

8 April 2021

Adam Irish
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Dear Mr Irish

Thank you for your request made under the Official Information Act 1982 (the OIA), received on 9 March 2021. You requested the following:

1. *What is the total number of properties that have paid tax related to this requirement each year over the last 3 years.*
2. *Does IRD have an investigations team to check that this requirement is being adhered to and what is the size of the team.*
3. *Does IRD request information from LINZs on the transfer of property to enforce these regulations.*

Question one

As background, the Bright-line Test means if someone sells residential property within a set period after acquiring it, they may be required to pay income tax on any profit made through the property increasing in value. They do that by including the income in their income tax return (or adding it to their automatically generated income tax assessment). Up until this year, bright-line income was added to the 'Other Income' box.

Bright-line income is not specifically labelled as it is not a category of tax in its own right. There is no easy way for Inland Revenue to know how much tax has been paid due to the bright-line test.

However, we can provide a summary of the activity that has taken place for property transaction in the 2018-19 tax year. As there is natural delay between when a property is sold and when Inland Revenue might investigate it to provide an understanding of compliance with the Bright-line rules, we need to look at property sales from a few years ago.

In the 2018-19 tax year there were 28,552 property sales that happened within the Bright-line period.

Of those, 9,126 were potentially taxable based on the information we had at the time. The remainder were mostly excluded from the Bright-line Test because they were main homes inherited or sold by developers or property dealers who pay tax on those sales in other ways.

For those 9,126, we can see an appropriate amount of income being included in Other Income for 33% of them, which leaves 67% where income may not have been properly included.

Our investigations into those 9,126 property sales are still ongoing. But from our prior year investigations (of those people our analysis showed were most likely to be avoiding their obligations) we found the following:

- 37% were not subject to the Bright-line at all. Mostly they were subject to the Main Home exclusion, but just didn't tick the box indicating the property was their main home.
- Of the remaining, 74% had already included the Bright-line income in their tax return - they just didn't do it in the right way. For example, they put the income in the wrong place.

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- This means most of those we reviewed were actually meeting their Bright-line Test obligations.
- Of those we found did have tax outstanding, 80% corrected their return when we first contacted them.

Question two

Inland Revenue staff have new broad capability-based roles. We draw on a range of skills from across the organisation on a range of compliance activities, including those related to property.

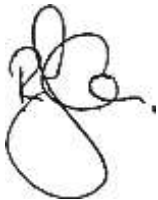
In the 2019/20 financial year, we had 135 staff directly involved in bright-line investigation activities.

Question three

Inland Revenue and Land Information NZ have a Memoranda of Understanding (MoU) relating to the exchange of information. You can find details of the MoU on Inland Revenue's website (ird.govt.nz) under *Information sharing* or through the following link: <https://www.ird.govt.nz/about-us/information-sharing/mous/linz>.

Thank you again for your request.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Richard Owen', written in a cursive style.

Richard Owen
Customer Segment Leader