



Before you read this QWBA

This QWBA is one of a series covering the tax rules for short-stay accommodation hosts. Check [Overview – Short-stay accommodation items](#) to make sure it's the item that's relevant to your circumstances.

QUESTION WE'VE BEEN ASKED

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?

This "Question We've Been Asked" (QWBA) will help you work out which income tax rules apply to a dwelling you sometimes rent out as short-stay accommodation (eg, through Airbnb, Bookabach and Holiday Houses) and sometimes use yourself – eg, a holiday home.

Key provisions

Income Tax Act 2007 – subpart DG

Key terms

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

Mixed-use asset means an asset that is used both privately and to earn income, and is also unused for at least 62 days in the year.

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

Question

What income tax rules apply if I have a dwelling that I sometimes rent out as short-stay accommodation and sometimes use myself?

Answer

Different rules could apply in this situation. The rules that apply will determine the tax treatment for the dwelling.

Different rules can apply each year, so at the end of each income year you'll need to work out which rules the dwelling falls into for that year:

- the "mixed-use asset" rules; or
- the standard tax rules.

The main difference between the mixed-use asset rules and the standard rules is how you calculate the proportion of your costs you can deduct.

This QWBA will help you work out which tax rules apply to the dwelling for each income year. You need to revisit which rules apply each year.

Explanation

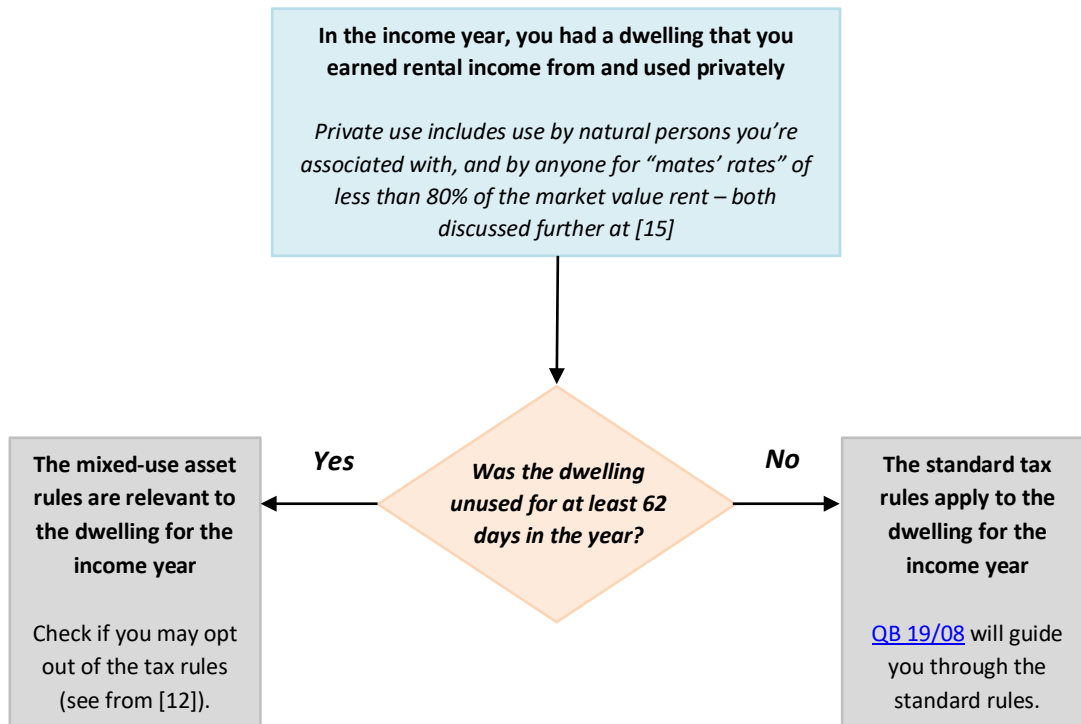
1. If you have a dwelling that you rent out as short-stay accommodation, and also sometimes use yourself, you will need to work out which income tax rules apply so you can meet your tax obligations. The dwelling could be a holiday house or a separate dwelling on the same property you live on (for example, a sleepout or a cottage).
2. Depending on your circumstances, the dwelling will either fall under:
 - the “mixed-use asset” rules; or
 - the standard tax rules.
3. This QWBA explains how to work out which rules apply in your situation.

Records you’ll need to keep

4. You’ll need to keep good records to work out each year which rules apply, and then to apply the relevant rules correctly. This would include records of:
 - the number of nights the dwelling is used privately (this includes by you, by people you’re associated with, and by anyone for less than 80% of the market value rent);
 - the number of nights you rent out the dwelling, and how much income you receive for renting it out;
 - when the dwelling was available to be rented out (this will be relevant if the standard rules apply); and
 - any expenses you want to claim deductions for.

Mixed-use asset rules or standard rules?

5. The mixed-use asset rules deal with deductions for certain assets (including land) that are used both privately and to earn income, but are also unused for significant periods during the year. Under these rules, the expenses incurred for a dwelling that’s sometimes rented out are deductible for the periods it’s rented out and non-deductible for the periods it’s used privately.
6. The issue the rules address is how to treat the expenditure incurred when the dwelling is empty. Under the standard rules, deductions for the time the dwelling is empty are based on whether it is *available for* income earning. However, under the mixed-use asset rules, the proportion of expenses that may be deducted for the empty periods is reduced. The amount that may be deducted is based on the proportion of income-earning use of the dwelling relative to the total use of the dwelling during the year.
7. If you have a dwelling that you sometimes rent out for short-stay accommodation and also sometimes use yourself, the factor that determines which rules apply is whether the dwelling is unused for 62 days or more during a year.



8. A dwelling can flip in and out of the mixed-use asset rules from one year to the next, so you need to look at which rules are relevant to the dwelling for **each income year** (which for most people is 1 April – 31 March). The mixed-use asset rules can apply to most ownership structures, so it doesn't matter if you own the property or if it's owned by another entity or held in another structure (eg, a trust or a family company).
9. The dwelling will be a "mixed-use asset" if, during the year:
 - you partly used it to earn income;
 - you partly used it privately (this includes use by family members, or by friends renting it for "mates' rates" that are less than 80% of the market value rent); and
 - it was not used for at least 62 days in the year.

Standard rules

10. If the dwelling doesn't meet the three criteria listed in [9] for a particular income year, the standard tax rules will apply for that year. [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?](#) explains how the standard rules work. You'll need to revisit which rules apply each year.

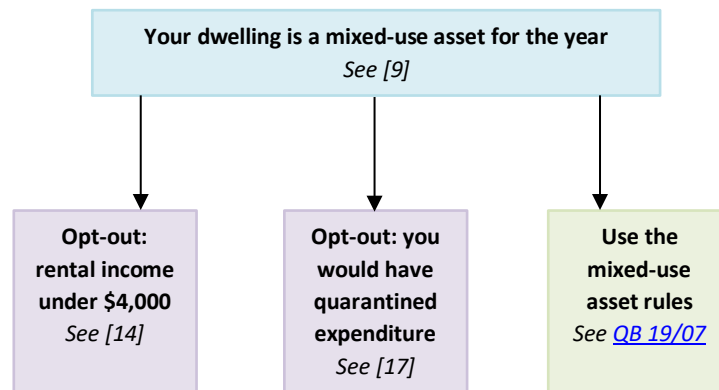
Mixed-use asset rules

11. If the dwelling meets the three criteria at [9] for a particular income year, the mixed-use asset rules are relevant. However, there are two situations in which you may opt out of the tax rules altogether for the rental income from the dwelling.

Opting out of the tax rules for the rental income if the dwelling is a mixed-use asset

12. You may choose to opt out of the tax rules if:
 - your rental income for the year from the dwelling is under \$4,000; or

- you made a loss from the dwelling and would have some of your deductions quarantined (that is, carried forward to the next year).



13. If you choose to opt out of the tax rules for the rental income from the dwelling, the income is exempt. This means that you don't pay tax on it and you can't claim tax deductions for your expenses related to the dwelling.

Opt-out: rental income from the dwelling is under \$4,000

14. The first situation in which you can opt out of the mixed-use asset rules (and the tax rules generally) for the rental income from the dwelling is where the gross rental income (before expense deductions) for the year is under \$4,000.
15. The \$4,000 threshold for opting out of the tax rules **doesn't include** income that's classed as exempt income. Exempt income is income from renting out the dwelling to associated persons (eg, family members), and income from renting out the dwelling for less than 80% of the market value rent (eg, renting it to friends for "mates' rates"). Both of these are explained below:

Income from renting out the dwelling to associated persons

- This covers income from renting the dwelling to natural persons you're associated with (eg, close relatives such as your children, grandchildren, siblings or in-laws).
- If a trust, partnership or company owns the dwelling, this would cover income from the dwelling being rented to associated natural persons (eg, for a trust, the settlors and beneficiaries).

Inland Revenue guide [IR620](#) can help you work out if someone is associated with you. It can be found on Inland Revenue's website.

If a company owns the dwelling, in addition to the normal rules about association, the company will be associated with anyone who has a share in the company that gives them the right to use the dwelling.

Income from renting out the dwelling at "mates' rates"

- This covers income from renting the dwelling to friends at "mates' rates" of less than 80% of the market value rent.

- This does not include income from renting the dwelling at a lower price because it's off-peak season, a longer-term rental, or for other similar reasons. This is because in those situations the market rate is the lower price.

16. All of your other rental income from the dwelling is counted. If your counted income for the year from renting out the dwelling is less than \$4,000 gross (that is, before expense deductions), you may opt out of the tax rules – see further from [25].

Opt out: quarantined expenditure

17. The second situation in which you may opt out of the tax rules for the rental income from the dwelling is where you would otherwise have what's called "quarantined expenditure" for the year for the dwelling.
18. You would have quarantined expenditure if:
- your income from renting out the dwelling during the income year was less than 2% of the property's value; and
 - you made a loss from renting out the dwelling (that is, the expenses you can deduct for the year under the mixed-use asset rules exceed the income).
19. In this situation, if you **don't opt out** of the tax rules, you may only deduct your expenses up to the amount of income. Your expenses over and above your income from the dwelling are "quarantined" – meaning they are carried forward to a future income year to offset against any future profits from the dwelling.
20. Instead of that, if you want you may **opt out** of the tax rules by choosing to treat the income for the year as exempt, and not get any deductions for your expenses related to the dwelling.
21. In working out if your income was less than 2% of the property's value, you **don't include** exempt income (amounts of income described in [15]). It's your taxable income from the dwelling that's counted towards the 2% threshold.
22. The property value you use to measure the 2% threshold against is generally the local rating value. However, if you bought the property from someone you aren't associated with since the rates value was last set, you use the purchase price.
23. If there's another dwelling on the same property, the 2% threshold is measured against a proportion of the local rating valuation, based on the percentage of the total land area that the asset is on. So, for example, if you have a sleepout that's a mixed-use asset on the same property as your house, and the area of the sleepout is 20% of the total section, you'd test the 2% threshold against 20% of the rating valuation.
24. If you calculate that you would have quarantined expenditure for the year for the dwelling, you can opt out of the tax rules – see further from [25].

If you decide to opt out

25. If you're in one of above situations, and you choose to opt out of the tax rules for the rental income from the dwelling, you don't need to do anything for that income for that income year. All of the income from renting out the dwelling is classed as exempt income, and you can't claim any related expenses as deductions.
26. For each income year, you need to revisit whether the dwelling is a mixed-use asset (see from [5]) and if it is, whether you are able to opt out of the tax rules (see from [12]).

If you can't or don't opt out

27. If the dwelling is a mixed-use asset and you can't or don't opt out of the tax rules for the rental income, the mixed-use asset rules will apply for the particular year. [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?](#) explains how the mixed-use asset rules work. You'll need to revisit which rules apply each income year.

References

Subject references

bach
holiday home
income tax
mixed-use asset
short-stay accommodation

Other references

[IR620](#) – A guide to associated persons definitions for income tax purposes (April 2017)
[Overview – Short-stay accommodation items](#) (Inland Revenue)
[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?](#) (Inland Revenue)
[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?](#) (Inland Revenue)