



PROPOSED CHANGES TO INTEREST DEDUCTIBILITY ON RENTAL PROPERTIES

The government is currently considering new interest limitation rules. These will reduce the ability of residential investment property owners to claim interest as a deductible expense.

If approved, the new interest limitation rules are expected to pass into law in March 2022 and will apply from 1 October 2021.

Why you're receiving this letter

Our records show that your organisation included income from residential property in a recent tax return, so it's likely you'll need to know about these proposed changes.

For properties purchased **before 27 March 2021**, interest deductions will be phased out over four years. You'll need to make sure you claim the correct levels of deductions each year. From 1 April 2025 you will not be able to claim any interest expenses.

If your organisation owns a rental property purchased **on or after 27 March 2021** you will not be able to claim interest as a deductible expense from 1 October 2021.

If you no longer own a residential rental property, the changes will only apply if you purchase a new property.

Possible exemptions and considerations

Certain entities and property types will be exempt from the proposed interest limitation rules. For example, exemptions are expected to apply for the main home (when it is used to earn income), developments (activities resulting in new dwellings), new builds (self-contained dwellings added to land), student and employee accommodation.

It's proposed that if a residential property is taxable under the bright-line property rule when sold, then the previously denied interest deductions under the interest limitation rules may be available but limited to the gain on sale.

Changes to how you file your return this tax year

If the interest limitation rules apply to you, there will be some changes when completing your income tax return this year. You may also have more tax to pay than you expected and may become a provisional taxpayer.

We will confirm any changes once passed into law and provide information and tools to help you work out if the rules apply to you, and what to do when filing your return.

Until then, you can find out more about the proposed rules and the possible exemptions, at ird.govt.nz/interest-limitation-rules

Yours faithfully,

Bernadette Newman
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