

**EXPOSURE DRAFT - FOR COMMENT AND DISCUSSION ONLY | HUKIHUKI HURANGA
- MŌ TE TĀKUPU ME TE MATAPAKI ANAKE**

Deadline for comment | Aukatinga mō te tākupu: **25 October 2024**

Please quote reference | Whakahuatia te tohutoro: **PUB00487a**

Send feedback to | Tukuna mai ngā whakahokinga kōrero ki
public.consultation@ird.govt.nz

Notes | Pitopito kōrero: This draft QWBA considers which rules apply where you rent out your home (or part of your home) or a separate dwelling on your property. We are interested in feedback on whether it is useful to cover all these scenarios in one item, or whether the analysis on renting out a separate dwelling on your property should be split off into another item.

Clause 14 of the Taxation (Annual Rates for 2024–2025, Emergency Response, and Remedial Measures) Bill contains a proposed amendment that would give non-GST registered suppliers of listed services, which includes short-stay accommodation, the option to treat the flat-rate credit as assessable income instead of excluded income. A non-GST registered supplier might choose to do this so they can deduct all their expenses on a GST-inclusive basis, rather than having to apportion between GST-exclusive expenses (for supplies of listed services) and GST-inclusive expenses (for all other supplies). This draft QWBA has been prepared on the basis that this amendment will be enacted. It will not be finalised until the Bill has been enacted.

QUESTIONS WE'VE BEEN ASKED | PĀTAI KUA UIA MAI

Income tax – Which rules apply if I rent out my home, part of my home, or a separate dwelling on my property as short-stay accommodation?

Issued | Tukuna: Issue date style

QB XX/05

This “question we’ve been asked” (QWBA) explains how the income tax rules apply if you occasionally rent out your home, a room in your home, or a separate dwelling on your property for short stays (for example, through Airbnb, Bookabach, Booking.com or Holiday Houses).

Key provisions | Whakaratonga tāpua

Income Tax Act 2007 – ss **xxCH 5B**, DB 2, EL 9 and GC 5

REPLACES | WHAKAKAPIA:

- QB 19/05: What are my income tax obligations if I rent out my home or a separate dwelling on my property as short-stay accommodation?

Question | Pātai

Which rules apply if I rent out my home, part of my home, or a separate dwelling on my property as short-stay accommodation?

Answer | Whakautu

Renting out your home or part of your home

If you rent out your home or part of your home as short-stay accommodation, any amounts you receive from guests will be rental income.

However, you have different options for meeting your income tax obligations, depending on your circumstances:

- **You may be able to use standard costs set by the Commissioner for your expenses. If you use this approach, your rental income up to the level of the standard costs will be exempt income. You only have to declare the rental income in excess of the standard costs.**
- **If you cannot use the standard cost approach, or you do not want to, your deductions will be based on your actual expenses related to earning the**

rental income. This is known as the actual cost approach. Some of those expenses will only be partly deductible because they also relate to your private use of the home.

If you use the actual cost approach and you are:

- **not GST-registered:**
 - **and have opted to treat the flat-rate credit as excluded income, expenses that relate to rental income from an online marketplace are deductible on a GST-exclusive basis and expenses that relate to rental income from other sources are deductible on a GST-inclusive basis.**
 - **and have opted to treat the flat-rate credit as assessable income, all your expenses that relate to rental income (from an online marketplace or otherwise) are deductible on a GST-inclusive basis.**
- **GST-registered, expenses are deductible on a GST-exclusive basis.**

Renting out a separate dwelling on the same property as your home

If you rent out a separate dwelling on the same property as your home for short-stay accommodation, different income tax rules could apply, depending on your situation.

Key terms | Kīanga tau tāpua

Guest means a person provided with short-stay accommodation in return for payment.

Online marketplace means an electronic platform like a website, app or internet portal that sellers use to market and sell their short-stay accommodation. It does not include an online marketplace that only processes payments.

Short-stay accommodation means accommodation provided for up to four consecutive weeks in a dwelling that is not the guest's ordinary residence. It does not include accommodation provided to residential tenants, boarders or care home residents, and it does not include student or emergency accommodation.

Explanation | Whakamāramatanga

1. Different income tax rules apply depending on whether you are renting out your own home or part of your home, or a separate dwelling on the same property.

Renting out a separate dwelling on the same property as your home

2. If you rent out a separate dwelling on the same property as your home (for example, a sleep-out or cottage on the property) for short-stay accommodation, different income tax rules could apply, depending on your situation.
3. The dwelling is considered a separate asset. If the dwelling is only rented out and never used privately, all the rental income will be taxable, and you can fully deduct your non-capital expenses in relation to the dwelling (subject to needing to claim these deductions on a GST-exclusive basis).
4. If, in addition to sometimes renting out the dwelling, you also sometimes use it privately, the dwelling will either fall under the mixed-use asset rules or the standard tax rules. To work out which rules apply, see QB **XX/06: Income Tax – Which rules apply if I have a dwelling I sometimes rent out as short-stay accommodation and also sometimes use privately?** However, if the dwelling is separate from your home, but there are shared common areas (for example, the dwelling is a sleep-out and guests share a bathroom located in your home), expenses relating to that part of your home are partially deductible. Example | Taurira 3 illustrates this.

Renting out your home or part of your home

5. If you rent out your home or part of your home as short-stay accommodation, any amounts you receive from guests will be taxable as rental income. The activity does not need to be run as a business for the amounts you receive to be rental income.
6. Depending on your circumstances, you may have two options for meeting your tax obligations (summarised in Table | Tūtohi 1):
 - the standard-cost approach, or
 - the actual-cost approach.
7. If you meet certain criteria, you can calculate your deductions using a formula set by the Commissioner, which is based on a set deductible amount for each rental night. This is referred to as the standard-cost approach. If you use this approach, you do not declare income from the rental activity, up to the amount you calculate under the formula (your standard costs). You only need to declare rental income you make to the extent it exceeds your standard costs. This approach is easier, because you do not have to work out your actual deductible expenses, which would require some of the expenses being apportioned. The criteria you must meet to use this approach are set out at [9].

8. If you cannot use the standard-cost approach, or you do not want to, your deductions will be based on your actual costs related to earning the rental income. This is referred to as the actual-cost approach. Expenses that relate solely to your rental activity (for example, advertising fees) are fully deductible (subject to these deductions needing to be claimed on a GST-exclusive basis).¹ However, mixed expenses, that relate to both your rental activity and your own use of your home (for example, home loan interest, home insurance and rates), must be apportioned. This QWBA will help you understand how to calculate the percentage of your mixed expenses that's tax deductible.

Table | Tūtohi 1 – Comparison of standard-cost and actual-cost approaches

Standard-cost approach	Actual-cost approach
<p>Rental income up to the amount of your standard costs is exempt income. You do not include this income in your tax return.</p> <p>The amount of rental income in excess of your standard costs is assessable income. You need to include that amount in your tax return.</p> <p>You cannot claim deductions for any of your actual expenses that are covered by the standard-cost approach in DET 19/02: Standard-cost household service for short-stay accommodation providers.</p>	<p>All the rental income is assessable income and must be declared.</p> <p>You can claim associated expenses and depreciation losses as deductions. You need to work out how much you can deduct, bearing in mind that:</p> <ul style="list-style-type: none"> ▪ The starting point is that expenses that relate solely to the rental activity (for example, advertising) are fully deductible. ▪ Mixed expenses (for example, home loan interest, home insurance and rates), must be apportioned. ▪ Depreciation losses for chattels used both privately and by paying guests must be apportioned. ▪ Your deductions may need to be claimed on a GST-exclusive basis.²

¹ See from [34].

² See from [34].

If you are not the only owner of the property, you will need to think about who should declare the rental income – see from [58].

Can I use the standard-cost determination for short-stay accommodation providers?

9. You can use the standard-cost approach in [DET 19/02: Standard-cost household service for short-stay accommodation providers](#), if:
 - you are a natural person (an individual not a company),
 - you rent out a room or rooms in your home to guests for short-stay accommodation (no more than four consecutive weeks),
 - you do not rent out rooms in your home for more than 100 nights in the income year (counting each room that is rented out separately),
 - the property is not held in a trust, or if it is you paid all the costs for the income year for the use of the property (for example, home loan interest or rent, home insurance, rates, and repairs and maintenance),
 - you do not provide the short-stay accommodation service as part of a GST taxable activity,
 - your home is not used in the income year to provide both a short-stay accommodation service and a private boarding service (as defined in [DET 19/01: Standard-cost household service for boarding service providers](#) or any determination that replaces [DET 19/01](#)),
 - neither you nor anyone else applies any other standard-cost household service determination in relation to services provided in the home (for example, [DET 09/02: Standard-cost household service for childcare providers](#)), and
 - no one claims deductions for actual costs incurred in relation to the use of your home to provide accommodation to others, such as flatmates, for any time in the income year when the short-stay accommodation service is provided.
10. If you meet all these criteria and choose to use the standard-cost approach for the income year, the rest of this QWBA will not be relevant to you. If you choose to use the standard-cost approach, [DET 19/02](#) explains what you need to do to meet your income tax obligations.
11. You can only use the standard-cost approach for income years in which you meet the criteria. If you do not meet the criteria for a particular income year, you will need to base your deductions for that year on your actual costs, which will involve apportioning

some expenses. This QWBA explains how the rules work if you have to, or choose to, use the actual-cost approach.

Can I use the standard-cost determination for boarders instead?

12. A separate determination sets standard costs for expenses for people who receive income from private boarders. You cannot use that determination for income from providing short-stay accommodation. This is because short-stay accommodation guests are not boarders. A boarder is someone who lives in your home and receives meals, in return for payment. To be a boarder, the person must actually live in your home and use it as their normal residence for a period (often this is a year or a semester). Someone who pays to stay in your home for a short period and is not using it as their normal residence is not a boarder. This QWBA calls these people “guests”.
13. If you receive income from both boarders and short-stay accommodation guests, you cannot use either of the standard-cost determinations. You need to use your actual costs for your deductions.

If I am using the actual-cost approach, what portion of my expenses can I claim deductions for?

14. As noted in Table | Tūtohi 1, if you are using the actual-cost approach the starting point is that some of your expenses are fully deductible and some are only be partly deductible. This is because some of your expenses (for example, home loan interest, home insurance and rates) relate partly to your rental activity and partly to your own private use of your home.
15. You can also claim deductions for the depreciation of the chattels in your home that paying guests can use. But, as with your mixed expenses, you can only claim for part of the depreciation for chattels that are used both privately and by paying guests.
16. While the starting point is that the above expenses may be fully deductible, if you rent the dwelling through an online marketplace, your deduction may need to be claimed on a GST-exclusive basis. This is discussed from [34].
17. The following will help you work out what deductions you may claim – and will help you calculate what percentage of your mixed expenses and depreciation is tax deductible.

Expenses that may be fully deductible – relate solely to rental activity

18. You may be allowed to fully deduct expenses that relate solely to your rental activity. These expenses might include:
- advertising costs, including any commissions or fees you pay to an advertising platform or transaction facilitator (this does not include any service fees the guests pay the platform – just fees you pay),
 - supplies used solely by your paying guests (for example, if you provide them with a welcome basket of breakfast food or chocolates),
 - any additional home or contents insurance premium you pay (over what you would otherwise pay) because of the rental activity, and
 - any additional rates you pay (over what the normal residential rates would be) because of the rental activity.
19. You may have some expenses that you can split between being related solely to your rental activity and being mixed rental and private expenses. For example, expenses that have a fixed component and a usage component, like power. If you can identify actual usage charges for a period where your home was only rented out and not used privately at all, you do not have to apportion the usage component for that period – it is fully deductible. The fixed charge component still needs to be apportioned, as it is necessary to maintain a power connection, which is used both privately and by paying guests.
20. While the starting point is that the above expenses may be fully deductible, if you rent the dwelling through an online marketplace, your deduction may need to be claimed on a GST-exclusive basis. This is discussed from [34].

Expenses that are non-deductible – relate solely to private use

21. Expenses that relate solely to the private use of your home are not deductible. Similarly, any consumables you use in your home are not deductible. However, if you have consumables you use in your home that are also available for guests to use (for example, tea, coffee, olive oil, shampoo, and soap), those consumables are partly deductible.
22. If you vacate your home while it is being rented out as short-stay accommodation and you need to pay for alternative accommodation for yourself (such as a hotel), the cost of that alternative accommodation is not deductible as it is private expenditure.

Expenses that are partly deductible –relate to both rental activity and private use

23. You can only claim deductions for part of any expenses that relate to both your rental activity and the private use of your home. These mixed expenses might include:
- interest on your home loan,³
 - repairs and maintenance,⁴
 - home and content insurance premiums (or what the premiums would be if you have to pay more because of the rental activity),
 - rates (or what the normal residential rates would be if you have to pay more because of the rental activity),
 - power bills (but see [19], and
 - internet.
24. In most situations where you rent out all or part of your home you need to work out what proportion of these mixed expenses you can claim. You need to take into account:
- the floor area of different parts of your house, and
 - the number of nights during the income year that the room was rented out.
25. If there is a reasonable basis for apportioning a particular expense other than on floor area, you can use that.
26. While less common, in some situations instead of using the number of nights the room was actually rented out to apportion mixed expenses, you can use the periods it was either rented out or **available** to be rented out. This is explained below from [29].

³ If the home you are renting out is your main home, the interest limitation rules do not apply (s EL 9). However, the actual amount claimed needs to be apportioned for any private use. See **IS 23/04: The interest limitation rules and short-stay accommodation**. If the home you are renting out is not your main home, from 1 April 2024, up to 80% of the interest on your home loan can be claimed, and from 1 April 2025 up to 100% of the interest can be claimed. The actual amount claimed needs to be apportioned for any private use.

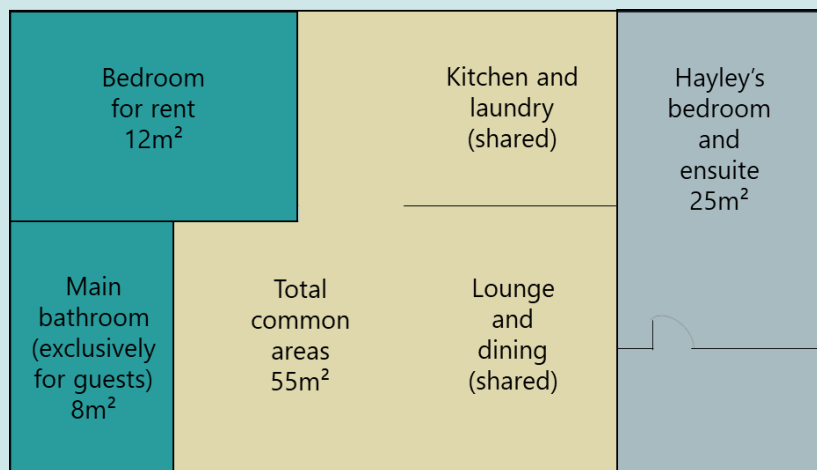
⁴ Deductible repairs and maintenance expenditure does not include expenditure on capital improvements (see **IS 12/03: Income tax – Deductibility of repairs and maintenance expenditure – general principles**).

How to apportion mixed expenses based on the number of rental nights and floor area

27. Generally, you should apportion mixed expenses, like those at [23], based on the floor area that the guest has exclusive use of, as a proportion of the total floor area of your house. You may also add a reasonable amount based on the guest’s access to common areas – Inland Revenue will accept 50% as a reasonable amount in most situations. Generally, where you rent a room in your house you may only claim expenses for nights the room was rented out.

Example | Taura 1 – Apportioning mixed expenses based on the number of rental nights and floor area

Hayley has a two-bedroom villa. She uses the second bedroom occasionally as an office, or as a bedroom when friends or family stay. She decides to rent out the second bedroom through an online marketplace to make some extra money. When she rents out the room, the guests are also able to use some common areas in the villa – the lounge, dining room, kitchen, laundry, and main bathroom. Hayley rents out the room for 120 nights during the income year. The floor areas of the different parts of Hayley’s villa are shown in the diagram below.



Hayley should apportion her mixed expenses on the following basis:

- 20m² Used exclusively by guests – 100% deductible for days the room is rented out
- 55m² Common areas – 50% deductible for days someone is renting the bedroom
- 25m² Private area – 0% deductible

Hayley must calculate what proportion of her mixed expenses she can deduct for the areas of the house used exclusively by guests, and what proportion she can deduct for the common areas. The results of those calculations are then added together.

The areas used **exclusively by guests** are 20m² out of the total 100m² floor area of the villa, and are 100% deductible for the 120 out of 365 days in the year that the room is rented out:

$$\frac{20}{100} \times \frac{120}{365} \times 100 = 6.58\%$$

The **common areas**, able to be used by both Hayley and guests, are 55m² out of the total 100m² floor area of the villa, and are 50% deductible for the 120 out of 365 days in the year that the room is rented out:

$$\frac{55}{100} \times \frac{120}{365} \times 50 = 9.04\%$$

Adding these figures (6.58% and 9.04%) together, Hayley calculates she can deduct 15.62% of her mixed expenses for the income year. Her mixed expenses include her power and internet bills, the interest on her home loan, her home and contents insurance premiums, and her rates.

In addition, Hayley can fully deduct her expenses that relate solely to the rental activity (other than the GST component). These expenses include the cost of advertising the room for rent, her host service fees, the sheets and towels she bought for guests to use (she only uses those for guests renting out the room), and the tea, coffee, sugar, cereal and milk the guests use.

As Hayley is not GST-registered and has opted to treat the flat-rate credit as excluded income, and as her rental income relates to nights when part of her home was rented through an online marketplace, her expenses are deducted on a GST-exclusive basis. This is discussed in more detail from [34] and in Example | Taura 5.

28. If you rent out your whole house for a period, and the guests have access to the whole house, you do not need to use the floor area calculations. Your apportionment for that period would be based only on the number of nights the house is rented out.

Example | Tauria 2 – Apportioning mixed expenses based on the number of rental nights

Jason and Kim are saving for an overseas holiday and decide to rent out their apartment for four weeks during a high-profile sporting event in their city. They found their guests through a friend who had family wanting to come to town for the event. Jason and Kim stay with Jason's parents during this time.

Jason and Kim should apportion their mixed expenses on the following basis:

The whole apartment is used **exclusively by guests** for 28 out of the 365 days in the income year, and the mixed expenses are 100% deductible for that period:

$$\frac{28}{365} \times 100 = 7.67\%$$

Therefore, Jason and Kim can deduct 7.67% of their mixed expenses for the income year. Their mixed expenses include 28 days' worth of the daily fixed charge for their power connection, internet, the interest on their home loan, their home and contents insurance premiums, and their rates.

In addition, Jason and Kim may deduct 100% of their expenses that relate solely to the rental activity. These expenses include the cost of advertising the apartment for rent, their host service fees, the power usage charges for the period (if this cannot be identified precisely an average may be used), and supplies used by the guest (for example, cleaning products, toilet paper, and pantry staples).

Jason and Kim are not GST-registered. However, because their rental income does not relate to nights when their home was rented through an online marketplace, their expenses are deducted on a GST-inclusive basis. This is discussed in more detail from [34].

How to apportion mixed expenses based on availability

29. As noted in [26], while less common, in some situations instead of using the number of nights the space was actually rented out as a basis for apportioning mixed expenses, you can use the periods it is either rented out or **available** to be rented out.
30. For a room in your home, you could only do this where you do not use the room at all, including for storage, and it is essentially not used as part of your home. This would be difficult to show, as in most situations it would be expected that expenses for a room

in your own home are private expenses for periods when the room is not actually rented out. One example where you might be able to show otherwise is if you operate a bed and breakfast with high occupancy, in your home, so the rental rooms are essentially not used as part of your home. Example | Taura 4 covers a situation like this.

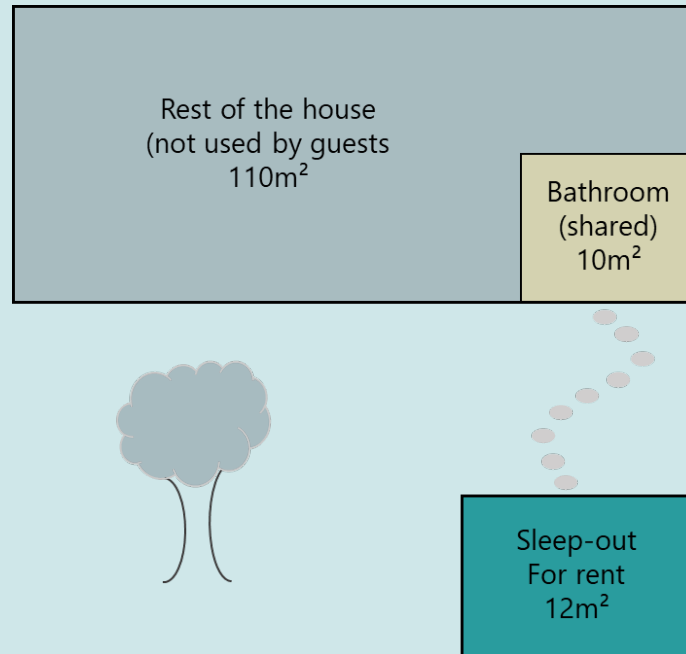
31. Another situation where availability could potentially be used is if you have a separate dwelling on the same property as your home that is not used as part of your home and is not a mixed-use asset. For example, a sleep-out that is only rented out and not used privately at all, or a sleep-out that is rented out and used privately but is not unused for 62 days or more in the year. In those situations, the mixed-use asset rules would not apply – see QB [XX/06](#). Example | Taura 3 covers a situation like this.
32. In situations where you can use the periods the space is either rented out or **available** to be rented out and not used privately, you need to have evidence that shows when the space was available to be rented out.

Example | Taura 3 – Apportioning mixed expenses based on availability – a separate dwelling from your home

Melanie and Alistair live in a popular wine region, and regularly rent out the sleep-out in their garden. They do not use the sleep-out themselves for anything. The sleep-out is advertised year-round, and in the last income year it was available for rent at all times other than for six weeks (42 nights) when Melanie's parents came to stay and used the sleep-out.

In the income year, the sleep-out was used to earn income and was also used privately by Melanie's parents. Melanie and Alistair used QB [XX/06](#) to work out the sleep-out is not a mixed-use asset for the income year because it was only unused for 58 days. The sleep-out needs to have been unused for 62 days or more to be a mixed-use asset. Therefore, the rules in this QWBA apply.

The sleep-out does not have a bathroom, so guests who stay there use the main bathroom in Melanie and Alistair's house, which can be accessed from the garden. The sleep-out is on a separate power connection from the house. Guests can use Melanie and Alistair's wi-fi. There are tea and coffee facilities in the sleep-out, and guests can order a cooked breakfast for an additional charge. Melanie and Alistair rented out the sleep-out for 265 nights during the income year. The floor areas of the different parts of the property are shown in the diagram below.



Melanie and Alistair should apportion their mixed expenses on the following basis:

- 12m²

Used exclusively by guests – 100% deductible for days the sleep-out is rented out or available to be rented out, as it is not used by Melanie and Alistair
- 10m²

Common areas – 50% deductible for days someone is renting the sleep-out
- 110m²

Private area – 0% deductible

Melanie and Alistair have to calculate what proportion of their mixed expenses they can deduct for the sleep-out, which was used exclusively by guests, and rented or available for rent for all but six weeks (42 nights) of the year, and what proportion they can deduct for the common area (the shared bathroom). The results of those calculations are then added together.

The sleep-out, used **exclusively by guests**, is 12m² out of the total 132m² floor area of the dwellings on the property, and is 100% deductible for the 323 out of 365 nights in the income year that it was either rented out or available to be rented out:

$$\frac{12}{132} \times \frac{323}{365} \times 100 = 8.04\%$$

The **common area**, the shared bathroom, which is able to be used by Melanie and Alistair and guests, is 10m² out of the total 132m² floor area of the dwellings on the property, and is 50% deductible for the 265 out of 365 nights in the income year that the sleep-out is rented out:

$$\frac{10}{132} \times \frac{265}{365} \times 50 = 2.75\%$$

Adding these figures (8.04% and 2.75%) together, Melanie and Alistair calculate that they can deduct 10.79% of their mixed expenses for the income year. Their mixed expenses include their internet expenses, the interest on their home loan, their property and contents insurance premiums, and their rates.

Because the sleep-out is on a separate power connection from the house, Melanie and Alistair may deduct 100% of the power bills for the sleep-out for the 323 out of 365 nights in the year that it is either rented out or available to be rented out.

In addition, Melanie and Alistair can fully deduct their expenses that relate solely to the rental activity. These expenses include the cost of advertising the sleep-out for rent, the host service fees, and the tea and coffee supplies in the sleep-out.

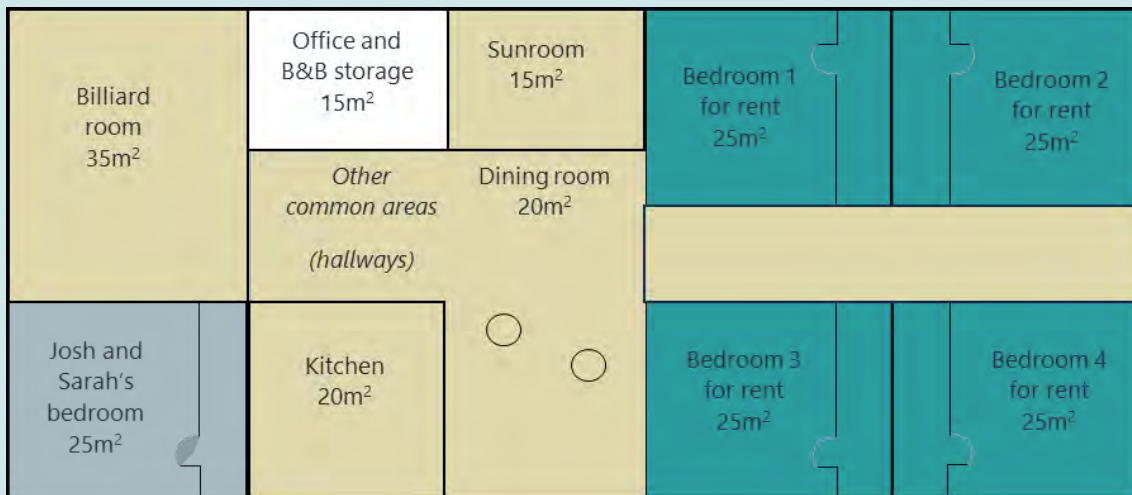
The amounts Melanie and Alistair receive for cooked breakfasts are income, and they can deduct the cost of the ingredients used.

All expenses are deducted on a GST-exclusive basis because Melanie and Alistair are GST-registered. This is discussed in more detail from [34].

33. As noted in [24], where you occasionally rent out a room in your home, normally you need to apportion your mixed expenses based on the number of nights the room is actually rented out (as shown in Example | Tauria 1). This is because when you are not renting out the room, those expenses are purely private expenses related to keeping your home. However, the following example shows a situation where the Commissioner would accept that the mixed expenses could be apportioned based on the **availability** of the rooms for rent.

Example | Taura 4 – Apportioning mixed expenses based on availability – space within your home

Josh and Sarah run a bed and breakfast (B&B) from their home in a tourism hotspot. The B&B has four bedrooms, each with an ensuite, which are advertised year-round and are available for rent at any time other than for three weeks in winter, when Josh and Sarah take a holiday. Guests can use a sunroom and a billiard room. If guests wish to dine in, meals can be enjoyed in the dining room, or room service can be requested. The B&B has approximately 60% occupancy, and Josh and Sarah had guests in at least one room for 300 days during the income year. The floor areas of the different parts of the B&B are shown in the diagram below.



Josh and Sarah should apportion their mixed expenses on the following basis:

- 15m²
Used exclusively for the B&B operations – 100% deductible
- 100m²
Used exclusively by guests – 100% deductible for days the rooms are rented out or available to be rented out, as they are not used by Josh and Sarah
- 120m²
Common areas – 50% deductible for days someone is renting a room in the B&B
- 25m²
Private area – 0% deductible

Josh and Sarah must calculate what proportion of their mixed expenses they may deduct for the:

- office and storage area, which is used exclusively for B&B operations,
- rental rooms, which are used exclusively by guests and are available for rent for 49 weeks of the year, and
- common areas.

They then need to add the results of those calculations together.

The office and storage area, used **exclusively for B&B operations**, is 15m² out of the 260m² total floor area of the house, and is 100% deductible as it is only used in relation to the rental activity:

$$\frac{15}{260} \times 100 = 5.77\%$$

The rental rooms, used **exclusively by guests**, are 100m² out of the total 260m² floor area of the house, and are 100% deductible for the 49 out of 52 weeks in the year that the rooms are either rented out or available to be rented out:

$$\frac{100}{260} \times \frac{49}{52} \times 100 = 36.24\%$$

The **common areas**, which are used by Josh and Sarah and guests, are 120m² out of the total 260m² floor area of the house, and are 50% deductible for the 300 out of 365 days in the year that at least one of the rooms is rented out:

$$\frac{120}{260} \times \frac{300}{365} \times 50 = 18.97\%$$

Adding these figures (5.77%, 36.24% and 18.97%) together, Josh and Sarah calculate that they can deduct 60.98% of their mixed expenses for the income year. Their mixed expenses include their power bills, internet expenses, the interest on their home loan, the amount of their property insurance premium that equates to what their premium would be if they did not run the B&B from the property, and the portion of their rates that they would have to pay if they did not run the B&B from the property (what normal residential rates would be for the property).

In addition, Josh and Sarah can fully deduct their expenses that relate solely to the rental activity. These expenses include:

- the cost of advertising the rooms for rent,
- the host service fees,
- the amount they pay in additional property insurance premiums (over what they'd pay if they did not run the B&B from the property),
- the amount they pay in additional rates (over what the normal residential rates would be) because they run the B&B from the property, and
- bathroom supplies for the rooms.

The amounts Josh and Sarah receive for meals purchased by guests are income, and they can deduct the costs of providing those meals.

All expenses are deducted on a GST-exclusive basis because Josh and Sarah are GST-registered. This is discussed in more detail from [34].

Online marketplace rules

If you are not GST-registered

34. If you are not GST-registered and rent out your home, part of your home, or a separate dwelling on your property as short-stay accommodation through an online marketplace like Airbnb, Bookabach, Booking.com or Holiday Houses, the marketplace operator will give you a flat-rate credit of 8.5% of the value of the supply of short-stay accommodation.
35. You have the option to treat the flat-rate credit as either:
 - excluded income (which is not subject to income tax, so is not included in your income tax return), or
 - assessable income (which is included in your income tax return).(Section **xxCH 5B**).
36. If you opt to treat the flat-rate credit as assessable income, all your expenses are deducted on a **GST-inclusive basis** (s DB 2).
37. However, if you opt to treat the flat-rate credit as excluded income:
 - Expenses that relate to nights when the dwelling was rented through an online marketplace are deducted on a **GST-exclusive** basis. This is because the flat-rate credit you receive from the online marketplace is intended to recognise the

GST on the expenses you incur when deriving this income, that you would be able to deduct as input tax in your GST return if you were GST-registered.

- Expenses that relate to nights when the dwelling was rented out other than through an online marketplace, or was available to be rented out, are deducted on a **GST-inclusive** basis.

(Section DB 2).

38. If you have opted to treat the flat-rate credit as excluded income, and you have expenses that relate to both nights when the dwelling was rented through an online marketplace and nights when the dwelling was rented out other than through an online marketplace or was available to be rented out, these expenses must be apportioned.
39. Depreciation continues to be calculated on the GST-inclusive price of the asset. This is the position, even if you rent your home through an online marketplace.

Example | Tauira 5 – Apportioning expenses where a person is not GST-registered, has opted to treat the flat-rate credit as excluded income, and their dwelling is rented both through and online marketplace and in some other way

The facts are the same as in Example | Tauira 1, with the exceptions noted below.

Hayley rents out the room for 120 nights in the income year. Sixty of those nights were rented out through an online marketplace and the remaining 60 were rented previous guests contacting Hayley directly.

In Example | Tauira 1, Hayley has calculated that she can deduct 15.62% of her mixed expenses for the income year.

However, because she is not GST-registered and has opted to treat the flat-rate credit as excluded income, she needs to deduct her expenses that that relate to the online marketplace nights on a GST-exclusive basis. Her expenses that relate to non-online marketplace nights (the direct bookings) are deducted on a GST-inclusive basis. The table below sets out Hayley’s expenses and how she should calculate the deductions she can claim:

Expense	Amount	Amount apportioned to income-earning	Deduction
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Commission charged by online marketplace	\$180 (incl. GST)	100% = \$180 (incl. GST)	$\$180 \div 1.15^5 =$ \$156.52 (excl. GST)
Interest on her home loan for the property	\$10,000 (GST exempt)	15.62% = \$1,562	\$1,562
Repairs and maintenance and other mixed expenses such as rates and property insurance	\$10,000 (incl. GST)	15.62% = \$1,562 (incl. GST)	<p><i>Online marketplace nights:</i> 60 (out of 120 rental nights). $60/120 \times \\$1,562 = \\781 (incl. GST) $\div 1.15 =$ \$679.13 (excl. GST) deduction for online marketplace nights</p> <p><i>Non-online marketplace nights:</i> 60 (out of 120 rental nights). $60/120 \times \\$1,562 =$ \$781 (incl. GST) deduction for non-online marketplace nights</p> <p><i>Total deduction for repairs and maintenance:</i> $\\$679.13 + \\$781 =$ \$1,460.13</p>

Online marketplace commission: Hayley does not need to apportion the commission charged by the online marketplace as it relates only to the rental activity. But her deduction must be claimed on a GST-exclusive basis. The \$180 commission charged is divided by 1.15 to give a GST-exclusive deduction of **\$156.52**.

Interest on her home loan for the property: From the 2025-2026 income year, Hayley can claim up to 100% of the interest on her property loan. However, this interest needs to be apportioned between private use and income-earning use. Therefore, Hayley can deduct 15.62% of \$10,000 which is **\$1,562**. GST is not applied to interest, so there is no need for any further calculations for the online marketplace nights.

⁵ Dividing the amount apportioned to income-earning by 1.15 gives you the GST-exclusive amount.

Repairs and maintenance and other mixed expenses: On the same basis as for interest, 15.62% of the \$10,000 expense for repairs and maintenance, is attributable to income-earning. This is \$1,562 (incl. GST).

The proportion of the expenses that relates to online marketplace nights is 50% (as 60 out of the 120 nights Hayley's home is rent out through an online marketplace), so \$781 (incl. GST). This amount is then divided by 1.15 to give a GST-exclusive amount of \$679.13 (excl. GST).

The proportion of the expenses that relates to non-online marketplace nights is also 50%, so \$781 (incl. GST).

Therefore, the total amount of the repairs and maintenance and other mixed expenses deduction is **\$1,460.13** (\$679.13 + \$781).

Hayley's total deduction in relation to the rental activity is therefore **\$3,178.65** (\$156.52 + \$1,562 + \$1,460.13).

If Hayley had opted to treat the flat-rate credit as assessable income, she would not need to undertake any apportionment for GST – all her expenses would be deductible on a GST-inclusive basis.

If you are GST-registered

40. If you are GST-registered, a flat-rate credit is not provided, and expenses and depreciation are deductible on a **GST-exclusive basis**.

Depreciation of chattels

41. As noted at [15], you can also claim deductions for the depreciation of the chattels in your home that paying guests can use. Depreciation deductions reflect that chattels in your home are subject to wear and tear, resulting in a reduction in their value while being used to earn income.
42. If the chattels are only used by guests (for example, chattels in a bedroom you only use for renting out), the full amount of depreciation will be deductible.
43. However, you can only claim for part of the depreciation on mixed-use chattels. Mixed-use chattels include chattels in common areas that guests are able to use, and chattels in a room you rent out and also use privately.

44. The approach to working out how much depreciation you can claim each year for mixed-use chattels is similar to the approach to apportioning mixed expenses. But it does differ slightly, as there is a specific apportionment formula in the Income Tax Act 2007 for depreciation of assets partly used to earn income.
45. Before you can apply the formula, you need to work out the depreciation loss for the income year for each asset.
46. For low value items (\$1,000 or less),⁶ the depreciation loss is the item's cost. If the item is part of a group of items you purchased at the same time from the same supplier, and the items would have the same depreciation rate, the \$1,000 threshold applies to the group of items. For example, if you bought \$2,000 worth of linen at one time, you would have to depreciate the linen using one of the methods mentioned at [47].
47. For other items, you work out the depreciation loss for the income year using either the diminishing value method or the straight-line method. There is information about those methods on Inland Revenue's [website](#), and you can find the relevant depreciation rates using Inland Revenue's depreciation rate finder – available on Inland Revenue's [website](#).
48. Whichever method you use, you cannot pool assets to depreciate them as a single asset if they are partly used privately – so you will not be able to use the pooled approach for the chattels in the common areas of your home that guests can use, or for chattels in a room you rent out and also use privately.
49. Once you know the depreciation losses for the year for the chattels in your home that are both used privately and able to be used by paying guests, you need to work out what proportion of those losses you may deduct. To do this, multiply those losses by:

$$\frac{a + b}{c}$$

Where –

"a" is: nights in the year the space (the room, or the whole house) is rented out

"b" is: nights in the year the space is available to be rented out and the mixed-use chattels are not used privately

"c" is: nights in the year the mixed-use chattels are used or available for any purpose

50. For mixed-use chattels in common areas, item "b" in the formula would typically be zero. This is because when the room you rent out is available for rent, you are still

⁶ For items acquired on or after 17 March 2021.

using the chattels in your lounge or other common areas for private use. However, this would not be the case if, for example, you were away overseas and renting out your whole house for short stays. In that situation, for the periods in between paying guests, you would not be using the chattels for private use, so those days the house is vacant would be counted in item "b". Example | Taura 6 illustrates how to calculate a depreciation deduction for mixed-use chattels.

Example | Taura 6 – Calculating a deduction for depreciation of mixed-use chattels

Jasper rents out the spare room in his house for short stays. When he has paying guests, they can use the lounge, dining room, kitchen, laundry and bathroom. Jasper rents out the room for a total of 120 nights during the year. Jasper does not use the spare room at all.

Jasper may deduct the full depreciation loss he calculates for the chattels in the spare room, as these are only used by paying guests.

Jasper calculates that he may deduct 16.44% of his depreciation losses in respect of the chattels in the common areas of the house that paying guests can use:

$$\frac{120}{365} \times 50 = 16.44\%$$

The formula is multiplied by 50 to recognise the private use of the chattels in common areas on nights when the spare room is rented out (see [27]). (Inland Revenue accepts 50% as a reasonable amount in most situations).

If Jasper was away for work for 30 nights during the year, the calculation would remain the same. While Jasper did not use the chattels in the common areas privately on those days, they were also not available to be used by paying guests, as Jasper only rents out the spare room when he is home.

51. If you are GST-registered, you calculate depreciation on the **GST-exclusive** price of the asset. If you are not registered for GST, you claim depreciation on the **GST-inclusive** price of the asset. This is the position, even if you have opted to treat the flat-rate credit as excluded income and rent your dwelling through an online marketplace.

Losses and the residential rental ring-fencing rules

52. If you rent out your home, a room in your home, or a separate dwelling on your property for short stays the residential rental ring-fencing rules are unlikely to apply.

53. The residential rental ring-fencing rules mean you can only claim deductions for expenses incurred on your property, up to the amount of income you earned from the property in the income year.⁷ If your allowable deductions exceed the income from the property,⁸ the excess deductions must be carried forward to future income years. You cannot offset the excess amount against other income, such as salary or wages.
54. However, these rules do not apply if you use more than 50% of the land for most of the income year as your main home (this is known as the “main home exclusion”).⁹ Your main home is the dwelling you use as a residence (or if you have more than one residence, the one you have the greatest connection with).
55. If you have a separate dwelling (such as a sleep-out or cottage) on the same land as your main home (for example, they are on the same legal title), as long as 50% of the land is used as your main home for most of the income year, the residential rental ring-fencing rules will not apply.
56. However, if you rent out a separate dwelling on your property and it is subject to the mixed-use asset rules, the mixed-use asset expenditure quarantine rules may apply if the rental activity is loss-making – see QB [XX/06](#).
57. More details on the residential rental ring-fencing rules can be found on the [Inland Revenue website](#) or in the Appendix to [IS 23/04: The interest limitation rules and short-stay accommodation](#) (from A48).

Who must declare the income?

58. The rental income belongs to the owner of the land (including leasehold land) and they must declare it to Inland Revenue. If there is more than one owner, the income needs to be split appropriately between them.
59. If the land is owned in a trust, the rules about who must declare the income are more complicated. See QB [XX/1516: Income tax – If property held in a trust is rented out](#)

⁷ Or, if the property is part of a portfolio of residential rental properties you own, you can only claim deductions for expenses incurred on the portfolio of properties up to the amount of income you earned from the portfolio in the income year.

⁸ Or portfolio of properties, if you have one.

⁹ The main home exclusion will also apply if the residential land is trust property and more than 50% of the land is used for most of the income year by a beneficiary of the trust as their main home and no principal settlor of the trust has a separate main home.

for short-stay accommodation, who declares the income, and what deductions can be claimed? for more detailed guidance.

60. If you lease the property and use it to earn income, you should ensure you are paying an adequate rent for the property to the extent you use the property for the income-earning. If you do not, in certain circumstances the Commissioner can determine an amount of adequate rent and you will be treated as deriving this amount as rental income (s GC 5). This rule ensures that property cannot be leased between (for example) relatives or different entities for low or nominal rent to shift income for a tax benefit.

What records do I need to keep?

61. You need to keep records of:
- the number of nights you rent out your home, room, or separate dwelling on your property,
 - how much income you receive for renting out your home, room, or dwelling, and
 - any expenses you may claim deductions for.

Provisional tax

62. If the residual income tax you have to pay at the end of the year, after you have filed your tax return, is more than \$5,000, you will have to pay provisional tax the following year. This means you will pay your income in instalments during the year. The [Inland Revenue website](#) has further information about provisional tax.

Draft items produced by the Tax Counsel Office represent the preliminary, though considered, views of the Commissioner of Inland Revenue.

In draft form these items may not be relied on by taxation officers, taxpayers, or practitioners. Only finalised items represent authoritative statements by Inland Revenue of its stance on the particular issues covered.

Send feedback to | Tukuna mai ngā whakahokinga kōrero ki
public.consultation@ird.govt.nz

References | Tohutoro

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QB XX/XX: Income tax – Which rules apply if I have a dwelling I sometimes rent out as short-stay accommodation and also sometimes use privately?

QB XX/XX: Income tax – If property held in a trust is rented out for short-stay accommodation, who declares the income, and what deductions can be claimed?

About this document | Mō tēnei tuhinga

Questions we've been asked (QWBAs) are issued by the Tax Counsel Office. QWBAs answer specific tax questions we have been asked that may be of general interest to taxpayers.

While they set out the Commissioner's considered views, QWBAs are not binding on the Commissioner. However, taxpayers can generally rely on them in determining their tax affairs. See further [Status of Commissioner's advice](#) (Commissioner's statement, Inland Revenue, December 2012). It is important to note that a general similarity between a taxpayer's circumstances and an example in a QWBA will not necessarily lead to the same tax result. Each case must be considered on its own facts.