

FACT SHEET | PUKA MEKA

The interest limitation rules and short-stay accommodation

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IS 23/04 FS

This fact sheet accompanies interpretation statement **IS 23/04**. IS 23/04 considers how the interest limitation rules apply to interest incurred for property used to provide short-stay accommodation. It also explains what other income tax rules may be relevant to any interest that's deductible. This fact sheet gives an overview of the rules relevant to your interest deductibility and refers you to the part of IS 23/04 that provides more detail about the rules relevant to your circumstances.

IS 23/04 and this fact sheet are relevant to natural persons and trustees only.

Key terms | Kīanga tau tāpua

<p>Short-stay accommodation</p>	<p>Accommodation provided to a paying guest for up to four consecutive weeks.</p>
<p>Short-stay dwelling</p>	<p>A dwelling in which you provide short-stay accommodation.</p>
<p>Interest limitation rules</p>	<p>Disallow interest deductions for residential property, either fully or, for some properties during the phase-out period (1 October 2021 to 31 March 2025), in part.</p> <p>Interest may still be deductible if a property is excluded from these rules and there's some income-earning use of the property. Some excluded properties are:</p> <ul style="list-style-type: none"> ▪ new build land (for 20 years), ▪ the owner's main home, ▪ the main home of a beneficiary of a trust (if the property is held in a trust), provided no principal settlor of the trust has a different main home, and ▪ farmland. <p>Criteria must be met for these exclusions to apply. The exclusions can apply to part of a property (eg, if there are two dwellings on one piece of land, one might be a new build and the other not, or one the owner's main home but the other not).</p> <p>If your land is subject to the interest limitation rules, whether your interest deductions are fully denied now or phased-out over the phase-out period depends on whether you have a grandparented transitional loan.</p>
<p>New build land</p>	<p>New build land is exempt from the interest limitation rules for 20 years from the date the CCC is issued, regardless of whether the ownership of the land changes in that time.</p> <p>Generally, new build land is land to the extent it has a self-contained dwelling on it and the relevant code compliance certificate (CCC) was issued for it on or after 27 March 2020.</p>
<p>Grandparented transitional loan</p>	<p>A loan drawn down before 27 March 2021 or a loan that refinances such a loan.</p>

	<p>If your loan is a grandfathered transitional loan and the normal deductibility rules are met, a portion of the interest can be claimed during the phase-out period. The portion that can be claimed decreases each year of the phase-out period. Interest will be fully denied from 1 April 2025.</p> <p>The percentages of the deduction for grandfathered residential interest that is denied in the phase-out period are:</p> <ul style="list-style-type: none"> ▪ 1 October 2021 to 31 March 2022: 25% ▪ 1 April 2022 to 31 March 2023: 25% ▪ 1 April 2023 to 31 March 2024: 50% ▪ 1 April 2024 to 31 March 2025: 75% ▪ On and after 1 April 2025: 100% <p>If your loan isn't a grandfathered transitional loan, you can't claim any interest deductions.</p>
<p>Mixed-use asset rules (MuA rules)</p>	<p>Set out the extent deductions are allowed if, during the income year, a property (or dwelling on a property) earns rental income, is used privately, and is unused for 62 days or more.</p>
<p>Standard deductibility rules</p>	<p>Refer to the principles for apportioning most of your deductible expenses (including interest) if the MuA rules don't apply, but there's private use and income-earning use of the property.</p>
<p>Ring-fencing rules</p>	<p>May apply to limit the deductible expenses you can claim in a particular income year.</p> <p>These rules generally apply to residential land if the deductible expenses for the year are more than the income derived (that is, the property, or a portfolio of properties it belongs to, is loss-making for the year). Deductions up to the amount of income can be claimed that year. The excess deductible amount is carried forward and may be used in a future year.</p> <p>Some residential properties are excluded from these rules. This includes land in the MuA rules or the owner's main home. Criteria must be met for these exclusions to apply.</p>
<p>Bright-line test</p>	<p>Taxes sales of residential property owned for less than five or ten years (depending on when the property was acquired). Some sales may not be taxed, for example if the property was the owner's main home (and it meets the relevant criteria).</p>

Introduction | Whakataki

1. IS 23/04 considers how the interest limitation rules apply to interest incurred for property in which you provide short-stay accommodation. It also explains what other income tax rules may be relevant to any interest that's deductible. This fact sheet gives an overview of the rules relevant to your circumstances and refers you to the part of IS 23/04 that provides more detail about the rules.
2. As noted in the "Key terms" table above, the interest limitation rules may apply to residential property to disallow interest deductions, either fully or, for some properties during the phase-out period, in part.
3. The interest limitation rules override all other deduction rules. If a deduction is denied under these rules, the deduction isn't allowed under any other rule.
4. However, interest deductions that are disallowed only because of the interest limitation rules may be deductible on a taxable sale of the land (for example, if the sale is taxed under the 5-year or 10-year bright-line test). If the sale of your land may end up being taxed, you should keep track of how much interest you would have been allowed to deduct if not for the interest limitation rules. You may be able to deduct the disallowed interest if the sale ends up being taxed.
5. This fact sheet provides an overview of the rules you may need to consider. For further detail, you should refer to IS 23/04 or to other Inland Revenue guidance (some links to other guidance are provided in this fact sheet).
6. To see the rules that may apply to your interest deductions, go to the part of this fact sheet relevant to your circumstances. If you provide short-stay accommodation:
 - **in your holiday home** – go to [7],
 - **in your main home** – go to [15],
 - **in a separate dwelling on the same land as your main home** – go to [18],
 - **in a separate property used only for short-stay accommodation** – go to [29],
 - **on your farm or lifestyle block** – go to [35].

Short-stay accommodation in your holiday home

7. IS 23/04 and this fact sheet assume your holiday home is the only dwelling on the land. If that’s not the case, you may need to seek advice about how the rules apply.
8. If you provide short-stay accommodation in your holiday home, the way the rules apply depends on whether the holiday home is new build land (see the “Key terms” table above).
9. If your holiday home:
 - **isn’t new build land**, see from [10],
 - **is new build land**, see from [13].

If your holiday home isn’t new build land

10. Figure 1 below gives an overview of the relevant rules.

Figure | Hoahoa 1 – Short-stay accommodation provided in your holiday home, which isn’t new build land – overview of rules relevant to interest deductibility

Interest limitation rules	Apportionment rules	Ring-fencing rules
<p>The interest limitation rules apply to deny interest deductions – subject to partial deductibility in the phase-out period if you have a grandparented transitional loan.</p>	<p>If there is both income-earning and private use of the holiday home and:</p> <ul style="list-style-type: none"> • you can deduct a portion of the interest in the phase-out period because you have a grandparented transitional loan, and/or • the sale of the holiday home could be taxed, <p>apportion the interest under either the MuA rules or standard deductibility rules (see the IR guidance referred to at [11]).</p> <p>The interest limitation rules override the ability to deduct interest under the MuA rules or standard deductibility rules. But performing the apportionment calculates the interest that would otherwise have been deductible.</p>	<p>The ring-fencing rules are unlikely to apply. However, they will apply to limit your total deduction for the income year if:</p> <ul style="list-style-type: none"> • the MuA rules do not apply to the holiday home, and • the rental activity for the holiday home¹ is loss-making.

¹ Or a portfolio of rental properties if you have one.

	Denied interest deductions may become deductible in the future if the sale of the holiday home is taxed (eg, under the 5-year or 10-year bright-line test).	
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11. Inland Revenue has guidance to help you determine which apportionment rules apply to your holiday home and how the relevant rules apply. See:
- [QB 19/06](#): What income tax rules apply if I have a dwelling that I sometimes rent out as short-stay accommodation and sometimes use myself? *Tax Information Bulletin* Vol 31, No 6 (July 2019): 12.
 - [QB 19/07](#): How do the mixed-use asset income tax rules apply to a dwelling that I sometimes rent out as short-stay accommodation and sometimes use privately? *Tax Information Bulletin* Vol 31, No 6 (July 2019): 16.
 - [QB 19/08](#): How do the standard income tax rules apply to a dwelling that I sometimes rent out as short-stay accommodation and sometimes use privately? *Tax Information Bulletin* Vol 31, No 6 (July 2019): 22.
12. For more detailed guidance on the rules that apply to you, see IS 23/04 from [30].

If your holiday home is new build land

13. Figure 2 below gives an overview of the relevant rules.

Figure | Hoahoa 2 – Short-stay accommodation provided in your holiday home, which is new build land – overview of rules relevant to interest deductibility

Interest limitation rules	Apportionment rules	Ring-fencing rules
The interest limitation rules do not apply. Interest is deductible subject to the other columns.	If there is both income-earning and private use of the holiday home, interest and most other expenses will need to be apportioned (so will be partially deductible). Apportionment is under either the MuA rules or standard deductibility rules (see the IR guidance referred to at [11]).	If the MuA rules do not apply and the rental activity for the holiday home ² is loss-making, the total deductions (including interest) allowed in the income year may be limited by the ring-fencing rules (see IS 23/04 from [62]).

14. For more detailed guidance on the rules that apply to you, see IS 23/04 from [56].

² Or a portfolio of rental properties if you have one.

Short-stay accommodation in your main home

15. Your main home is the dwelling you use as your residence. You can only have one main home. If you have more than one home, your main home is the place you're considered to have the greatest connection with.
16. Figure 3 below provides an overview of the relevant rules.

Figure | Hoahoa 3 – Short-stay accommodation provided in your main home – overview of rules relevant to interest deductibility

Interest limitation rules	Apportionment rules	Ring-fencing rules
<p>The interest limitation rules do not apply.</p> <p>Interest is deductible subject to the other columns.</p>	<p>Interest and most other expenses will need to be apportioned (so partially deductible).</p> <p>See QB 19/05 for guidance on how to apportion interest and other expenses.</p>	<p>The ring-fencing rules do not apply provided more than 50% of the land has been used as a main home for most of the income year (see IS 23/04 from [78]).</p> <p>If the main home exclusion applies and the rental activity is loss-making, the ring-fencing rules won't limit the total deduction you can claim in the income year (after apportionment).</p>

17. For more detailed guidance on the rules that apply to you, see IS 23/04 from [71].

Short-stay accommodation in a separate dwelling on the same land as your main home

18. Your short-stay dwelling may be on the same property (that is, the same legal title) as your main home. For example, a cottage you use to provide short-stay accommodation may be on the same title as your main home.
19. In this situation, how the interest limitation rules apply depends on whether you have one loan for both your main home and the short-stay dwelling or separate loans for each and whether your short-stay dwelling is new build land (see the "Key terms" table above). If you have:
 - **one loan** for both your main home and short-stay dwelling, and the short-stay dwelling **isn't new build land**, see from [20],
 - **one loan** for both your main home and short-stay dwelling, and the short-stay dwelling **is new build land**, see from [22],

- **separate loans** for your main home and short-stay dwelling, see from [24].

One loan for your main home and short-stay dwelling and the short-stay dwelling isn't new build land

20. Figure 4 below gives an overview of the relevant rules.

Figure | Hoahoa 4 – Short-stay accommodation provided in a separate dwelling on the same land as your main home – one loan and the short-stay dwelling isn't new build land – overview of rules relevant to interest deductibility

Interest limitation rules	Apportionment rules	Ring-fencing rules
<p>Apportion the loan interest between your main home and the short-stay dwelling.</p> <p>The interest limitation rules apply to deny deductions for the interest apportioned to the short-stay dwelling – subject to partial deductibility in the phase-out period if you have a grandparented transitional loan.</p>	<p>If there is both income-earning and private use of the short-stay dwelling and:</p> <ul style="list-style-type: none"> • you can deduct a portion of the interest in the phase-out period because you have a grandparented transitional loan, and/or • the sale of the property could be taxed, <p>apportion the interest under either the MuA rules or standard deductibility rules (see the IR guidance referred to at [11]).</p> <p>The interest limitation rules override the ability to deduct interest under the MuA rules or standard deductibility rules. But performing the apportionment calculates the interest that would otherwise have been deductible.</p> <p>Denied interest deductions may become deductible in the future if the sale of the property is taxed (eg, under the 5-year or 10-year bright-line test).</p>	<p>The ring-fencing rules are unlikely to apply. However, they will apply to limit your total deduction for the income year if:</p> <ul style="list-style-type: none"> • you have not used more than 50% of the land for your main home, • the MuA rules do not apply to the short-stay dwelling, and • the rental activity for the short-stay dwelling³ is loss-making.

21. For more detailed guidance on the rules that apply to you, see IS 23/04 from [94].

³ Or a portfolio of rental properties if you have one.

One loan for main home and short-stay dwelling, and short-stay dwelling is new build land

22. Figure 5 below gives an overview of the relevant rules.

Figure | Hoahoa 5 – Short-stay accommodation provided in a separate dwelling on the same land as your main home – one loan and the short-stay dwelling is new build land – overview of rules relevant to interest deductibility

Interest limitation rules	Apportionment rules	Ring-fencing rules
<p>Apportion the loan between your main home and the short-stay dwelling.</p> <p>The interest limitation rules do not apply to the interest apportioned to the short-stay dwelling.⁴</p> <p>Interest for the short-stay dwelling is deductible subject to the other columns.</p>	<p>If there is both income-earning and private use of the short-stay dwelling, interest and most other expenses must be apportioned (so will be partially deductible).</p> <p>Apportionment is under either the MuA rules or standard deductibility rules (see the IR guidance referred to at [11]).</p>	<p>The ring-fencing rules are unlikely to apply. However, they will apply to limit your total deduction for the income year if:</p> <ul style="list-style-type: none"> • you have not used more than 50% of the land for your main home, • the MuA rules do not apply to the short-stay dwelling, and • the rental activity for the short-stay dwelling⁵ is loss-making.

23. For more detailed guidance on the rules that apply to you, see IS 23/04 from [111].

Separate loans for main home and short-stay dwelling

24. If you have separate loans for your main home and short-stay dwelling, how the interest limitation rules apply depends on whether the short-stay dwelling is new build land (see the “Key terms” table above). If your short-stay dwelling:

- **isn’t new build land**, see from [25],
- **is new build land**, see from [27].

⁴ The interest limitation rules will also not apply to the interest apportioned to your main home. Interest for your main home will only be partly deductible if you have some income-earning use of your home.

⁵ Or a portfolio of rental properties if you have one.

If the short-stay dwelling isn't new build land

25. Figure 6 below gives an overview of the relevant rules.

Figure | Hoahoa 6 – Short-stay accommodation provided in a separate dwelling on the same land as your main home – separate loan for the short-stay dwelling and the dwelling isn't new build land – overview of rules relevant to interest deductibility

Interest limitation rules	Apportionment rules	Ring-fencing rules
<p>The interest limitation rules apply to deny deductions for the interest on the loan for the short-stay dwelling – subject to partial deductibility in the phase-out period if you have a grandparented transitional loan.</p>	<p>If there is both income-earning and private use of the short-stay dwelling and:</p> <ul style="list-style-type: none"> • you can deduct a portion of the interest in the phase-out period because you have a grandparented transitional loan, and/or • the sale of the property could be taxed, <p>apportion the interest under either the MuA rules or standard deductibility rules (see the IR guidance referred to at [11]).</p> <p>The interest limitation rules override the ability to deduct interest under the MuA rules or standard deductibility rules. But performing the apportionment calculates the interest that would otherwise have been deductible.</p> <p>Denied interest deductions may become deductible in the future if the sale of the property is taxed (eg, under the 5-year or 10-year bright-line test).</p>	<p>The ring-fencing rules are unlikely to apply. However, they will apply to limit your total deduction for the income year if:</p> <ul style="list-style-type: none"> • you have not used more than 50% of the land for your main home, • the MuA rules do not apply to the short-stay dwelling, and • the rental activity for the short-stay dwelling⁶ is loss-making.

26. For more detailed guidance on the rules that apply to you, see IS 23/04 from [129].

⁶ Or a portfolio of rental properties if you have one.

If the short-stay dwelling is new build land

27. Figure 7 below gives an overview of the rules relevant to your interest deductibility.

Figure | Hoahoa 7 – Short-stay accommodation provided in a separate dwelling on the same land as your main home – separate loan for the short-stay dwelling and the dwelling is new build land – overview of rules relevant to interest deductibility

Interest limitation rules	Apportionment rules	Ring-fencing rules
<p>The interest limitation rules do not apply to the interest on the loan for the short-stay dwelling.</p> <p>Interest for the short-stay dwelling is deductible subject to the other columns.</p>	<p>If there is both income-earning and private use of the short-stay dwelling, interest and most other expenses will need to be apportioned (so will be partially deductible).</p> <p>Apportionment is under either the MuA rules or standard deductibility rules (see the IR guidance referred to at [11]).</p>	<p>The ring-fencing rules are unlikely to apply. However, they will apply to limit your total deduction for the income year if:</p> <ul style="list-style-type: none"> • you have not used more than 50% of the land for your main home, • the MuA rules do not apply to the short-stay dwelling, and • the rental activity for the short-stay dwelling⁷ is loss-making.

28. For more detailed guidance on the rules that apply to you, see IS 23/04 from [144].

Short-stay accommodation in a separate property used only for short-stay accommodation

29. You may provide short-stay accommodation in a dwelling that's the only dwelling on the land and isn't used for anything else (for example, you don't use it yourself).

30. In this situation, how the interest limitation rules apply depends on whether the short-stay dwelling is new build land (see the "Key terms" table above). If your short-stay dwelling:

- **isn't new build land**, see from [31],
- **is new build land**, see from [33].

⁷ Or a portfolio of rental properties if you have one.

If the short-stay dwelling isn't new build land

31. Figure 8 below gives an overview of the relevant rules.

Figure | Hoahoa 8 – Short-stay accommodation provided in a dwelling on a separate property used only to provide short-stay accommodation and the dwelling isn't new build land – overview of rules relevant to interest deductibility

Interest limitation rules	Ring-fencing rules
<p>The interest limitation rules apply to deny interest deductions – subject to partial deductibility in the phase-out period if you have a grandparented transitional loan.</p> <p>Denied interest deductions may become deductible in the future if the sale of the property is taxed (eg, under the 5-year or 10-year bright-line test).</p>	<p>The ring-fencing rules will apply to limit your total deduction for the income year if the rental activity for the property⁸ is loss-making. This is unlikely to be the case after the phase-out period unless you have a portfolio of properties (see IS 23/04 from [166]).</p>

32. For more detailed guidance on the rules that apply to you, see IS 23/04 from [160].

If the short-stay dwelling is new build land

33. Figure 9 below gives an overview of the relevant rules.

Figure | Hoahoa 9 – Short-stay accommodation provided in a dwelling on a separate property used only to provide short-stay accommodation and the dwelling is new build land – overview of rules relevant to interest deductibility

Interest limitation rules	Ring-fencing rules
<p>The interest limitation rules do not apply.</p> <p>Interest is deductible subject to the other column.</p>	<p>The ring-fencing rules will apply to limit your total deduction (including interest) for the income year if the rental activity for the property⁹ is loss-making (see IS 23/04 from [171]).</p>

34. For more detailed guidance on the rules that apply to you, see IS 23/04 from [169].

⁸ Or a portfolio of rental properties if you have one.

⁹ Or a portfolio of rental properties if you have one.

Short-stay accommodation on your farm or lifestyle block

35. If you provide short-stay accommodation on your farm or lifestyle block, the first thing you must determine is whether the land qualifies as “farmland”. This is because the interest limitation rules don’t apply to farmland.
36. “Farmland” is defined as land that’s being worked in the owner’s farming or agricultural business or, due to its area and nature, is capable of being worked as a farming or agricultural business.
37. Lifestyle blocks are generally unlikely to qualify as farmland given their size.
38. If the property your short-stay dwelling is on:
 - **is farmland**, see from [39],
 - **isn’t farmland**, see from [41].

If your land is farmland

39. Figure 10 below gives an overview of the relevant rules.

Figure | Hoahoa 10 – Short-stay accommodation provided on your farmland – overview of rules relevant to interest deductibility

Interest limitation rules	Apportionment rules	Ring-fencing rules
<p>The interest limitation rules do not apply.</p> <p>Interest is deductible subject to the other columns.</p>	<p>If there is both income-earning and private use of the short-stay dwelling, interest and most other expenses will need to be apportioned (so will be partially deductible).</p> <p>Apportionment is under either the MuA rules or standard deductibility rules (see the IR guidance referred to at [11]).</p>	<p>The ring-fencing rules will not apply to limit your total deduction (including interest) for the property as it is farmland.</p>

40. For more detailed guidance on the rules that apply to you, see IS 23/04 from [169].

If your land isn't farmland

41. If your land isn't farmland, the rules that apply depend on your circumstances.
42. If your short-stay dwelling is the only dwelling on the land, and the dwelling isn't your main home, the discussion from [7] on short-stay accommodation provided in a holiday home is relevant, treating your short stay-dwelling as the holiday home.
43. If your main home is the only dwelling on the land, and you provide short-stay accommodation in your home, the discussion from [15] on short-stay accommodation provided in your main home is relevant.
44. If your main home is on the land, and you provide short-stay accommodation in a separate dwelling on the land, the discussion from [18] on short-stay accommodation provided on the same land as your main home is relevant.

About this document | Mō tēnei tuhinga

Some of the Tax Counsel Office's longer or more complex items are accompanied by a fact sheet that summarises and explains an item's main points. While it summarises the Commissioner's considered views, a fact sheet should be read alongside the full item to completely understand the guidance. Fact sheets are not binding on the Commissioner. See further [Status of Commissioner's advice](#) (December 2012).