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Let's Talk About ……… about Whether Investing in Domestic Rental Properties is becoming less attractive?

Investing in domestic rental properties has been a long-time favourite investment of Kiwis. In the past decade there have been material changes to tax laws and the legal requirements for the standard of housing that have made investing in domestic rentals more costly and less attractive in terms of the returns received.

Following is a summarized timeline of the changes:

- From the start of the **2012** income year, no longer being able to claim depreciation on buildings with an estimated life of 50 years or more.

- From the beginning of the **2015** income year, mixed-use asset rules introduced, which brought in a new set of rules for apportioning deductible expenditure relating to certain assets (including properties) that are used both privately and to earn income i.e. rent.

- Bright-line tax payable on the profit from the sale of domestic properties, which were sold within 2 years of purchase date, affecting all properties purchased after **1 October 2015**. The main exemption is the family home, however, there are limits to the number of times the family home can be bought and sold. In order to determine the profit on sale, costs of buying, selling, and holding the property are claimable if they haven't been claimed in the past.

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- Requirements regarding the installation & maintenance of smoke alarms in rental properties came into force on **1 July 2016**. Working smoke alarms or detectors are compulsory in all rental homes. Landlords and tenants are responsible for maintaining smoke alarms.

- Insulation Statements are now compulsory with all new tenancy agreements from **1 July 2016**. This is a separately signed insulation statement declaring whether there is insulation, where it is, what type and what condition it is in so tenants can make an informed decision.

- In **October 2016** the Reserve Bank of New Zealand lifted the deposit requirement to 40% of the property's value for bank lending on residential property. This has since been relaxed to 30%.

- The Bright-line property rule was changed from **29 March 2018**, to include all domestic properties sold within 5 years.

- From **1 July 2019** ceiling and underfloor insulation is compulsory in all rental homes where it is reasonably practicable to install it.

- The healthy homes standards became law on **1 July 2019** and introduces specific and minimum standards for heating, insulation, ventilation, moisture and drainage, and draught stopping in rental properties. All private rentals must comply within 90 days of any new or renewed tenancy after **1 July 2021**, with all private rentals complying by **1 July 2024**.

- Residential Rental Loss Ring-fencing from the start of the **2020** financial year. Losses made on residential rentals can no longer be offset against other taxable income. These losses will be ring-fenced and will only be claimable against future residential rental income or future taxable income on sale of the property. Under the new rules there are two approaches for applying the new rules – Portfolio and Property-by-Property. The Portfolio approach calculates the income/deductions over the taxpayer's entire portfolio of properties and is the default approach. The Property-by-Property approach calculates income/deductions separately for each property owned and the taxpayer must make an election to use this approach.

- The healthy homes standards include new requirements for insulation, which will take effect from **1 July 2021** onwards.

No one disputes the need for safer & healthier homes in New Zealand. However, will these changes result in higher rents and see the ultimate burden fall on tenants, especially with the current housing shortage and the high demand for rental accommodation?

By Moira Paewai. Moira is a partner of MCI & Associates. Moira was born and bred in Dannevirke and she knows the region and its people well. She has over 25 years' experience in accounting and knows that it's as much about people as numbers.

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