

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

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## INTERPRETATION STATEMENT | PUTANGA WHAKAMĀORI

# Goods and services tax – Reduced value rule in s 10(6) for supplies of domestic goods and services in commercial dwellings

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This interpretation statement considers s 10(6) of the Goods and Services Tax Act 1985, which provides for a reduced value for a supply of domestic goods and services in a commercial dwelling for more than 4 weeks. This reduced value rule results in an effective GST rate of 9%. The time from which the reduced value applies depends on whether the commercial dwelling is a residential establishment and whether there is upfront agreement that the domestic goods and services will be supplied for more than 4 weeks in total.

Legislative references are to the Goods and Services Tax Act 1985 unless otherwise stated.

### REPLACES | WHAKAKAPIA

- **GST – Supplies made to residents of commercial dwellings** *Tax Information Bulletin* Vol 6, No 2 (August 1994): 6

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## Key terms | Kīanga tau tāpua

**Commercial dwelling** is defined in s 2. It includes various listed dwellings such as hotels, motels, hostels, boarding houses, bed and breakfast establishments, serviced apartments,<sup>1</sup> and rest homes. It also includes premises of a similar kind to the listed dwellings.

**Domestic goods and services** is defined in s 2. Broadly, it means the right to occupy the whole or part of any commercial dwelling. It includes certain ancillary goods or services supplied as part of the right to occupy (eg, cleaning and electricity). It does not include personal laundry services, meals, toll calls and so on.

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<sup>1</sup> If certain criteria are met.

**Main rule** means the reduced value rule in the first paragraph of s 10(6). The main rule applies where an individual is supplied with domestic goods and services in a commercial dwelling for more than 4 consecutive weeks. Under the main rule, the reduced value for the supply of domestic goods and services applies after the first 4 weeks of accommodation.

**Proviso** means the reduced value rule in the second paragraph of s 10(6). The proviso may apply where an individual is supplied with domestic goods and services in a commercial dwelling that is a residential establishment. There must be agreement between the supplier and recipient at the time of the start of the supply that the domestic goods and services will be supplied for more than 4 weeks or for a number of periods that exceed 4 weeks in total. Under the proviso, the reduced value for the supply of domestic goods and services applies from the start of the supply.

**Reduced rate** means the effective reduced GST rate of 9% on the “domestic goods and services” component of a supply treated as having a reduced value under s 10(6).

**Reduced value rule** means the rule in s 10(6) that, if the requirements of the provision are met, the value of a supply of domestic goods and services is treated as being reduced to 60% of the actual value.

**Residential establishment** is defined in s 2. Broadly, it means a commercial dwelling in which at least 70% of individuals who reside there are staying there or are expected to stay there for at least 4 weeks.

## Analysis | Tātari

### Overview of the relevant rules

1. Supplies of accommodation in a dwelling are generally exempt supplies.<sup>2</sup> A typical residential lease, for example, does not attract GST.
2. The definition of “dwelling” (in s 2) excludes a commercial dwelling. Therefore, accommodation in a commercial dwelling is generally subject to GST at the normal rate of 15%. Commercial dwellings include dwellings such as hotels, motels, hostels, boarding houses, bed and breakfast establishments, serviced apartments,<sup>3</sup> and rest homes.
3. However, if s 10(6) applies, it provides for a reduced value of a supply of domestic goods and services in a commercial dwelling, where the period of occupancy is for more than 4 weeks. “Domestic goods and services” means the right to occupy the whole or part of any commercial dwelling. It includes certain ancillary goods or

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<sup>2</sup> Section 14(1)(c).

<sup>3</sup> If certain criteria are met.

services supplied as part of the right to occupy (eg, cleaning and electricity). It does not include personal laundry services, meals, toll calls and so on.

4. The aim of s 10(6) is to ensure long-stay occupants in commercial dwellings are not disadvantaged compared with those who rent or lease their domestic accommodation.
5. Under s 10(6), the value of the supply of domestic goods and services to an individual is treated as being reduced to 60% of the actual value. This results in an effective GST rate of 9% on the domestic goods and services supplied.
6. If there are other goods and services are supplied, the normal GST rate of 15% applies to those. If there is not separate payment for various components of a supply, and some components are not domestic goods and services, the consideration for the supply must be apportioned so the appropriate rates can be applied to the various components.
7. Section 10(6) does not apply to a head-lease (that is, a lease of a commercial dwelling to an organisation or provider who then sub-leases all or part of the commercial dwelling to an individual or individuals).
8. The time from which the reduced rate applies depends on whether the main rule or the proviso applies.
9. The main rule in s 10(6) applies where an individual is supplied with domestic goods and services for more than 4 consecutive weeks in a commercial dwelling that:
  - is a not a residential establishment; or
  - is a residential establishment but there is not upfront agreement that the domestic goods and services will be supplied for more than 4 weeks in total – whether in one stay or multiple separate stays.
10. A commercial dwelling is a residential establishment if at least 70% of individuals residing there are staying there or are expected to stay there for at least 4 weeks.
11. Under the main rule, the reduced rate does not apply for the first 4 weeks of the supply of domestic goods and services. The reduced rate kicks in from the start of the fifth week.
12. The proviso applies if the commercial dwelling is a residential establishment and there is upfront agreement between the supplier and recipient that the domestic goods and services will be supplied for more than 4 weeks – whether in one stay or multiple separate stays. In this case, the reduced rate applies from the start of the supply.
13. The application of s 10(6) does not affect the amount of input tax that can be claimed. That is, the input tax that can be claimed in respect of expenses incurred in providing domestic goods and services is not reduced to 60%.

14. Section 10(6) does not apply to the extent the supply of the accommodation is made through an electronic marketplace (for example a website, online platform or other similar marketplace through which the underlying supplier makes the supply to the recipient).

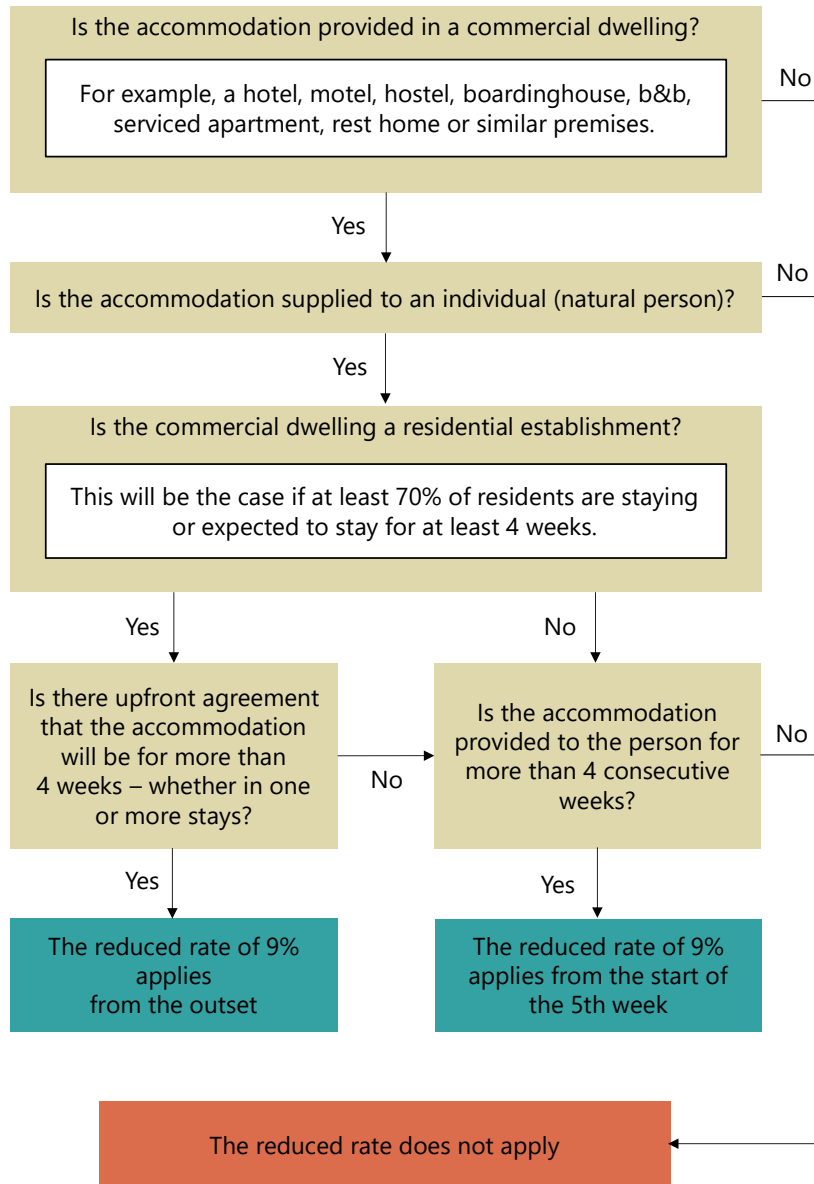
## **Flowchart – determining whether the reduced value rule in s 10(6) applies**

15. The flowchart in Diagram | Hoahoa 1 will assist in determining whether the reduced value rule in s 10(6) applies to a supply of accommodation in a commercial dwelling. If the reduced value rule does not apply, the accommodation will be subject to GST at the normal rate of 15%.<sup>4</sup>
16. If the reduced rate rule applies, it applies only to the extent the supply is of domestic goods and services (the accommodation and ancillary services such as cleaning, maintenance and utilities) – see further from [30].

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<sup>4</sup> The flowchart assumes the accommodation is not supplied through an electronic marketplace. As noted at [14], if the supply is made through an electronic marketplace the reduced rate rules do not apply.

**Diagram | Hoahoa 1 – Does the reduced value rule in s 10(6) apply?**



**Requirements for the reduced value rule in s 10(6) to apply**

17. Section 10 provides (relevantly) as follows:

**10 Value of supply of goods and services**

(1) For the purposes of this Act the following provisions of this section shall apply for determining the value of any supply of goods and services.

...

- (6) Where and to the extent that any supply of goods and services consists of the supply, to any individual, of domestic goods and services in a commercial dwelling, the value attributable to that part of that supply of domestic goods and services that is for a period in excess of 4 weeks shall be deemed to be reduced to an amount equal to 60% of the amount that would, if that part of that supply were chargeable with tax at the rate of 9%, be the value of that part of that supply of domestic goods and services:

provided that to the extent that any supply is a supply of domestic goods and services, and where that commercial dwelling is a residential establishment, and where the supplier and the recipient have agreed that that supply shall be for a period of or in excess of 4 weeks, or for a number of periods which in the aggregate will exceed 4 weeks, the value attributable to that supply of domestic goods and services shall, from the commencement of that supply, be deemed to be reduced to an amount equal to 60% of the amount that would, if that supply were chargeable with tax at the rate of 9%, be the value of that supply of domestic goods and services.

- (6B) Subsection (6) does not apply to the extent to which the supply is a supply of listed services made through an electronic marketplace.

18. Under the main rule in s 10(6), the effective GST rate of 9% on the domestic goods and services component of the supply applies **after the first 4 weeks of the accommodation**. However, if the commercial dwelling is a residential establishment, the proviso may potentially apply. If it does, the effective GST rate of 9% on the domestic goods and services component of the supply applies **from the start of the supply**.
19. For either rule to apply, the following requirements must be met:
- there is a commercial dwelling;
  - there is a supply of domestic goods and services in the commercial dwelling; and
  - the supply is made to an individual.
20. In addition to those requirements, for the main rule to apply the domestic goods and services must be supplied **for more than 4 consecutive weeks**.
21. For the proviso to apply, in addition to the requirements listed at [19]:
- the commercial dwelling must be a “residential establishment”; and
  - there must be agreement between the supplier and recipient at the time of the start of the supply that the domestic goods and services will be supplied for more than 4 weeks or for a number of periods that exceed 4 weeks in total.
22. If s 10(6) does not apply, the supply of accommodation in a commercial dwelling is subject to the full rate of GST.

## Definition of commercial dwelling

23. The first requirement for s 10(6) to potentially apply is that the accommodation is provided in a commercial dwelling. "Commercial dwelling" is defined in s 2 as follows:

**2 Interpretation**

(1) In this Act, other than in section 12, unless the context otherwise requires,—

...

**commercial dwelling—**

(a) means—

- (i) a hotel, motel, homestay, farmstay, bed and breakfast establishment, inn, hostel, or boardinghouse:
- (ii) a serviced apartment managed or operated by a third party for which services in addition to the supply of accommodation are provided and in relation to which a resident does not have quiet enjoyment, as that term is used in section 38 of the Residential Tenancies Act 1986:
- (iii) a convalescent home, nursing home, rest home, or hospice:
- (iv) a camping ground:
- (v) premises of a similar kind to those referred to in subparagraphs (i) to (iv); and

(b) excludes—

- (i) a hospital except to the extent to which the hospital is a residential establishment:
- (ii) a dwelling referred to in paragraph (b)(iii) of the definition of **dwelling**

24. The specifically listed commercial dwellings (in para (a)(i) to (iv)) are not defined in the Act. Those terms take their ordinary meaning.
25. If a particular premises does not fall within one of those categories, it may nonetheless be a commercial dwelling, under the catch-all of "premises of a similar kind" (para (a)(v)).
26. To determine whether a premises is of a similar kind to the listed categories, and so within the definition of commercial dwelling, it is necessary to consider its characteristics. If they are sufficiently similar to the types of characteristics of one or more of the listed categories of commercial dwelling, the premises are a commercial dwelling.
27. General characteristics common to many of the listed categories of commercial dwellings include that:

- they are places predominantly used for supplying accommodation;
  - they are operated on a commercial basis, typically at scale, with accommodation generally available to the public and in most cases to numerous people simultaneously (ie, there are typically multiple units, rooms or beds available);
  - the accommodation is usually provided by way of a licence to occupy rather than a tenancy;
  - the owner or operator has a degree of control, and the servicing of units, rooms or common areas is usually provided as part of the supply;
  - the accommodation is furnished; and
  - the guests received professional, formal or commercial hospitality.
28. There are differences between the various categories of listed commercial dwelling, in particular in terms of the extent to which the accommodation is self-contained, the quality of furnishings, the extent of services provided, and the average length of time guests typically stay.
29. If the premises is a commercial dwelling, the reduced rate rule for stays of more than 4 weeks may apply.

## Definition of domestic goods and services

30. If the reduced rate rule applies, it applies only to the extent the supply is of domestic goods and services.
31. If there are other components to the supply, or separate supplies are made alongside the supply of domestic goods and services, the reduced rate does not apply to those. The normal GST rate of 15% applies to the portion of the consideration that relates to any part of the supply that is not domestic goods and services. See further from [59].
32. "Domestic goods and services" is defined in s 2 as follows:

### 2 Interpretation

(1) In this Act, other than in section 12, unless the context otherwise requires,—

...

**domestic goods and services** means the right to occupy the whole or part of any commercial dwelling, including, where it is provided as part of the right to so occupy, the supply of—

- (a) cleaning and maintenance:
- (b) electricity, gas, air-conditioning, or heating:
- (c) telephone, television, radio, or any other similar chattel

33. As can be seen, the term domestic goods and services includes both the accommodation (the right to occupy) and certain ancillary goods or services supplied as part of the accommodation, being:
- cleaning and maintenance;
  - electricity, gas, air-conditioning and heating; and
  - telephone, television, radio, or any other similar chattel.
34. It is noted that para (c) in the definition refers to various chattels and to “any other similar chattel” (ie, something that is personal property). The Commissioner considers that para (c) includes services available through a chattel supplied as part of the accommodation – for example, “telephone” would extend to non-toll calls guests can make for no additional charge and “television” would extend to streaming services or pay TV channels available for guests to access for no additional charge. Similarly, services such as internet (the signal for which is broadcast via a router) available as part of the supply of accommodation would be included.
35. The Commissioner considers that cleaning extends to the laundering of towels and linen provided as part of the accommodation, but does not extend to personal laundry services.
36. Examples of goods and services that do not fall within the definition of domestic goods and services are meals, toll calls, medication and nursing services, or any goods and services supplied separately from the accommodation. This is the case whether or not those goods or services are a compulsory part of the agreement for the right to occupy. For example, even if meals are a compulsory part of a residential agreement for occupants of a retirement village and cannot be opted out of, they are not within the definition of domestic goods and services, so the reduced rate cannot be applied to the portion of the consideration that relates to the provision of meals.

## **The supply must be made to an individual**

37. For the reduced value rule to potentially apply, the supply of domestic goods and services (the right to occupy) must be made to an individual (that is, a natural person rather than, say, an organisation, company or other entity).
38. This does not mean the right to occupy needs to be paid for, solely or in part, by the individual. For example, if a government subsidy is paid to the provider to fully or partially cover the cost of the accommodation the provider provides to an individual, the reduced value rule applies, if all the requirements of s 10(6) are met.
39. Nor does it mean there cannot be another recipient of a supply under the arrangement. For example, if there is an agreement between an accommodation

provider and a government body or other organisation for the provider to provide domestic goods and services to qualifying individuals on an ongoing basis.

40. However, s 10(6) does not apply to a head-lease (that is, a lease of a commercial dwelling to an organisation or provider who then sub-leases all or part of the commercial dwelling to an individual or individuals). The provision does not look through to what is supplied to the ultimate tenant.

## Whether the commercial dwelling is a “residential establishment”

41. As noted at [18], under the main rule in s 10(6), the reduced rate applies after the first 4 weeks of the accommodation. However, if the commercial dwelling is a residential establishment, the proviso may apply. If it does, the reduced rate applies from the start of the supply.
42. “Residential establishment” is defined in s 2 as follows:

### 2 Interpretation

(1) In this Act, other than in section 12, unless the context otherwise requires,—

...

**residential establishment** means any commercial dwelling in which not less than 70% of the individuals to whom domestic goods and services are supplied reside, or are expected to reside, for a period of, or in excess of, 4 weeks; and also includes any hospital to the extent that it is used to provide domestic goods and services in a way similar to any such residential establishment

43. If at least 70% of individuals who are supplied with domestic goods and services (the right to occupy) in the commercial dwelling reside or are expected to reside there for at least 4 weeks, the establishment is a residential establishment. In addition, a hospital is a residential establishment to the extent it is used to provide domestic goods and services in a similar way.
44. If this 70% requirement is met and the commercial dwelling **is** a residential establishment, see from [45]. If the commercial dwelling **is not** a residential establishment, see from [50].

## If the commercial dwelling is a residential establishment

45. In addition to the 70% requirement noted above, for the proviso to apply it is also necessary that there is agreement between the supplier and recipient at the time of the

start of the supply that the domestic goods and services will be supplied for more than 4 weeks or for a number of periods that exceed 4 weeks in total.

46. Under the proviso, there does not need to be a stay of more than 4 consecutive weeks. The Commissioner considers that the words “or for a number of periods which in the aggregate will exceed 4 weeks” indicate that the 4-week threshold may be met through stays on multiple occasions that in total exceed 4 weeks. Therefore, the proviso also applies to a supply to a resident if there is upfront agreement for numerous stays that add up to more than 4 weeks in total over the course of the arrangement. For example, if there is an arrangement for an individual to go into respite care for 3 days a fortnight for the next year.
47. But whether the agreement is for one stay of more than 4 weeks or multiple stays that will together exceed 4 weeks, there must be agreement **at the time of the start of the supply** that domestic goods and services will be supplied for more than 4 weeks in total. If this is the case, the reduced rate applies from the start of the supply. If this is not the case, the main rule may still apply – see from [50].
48. As noted at [30], the reduced rate applies only to the extent the supply is of domestic goods and services. See further from [59].
49. The application of the proviso is illustrated in Example | Taurira 1.

**Example | Taurira 1 – Reduced value rule in the s 10(6) proviso – domestic goods and services supplied in a residential establishment where there is upfront agreement for a stay or stays of more than 4 weeks**

The ABC City Lodge is a boardinghouse that accommodates up to 20 residents at a time. There are individual rented rooms, and common use bathrooms, kitchens and living areas. ABC City Lodge undertakes weekly cleaning of the common areas. Guests are expected to keep them clean and tidy in the interim. Guests are responsible for cleaning their own rooms. Electricity, gas and heating are provided as part of the supply of accommodation, as are the televisions in the common areas and WiFi. All of the residents at ABC City Lodge are individuals, and ABC City Lodge can show that 90% of residents stay at the boardinghouse for more than 4 weeks.

Dale signs an agreement to stay at ABC City Lodge for 8 weeks. The GST-exclusive rate is \$220 a week.

The reduced rate in s 10(6) applies to the supply of domestic goods and services to Dale from the start of the supply. This because the following requirements are satisfied:

- The ABC City Lodge is a **commercial dwelling** (being a boardinghouse).

- ABC City Lodge is supplying **domestic goods and services** to Dale, being the right to occupy part of the commercial dwelling, together with cleaning services, electricity, gas, television and WiFi provided as part of the supply of accommodation.
- The domestic goods and services are being supplied to Dale, who is **an individual**.
- The commercial dwelling is a **residential establishment**, as 90% of individuals provided with accommodation at the boardinghouse stay for more than 4 weeks (the threshold to be a residential establishment is at least 70%).
- There is **agreement** between ABC City Lodge and Dale **at the start of the supply** that Dale's stay will be for more than 4 weeks.

The GST and total charge to Dale (per week) is calculated as follows:

$60\% \times \$220$  (actual value of the supply) = \$132 (deemed value of the supply)

$\$132 \times 15\% = \$19.80$  GST (GST is calculated on the deemed value of the supply)

$\$220 + \$19.80$  GST = \$239.80 per week charged to Dale

## If the commercial dwelling is not a residential establishment

50. The main rule in s 10(6) is relevant if the commercial dwelling:
  - is not a "residential establishment"; or
  - is a residential establishment but the proviso does not apply because there is no upfront agreement for a stay or stays that add up to more than 4 weeks in total.
51. Under the main rule, the reduced rate applies only to the extent the domestic goods and services are supplied for more than 4 weeks. That is, the reduced rate kicks in after the first 4 weeks of the accommodation (ie, from the start of the fifth week).
52. Under the main rule, there does not need to be upfront agreement about the length of the stay. However, there is a question as to whether the 4-week threshold needs to relate to a single supply or can relate to multiple supplies.
53. As noted at [46], the Commissioner considers that the proviso extends to situations where numerous stays will add up to more than 4 weeks in total over the course of the arrangement. This is because of the words "or for a number of periods which in the aggregate will exceed 4 weeks" in the proviso. However, this wording is not replicated in the main rule.

54. In some circumstances, if a supply of domestic goods and services for less than 4 weeks is extended one or more times and the stay ultimately exceeds 4 weeks, it may be that this can be considered a single supply that has been extended in term. If that is the case, it is clear the reduced rate can apply after the 4th week of the stay.
55. But there may be circumstances where, under the contractual arrangements, subsequent agreements do not amount to an extension of the original supply, but rather to a new supply. If that is the case, provided there is no break in the stay (that is, there is a series of consecutive supplies), the Commissioner considers that s 10(6) can apply. The focus of s 10(6) is whether the domestic goods and services (the right to occupy) exceeds 4 weeks, not whether there is a right to occupy exceeding 4 weeks provided for in a single supply.
56. This is supported by the use of the words “any supply” and “that part of that supply” in the provision. It is also consistent with the apparent intention of the provision. As explained in a 1986 *Public Information Bulletin*,<sup>5</sup> which provided Inland Revenue’s commentary on the Act as enacted, the provision was about ensuring that where **stays** in commercial accommodation go beyond 4 weeks in length the occupant should not be disadvantaged compared with people who lease their domestic accommodation.
57. As noted at [30], the reduced rate applies only to the extent the supply is of domestic goods and services. See further from [59].
58. The application of the main rule is illustrated in Example | Taurira 2.

**Example | Taurira 2 – Main reduced value rule in s 10(6) – domestic goods and services supplied in a commercial dwelling when the proviso does not apply**

Matilda sold her house in Wellington and moved to Tauranga. She is staying in a serviced apartment<sup>6</sup> in Tauranga while looking for a property to buy. She originally booked in for 3 weeks and has extended her stay for an additional week at a time since. She has been staying at the serviced apartment for 8 weeks.

The GST-exclusive rate for the apartment Matilda is staying in is \$500 a week. The room rate includes cleaning services (the serviced apartments in the complex are all cleaned every 2 days, including linen and towels being changed), electricity, heating, a television and WiFi.

About 30% of guests at the serviced apartment complex stay for more than 4 weeks.

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<sup>5</sup> Goods and Services Tax Act 1985 *Public Information Bulletin* 143 (February 1986) at page 14.

<sup>6</sup> The serviced apartment meets the requirements in para (a)(ii) of the definition of commercial dwelling in s 2 of the Act.

The reduced rate in s 10(6) applies to the supply of domestic goods and services to Matilda from the fifth week of her stay. This because the following requirements are satisfied:

- A serviced apartment is a **commercial dwelling**.
- The serviced apartment operator is supplying **domestic goods and services** to Matilda, being the right to occupy part of the commercial dwelling, together with the cleaning services (including the changing of linen and towels), electricity, television and WiFi provided as part of the supply of accommodation.
- The domestic goods and services are being supplied to Matilda, who is **an individual**.

The proviso in s 10(6) is not relevant, because the serviced apartment complex is not a residential establishment. To be a residential establishment at least 70% of individuals provided with accommodation in the commercial dwelling must stay for more than 4 weeks. That is not the case for the serviced apartment complex, where only about 30% of guests stay for more than 4 weeks. Therefore, the reduced rate does not apply from the start of the supply, but rather from the fifth week, under the main rule in s 10(6).

The GST and total charge to Matilda (per week) **for each of the first 4 weeks** is calculated as follows:

$$\$500 \times 15\% = \$75 \text{ GST}$$

$$\$500 + \$75 \text{ GST} = \$575 \text{ per week charged to Matilda}$$

The GST and total charge to Matilda (per week) **for the fifth and each subsequent week** of her stay is calculated as follows:

$$60\% \times \$500 \text{ (actual value of the supply)} = \$300 \text{ (deemed value of the supply)}$$

$$\$300 \times 15\% = \$45 \text{ GST (GST is calculated on the deemed value of the supply)}$$

$$\$500 + \$45 \text{ GST} = \$545 \text{ per week charged to Matilda}$$

## Reduced value rule applies to only the domestic goods and services component of the supply

59. As noted from [30], the reduced rate applies only to the extent the supply is of domestic goods and services. If there are other components to the supply, or separate supplies are made alongside the supply of domestic goods and services, the reduced rate does not apply to those.

60. If there is not separate payment for various components, and some components are not domestic goods and services, it is necessary to apportion the consideration for the supply between the various components. The reduced rate is applied to only the domestic goods and services component. Apportionment of the consideration between the various components must be done on a fair and reasonable basis.
61. The normal GST rate of 15% applies to the portion of the consideration that relates to any part of the supply that is not domestic goods and services.
62. Note that if the commercial dwelling is a rest home or private hospital, there are some agreed composite effective GST rates that Inland Revenue will accept. See further from [64].
63. Example | Tauira 3 illustrates the reduced value rule applying to only the domestic goods and services component of a supply.

### **Example | Tauira 3 – Reduced value rule applies to only the domestic goods and services component of the supply**

The facts in this example are the same as in Example | Tauira 2, but Matilda also pays for a personal laundry service the serviced apartment complex provides. The charges for this each week are included in Matilda's invoice for the following week's accommodation.

As explained in Example | Tauira 2, the reduced rate in s 10(6) applies to the supply of domestic goods and services to Matilda from the fifth week of her stay. The reduced rate **does not** apply to the personal laundry services supplied, as these services are not domestic goods and services. They are not cleaning services provided as part of the right to occupy; rather, they are an additional service provided by the operator. It is not relevant that these services are invoiced for together with the coming week's accommodation rather than being invoiced for separately.

For each week of Matilda's stay, she incurs \$60 (GST-exclusive) of cleaning services.

The GST and total charge to Matilda (per week) **for each of the first 4 weeks** is calculated as follows:

$$\$560 \times 15\% = \$84 \text{ GST}$$

$$\$560 + \$84 \text{ GST} = \$644 \text{ per week charged to Matilda}$$

The GST and total charge to Matilda (per week) **for the fifth and each subsequent week** of her stay is calculated as follows:

#### ***GST on the supply of domestic goods and services***

$60\% \times \$500$  (actual value of the supply of domestic goods and services) = \$300  
(deemed value of the supply of domestic goods and services)

$\$300 \times 15\% = \$45$  GST (GST is calculated on the deemed value of the supply of domestic goods and services)

$\$500 + \$45$  GST = \$545 per week charged to Matilda for the supply of domestic goods and services

***GST on the supply of personal laundry services***

$\$60 \times 15\% = \$9$  GST (on the supply of personal laundry services, which are not domestic goods and services)

$\$60 + \$9$  GST = \$69 per week charged to Matilda for the supply of personal laundry services

***Total amount per week***

Total amount charged to Matilda each week =  $\$545 + \$69 = \$614$  (including \$54 GST)

## **Agreed industry apportionment rates for rest homes and private hospitals**

64. If the commercial dwelling is a rest home or private hospital, there are some agreed composite effective GST rates that Inland Revenue will generally accept. These are based on agreed standard apportionment percentages between domestic goods and services supplied (covered by s 10(6)) and other goods and services supplied by the rest home or hospital (subject to GST on the full value).
65. These standard apportionment percentages / composite effective GST rates are aimed at providing certainty within this industry group about what will generally be acceptable to Inland Revenue.
66. These standard apportionment percentages / composite effective GST rates do not need to be applied. A rest home or hospital may choose to apportion the supplies it makes on a factual basis. Apportionment must be done on a factual basis if the supplies made by a particular rest home or private hospital are not likely to be consistent with the agreed standard apportionment percentages.

67. The standard apportionment percentages (and resultant composite effective GST rates) are as follows:<sup>7</sup>

▪ **For rest homes:**

- 45% domestic goods and services; and
- 55% other goods and services.

A composite effective GST rate of **12.3%**.

▪ **For private hospitals:**

- 35% domestic goods and services; and
- 65% other goods and services.

A composite effective GST rate of **12.9%**.

68. The application of the standard apportionment rates is illustrated in Example | Taura 4.

**Example | Taura 4 – Applying the reduced value rule with the standard apportionment rates for rest homes**

The Fireside Home is a rest home. More than 70% of its residents are there on a long-term basis, in excess of 4 weeks. Therefore, the rest home is a commercial dwelling and a residential establishment.

The Fireside Home applies the standard apportionment rates:

- 45% domestic goods and services (right to occupy, cleaning, maintenance, etc); and
- 55% non-domestic goods and services (meals, medication, etc).

The Fireside Home charges the following amounts for accommodation, excluding GST:

- Short-stay residents (under 4 weeks) = \$550 per week.
- Day-care residents = \$100 per day.
- Permanent residents = \$500 per week.

For short-stay and day-care residents, GST is calculated in the normal way, because the domestic goods and services are supplied for less than 4 weeks.

***GST on the supplies to short-stay residents***

$\$550 \times 15\% = \$82.50$  GST

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<sup>7</sup> The composite GST rates are calculated in the same way as was set out in "GST – Supplies made to residents of commercial dwellings" *Tax Information Bulletin* Vol 6, No 2 (August 1994): 6, which this interpretation statement replaces, but have been uplifted on account of the standard GST rate having since increased to 15%.

$$\$550 + \$82.50 = \$632.50 \text{ per week}$$

***GST on the supplies to day-care residents***

$$\$100 \times 15\% = \$15 \text{ GST}$$

$$\$100 + \$15 = \$115 \text{ per day}$$

For permanent residents, using the standard apportionment rates, GST is calculated as follows:

***GST on the supplies to permanent residents****GST on supply of domestic goods and services*

$45\% \times \$500 = \$225$  (the amount of the GST-exclusive weekly charge apportioned to domestic goods and services, using the standard rates)

$60\% \times \$225 = \$135$  (deemed value of the supply of domestic goods and services)

$\$135 \times 15\% = \$20.25$  GST (GST is calculated on the deemed value of the supply of domestic goods and services)

*GST on supply of other goods and services*

$55\% \times \$500 = \$275$  (the amount of the GST-exclusive weekly charge apportioned to goods and services that are not domestic goods and services, using the standard rates)

$$\$275 \times 15\% = \$41.25 \text{ GST}$$

*Total GST*

$$\$20.25 + \$41.23 = \$61.50 \text{ total GST}$$

*Total charge to permanent residents*

$$\$500 \text{ (exclusive of GST)} + \$61.50 \text{ GST} = \$561.50 \text{ per week}$$

As noted at [67], the standard apportionment rates for rest homes result in a composite effective GST rate of **12.3%**. Therefore, a simplified method for calculating the GST on supplies to permanent residents is to apply that composite effective rate to the GST-exclusive weekly charge:

$$\$500 \times 12.3\% = \$61.50 \text{ GST}$$

## Reduced rate must be applied, but s 10(6) does not affect the amount of input tax that can be claimed

69. If s 10(6) applies, GST **must** be applied at the reduced rate. This is not optional.
70. The application of s 10(6) does not affect the amount of input tax that can be claimed. That is, the input tax that can be claimed in respect of expenses incurred in providing domestic goods and services is not reduced to 60%.
71. Operating a commercial dwelling is a taxable activity. The supply of domestic goods and services in a commercial dwelling is a taxable supply and is chargeable with GST under s 8. The reduced value of the supply under s 10(6) does not alter the fact the supply is a taxable supply. Section 10(6) determines the value placed on the supply of domestic goods and services. It does not deem part of that supply to be non-taxable. As a result, the entire supply is taxable, although at a deemed reduced value.
72. This means any expenses incurred in providing domestic goods and services in a commercial dwelling are incurred in the course of making taxable supplies. As a result, input tax can be claimed in full for expenses incurred in the course of operating a commercial dwelling.

## Section 10(6) does not apply to the extent the supply of accommodation is made through an electronic marketplace.

73. Section 10(6) **does not apply** to the extent the supply is a supply of “listed services” (defined in s 2), which includes accommodation in a commercial dwelling, made through an “electronic marketplace” (defined in s 2).<sup>8</sup>
74. An electronic marketplace is a marketplace that is operated by electronic means, by which the underlying supplier makes a supply of listed services through the marketplace operator to the recipient. It includes a website, internet portal, gateway, store, distribution platform or other similar marketplace. It does not include a marketplace that solely processes payments. For further information see [QB 25/19: GST listed services rules – When is a supply of listed services made through an electronic marketplace?](#)

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<sup>8</sup> Section 10(6B).

*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  
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## References | Tohutoro

### Legislative references | Tohutoro whakatureture

Goods and Services Tax Act 1985, ss 2 (“commercial dwelling”, “domestic goods and services”, “dwelling”, “electronic marketplace”, “listed services” and “residential establishment”), 8, 10 and 14

### Other references | Tohutoro anō

Goods and Services Tax Act 1985 *Public Information Bulletin* 143 (February 1986)  
[nzlii.org/nz/other/NZIRDPIB/1986/143.html](http://nzlii.org/nz/other/NZIRDPIB/1986/143.html)

GST – Supplies made to residents of commercial dwellings *Tax Information Bulletin* Vol 6, No 2 (August 1994): 6  
[taxtechnical.ird.govt.nz/tib/volume-06---1994-1995/tib-vol6-no2](http://taxtechnical.ird.govt.nz/tib/volume-06---1994-1995/tib-vol6-no2)

QB 25/19: GST listed services rules – When is a supply of listed services made through an electronic marketplace? *Tax Information Bulletin* Vol 37, No 8 (September 2025): 41  
[taxtechnical.ird.govt.nz/tib/volume-37---2025/tib-vol37-no8](http://taxtechnical.ird.govt.nz/tib/volume-37---2025/tib-vol37-no8)  
[taxtechnical.ird.govt.nz/questions-we-ve-been-asked/2025/qb-25-19](http://taxtechnical.ird.govt.nz/questions-we-ve-been-asked/2025/qb-25-19)

## About this document | Mō tēnei tuhinga

Interpretation statements are issued by the Tax Counsel Office. They set out the Commissioner’s views and guidance on how New Zealand’s tax laws apply. They may address specific situations we have been asked to provide guidance on, or they may be about how legislative provisions apply more generally. While they set out the Commissioner’s considered views, interpretation statements 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 an interpretation statement will not necessarily lead to the same tax result. Each case must be considered on its own facts.