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CHARTERED ACCOUNTANTS

We have pulled together a newsletter on upcoming tax changes that may impact on many clients. Draft legislation has now been released meaning we finally have a good idea of the likely changes.

The headlines are:

- **Bright-line rule –** reinstating this to a 2-year bright-line period
- **Interest deductibility –** reinstating full interest deductibility (over a 2-year period) on residential rentals
- **Depreciation** – removing depreciation on commercial buildings.
- **Trust tax rate –** likely to be increased to 39% (but still considering 33% for a very minor number of trusts)
- **App tax –** introduction of GST on short stay accommodation e.g. Airbnb and Bachcare

Bright-line Changes

The proposed changes were introduced in an Amendment Paper to the current Multinational Tax Bill before Parliament, to be finalised and enacted in the next couple of weeks.

The revised bright-line test as drafted focuses on property disposals on or after 1 July 2024 where disposal is within 2 years. This change makes applying the law much easier, we are now looking at a disposal date rather than acquisition date. This means goodbye to the complexities of the previous rules – including having to consider which rule applies - they're all being repealed. Going forward there will only be a single bright-line test in play.

Be careful though – the new bright-line test will only apply to property disposed on or after 1 July 2024. If you want to fall under the new favourable test you need to ensure that you only sign the sale & purchase agreement on 1 July 2024 or later. For example, if a contract for sale was entered into on 20 June 2024, it will subject to the existing bright-line rules, not the 2-year test.

The main home exclusion is also getting a makeover, becoming simpler and more straightforward. It's all about how you use your property: if you've predominantly lived in it for most of the ownership period (think more than 50% in terms of time and area), the property qualifies for the main home exclusion.

Interest deductions on residential rentals

Interest deductibility on residential rentals is being reinstated (with some changes). Summarised as:

- For the 31 March 2024 tax year end - the current rules apply (i.e. interest 50% deductible if purchase was pre-27 March 2021. No interest deductions for purchases on or after 27 March 2021).
- For the 31 March 2025 tax year end - 80% of interest costs can be claimed
- For the 31 March 2026 tax year end - 100% of interest can be claimed.

Trustee rate

The draft legislation includes an increase of the trustee rate to 39% from 1 April 2024 for most trusts. In February, Inland Revenue released a “General Article” in relation to the planned increase of the trustee tax rate to 39%. In March the government then confirmed it is now proposing a two-tier system that would allow some (very minimal) trusts to remain at the 33% tax rate.

Commercial building depreciation

From 1 April 2024, commercial buildings will no longer be eligible for tax depreciation on the building component.

With the removal of depreciation there will be a reinstatement of the “notional fit-out” regime introduced the last time building depreciation was removed. This allows buildings acquired in or before the 2010-11 income years to deem a portion of the building’s adjusted tax value as fit-out that can still be depreciated. Commercial property owners should therefore consider whether their building fit-out position is correct.

App Tax

From 1 April 2024, marketplace operators (such as Airbnb, Bachcare, Booking.com) are required to collect and return GST (15%) on accommodation provided through the operator, even if the underlying supplier (i.e. the property owner) earns under $60,000 annually and is not GST-registered. The marketplace operator will be responsible for the collection and payment of GST to Inland Revenue.

For those who aren't GST-registered (most Mum and Dad property owners who rent their baches on these sites as non-GST registered), you can continue to stay non-GST registered. Meaning no GST returns are required to be filed.

So what does this change mean? If you are non-GST registered, from 1 April 2024 15% GST is payable on your rental income. However, the market place operators should deduct an 8.5% deemed input tax which they will then pass on as a credit to you (known as the flat-rate credit). This flat-rate credit is intended to approximate the amount of GST that you could have claimed on expenses were you GST registered.

The change effectively means that the rental you will receive is reduced by 6.5% (being the 15% GST you pay on rental income less the 8.5% deemed credit). So you may want to consider increasing the rental you charge to offset this extra tax, or you will be in a worse off position.

Newsletter accurate as of 22 March 2024. As legislation is still in draft, there could be further changes.