Regulatory Impact Statement: Reducing the bright-line period for taxing residential property

Coversheet

Purpose of Document	
Decision sought:	*Agree to repeal the current 10-year bright-line test, 5-year new-build bright-line test, and 5-year bright-line test, and replace them with a new 2-year bright-line test.*
Advising agencies:	*Inland Revenue*
Proposing Ministers:	*Minister of Finance* *Minister of Revenue*
Date finalised:	*8 December 2023*

Problem Definition
The Government's objective in repealing the current bright-line tests and replacing them with a new 2-year bright-line test is to reduce upward pressure on rents.

Executive Summary

The Government intends to repeal the current 10-year bright-line test, 5-year new-build bright-line test, and 5-year bright-line test, and replace them with a new 2-year bright-line test, with the intention of reducing upward pressure on rents.

The bright-line test is one rule for determining whether the capital gains from the sale of property are taxable based on the time the property has been held. This is in addition to other rules that tax property sales, such as when property was acquired with the intent of disposing of it ("the intention test") and when property is disposed of as part of a business of trading/developing property. The bright-line test was originally introduced with a 2-year period and was intended to be a proxy for the intention test. Subsequent extensions have taken the bright-line period to 5 years and then 10 years, with a 5-year period still available for new-build land in the latter case (defined as land that has a self-contained residence or abode that received a Code Compliance Certificate on or after 27 March 2020).

A shorter bright-line period makes residential property more attractive as an investment because fewer property sales, which would not otherwise be subject to tax, will be taxed under the bright-line rule. As investment in residential property becomes more attractive, this can incentivise housing construction. A greater supply of housing can reduce upward pressure on rents in the longer run with effects that get larger over time.

Due to time constraints, two options are considered. **Option 1** is the status quo (a 10-year bright-line test, a 5-year bright-line test, and a 5-year new-build bright-line test). **Option 2** (the Government's proposal) is to replace the existing tests with a 2-year bright-line test, with the intention that properties acquired before 1 July 2022 are not taxable under any bright-line test.

Inland Revenue's recommended option is Option 2. The main reason is that a lengthy bright-line test such as 10 years is likely to be an inefficient way of collecting tax revenue. Taxes that generate a lot of behavioural changes while raising relatively small amounts of revenue tend to be very inefficient. If the bright-line test causes taxpayers to hold onto their properties for more than 10 years, the government will obtain no tax revenue from these people. In these cases, the tax is causing people to act in ways that can be undesirable (by holding onto a property longer than would be desirable in the absence of tax) while raising no revenue.

Option 2 will also assist with the Government's objective of putting downward pressure on rents because a smaller likelihood of gains being taxed is likely to incentivise landlords to invest in rental housing, which will, to some extent, encourage the building of dwellings and provision of rental housing.

A potential disadvantage of Option 2 is that it will mean a narrower capital income tax base because fewer gains will be taxed. However, we consider that a 10-year bright-line is unlikely to be an efficient way of taxing this capital income. If the government wanted to tax the income, it would be preferable to have a tax on these gains irrespective of when the assets were sold.

Views of stakeholders

The Treasury

The Treasury agrees that the current 10-year bright-line test likely has significant efficiency costs relative to the revenue raised, and that the arbitrary time boundary raises issues of fairness. However, the Treasury does not have a firm view on whether a 2-year bright-line test is preferable to the current 10-year test.

The Treasury recommends a 20-year bright-line test or longer. This would capture more capital gains, thereby improving the fairness of the tax system and supporting more sustainable house prices.

Treasury considers it unlikely that landlords will pass on the tax change through lower rents in the short run. Research by the Housing Technical Working Group, a cross-agency group of housing experts, found that the main drivers of rents over the past twenty years have been household income growth and the physical supply of rental housing relative to demand. The Treasury therefore expects that reducing the bright-line period would not significantly impact rents in the short run, as the stock of housing supply is fixed.

In the longer term, the change could result in some increase to rental housing supply, thereby putting downward pressure on rents. This will depend on the degree of flexibility in urban land supply and/or opportunities to intensify existing land. As a result, the impact of reducing the bright-line period in the long term will depend on future policy. Supporting the flexibility of urban land supply will make it more likely that reducing the bright-line period increases the supply of housing in the long run rather than primarily raising house prices.

Ministry of Housing and Urban Development - Te Tūāpapa Kura Kāinga

HUD agrees with Inland Revenue's assessment of the impact on supply, house prices, and rents. Based on research by the Housing Technical Working Group, a cross-agency group of housing experts, showing rents are primarily driven by household incomes and the relative supply and demand for housing, HUD believes the impact on rent prices in the short term will be negligible. In the long term, reinstatement should make rents under Option 2 less than under Option 1, with the magnitude of that contingent on any improvements to overall efficiency of urban land supply response.

General public

There was a wide range of views expressed when the bright-line test was introduced and then extended. There is both support and opposition for the bright-line test. For the current 10-year test, it has been noted that having a long bright-line period is a departure from the original policy motivation of being a proxy for the intention test, as it becomes more tenuous to argue that someone who sells a property they purchased 9 years ago had purchased with the intent of disposing of it. Contrary views note that a longer bright-line test helps to mitigate property speculation and purchasing only to make a capital gain.

Limitations and Constraints on Analysis

The key limitations and constraints applying to this analysis are as follows:

1. Single option analysis: Due to time constraints, and as the Government has already announced its intention to repeal the current bright-line tests and replace them with a new 2-year bright-line test, this analysis is focussed solely on the implementation of that option, rather than any other option to address the Government's objective to reduce upward pressure on rents.

2. Time constraints: Policy advice is being prepared within the timeframes required to progress decisions on this proposal in December 2023. Accordingly, this analysis has been prepared within tight time constraints.

3. Consultation: While views were previously expressed during the original development and various changes to the bright-line test, officials were not able to directly consult on the current proposal.

Responsible Manager(s) (completed by relevant manager)

Phil Whittington

Chief Economist

Policy and Regulatory Stewardship

Inland Revenue

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8 December 2023

Quality Assurance (completed by QA panel)

Reviewing Agency:	IRD
Panel Assessment & Comment:	The Quality Assurance reviewer at Inland Revenue has reviewed the regulatory impact statement (RIS) prepared by Inland Revenue. The reviewer considers that information and analysis summarised in the RIS *Reducing the bright-line period for taxing residential property* partially meets the quality assurance criteria. The proposal being considered by Cabinet supports a broader tax reform package developed in response to the *coalition*

	government of National, ACT and New Zealand First. As such, the options under consideration were limited to the status quo and introducing a 2-year bright-line test. Time constraints also applied to the policy development of the proposal and has not permitted consultation on the various options, or refinement of the preferred option.

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

The rental market

1. Upward pressure on rents can be driven by many factors that influence the supply of rental properties. These factors may be related or unrelated to tax settings.

2. However, moving back to a 2-year bright-line test can reduce pressure on rents by encouraging the construction of dwellings and thus putting downward pressure on rents.

3. Rental affordability is a significant issue in New Zealand. Based on Household Economic Survey data for the year ended June 2022, a quarter of renting households were spending over 40% of their disposable income on housing costs, and rents have risen faster than mortgage payments. Renters also have higher rates of reporting housing issues like dampness, mould, and lack of heating.[1]

4. While rental affordability (measured by the ratio of changes in rent prices to changes in incomes) has been mostly constant over the past decade,[2] New Zealand has not fared favourably in international comparisons. The proportion of low-income households (the lowest income quintile) in New Zealand spending over 40% of their income on rent was the highest in the OECD in 2018 data at 61%.[3] The same analysis for households of all incomes finds New Zealand is also near the top of OECD countries for the proportion of renters spending over 40% of their income on housing costs (24%),[4] and for median spend on housing costs by renting households (28% of household income).[5] The latter measure of median spend increases to 41% for low-income households.[6]

The bright-line test

5. The bright-line test was originally introduced in 2015 to improve compliance with the land sale rules in the Income Tax Act 2007 by supplementing the intention test.[7] Under the intention test, gains from the sale of land purchased with a purpose or intention of disposal are taxable. However, this test can be difficult to enforce because there can be difficulties determining a taxpayer's purpose or intention in relation to land. The difficulties meant that some land speculators were not paying tax on gains from property sales in instances where they should have been paying tax.

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[1] https://www.stats.govt.nz/news/housing-affordability-more-challenging-for-renters-than-homeowners/

[2] https://www.hud.govt.nz/assets/Uploads/Documents/Methods-Nov-2022.pdf

[3] International comparisons of housing affordability for renters and owners, p. 18.

[4] International comparisons of housing affordability for renters and owners, p. 20

[5] International comparisons of housing affordability for renters and owners, p. 22.

[6] International comparisons of housing affordability for renters and owners, p. 23

[7] The regulatory impact statements published for the introduction of these rules, as well as the subsequent extensions of these rules, are available here (2015), here (2017), and here (2021).

6. The bright-line test originally applied to residential property that was acquired and disposed of within 2 years. The test was extended to acquisitions and disposals within 5 years in 2018, with the objective of ensuring that tax is paid on the gains from property speculation and to improve housing affordability for owner-occupiers by reducing demand from speculators.

7. The test was extended again in 2021 to apply to acquisitions and disposals within 10 years (or 5 years for new builds). This extension was intended to reduce investor demand for property. This would reduce the amounts investors were prepared to pay for houses and the number of houses they would buy, thereby supporting first-home buyers and helping lift New Zealand's home ownership rates.

8. The Government is concerned that the current 10-year bright-line test treats a very wide group of investment property owners as property speculators. In addition, the Government is concerned that the current bright-line tests place upward pressure on rents. This can happen in the longer run, by reducing the supply of dwellings.

9. The Income Tax Act 2007 contains other provisions that impose income tax on property transactions. However, it continues to be the case the that the key provision taxing gains from speculation (the intention test) is difficult to enforce. As a result, if there is no bright-line test, it is likely many people who have gains from the sale of land that should be subject to tax under the intention test will fail to comply.

What is the policy problem or opportunity?

10. While the gains on any residential investment property purchased with the intention to sell are taxable, the subjective nature of determining investors' intention makes this difficult to enforce. Therefore, there are good policy reasons to continue to have a bright-line test to provide more clarity to the taxation of gains from residential property sales.

11. However, the longer 10-year bright-line period gives rise to a large "lock-in" effect, where investors are incentivised to hold onto property until the bright-line period has expired to avoid tax liability. This can be an inefficient way of raising revenue. In addition, this can reduce the stock of dwellings over time (relative to what the stock would have been without this lengthy bright-line test). This can put upward pressure on rents.

What objectives are sought in relation to the policy problem?

12. The Government's objective in repealing the current bright-line tests and replacing them with a new 2-year bright-line test is to reduce upward pressure on rents.

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

13. The likely impact of the options will be assessed against the status quo under the Government’s objective of reducing upward pressure on rents and improving housing affordability in the rental market. The impact on housing affordability and home ownership is also considered, given those outcomes were a motivation for the status quo bright-line test.

14. The options will also be evaluated against the traditional tax policy criteria of efficiency, equity, integrity, fiscal impact, compliance and administration costs, and coherence. These are described below.

    a. **Efficiency:** Taxes should be, to the extent possible, efficient and minimise (as much as possible) impediments to economic growth. That is, the tax system should avoid unnecessarily distorting the use of resources (e.g., causing biases toward one form of investment versus another) and imposing heavy costs on individuals and firms.

    b. **Equity:** The tax system should promote fairness. The burden of taxes differs across individuals and businesses depending on which bases and rates are adopted. Assessment of both vertical equity (the appropriate treatment of those on different income levels or in different circumstances) and horizontal equity (the consistent treatment of those at similar income levels, or similar circumstances) is important.

    c. **Revenue integrity:** The tax system should be sustainable over time and minimise opportunities for tax avoidance and arbitrage.

    d. **Fiscal impact:** Tax reforms need to be affordable given fiscal constraints, and the system must raise sufficient revenue to support the Government’s fiscal strategy.

    e. **Compliance and administration costs:** The tax system should be as simple and low cost as possible for taxpayers to comply with and for Inland Revenue to administer.

    f. **Coherence:** Individual reform options should make sense in the context of the entire tax system. While a particular measure may seem sensible when viewed in isolation, implementing the proposal may not be desirable given the tax system as a whole.

What scope will options be considered within?

15. The Government has already announced its intention to repeal the current bright-line tests and replace them with a new 2-year bright-line test.

16. Ministers have directed officials to provide advice on this policy within the timeframes required for decisions in December 2023. Therefore, the scope of feasible options is

limited. Officials are progressing this advice on the basis of the commitment made in National's Back Pocket Boost, as the coalition agreements are silent on changes to the bright-line test. This is for the bright-line proposal to take effect from July 2024 so that properties acquired before July 2022 will not be subject to taxation under the bright-line test.

Limitations on consultation

17. Formal stakeholder engagement following the Generic Tax Policy Process has not been possible in the time allowed for preparation of this advice. The risks of a lack of formal consultation include the potential for unintended consequences arising from the policy change. Consultation also enables a more rigorous understanding of trade-offs when making policy changes. This is pertinent for a proposal like reducing the bright-line test, which could have impacts on the rental property market and the housing system more generally with respect to prices, rents, and the supply of housing. Because the bright-line test has been subject to several changes since introduction, its impacts on the housing system, as well as the mechanics of the changes and how the proposal will work, have been discussed and submitted on previously.

18. The absence of consultation for the current proposal means that officials have not been able to establish whether issues raised in previous submissions are just as relevant to the current proposal. For example, no formal consultation has occurred to determine whether stakeholders consider moderating growth in house prices is as much of a priority for the current proposal compared to when previous bright-line changes were being considered. This is an important point when considering that the current proposal has a different motivation to that of the status quo. This is reflective of trade-offs, for which consultation would ideally occur to help improve understanding of the relevant issues.

19. One issue in particular that may be affected by a lack of consultation is the 1 July 2024 implementation date. This is out of sync with the tax year and has implications for property owners in trying to understand how the rules apply to them part-way through the year. This will be mitigated through taxpayer guidance and website updates to ensure the timing of the change is well signalled.

What options are being considered?

Option 1: Retain the status quo

20. Option 1 is to retain the status quo. Under current law, a 5-year bright-line test applies for properties acquired on or after 29 March 2018 and before 27 March 2021. A 10-year bright-line test applies for properties acquired on or after 27 March 2021, except for new-build land, for which a 5-year bright-line test applies.

21. Option 1 addresses concerns around property speculation by dampening demand. In addition, it ensures that speculators are taxed on gains from the sale of residential investment land. Due to the length of the 10-year period, it is likely to result in significant lock-in effects and may, in the longer run, place upward pressure on rents.

Option 2 – Introduce a new 2-year bright-line test

22. Option 2 is to repeal the current bright-line tests and introduce a new 2-year bright-line test. This test would tax properties sold after the application date, provided they were acquired within 2 years of the date of sale.

23. Option 2 will address the Government's concerns that a very wide group of investment property owners are being treated as property speculators.

24. Option 2 will also continue to address concerns around property speculation by providing a clear rule under which gains from property speculation will be taxed. At the same time, it will support two of the other objectives of the original 2-year test. These were to minimise the number of sales made taxable that were acquired without an intention of resale, and to minimise costs to taxpayers in complying with the bright-line test.

Options analysis

25. Option 2 is assessed relative to Option 1 (the status quo) against the Government's objective of reducing upward pressure on rents as well as the criteria listed above.

26. **Reducing upward pressure on rents and impact on home ownership:** Option 2 will mean that beyond a 2-year period, residential investment property owners will not be subject to the bright-line test. This will reduce the total taxes they pay if they end up needing to sell a property within the 2–10 year period. This can incentivise new construction, which would put downward pressure on rents in the longer run. This would help renters.

27. A shorter bright-line period decreases the tax cost of investing in residential property. An increase in demand for purchasing such property could then put upward pressure on property prices compared to the status quo. This would be detrimental to first-home buyers. The impact on home ownership rates cannot be quantified.

28. **Efficiency:** The change is likely to have limited effects on economic growth but a significant effect on other aspects of economic efficiency.

29. The key potential efficiency advantage of taxing gains generated by investors in residential property is that the gain is a form of economic income. Not taxing these gains when other forms of income are taxed can reduce the efficiency of the tax system. This is a possible reason for preferring Option 1 relative to Option 2.

30. However, we consider that this is a very weak argument for preferring Option 1. It is a reason for taxing gains irrespective of how long an investment property is held. It is not a good argument for taxing gains only if a property is sold within 10 years of acquisition.

31. The original 2-year bright-line test had a clear rationale. This was to tax gains when it was very likely that the gains should have been taxed under the intention test. The 2-year bright-line test did this without the difficulties and economic costs of applying the intention test while at the same time minimising the number of sales that were taxed without an intention of resale. This rationale cannot be reasonably said to apply for a 10-year bright-line test.

32. Taxing gains only if investment property is sold within 10 years can be a very inefficient way of taxing gains on investment property. This is because if a property appreciates significantly in the first few years it is owned, there can be a large incentive for the owner to hold the property for at least 10 years so that gains are not taxed.

33. These "lock-in" effects constitute deadweight costs that decrease economic efficiency, as residential property owners may hold rentals for longer than they otherwise would if not for the bright-line test. Option 2 decreases some of the inefficiencies associated with lock-in.

34. The compounding effect of capital gains for a property owner who is "locked" into holding the property for 10 years creates a proportionately large distortion compared to a property owner who is locked in for 2 years where capital gains have less time to accrue.

35. In many cases, it will also be likely that the gains accrued during a 2-year lock-in period would have been taxable under the intention test anyway, which decreases the economic distortions the bright-line test creates when considered in conjunction with existing taxing provisions. Conversely, the gains accrued during a 10-year lock-in period are less likely to have been taxable under the intention test, leading to larger inefficiencies.

36. Taxes that are easy to step around are inefficient. They can produce behavioural changes while generating very little revenue. It is inefficient to provide an incentive for a taxpayer who wishes to sell a property after 5 years to hold onto the property for an additional 5 years. This has a large efficiency cost per dollar of revenue raised when many properties are held for more than 10 years and no revenue is gained on these properties.

37. Overall, there are significant efficiency gains achieved by reducing the bright-line period, and this is a strong reason to prefer Option 2.

38. **Equity:** One possible fairness disadvantage of Option 2 relative to Option 1 is that it taxes less capital income. People are normally taxed on their income and exempting capital gains can be criticised as horizontally inequitable. It favours those who earn income as capital gains over those who are earning most other forms of income. If those who earn this sort of income tend to be better off, this can also be criticised on vertical equity grounds if this undermines a government's tax progressivity goals.

39. However, once again this provides very weak fairness grounds for taxing gains on residential investment properties if these properties are sold within 10 years of acquisition but not if they are held for a longer period. It also provides weak fairness grounds for taxing gains on residential investment property when other gains are not being taxed.

40. By contrast, there is a good fairness ground for the original 2-year bright-line test. This is that most sales within this short period will have been in cases where the intention test should have applied and the income should have been taxed under general income tax principles.

41. **Revenue integrity:** Revenue integrity may decline under Option 2 as it is possible that properties held for more than 2 years that should have been caught by the intention

test may no longer have tax paid on sale. At the same time, it minimises the number of cases where the tax will apply even though the gains should not have been caught by the intention test.

42. **Fiscal impact:** The expected fiscal cost of Option 2 over the forecast period (to 2027/28) is estimated to be approximately $202 million.

43. **Compliance and administration costs**: A reduced bright-line test will capture fewer property transactions and affect fewer people, which reduces compliance costs. The complexity that exists in the current bright-line settings could also be reduced to further lessen compliance costs. Changing the bright-line test will create some initial administrative work such as providing guidance and education campaigns.

44. **Coherence:** There appears to be little policy rationale for taxing gains on investment properties only if the properties are sold within 10 years. By contrast there is a policy rationale for a 2-year bright-line test, being that it ensures gains are taxed when they should have been taxable under the intention test. Thus, Option 2 appears superior to Option 1 on grounds of coherence.

Treasury assessment of the options

45. The Treasury agrees that the current 10-year bright-line test likely has significant efficiency costs relative to the revenue raised, and that the arbitrary time boundary raises issues of fairness. However, the Treasury does not have a firm view on whether a 2-year bright-line test is preferable to the current 10-year test.

46. The Treasury recommends a 20-year bright-line test or longer. This would capture more capital gains, thereby improving the fairness of the tax system and supporting more sustainable house prices.

47. In the short and medium term, the bulk of the impact from reducing the bright-line test to 2 years is likely to be reflected in house prices, with minimal impacts on rents. House price impacts are highly uncertain and will depend on the timing of reducing the bright-line period. The Treasury will analyse these potential impacts further and may adjust our house price forecasts to reflect them as part of the *Budget Economic and Fiscal Update*.

48. In the long run, tax changes could also impact the supply of housing by incentivising new construction, and could therefore have more significant impacts on rents. The long-run incidence on house prices and rents will depend on the flexibility of urban land supply and the availability of opportunities to intensify existing urban land:

    a. low flexibility of urban land supply and limited opportunities to intensify mean the policy will primarily raise house prices in the long run.
    b. high flexibility of urban land supply and significant opportunities to intensify mean the policy will primarily reduce rents in the long run.

49. Research by the Housing Technical Working Group, a cross-agency group of housing experts, suggests that rents are primarily driven by household incomes and the relative supply and demand for rental housing. The Treasury therefore expects that reducing the bright-line test to 2 years would not significantly impact rents in the short run, as the stock of housing supply is fixed.

50. The Treasury's assessment of the evidence is that urban land supply has been highly restrictive over the last two decades, as demonstrated by the gradual fall in interest rates pushing up house prices rather than pushing down rents.

51. Recent policy changes (such as the Auckland Unitary Plan) appear to have improved the responsiveness of supply for higher-density housing. However, without further changes, housing supply may continue to be unresponsive to demand in the long term.

52. As a result, the impact of reducing the bright-line period in the long term will depend on future policy. Supporting the flexibility of urban land supply will make it more likely that reducing the bright-line period increases the supply of housing in the long run rather than primarily raising house prices.

Ministry of Housing and Urban Development – Te Tūāpapa Kura Kāinga assessment of the options

53. HUD agrees with Inland Revenue's assessment of the impact on supply, house prices, and rents. Based on research by the Housing Technical Working Group, a cross-agency group of housing experts, showing rents are primarily driven by household incomes and the relative supply and demand for housing, HUD believes the impact on rent prices in the short term will be negligible. In the long term, reinstatement should make rents under Option 2 less than under Option 1, with the magnitude of that contingent on any improvements to overall efficiency of urban land supply response.

How do the options compare to the status quo/counterfactual?

	Option 1 *Status quo*	Option 2 *2-year bright-line test*
Reducing upward pressure on rents	0	+
Efficiency	0	++
Equity	0	0
Revenue integrity	0	0
Fiscal impact	0	--
Compliance and administration cost	0	+
Coherence	0	+
Overall assessment	0	+

Example key for qualitative judgements:

++	much better than doing nothing/the status quo/counterfactual
+	better than doing nothing/the status quo/counterfactual
0	about the same as doing nothing/the status quo/counterfactual
-	worse than doing nothing/the status quo/counterfactual
- -	much worse than doing nothing/the status quo/counterfactual

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

54. Inland Revenue considers that Option 2 is preferable to Option 1. In particular, the positive effects on efficiency and on reducing upward pressure on rents are strong reasons to prefer Option 2.

55. Overall, reducing the bright-line period for taxing residential property is most likely to meet the Government's objective of reducing upward pressure on rents. Residential property investment will become more attractive, which may increase rental supply in the long-run.

What are the marginal costs and benefits of the option?

Affected groups *(identify)*	**Comment** *nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.*	**Impact** *$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.*	**Evidence Certainty** *High, medium, or low, and explain reasoning in comment column.*
Additional costs of the preferred option compared to taking no action			
Other interested parties – first-home buyers	Moving back to a 2-year bright-line test is likely to put some upward pressure on property prices.	House price impacts are highly uncertain and will depend on the timing of reducing the bright-line period. The Treasury will analyse these potential impacts further and may adjust house price forecasts to reflect them as part of the *Budget Economic and Fiscal Update*.	Low
Regulators – wider government	Decreased revenue would be collected from moving to a 2-year bright-line test.	The expected fiscal cost is $202m over the five years to 2027/28.	Low
Total monetised costs		The expected fiscal cost is $202m over the five years to 2027/28.	Low
Non-monetised costs	We do not have confidence in our ability to provide a total non-monetised benefit.	Low	Low
Additional benefits of the preferred option compared to taking no action			
Regulated groups – residential property investors	Moving to a 2-year bright-line will reduce tax payments on residential property owners in the first instance.	The reduced tax payments are estimated to be $202m over the 5 years to 2027/28.	Low
Others interested parties – renters	Over time, additional supply of rental housing will tend to put downward pressure on rents.	It is not possible in the time available to attempt to quantify this impact.	Low
Non-monetised benefits	We do not have confidence in our ability to provide a non-monetised benefit.	Low	Low

Section 3: Delivering an option

How will the new arrangements be implemented?

56. This change will give rise to minimal system changes, and tax return processes will remain the same. Changes required will include updating all taxpayer guidance, websites, and calculators.

57. It is currently proposed that the changes will apply to disposals of residential land after 1 July 2024. There is a potential for confusion resulting in errors by taxpayers and significant software challenges for accounting software suppliers, arising from an application date that does not align with the ordinary tax year (1 April to 31 March). This could be mitigated by applying the proposals from 1 April 2024, which would be Inland Revenue's preference.

How will the new arrangements be monitored, evaluated, and reviewed?

58. Inland Revenue currently has processes in place to monitor all New Zealand property transactions and to identify possible bright-line transactions and notify taxpayers. Inland Revenue may request transactors in property to update transaction details accordingly in myIR. None of these processes are expected to change as a result of the proposal.

59. Where non-compliance is identified, there are process for reminders, compliance visits and audits (where necessary). These processes will continue for any amended bright-line test.