gain. This applies equally to New Zealanders and to overseas buyers. The Government wants to make sure this existing law in enforced across the board.

The measures announced today will bolster the tax rules on property transactions and help Inland Revenue enforce them. In turn, this is expected to take some heat out of Auckland's housing market.

Extra funding for Inland Revenue

The $29 million of extra funding in Budget 2015 will be used to increase property tax compliance activities. This will focus on targeting property speculation, particularly in Auckland and Christchurch.

This will take Inland Revenue's total budget for work in this area over the next five years to $62 million. In return, this is expected to generate around $420 million of additional assessed tax over the next five years. Since 2010, the Government has provided Inland Revenue with an extra $33 million for property tax compliance, and this has led to an extra $258 million of assessed tax – a return of over $7.80 for every $1 invested.

More information from property transactions

From 1 October, all non-residents and New Zealanders buying or selling property other than their main home must provide a New Zealand IRD number as part of the usual land registration process.

If a person is resident for tax purposes in another jurisdiction, they will also have to provide any tax identification number (which is the equivalent of an IRD number) that has been issued to them by that country.

This information will help Inland Revenue identify people who may be trading property for the purpose of making gains in the New Zealand market. Inland Revenue will also be able to provide information to overseas tax authorities in line with existing New Zealand legislation.

Anti-money laundering rules

As a prerequisite to applying for an IRD number, a non-resident will need to open a New Zealand bank account. This will ensure that non-residents investing in residential property are subject to our full anti-money laundering rules.

"Bright line" test

The new "bright line" test will require income tax to be paid if a residential property is bought and sold within two years, unless it is the seller's main home. Following consultation on details, the test will apply to residential property bought on or after 1 October 2015.

If a property is sold within two years, any gains on sale will be taxed at the seller's normal income tax rate. Sellers will need to include the gain in their income tax return for the year.

There are a small number of exemptions from the "bright line" test - if the property being sold is the seller's main home, if it is inherited, or if it is transferred as part of a relationship property settlement.

The "bright line" test supplements Inland Revenue's current "intentions" test for taxing property sales. It will help ensure that people who buy and sell property for gains actually pay tax on those gains. And it means that if property is bought and sold within the two years, there will be a presumption that the gain is taxable unless it falls within the exemptions.

Withholding tax for non-residents

To further ensure overseas property buyers meet both existing tax requirements and those of the new test, the Government will investigate introducing a withholding tax for non-residents selling residential property.

Some overseas property buyers and sellers can be difficult to track down - even if Inland Revenue knows they owe tax. Requiring non-resident property buyers to provide a New Zealand IRD number will help Inland Revenue to identify which of them should pay the new withholding tax under the new "bright line" test.

Officials will consult on the details with a view to the withholding tax being introduced around the middle of 2016.

What is the process from here?

The Government will consult on the details of the measures announced today. An issues paper will be released in July on the "bright line" test before legislation is introduced by late August. The new test will then apply to properties bought on or after 1 October.