Get to know the Bright -line property rule.

If you’re thinking about selling a residential property - including a rental property - that you’ve held for less than 5 years, you may have to pay income tax on any profit you make. This is called the Bright-line property rule.

If this happens, then you'll need to complete and submit an income tax return and a Property sale information form (IR833) to Inland Revenue at the end of the tax year.

Exclusions to the bright-line rule

The bright-line rule does not apply to:

your main home

- an inherited property
- if you're the executor or administrator of a deceased estate.

Please carefully check the exclusion definitions to see if they apply to your situation. If you have any doubt, we recommend you speak with your tax advisor before making any decisions about selling the property. Then you can make an informed decision considering any potential income tax costs.

Also, the bright-line rule does not replace existing property tax rules. You might still need to pay income tax on your property profits even if the bright-line rule does not apply.

Go to ird.govt.nz/propertytax for more information or talk to your tax professional.

Reminder about the ring-fencing rules for reporting income tax on rental properties

The ring-fencing rules mean that generally if you rent out a residential property, when you complete your annual income tax return, you cannot offset your residential rental losses (these are now called “excess deductions”) against your income from other sources.

If you have excess deductions, this amount must be ring-fenced and carried forward to the next year that you earn income from your residential property. If you own more than one residential rental property you may use the portfolio method so the income from all properties in the portfolio is offset by deductions for all properties.

For more information about residential property deductions go to ird.govt.nz/ring-fencing

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