Inland Revenue
Te Tari Taake

Individuals

Ngā Hunga Takitahi

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Tax rules for holiday homes

Do you rent your holiday home to the public for short-term stays? You need to be aware of the tax rules that apply to "mixed-use" assets. Our factsheet tells you what you need to know. Pay special attention to the "Exemptions" section – it may make life a lot easier.

You don't need to read this factsheet if your property is:

- **a residential property used for long-term rental, or**
- **a home office, and your expense claim is based on floor area.**

The mixed-use asset rules don't apply in these situations.

From the beginning of the 2013–14 tax year owners of "mixed-use" holiday homes will have to work out their income tax obligations differently.

You have a mixed-use holiday home if, during the tax year, your property is used both for "private use" and "income-earning use", and it's also unoccupied for 62 days or more.

What is "private use"?

Private use of your property means:

- use by you or your family, even if rent is paid.
- use by non-associated people if you earn rent at less than 80% of market rates.

What is "income-earning use"?

Income-earning use of your property means use by a non-associated person from which you earn rent at 80% or more of market rates.

Visits for repair work

If you stay in your property to repair damage caused by tenants during "income-earning" days, your stay is also counted among your "income-earning" days.

Exemptions

If your income from income-earning use is less than $4,000 for the year, you can opt to keep the holiday home outside the tax system. That means your rental activity doesn't need to be included in your income tax return. You don't return any of your income and you can't claim any of your expenses for the holiday home. You can also choose for your rental activity to remain outside the tax system if:

- you make a loss, and
- your gross income from income-earning use is less than 2% of the rateable value of the property.

The above exemptions don't apply to holiday homes owned by companies.

What income is taxable?

You must pay income tax on rent earned from income-earning use. Any rent from private use is exempt from income tax.

What expenses are deductible?

Expenses from mixed-use holiday homes fall into three categories:

1. **Fully deductible.** You can claim 100% of any expense which relates solely to the income-earning use of the holiday home.

   Examples: Costs of advertising for tenants, costs of repairing damage caused by tenants.

2. **Not deductible.** You can't claim any expenses relating to the private use of the holiday home.

   Example: Costs of a boat and quad bike stored in a locked garage and unavailable to the non-associated people renting the holiday home.

3. **Apportioned.** If an expense relates to both income-earning use and private use, you need to apportion it using this formula:

   Apportionment formula:

   $$\text{Expense} \times \frac{\text{income-earning days}}{\text{income-earning days} + \text{private-use days}}$$

   Examples: mortgage interest, rates, insurance, repairs for general wear and tear.

Please turn the page to see how the rules work in a real-life situation.

Carry forward of losses

If you make a loss from your mixed-use holiday home, and your gross income from income-earning use is less than 2% of the rateable value of the property, you can't claim the loss in the current year. You'll have to carry forward the loss to offset against income from your holiday home in a future tax year.

Record keeping

Please keep records so you can work out your income tax obligations at the end of the tax year. Your records should show: private-use days, income-earning days, the expenses you paid, and the name of each tenant together with their relationship to you and the rent they paid.

More information

This factsheet has given you a brief overview of the tax rules affecting mixed-use holiday homes. There are some additional rules where the holiday home is owned in a company or other structure.

Example of calculations required for a mixed-use holiday home

The facts

Peter owns a holiday home in Waihi. During the 2013–14 tax year, the home was used by Peter and his family (42 days) and members of the public (80 days). For the rest of the year (243 days), the home was unoccupied.

Peter's uncle wanted to help out with costs, so he paid rent of $3,150. Rental income from members of the public came to $12,000.

Expenses were:

Advertising for tenants	$ 500
General repairs and maintenance	$ 750
Repairing window (broken by member of the public)	$ 150
Cleaning septic tank	$ 400
Insurance (home and contents)	$ 800
Lawn-mowing contractor	$ 250
Fishing licences (for the family)	$ 250
Rates	$1,500
Mortgage interest	$ 800
Total expenses for the year	**$5,400**

The calculations

Peter's property is a mixed-use holiday home because it was used for private use and income-earning use and it was unoccupied for 62 days or more.

His gross rental income is $12,000. The $3,150 received from his uncle is exempt from income tax.

Expenses for the home fall into all three categories.

Fully deductible (expenses relate to income-earning use):

Advertising for tenants	$ 500
Repairing window (broken by member of the public)	$ 150
	$ 650

Not deductible (expenses relate to private use):

Fishing licences (for the family)	**$ 250**

Apportioned (expenses relate to both income-earning and private use):

General repairs and maintenance	$ 750
Cleaning septic tank	$ 400
Insurance (home and contents)	$ 800
Lawn-mowing contractor	$ 250
Rates	$1,500
Mortgage interest	$ 800
	$4,500

Peter applies the apportionment formula to the apportioned expenses:

$$\text{Expense} \times \frac{\text{income-earning days}}{\text{income-earning days + private-use days}}$$

$$= \$4{,}500 \times \frac{80}{80 + 42}$$

$$= \mathbf{\$2{,}950.82}$$

This means Peter's expense claim totals $3,600.82 (the fully deductible expenses of $650.00 plus the apportioned expenses of $2,950.82).

His taxable income from his property is:

Gross income	$ 12,000.00
Less expenses	$ 3,600.82
Taxable income	**$ 8,399.18**

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