BC'S BUSINESS BRIEFS

Bright Line Rules – a refresh

While there are always rumours doing the rounds on tax changes and what the government may or may not do, one such rumour that appears to be gaining legs currently is that the government will announce an extension of the time period from the current 5 years to 10 years. This means that any residential property sold within 10 years of purchase will be subject to tax on any profits made, with certain minimal exemptions.

While this is currently a rumour only, it makes it timely to cover the rules as they currently stand.

The concept is relatively straight forward. Increases in value of a residential property sold within 5 years of purchase are taxable at the taxpayers marginal rate of tax in the year of sale. The taxpayers 'main home' is the only major exemption from these rules.

As in a lot of tax law, the devil lies in the detail;

The 5 year period can effectively work out less than 5 years. The date of purchase is set as the day that a purchaser legally takes ownership of the property (most often settlement date for a purchaser) while the date of sale is the date that an agreement for sale and purchase becomes unconditional. As an example if an owner settled the purchase of a residential property that is not exempt as a main home on 1 July 2020 and then entered into a contract to sell that same property which becomes unconditional on 1 June 2025, any capital profits on that sale would be taxable income to the seller, even if settlement of the sale happens after 1 July 2025. While in many cases standard settlements aren't extended it is not that uncommon for settlement periods of months meaning the 5 year period can effectively become considerably less.

Exemptions exist for homes purchased 'off the plans' from a developer and sales arising as a result of a relationship property agreement.

The Bright Line rules do not apply to sales of Commercial properties and one wonders if extending the time limit to 10 years will influence investors decisions when it comes to deciding whether to invest in residential property or commercial property.

What will 2021 bring?

After the unforeseen and exceptional year that was 2020, what have we got to look forward to in 2021? Here are a few of my thoughts which carry no more or less weight than anyone else's opinions. If anyone has alternative views, I would be delighted to hear them.

1. The elephant in the room, Covid-19, looks set to dominate the headlines both directly and indirectly for the remainder of the year. While the vaccine rollout internationally has begun, we won't see any inoculations in New Zealand much before the end of March, if the latest news is to be believed. It will take a significant chunk of this calendar year to get enough Kiwi's inoculated to provide meaningful protection against

the disease, meaning that tight immigration and border controls are here to stay for the year;

2 Political and public pressure will lead to some easing of the immigration restrictions to allow certain skilled workers into the country where skills shortages exist;

3 The tourist industry and tourist centre's are in for a torrid time as more businesses, which have been propped up in the last 12 months by relief packages, close the doors – many to never come back. City's like Queenstown and Rotorua look destined to have further significant downturns with possible population decreases as the Government realises that it can't keep borrowing from future generations to prop up businesses that are likely to fail anyway in tourist locations;

4 The airline industry will continue pressuring Government to assist them financially over the next 6 months and the government will be required to provide further financial assistance to Air New Zealand to keep them afloat;

5 Some of the changes to workplace practices such as remote working will become semi-permanent for some positions and the city centre's in our biggest cities will see less demand for office space as businesses don't need to seat as many people in a central office;

6 As we move through the year and Government becomes more focused on how to pay for their spending of the last 12 months, we will see increased taxation in the form of either new taxes or increases of existing taxes, despite the Prime Minister's election promise. Reference the Bright line rules noted above;

7 The election of Joe Biden to the presidency of the USA will bring more 'normality' to international affairs and some logic to the positions adopted by the USA on many fronts;

8 The USA re-entering the Paris climate accord, along with recent international events on climate change response will pressure our Government into finally taking concrete action to address NZ's rising emissions. Expect to see some form of incentives to encourage the adoption of electric vehicles such as extending the exemption from road taxes, perhaps re-adoption of the Governments 'Feebate' scheme that was stymied by NZ First under the previous government and adoption of National's proposal of treating electric vehicles in a similar manner to 'work related vehicles' for business' and FBT rules. While I don't expect all the above things to be adopted I would be very surprised if some combination of them wasn't as soon as this year's budget;

9 While Joe Biden's election is viewed favourably by almost everyone internationally, he and his Government won't be able to stop the continued growth of China. China's recovery from Covid-19 along with the USA's disastrous response to the pandemic will accelerate the growth of the Chinese economy to the point it overtakes the USA as the world's largest economy this decade – perhaps as soon as 3-5 years away;

10 As a country we have to decide whether we want to be part of the soon to be world's largest economy or tied at the hip to the USA politically, as we have been. We face some difficult choices.

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