Inland Revenue
Te Tari Taake

Thinking of selling your leased apartment?

IR498
April 2018

Have you bought an investment apartment with a managed lease?
Are you thinking of selling it?
You may have to pay GST. This leaflet explains why.

GST on rental apartments

Many people buy apartments with a lease to a management company included in the purchase. This often comes with a guaranteed rental arrangement.

These apartments are often also sold as "going concerns" with the GST charged at 0%, or "zero-rated".

This type of apartment comes with conditions. You need to know what these are to avoid an unexpected GST bill when you sell your apartment.

Zero-rating

Going concern - means the apartment is considered an active business.

An apartment may be sold as a going concern if the sale includes a lease to a management company. The lease may provide a guaranteed income to the buyer over a set term.

These apartments are often marketed with statements like:

> *If you comply with the conditions of the management agreement and are registered for GST, the purchase price of the apartment will be zero-rated.*

Zero-rated - means the price is reduced because the GST is charged at 0%.

It sounds like a great idea - you don't pay GST on the purchase price and there's no hassle with tenants because the management company takes care of renting the apartment. You might also have a guaranteed source of income.

If you sell your zero-rated apartment, or change your rental arrangement or the way the apartment is used, you might have to pay 15% GST and consider other tax issues.

Did I buy a zero-rated apartment?

An apartment can only be zero-rated if both the buyer and seller are GST-registered and the apartment is sold with a lease to a management company already in place. When you bought your apartment, did you:

- sign a management agreement about renting it out?
- sign any papers about tax or GST?

If so, you could have been registered for GST and your apartment zero-rated.

What does this mean when I sell the apartment?

If you sell your zero-rated apartment with the original management agreement in place, to a GST-registered buyer your apartment might still be a going concern. In this case you probably don't have to pay GST on the sale.

You may have to pay GST if you sell your apartment and:

- the original agreement has expired and you haven't negotiated another lease with the management company, or
- you change the way it's used, eg, you or a member of your family moved into the apartment or you rent it yourself to tenants.

Example - Bill and Marie

In 2012, Bill and Marie bought an apartment as an investment. The apartment was leased to a management company and was zero-rated as a going concern.

Bill and Marie signed a lease with the management company which set out conditions of use. They also signed some papers relating to GST.

When the lease ended, they decided to sell their apartment rather than negotiate another lease with the management company. Their daughter moved in on a casual basis while the apartment was on the market.

They accepted an offer of $455,000. This covered their mortgage, real estate fees and other expenses, and gave them a $40,000 profit.

When Bill and Marie told their accountant about the sale, they were shocked to find they had a GST bill of $59,347.83 (the GST component of the sale price, which included GST at 15%).

GST is payable because the apartment was no longer a going concern. The lease had ended and there'd been a change in the apartment's use.

If Bill and Marie had checked the GST status of their apartment before they sold it, they may have avoided a costly mistake.

What should I do?

We strongly recommend you check whether your apartment has been zero-rated for GST, and talk with a tax professional before you make a decision about selling your investment apartment or changing its use.

For more information

- Call us on 0800 473 007 between 8 am and 5 pm weekdays.
- Go to **www.ird.govt.nz/property**

Bright-line test for residential property

If you purchase any residential property and sell it within five years (two years for properties purchased on or after 1 October 2015 through to 28 March 2018 inclusive) the sale may be taxable, no matter what your intention was when you purchased it. The bright-line test only applies to properties purchased on or after 1 October 2015. For more information see our guide: *Buying and selling residential property (IR313)*.