

Submission

to

Inland Revenue

on the

Design of the interest limitation rule  
and additional bright-line rules –  
discussion document

12 July 2021

## About NZBA

1. The New Zealand Bankers' Association (**NZBA**) is the voice of the banking industry. We work with our member banks on non-competitive issues to tell the industry's story and develop and promote policy outcomes that deliver for New Zealanders.
2. The following seventeen registered banks in New Zealand are members of NZBA:
  - ANZ Bank New Zealand Limited
  - ASB Bank Limited
  - Bank of China (NZ) Limited
  - Bank of New Zealand
  - China Construction Bank
  - Citibank N.A.
  - The Co-operative Bank Limited
  - Heartland Bank Limited
  - The Hongkong and Shanghai Banking Corporation Limited
  - Industrial and Commercial Bank of China (New Zealand) Limited
  - JPMorgan Chase Bank N.A.
  - Kiwibank Limited
  - MUFG Bank Ltd
  - Rabobank New Zealand Limited
  - SBS Bank
  - TSB Bank Limited
  - Westpac New Zealand Limited

## Introduction

3. NZBA welcomes the opportunity to provide feedback to Inland Revenue (**IR**) on its discussion paper, *Design of the interest limitation rule and additional bright-line rules (Discussion Document)*. NZBA commends the work that has gone into developing the Discussion Document.

## Contact details

4. If you would like to discuss any aspect of this submission, please contact:

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## Summary

NZBA acknowledges IR's significant work preparing the Discussion Document, particularly given the limited time since the Government's housing policy announcement in March 2021. We appreciate IR's proactive stakeholder engagement and are pleased to see the Discussion Document released for consultation in a timely manner. Our members require time to implement any changes that the new legislation requires. For that reason, our submission requests that draft and final legislation implementing this policy be made available as early as possible.

## Consumers and lenders will benefit from timely publication of the legislation

Lenders will need to take account of the tax legislation changes, particularly when assessing customers' income as part of loan affordability assessments. Lenders may need to change their processes and adapt their systems to ensure lending assessments reflect the updated legislation. Such changes require time, and we expect it will be difficult for lenders to appropriately refine their processes until they have certainty as to the final rules as set out in legislation.

Even once the legislation is finalised, we expect that lenders may take some time to understand the rules given the likely complexity (illustrated in part by the length and detail of the Discussion Document). Additionally, lenders will need time to assess how these rules interact with other legislation and regulations that they are subject to (particularly in light of new consumer credit laws coming into effect at the same time as these tax changes).

We note that this lack of certainty has the potential to frustrate the Government's policy objectives. One example relates to the objective that these rules should not discourage new additions to the stock of housing (Discussion Document, page 8). To further this objective, the Government has decided that "new build" residential properties should be exempt from the proposed new interest limitation rules and subject to a five-year bright-line test (rather than a ten-year test). If lenders are uncertain as to the definition of "new build" because the final legislation has not been released, the effectiveness of this policy may be impacted.

We ask that legislation be drafted and finalised promptly, and ideally before 1 October 2021 (being the date the Government has signalled the rules will take effect from even if legislation has not been passed) to reduce uncertainty for customers and enable lenders to refine their processes as needed to take account of the final rules.