

# Registered Master Builders Association of New Zealand Incorporated

Design of the Interest Limitation rule and  
Additional Bright-Line Rules submission

July 2021

## Summary of Submission

RMBA supports ensuring every New Zealander has a safe, warm, dry and affordable home to call their own. We are also supportive of improving New Zealand's housing availability and addressing New Zealand's housing supply shortage, including increasing New Zealand's new build stock.

Therefore, we broadly support initiatives to increase the construction of new builds via the introduction of the interest limitation rule and bright line test. However, it is important that the implementation design is practical and workable and does not depress other parts of the housing supply system.

## Feedback on specific design proposals

There are a number of "chapters" for discussion, however the RMBA proposal is focused on specific chapters covering matters most relevant to our member organisation.

Chapter	Feedback
Chapter 2 – Residential investment property subject to interest limitation	<ul style="list-style-type: none"><li>• RMBA is supportive of the current exclusions proposed.</li><li>• An apportionment calculation is preferable to an all or nothing approach to dual-purpose (residential and commercial) buildings on the same title.</li></ul>
Chapter 3 – Entities affected by interest limitation	<ul style="list-style-type: none"><li>• The calculation to determine a "residential investment property-rich" proposes to compare the company's residential investment property with its total assets. Companies that have over 50% residential property will be covered by the rules. There may be some challenges in this calculation, particularly in finding a simple method of determining residential property from other business assets. We recommend working directly with companies impacted to land on a more practical approach.</li></ul>
Chapter 6 – Property development and related activities	<ul style="list-style-type: none"><li>• RMBA is supportive of a wide definition for exempting property developers from the rules, for example - "engaging in development activity that has created a new dwelling or made an existing dwelling habitable or extended its life".</li><li>• RMBA is of the view that the overriding principle of "adding to New Zealand's housing stock" should be the presumption for interpretation for this exemption.</li><li>• We support the following work being exempted:<ul style="list-style-type: none"><li>○ Extends the life of a building for the purpose of continued use by an investor</li><li>○ Making improvements to land which contribute to housing supply, which also includes erecting a building or otherwise</li><li>○ one-off developments by people not in the business of developing property</li></ul></li></ul>

	<ul style="list-style-type: none"> <li>○ property development on land not captured by section CB 7 (for example, because the land was not acquired for the purpose of a development business but was nevertheless developed)</li> <li>○ Building a house</li> <li>○ Converting a single house into multiple-flats</li> <li>○ Converting a commercial or industrial property to a residential property</li> <li>○ Relocating a house</li> </ul> <ul style="list-style-type: none"> <li>● RMBA supports including remediation work in the property development exemption.</li> <li>● We are also supportive of including a wide definition of remediation work for the purposes of the exemption. This best fits with the principle of “adding to New Zealand’s housing stock”. It is our view any remedial work that makes an existing dwelling habitable, liveable, and/or extends its life is adding to New Zealand’s housing stock, and therefore should be included in the exemption. In this way renovating a kitchen or bathroom may very well make the dwelling “habitable” or “liveable”, particularly if the existing one is not functional. Not only does this increase New Zealand’s housing stock by making a house that was not liveable – liveable, but it also improves the health, quality, and efficiency of existing stock, which aligns with other Government initiatives in the sector.</li> <li>● In regards to establishing a methodology for assessing the remedial work to determine if it meets the exemption options could be: <ul style="list-style-type: none"> <li>○ Minimum improvement to 50% of the floor and walls sqm of the dwelling, including insulation and glazing improvements; and</li> <li>○ A 50% improvement to the building code</li> <li>○ The overall age calculation of the house has improved</li> </ul> <p>We recommend working with the sector on developing a practical workable threshold and assessment.</p> </li> <li>● We support the following activities being captured under the exemption: <ul style="list-style-type: none"> <li>○ Taxpayers who carry out remediation work professionally as part of development activity (buying, renovating, and selling properties)</li> <li>○ Making structural improvements such as earthquake strengthening, weather tightening</li> <li>○ Renovating parts of a dwelling such as kitchen or bathroom that make the dwelling “habitable” or “liveable”, particularly if the existing one is not functioning</li> </ul> </li> </ul>
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	<ul style="list-style-type: none"> <li>○ Heritage buildings</li> </ul>
<p>Chapter 7 - Definition of new build</p>	<ul style="list-style-type: none"> <li>● RMBA is supportive of the definition of a new build - “where residential housing has clearly increased” - which is when “a self-contained dwelling (with its own kitchen and bathroom) has been added to residential land and the dwelling has received a code compliance certificate (“CCC”).”</li> <li>● We recommend keeping the definitions as simple as possible rather than creating an onerous and costly compliance or assessment process. The intention of this policy is to increase affordable new housing stock, and we are of the view this should not be hampered by overly technical and complicated rules and regulations.</li> <li>● We support including in the definition houses that are not built on-site nor are a new building.</li> <li>● RMBA is supportive of the following being included in the definition of new builds: <ul style="list-style-type: none"> <li>○ A dwelling added to vacant land</li> <li>○ An additional dwelling added to a property, whether stand-alone or attached</li> <li>○ A dwelling (or multiple dwellings) replacing an existing dwelling</li> <li>○ A dwelling created by renovating an existing one to create 2 more.</li> <li>○ A dwelling converted from commercial premises. For example.</li> </ul> </li> <li>● RMBA is of the view that making an inhabitable building habitable is adding to existing stock, particularly as the work will be lifting the build to meet current building standards and requirements. We are of the view this work should be included in the remediation exemption (discussed above) rather than coming under the definition of a new build</li> </ul>
<p>Chapter 8 – New Build Exemption</p>	<ul style="list-style-type: none"> <li>● We are supportive of applying favourable incentives such as access to interest deductibility and a shortened 5-year bright line test to new builds, and also to dwellings captured under the property developer (and remediation) exemption.</li> <li>● We are supportive that new builds will receive their exemption if the CCC was received on or after 27 March 2021 as follows: <ol style="list-style-type: none"> <li>1. New Builds under the Developer Exemption - from the date the CCC is issued (noting the developer exemption may apply earlier while the dwelling is being “developed”)</li> </ol> </li> </ul>

	<ol style="list-style-type: none"> <li>2. Adding a new build to a property - from the date the CCC is issued (noting the developer exemption may apply earlier while the dwelling is being “developed”)</li> <li>3. Acquires a new building no later than 12 mths after it receives CCC. This includes completed new builds and those acquired off the plans.</li> </ol> <ul style="list-style-type: none"> <li>• We recommend that early owners are only able to access the exemption for a fixed period of 10 years. We recommend that the exemption period expires with upon sale to a subsequent owner (ie the subsequent owner is not able to access the exemption) unless the subsequent owner purchases the property within three years from the date it was acquired by the early owner.</li> </ul>
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### Other comments and recommendations

Although supportive of increasing availability of homes for New Zealanders, we note the following potential risks in increasing demand for new builds.

- Shortage of land availability - We support a planned approach to development, which helps guarantee the consistent and timely availability of development feasible land. This approach allows for housing and its integration with the provision of physical and social infrastructure alongside other necessary services. To achieve this, the Government and councils should consider the use of dynamic planning system levers coupled with the use of appropriate financial tools to incentivise the development of land identified for housing, and disincentivise land banking. Without the Government and councils utilising these levers and tools, constrained land supply will continue to add unnecessary additional costs for builders, developers, and homeowners.
- The supporting infrastructure will not keep up with the pace of the new builds, one example is the Mill Road cancellation.
- Builders will go where the demand is and this may negatively impact the renovation industry (although we note the recommendations in this submission regarding a wider interpretation of remediation work will go some way to address this).
- Prices of new builds will likely increase, which may then push first home buyers into older homes that are unhealthy and less energy inefficient and need renovations, at a time when the renovation industry may move to new builds.

We note the complexity of this matter, as evidenced by the 142 page discussion document, and would welcome another round of consultation on specific rules once developed.

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