

Thinking of selling your leased apartment?

You may have to pay GST, contact us now to avoid a costly mistake!



- Have you bought an investment apartment with a managed lease?
- Are you thinking of selling it?

What should I do?

We strongly recommend you check whether your apartment has been zero-rated for GST and if so, talk to us before selling or changing the use of your apartment.

Call (03) 477 8777 to arrange a meeting with Lindsay. We are happy to assist, even if this is simply a short discussion to help clarify the GST status of your property and things you should be aware of.

We also recommend that you read the following sheet published by IRD which gives more details regarding zero-rated apartments.



CONTACT US:

We look forward to hearing from you.

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IMPORTANT NOTE: Rental Property

There are also factors to think about if you are considering selling a rental property or changing its use (ie. moving into it as the family home).

These factors include things like the tax effect of depreciation and should be considered prior to making your decision.

A short discussion with Lindsay can save you a lot of hassle and money.

GST on rental apartments

Many people have bought apartments where the purchase included a lease to a management company, often with a guaranteed rental arrangement.

In many cases these apartments were sold as "going concerns" with the GST charged at 0%, or "zero-rated."

There are conditions attached to this type of apartment. You need to know what they are or you might get 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.

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

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

However, if you decide to sell your zero-rated apartment, or if you change your rental arrangement or the way the apartment is used, you may have to pay 12.5% 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 GST zero-rated apartment with the original management agreement still in place, to a buyer who is also registered for GST, your apartment may still be a going concern. In this case you probably don't have to pay GST on the sale.

But, if you sell your apartment or have changed the way it's used, eg:

- The original agreement has expired and you haven't negotiated another lease with the management company,
- you or a member of your family moved into the apartment or you rented it to tenants directly,

you may have to pay GST.

Example

Bill and Marie

In 2006, 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, Bill and Marie 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 were pleased to accept an offer of \$255,000 which covered their mortgage, real estate fees and other expenses, and gave them a clear \$20,000 profit.

But when Bill and Marie told their accountant about the sale, they were shocked to find they had a GST bill of \$31,875 (12.5% of the sale price).

GST was 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.