

BRIGHT-LINE TEST

Key features

- Gains from the disposal of residential land acquired and disposed of within two years will be taxable, subject to some exceptions.
- The two year bright-line period generally starts at the point a person has title for the property transferred to them and ends at the time the person enters into a contract to sell the property. For sales "off the plan", the two-year period runs from the date the person enters into a contract to buy the property to the time when a person enters into a contract to sell the property.
- The bright-line test applies only to residential land. Residential land includes land that has a dwelling on it, land where the owner has an arrangement to build a dwelling on it, and bare land that could have a dwelling erected on it under the relevant district plan. "Residential land" does not include business premises or farmland.
- The bright-line test does not apply to a person's main home. A person can only have one main home. If a person has more than one home, their main home is the one with which the person has the greatest connection.
- The main home exclusion is generally available to properties held in trust. There are additional requirements to ensure that people cannot use the main home exclusion for multiple properties through the use of trusts.
- The bright-line test does not apply to property acquired through an inheritance. There is rollover relief for property transferred as a result of a relationship property agreement. This means that any potential tax liability will be deferred until a subsequent sale.
- Taxpayers will be allowed deductions according to ordinary tax rules for property that is subject to the bright-line test.
- Losses arising from the bright-line test will be ring-fenced so that they may only be used to offset taxable gains from other land sales.
- There are specific anti-avoidance rules to counter companies and trusts being used to circumvent the bright-line test.

Application dates

The bright-line test came into force on 1 October 2015.

The bright-line test will only apply to a person's disposal of land if the person acquires their "first interest" in the land on or after 1 October 2015.

When there is a standard acquisition of land, the date a person acquires their "first interest" will generally be the date of entry into an agreement to purchase the land. This means the bright-line test will only apply to the sale of land if the agreement for purchase of the land was entered into on or after 1 October 2015.