



# RENTAL PROPERTY RING FENCING

## IMPORTANT CHANGES TO OWNING A RESIDENTIAL RENTAL

1

### 2019/2020 INCOME YEAR

A new tax bill released on the 5th of December 2018 came into effect on the 1st April 2019 which will effect the 2019/2020 income year.

### IN SIMPLE TERMS

The legislation stops landlords offsetting losses incurred on residential rental properties against other sources of income (salary/wages, & investment income) which often resulted in reduced tax liability, & income tax refunds.

Any losses are not permanently lost, they are 'quarantined' & can be carried forward & offset against any future income from residential rental property.



FOR RENT

### PORTFOLIO VS PROPERTY-BY-PROPERTY BASIS

If you hold more than one residential rental you are required to elect whether you will hold your rentals on a property-by-property basis, or a portfolio basis. If no election is made your rentals will be held on the default portfolio basis.

### SO WHAT'S THE DIFFERENCE?

#### Portfolio Basis

- Calculates overall profit & loss across the whole portfolio.
- Allows expenses of one property to be offset against income from other properties within your residential rental portfolio.
- Losses can be carried forward into the next income year & offset against income across the whole portfolio.
- Be aware of the restrictions at the time of sale on the ability to release ring-fenced losses.

#### Property-by-Property

- Calculates profit & loss for each separate individual property within the portfolio.
- Expenses can not be offset against income from other properties within your residential rental portfolio.
- Losses are still able to be carried forward into the next income year, but can only be offset against the same rental property.
- If at the time of sale the land becomes taxable due to being sold within a certain time-frame (e.g Bright Line Period) the ring fenced losses for that property can be released & offset against other taxable income of the landlord.



### WHAT YOU NEED TO KNOW



- The legislation comes into effect for the 2019/2020 income year.
- If you own more than one residential rental you will need to elect to hold your properties on a property-by-property or portfolio basis, otherwise the default portfolio basis will apply.
- Only residential rental properties on residential land will be affected by the change. The rules don't apply if the land is on your main home, a mixed use asset, a property that will be taxed on sale per the land sales rules, land owned by widely held companies, or employee accommodation.
- The legislation is not restricted to land in New Zealand, it can include residential land anywhere in the world.
- Losses that don't have other portfolio income to be offset against will be carried forward to use in future years.
- The rules apply regardless of the ownership structure used to hold the residential rental. e.g Company, trust, partnership etc.
- It is possible to elect both methods, keeping some properties grouped within a portfolio basis, & some property-by-property basis. However if there is expenditure that relates to two properties the property-by-property basis can not be used.