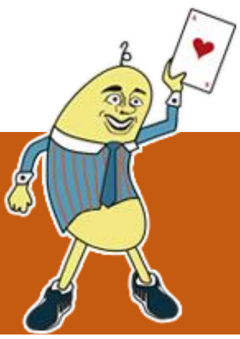
9 January 2019

RING FENCING OF RENTAL LOSSES

It's not good news if your property is annually reporting a tax loss.

Key points and comments

- No longer will you get a tax break by using losses on rental properties to offset the tax payable on other sources of income such as your salary and wages.
- This will make property speculation less attractive, even though we have in place the 5 year bright-line test.
- It will likely level the playing field between investors and home owners.
- This could have the effect of providing a barrier to people who need to rent as there may be less supply.
- Landlords are likely to increase rents to compensate for the loss of the tax benefits.
- Serviced apartments are specifically included as residential properties.
- Excluded are the main home, farmland, business premises, commercial property. Also excluded is any 'mixed use" property, i.e. a holiday rental that is used to generate taxable income and in part is used privately (as there are already rules in place to ring fence these losses).
- Any loss arising is now set aside and carried forward to the next income years and will only be available to offset against future rental income or any taxable gains on sale should you sell within 5 years of purchase.
- You can offset a rental property loss against a rental property profit on the election of property in a "portfolio".
- Should interest rates increase this will put pressure on investors.
- It won't have much of an effect on high income people due to generally having lower levels of debt, and sometimes having multiple properties, so this might just mean another avenue for the wealthier to get wealthier.
- Some investors will be able to look at re-working their financing in a fashion that looks to assist with deductibility and Perriam and Partners will be looking at its clients on a case by case basis to see what opportunities may exist here.
- The introduction of ring fencing on top of the five year bright-line, the foreign buyer ban, along with the changes to the Residential Tenancies Act, are all likely to dampen down the residential property market.
- **So why are they doing this?** Because they see investors gaining a tax saving from a rental loss without having to declare capital gains as taxable income.
- **When will it apply?** From the 2019/2020 income tax year, so 1 April 2019 onwards.



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