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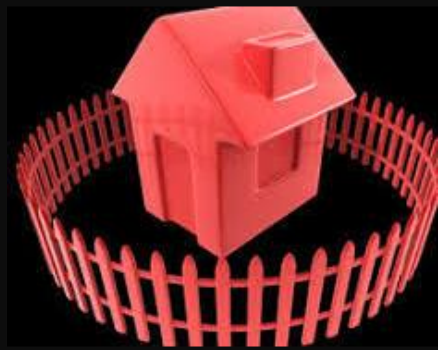
TAX ALERT
January 2019



LATEST TAX UPDATE

RING-FENCING RESIDENTIAL PROPERTY LOSSES

Under the proposed *Taxation (Annual Rates for 2019-20, GST Offshore Supplier Registration, and Remedial Matters)* Bill, residential property investors will no longer be able to offset losses from their residential properties against their other income (for example, salary or wages, or business income), to reduce their income tax liability.

The ring-fencing rules are proposed to apply in full, from the start of the 2019-20 income year, i.e. from 1 April 2019. It is not yet passed into law, so the exact final form of the rules is not yet known. This change could have a significant impact on some property investors.

The default position is that the ring-fencing is to be applied on a portfolio basis, rather than property by property basis, which means that a taxpayer would be able to offset deductions for one residential property against income from other properties - essentially calculating their overall profit or loss across their portfolio of properties. However, overall losses from residential rentals are ring-fenced and cannot be offset against other income. They will then be carried forward to be offset against any future taxable income from rental property including income under the bright-line rules from the sale of property.

What should residential property investors do now?

Although the finer details are not certain yet, the new legislation will apply from the start of the 2019-2020 income year (with no "phasing in period" as previously proposed). This means that the 31 March 2019 year will be the last year that taxpayers will be able to offset losses from rental properties against other income (in two month's time).

Any deferred repairs and maintenance work should be done now so that any resulting losses can be utilised prior to 31 March 2019. In particular, with the upcoming requirement for rental houses to be insulated or brought up to certain standards (by 1 July 2019). There is an argument that this expenditure may be tax-deductible. This will depend on a case by case basis.