

QUESTIONS WE'VE BEEN ASKED > GENERAL ISSUES

# If I run a hotel, motel or boarding house and live on site, what expenditure can I claim?

Issued: 26 August 2021

Publication number QB 21/10

This Question We've Been Asked provides guidance on the deductibility of expenses commonly incurred by hotel, motel and boarding house proprietors who live on site, particularly where the expenses have both a business and private character.

All legislative references are to the Income Tax Act 2007, unless otherwise stated.

## Key provisions

Income Tax Act 2007 – ss DA 1, DA 2, DB 18AA

### UPDATES AND REPLACES:

This item updates and replaces "Adjustment to costs when domestic establishment attached to business premises", *Tax Information Bulletin* Vol 5, No 11 (April 1994): 9. This item applies from the 2021/22 income year.

## Question

If I run a hotel, motel or boarding house and live on site, what expenditure can I claim?

## Answer

If you have a business of providing accommodation through a hotel, motel, boarding house, or other business premises, and live on-site, any expenses you incur relating solely to the running of your business are fully deductible. However, expenses relating to your private quarters or family life are not deductible. This is because you cannot claim a deduction for expenses that are private or domestic in nature.

If the expenses relate to both your private quarters and your business, you can claim a deduction to the extent that the expenses relate to the running of your business. This requires you to calculate the portion of these mixed expenses that are attributable to your business.

## Key terms

**Mixed expenses** means expenses that relate to both your business and other purposes, such as private or domestic purposes.

**Mixed-use areas** means areas of your premises used for both business and other purposes.

**Proprietor** means a self-employed owner or operator of a motel, hotel, boarding house or other business premises used to provide accommodation to guests.

**Private quarters** means a section of the business premises set aside or used for domestic activities by the Proprietor and the Proprietor's family.

## Explanation

1. This item applies to self-employed proprietors of hotels, motels, boarding houses, or any other businesses that provide accommodation through business premises. If you provide short-term accommodation in your own home or a private dwelling through a platform such as Airbnb or Bookabach, see [QB 19/05 to QB 19/09](#). This item supplements those items on short-term accommodation where the accommodation is provided in business premises.
2. This item explains how to apportion expenditure that is incurred for both business and private purposes.

3. This item updates and replaces “Adjustment to costs when domestic establishment attached to business premises”, *Tax Information Bulletin* Vol 5, No 11 (April 1994): 9. This item applies from the 2021/22 income year.
4. This item does not apply to accommodation providers that operate as companies or through other separate legal entities. This is because the law applies to these entities differently.

## What expenses can I claim?

5. Expenses you incur are deductible from your income to the extent that you incur them in carrying on your business.<sup>1</sup> However, deductibility is subject to some limitations.<sup>2</sup> If one of these limitations applies to your expenses, a deduction will not be available to the extent the limitation applies.
6. One of these limitations is the private limitation.<sup>3</sup> The private limitation applies if you incur expenses that relate solely to your household, family unit, or personal life. You can't claim a deduction for these private expenses because of the private limitation.
7. This means that if an expense relates solely to your business, you can claim all of the expense in your income tax return provided none of the other general limitations apply, such as the capital limitation. You can also claim for the depreciation of capital assets used in your business. For more information on depreciation, see [21].
8. If you are self-employed and you have employed a manager or other person that lives on site, expenses incurred on their private quarters are fully deductible, as these are incurred in carrying on your business.
9. If you personally live on site, then you will likely incur expenses that relate to both your business and your private quarters. This item refers to these expenses as “mixed expenses”. Mixed expenses are deductible to the extent they relate to your business. This item outlines how to apportion your mixed expenses between business and private purposes.

## How do I apportion mixed expenses?

10. The first step in working out what you can claim in your income tax return is to separate mixed expenses from expenses incurred solely for business purposes (for

---

<sup>1</sup> Section DA 1.

<sup>2</sup> Section DA 2.

<sup>3</sup> Section DA 2(2).

which you can claim 100%) and expenses incurred solely for private purposes (for which you can't claim anything).

11. *Table 1 – Examples of types of expenditure* lists some examples of expenses you might incur and what you can claim for them.

**Table 1 – Examples of types of expenditure**

Business expenses (fully deductible)	Private expenses (not deductible)	Mixed expenses (partially deductible)
<p>Advertising costs;</p> <p>Any commission or fee you pay to an advertising platform or transaction facilitator (this does not include any service fee the guests pay the platform – just fees you pay);</p> <p>Business insurance;</p> <p>Telephone and internet expenses if you have a separate internet connection for business use and guests;</p> <p>Supplies used exclusively by guests.</p>	<p>Groceries used by your and your family;</p> <p>Petrol, insurance, and maintenance for a personal car;</p> <p>House or contents insurance if you have a separate policy for your private quarters.</p>	<p>Power bills;</p> <p>Telephone and internet expenses if you don't have a separate internet connection for guests;</p> <p>Interest on your mortgage;</p> <p>Rates;</p> <p>Rent you pay for the use of the premises;</p> <p>Repairs and maintenance that cannot be attributed to wholly business or private areas.</p>

12. Some mixed expenses can be separated out or dissected where these expenses have distinct, severable parts, such as an itemised invoice or bill. For example, if you have multiple phone plans through the same provider, you can dissect the part of your phone bill that relates to the business line if the bill itemises these expenses.
13. Once you've separated mixed expenses that can't be dissected from those that relate solely to your business or private use, the next step is to calculate what portion of those mixed expenses relates to your business. This is called apportionment.
14. The method you use to apportion expenses needs to be fair and reasonable. Where building expenses are being split between business and private use, the courts have usually apportioned these on a space and time basis.<sup>4</sup> This means working out the floor area of the building that is used for business purposes, private purposes and mixed-use. You may then need to apportion the mixed-use areas based on the amount of time they are used for business and private purposes. Apportioning

<sup>4</sup> *CIR v Banks* [1978] 2 NZLR 472 (CA).

expenses is not an exact science, but the figure you reach must be fair and reasonable,<sup>5</sup> and based on evidence that a particular part of the expense is deductible.<sup>6</sup>

15. Generally, using a space and time calculation will be appropriate for calculating the business use of certain areas of your premises. The first step is to work out the floor area of your premises used exclusively by your guests or for business purposes as a proportion of the total area of your premises. If 160m<sup>2</sup> of your premises is used solely for business purposes, and the total size of your premises is 200m<sup>2</sup>, then you can claim 80% of your mixed expenses in your return. As these areas are used solely for business purposes, you don't need to make any adjustment for time.
16. In addition, if you have mixed-use areas in your premises, you can claim a deduction for these spaces based on the portion of time those areas are used for business purposes. You need to work out how much time on average the mixed-use area is used for business purposes. In general, Inland Revenue will accept 50% as a baseline for the amount of time mixed-use areas are used for business purposes where there is about equal business and private use, or where the business and private uses are too intertwined to measure each separately. If the area is not often used for business purposes, then the business use is likely to be less than 50%. Examples 1 and 3 show how these calculations might look in practice.
17. If another method is easier or more accurate in your circumstances, you may use that method instead. Regardless of the method you use, the same principles of apportionment should apply:
  - separate out expenses that relate solely to your business or solely to private purposes; then
  - apportion mixed expenses by identifying which part of the expenses relate to your business.
18. You must keep records to support the method you use for apportionment (for example, calculations of floor area, estimates of business and private use and evidence of asset valuations).
19. Once you've worked out what percentage of mixed expenses you can claim, you may continue to use this figure for future income years unless your circumstances change.

---

<sup>5</sup> *Ronpibon Tin NL v FC of T* (1949) 8 ATD 432 (HCA).

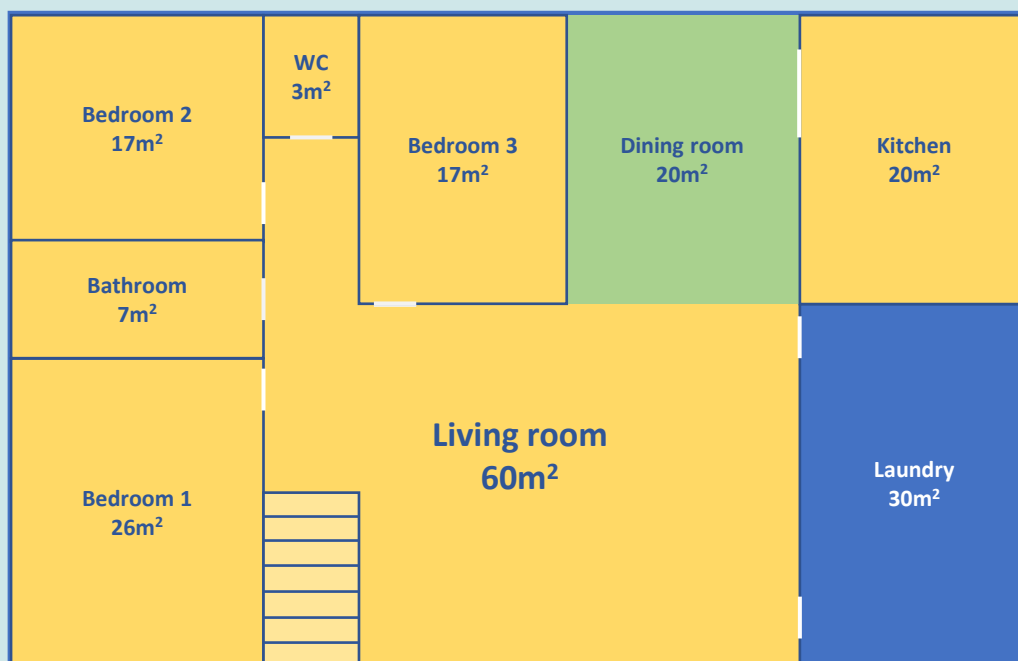
<sup>6</sup> *Buckley & Young Ltd v CIR* 1978] 2 NZLR 485 (CA).

### Example 1 – Apportioning deductible expenses when proprietor lives on one floor of hotel building

Te Ahurei is a self-employed operator of a small hotel and restaurant. Te Ahurei needs to work out her business expenses for the 2022 income year. She has carefully kept her private expenses such as groceries and petrol for her family car out of the business. Without these expenses, Te Ahurei still incurred \$700,000 of business expenses for the 2022 income year. By identifying those expenses that were wholly for her business, Te Ahurei works out that \$600,000 is fully deductible in her return. She then needs to calculate how much of the remaining \$100,000 on mixed expenses (such as power, internet and mortgage interest) she can claim. Her first step is to calculate which areas of her hotel are for business, private, or mixed purposes.

The hotel has five floors. The ground floor operates as a bar, restaurant and reception. The first, second, and third floors contain the guest rooms of the hotel. The fourth floor is occupied by Te Ahurei and her family as a residence, but Te Ahurei also uses some areas in the residence to help with the running of the hotel – there is a large, purpose-built laundry equipped with industrial washing machines which are used for washing guest linen daily. Although Te Ahurei uses the laundry for family laundry as well, it is a purpose-built business area and the private use is too small to be reasonably calculated.

The dining area is regularly used for meeting with staff, bookkeeping, managing bookings, and taking calls after hours. The floor areas of the top floor of Te Ahurei's premises are shown in the diagram below:



Te Ahurei must calculate what proportion of her mixed expenses she may deduct for the areas of the house used exclusively for business and what proportion she may deduct for mixed-use areas.

As four of the floors in the building are used exclusively for business purposes, Te Ahurei can claim 80% of her mixed expenses by default. This figure is calculated by dividing the portion of the premises used exclusively for business purposes by the total area of premises, and then multiplying this figure by 100 to get a percentage. In this case, as the floors are equal size, the number of floors could be used rather than the floor area in square metres (m<sup>2</sup>):

$$\frac{4}{5} \times 100 = 80\%$$

As Te Ahurei's mixed expenses totalled \$100,000, she can claim 80% of this (\$80,000) in her return as it relates to the 4 floors used for business purposes. She apportions the remaining \$20,000 of her mixed expenses to see if she can deduct any further amount.

Te Ahurei's private quarters can then be separated out:

- 150m<sup>2</sup> Private areas – 0% deductible
- 20m<sup>2</sup> Mixed-use areas – partially deductible
- 30m<sup>2</sup> Business areas – 100% deductible

First, Te Ahurei calculates the proportion of her mixed expenses that relate to the laundry that will be deductible. The laundry is 30m<sup>2</sup> out of the total floor area of her private premises of 200m<sup>2</sup>.

$$\text{Deductible portion of mixed expenses for laundry} = \frac{30}{200} \times \$20,000 = \$3,000$$

Te Ahurei then calculates what proportion of her mixed expenses she can claim for the mixed-use areas. She decides to use the well-accepted space and time method.

The only mixed-use area is the dining room of 20m<sup>2</sup>. From a time perspective, the dining room is used about equally for business and private use given the daily staff meetings and so Te Ahurei considers that 50% business use is appropriate. The apportionment for the dining room is as follows:

$$\begin{aligned} \text{Deductible portion of mixed expenses for dining room} &= \frac{20}{200} \times 50\% \times \$20,000 \\ \text{Deductible portion of mixed expenses for dining room} &= \$1,000 \end{aligned}$$

This means Te Ahurei can claim \$4,000 (being \$3,000 + \$1,000) of the mixed expenditure for her private premises. Adding this figure to the \$80,000 figure for the other 4 floors, the total amount Te Ahurei can claim for her mixed expenses is \$84,000 (84%). This is in addition to her business expenses of \$600,000.

## Can I apportion certain expenses differently?

20. As stated at [14], it will generally be appropriate to use a space and time method for apportioning expenses that relate to your whole premises. The approach in this item can also apply to individual items of expenditure where a different apportionment is appropriate. For instance, if you have evidence to support a different, more accurate, way of calculating business use for a certain expense, this can be used instead. This is illustrated in Example 2.



### Example 2 – Apportionment of power expenses

Using the same facts as Example 1, Te Ahurei breaks down her power bills for the 2022 year. She discovers using electricity usage monitors that despite her private premises taking up nearly 20% of the floor area of her business premises, the restaurant and hotel areas, and industrial washing machines, are responsible for around 95% of her power use. As power bills are usually calculated based on use, Te Ahurei could apportion her power bill based on usage, rather than space and time.

In the previous example, Te Ahurei determined that Inland Revenue will accept that 84% of her mixed expenses are attributable to business use and deductible. If Te Ahurei has evidence showing the breakdown of her power bills, Inland Revenue will accept a deduction for 95% of her power expenses for the 2022 year. Te Ahurei must record details from the electricity usage monitors, and/or retain other records of the breakdown of power usage.

### What about depreciation?

21. You can also claim deductions for the depreciation of chattels in your home that are used for your business. You will need to make an adjustment for business use of private assets. See the Inland Revenue website using search term: *depreciation* for more information on depreciation methods and rates. The Inland Revenue guide IR260 *Depreciation – a guide for business* contains a section on adjustments for business use and examples of how to calculate the apportionment between business and private use for depreciation purposes.

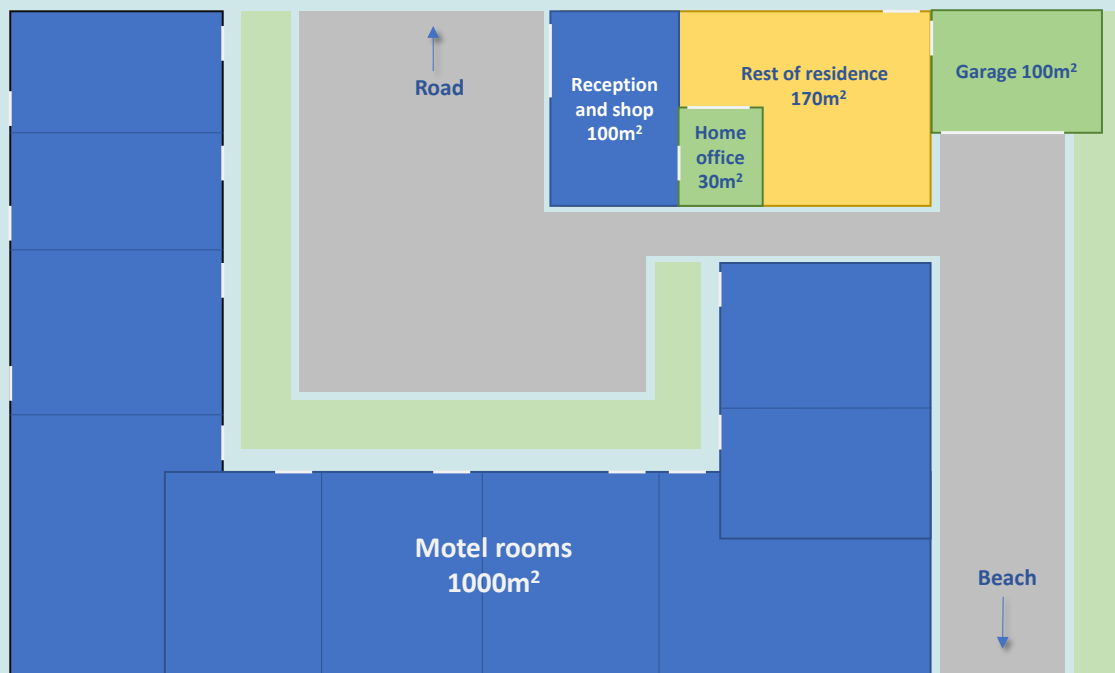
### Example 3 – Apportioning expenses for motel with multiple buildings

Baticul Lodge is a beach-front motel. The self-employed owners and operators of the motel, Luke and Asch, incurred \$500,000 of business expenses for the 2022 income year. These expenses are 100% deductible. Luke and Asch need to work out how much they can claim for their mixed expenses of \$75,000. Their purely private expenses are not included as they can't be deducted.

The two buildings on the motel premises have a total area of 1,400m<sup>2</sup>. One building is the main motel building, which contains 10 units for use by guests. The second building opens to a reception area and small shop for groceries and outdoor accessories. Luke and Asch live behind this reception area in a two-bedroom unit, with a home office in the front. The reception building is also attached to a large garage

which is used to house the family vehicle and to store kayaks, boogie boards, life jackets and fishing equipment for guests.

The following plan shows the areas used for business, private and mixed use:



Luke and Asch need to work out how much they can claim for their mixed expenses in relation to these mixed-use areas.

- 170m<sup>2</sup> Private areas – 0% deductible
- 130m<sup>2</sup> Mixed-use areas – partially deductible
- 1100m<sup>2</sup> Business areas – 100% deductible

Of the 1,400m<sup>2</sup> area, 1,100m<sup>2</sup> (78.6%) is exclusively for business purposes. Therefore, Luke and Asch can deduct \$58,950 of their \$75,000 mixed expenses in relation to the business areas.

$$\text{Business portion of mixed expenses} = \frac{1,100}{1,400} \times \$75,000 = \$58,950$$

The home office is used as the main hub for the administrative work for the motel. This area is used exclusively for business purposes by either Luke, Asch or their employees during regular office hours, and is also frequently used by Luke and Asch at other times for general administration and management of the motel. The computer in this home office is also Luke’s personal computer, and the office is sometimes used

in the evenings or mornings in a personal capacity. They work out that the home office is used for business purposes approximately 80% of the time. This means that Luke and Asch can deduct 80% of their mixed expenses in relation to the home office area.

The home office can be calculated on a space and time basis using the floor area of the home office, which is 30m<sup>2</sup>, and 80% for the time it is used for business purposes:

$$\text{Business portion of home office expenses} = \frac{30}{1400} \times 80\% = 1.7\%$$

Luke and Asch can claim 1.7% of their total mixed expenses in relation to the home office, which is \$75,000 x 1.7% = \$1,275.

The other mixed-use area, the garage, is used roughly equally for both business and private purposes, so Luke and Asch will use the default figure of 50% for the time factor for these expenses. The garage is 100m<sup>2</sup> so apportionment of the garage is calculated as:

$$\text{Business portion of garage expenses} = \frac{100}{1400} \times 50\% = 3.6\%$$

This means they can claim 3.6% of their mixed expenses in relation to the garage, which is \$75,000 x 3.6% = \$2,700.

Adding all these figures together, Luke and Asch work out that the total they can claim for their mixed expenses for the 2022 income year is \$62,925 (83.9%):

$$\$58,950 + 2,700 + 1,275 = \$62,925$$

They can claim this in addition to their business expenses of \$500,000.

#### Example 4 – Apportionment in boarding house

Elanor operates a 10-bedroom boarding house that she also lives in. Elanor uses one of the bedrooms exclusively as her personal room. The 9 other bedrooms are occupied by long-term tenants. Every other room in the house is accessible and used by both Elanor and the other tenants in the house, including the living room, kitchen, and bathrooms. The total size of the house is 350m<sup>2</sup>, with Elanor's room taking up 30m<sup>2</sup>.

The 9 other bedrooms take up 180m<sup>2</sup>. The remaining 140m<sup>2</sup> is mixed-use areas as they are used by both Elanor for private purposes and by other tenants, which is business use.



- 30m<sup>2</sup> Private areas – 0% deductible
- 140m<sup>2</sup> Mixed-use areas – partially deductible
- 180m<sup>2</sup> Business areas – 100% deductible

Elanor carefully ensures that none of her private expenses are included in her expenses relating to the boarding house. Her total business expenses for the 2022 year are \$60,000. Of that sum, \$35,000 relates solely to expenses relating to the guests, and \$25,000 relates to mixed expenses. The \$35,000 of expenses that relate solely to guests is fully deductible.

### Apportioning the mixed expenses by space

The \$25,000 of mixed expenses first need to be apportioned on a space basis.

Elanor can claim 100% of her mixed expenses for the other 9 bedrooms and cannot claim anything in relation to her bedroom.

$$\text{Fully deductible portion of mixed expenses} = \frac{180}{350} = 51.4\% \times \$25,000 = \$12,857.13$$

$$\text{Non – deductible portion of mixed expenses} = \frac{30}{350} = 8.6\% \times \$25,000 = \$2,142.87$$

$$\text{Partially deductible portion of mixed expenses} = \frac{140}{350} = 40\% \times \$25,000 = \$10,000$$

Fully deductible portion of mixed expenses	12,857.13
Non-deductible portion of mixed expenses	2,142.87
Partially deductible portion of mixed expenses	10,000.00
Total mixed expenses	<u>25,000.00</u>

### Apportioning the partially deductible expenses by time

Elanor notes that the common areas, and expenses relating to these common areas, are used primarily by the other tenants. Elanor considers that she can claim 90% in relation to the common areas, as they are used 90% of the time by the other 9 tenants and only 10% of the time by Elanor. This is how Elanor calculates what she can claim for her mixed expenses:

$$\text{Business portion of partially deductible expenses} = 90\% \times \$10,000 = \$9,000$$

Elanor can claim this in addition to the amounts she can claim for the \$12,857.13 in relation to the bedrooms, meaning the total amount she can claim is \$21,857.13 for the 2022 income year:

$$\text{Deductible amount of mixed expenses} = \$12,857.13 + \$9,000 = \$21,857.13$$

Even if some of the other rooms are not occupied by tenants for part of the year, these rooms are not used at all by Elanor for anything but business purposes, so she can continue to claim 100% of her expenses for these bedrooms. If Elanor began using one of the rooms as an office or for storage when it is not occupied, or if Elanor had a family member stay with her in one of the rooms, she would need to make an adjustment for the private use of these areas.

## References

### Legislative references

Income Tax Act 2007 – s DA 1, s DA 2, s DB 18AA

### Case references

*CIR v Banks* [1978] 2 NZLR 472 (CA)

*Buckley & Young Ltd v CIR* [1978] 2 NZLR 485 (CA)

*Ronpibon Tin NL v FC of T* (1949) 8 ATD 431 (HCA)

### Other references

“Adjustment to costs when domestic establishment attached to business premises”, *Tax Information Bulletin* Vol 5, No 11 (April 1994): 9. [www.taxtechnical.ird.govt.nz/tib/volume-05---1993-1994/tib-vol5-no11](http://www.taxtechnical.ird.govt.nz/tib/volume-05---1993-1994/tib-vol5-no11)

Inland Revenue, *Depreciation: A guide for business* (IR260, November 2020).  
[www.ird.govt.nz/income-tax/income-tax-for-businesses-and-organisations/types-of-business-expenses/depreciation](http://www.ird.govt.nz/income-tax/income-tax-for-businesses-and-organisations/types-of-business-expenses/depreciation)

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?*

<https://www.taxtechnical.ird.govt.nz/en/questions-we-ve-been-asked/2019/download-qb19-05>

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?*

<https://www.taxtechnical.ird.govt.nz/en/questions-we-ve-been-asked/2019/download-qb19-06>

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?*

<https://www.taxtechnical.ird.govt.nz/en/questions-we-ve-been-asked/2019/download-qb19-07>

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?*

<https://www.taxtechnical.ird.govt.nz/questions-we-ve-been-asked/2019/download-qb19-08>

QB 19/09 – *Can I register for GST if I supply short-stay accommodation to guests in my home or holiday home?* <https://www.taxtechnical.ird.govt.nz/questions-we-ve-been-asked/2019/download-qb19-09>

## About this document

“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 \(December 2012\)](#). 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.