

Tax rules for holiday homes

Do you rent your holiday home to the public for short-term stays? You need to be aware of the tax rules that apply to “mixed-use” assets. Our factsheet tells you what you need to know.

You don't need to read this factsheet if your property is:

- a residential property used for long-term rental
- a home office, and your expense claim is based on floor area
- your home and you rent a room out for short-term stays.

The mixed-use asset rules don't apply in these situations.

The mixed-use asset rules apply differently depending on whether the asset is owned by a natural person or a close company. This overview is for when a mixed-use holiday home is owned by a natural person(s).

You have a mixed-use holiday home if, during the income year, it is used both for “private use” and “income-earning use”, and it's also unused for 62 days or more.

You have to determine if your holiday home is a mixed-use asset each income year. This can change from year to year.

If the mixed-use asset rules apply, they set out what income from the mixed-use holiday home is taxable, and what proportion of expenses you can deduct. Your income and deductions depend on the level of private use and income-earning use of your mixed-use holiday home.

What is “private use”?

Private use of your holiday home means use by:

- you or your family, even if rent is paid.
- non-associated people if you earn rent at less than 80% of market rates.

To help you work out if someone is associated to you use our guide **Associated persons definitions for income tax purposes – IR620**.

What is “income-earning use”?

Income-earning use of your holiday home means use by a non-associated person from which you earn rent at 80% or more of market rates.

It also includes time you stay in your property to repair damage caused by paying guests.

Opting out

If you meet certain criteria for the income year, you may choose to opt out of the mixed-use asset rules. If you opt out, the rental activity doesn't need to be included in your income tax return. You don't return any of your income and you can't claim any of your expenses for the holiday home.

You can opt out if:

- your gross income for the year from the income-earning use of your mixed-use holiday home is under \$4,000, or
- your holiday home is loss-making, and your gross income from income-earning use of the holiday home is less than 2% of the value of the holiday home.

To calculate the value, use the most recent of:

- the local authority capital or annual (rateable) value
- the purchase price (or market value at purchase if you bought the property from an associated person).

What income is taxable?

You must pay income tax on rent earned from income-earning use. Any rent from private use is exempt from income tax.

What expenses are deductible?

Expenses from mixed-use holiday homes fall into three categories:

- 1. Fully deductible.** You can claim 100% of any expense which relates solely to the income-earning use of the holiday home.
Examples: Costs of advertising for guests, any additional insurance or rates you have to pay (over what you otherwise would) because you rent the holiday home out.
- 2. Not deductible.** You can't claim any expenses relating to the private use of the holiday home.
Example: Costs of a boat and quad bike stored in a locked garage and unavailable to the people renting your holiday home.
- 3. Apportioned.** If an expense relates to both income-earning use and private use, you need to apportion it using this formula:

$$\text{Expense} \times \frac{\text{income-earning days}}{\text{income-earning days} + \text{private-use days}}$$

Examples: rates, insurance, internet and power bills, repairs for general wear and tear.

Only include interest that is deductible as an expense in this formula.

Note

Interest for residential property is not deductible from 1 October 2021 under the interest limitation rules unless an exclusion or exemption applies or it is partially deductible during the phase-out period. For more information about the interest limitation rules, see our guide **Rental Income – IR264**.

Carry forward of excess deductions

If your deductible expenditure under the mixed-use asset rules for your holiday home is more than the income, you may not be able to claim the whole deduction in that year. This will be the case if your income from income-earning use of the holiday home is less than 2% of the holiday home's value. In that situation, you can only claim a deduction equal to the amount of the income from income-earning use of the property. You'll have to carry forward the excess deductions to a future income year when you earn income from the holiday home.

You can use the carried forward excess deductions in a future year if the income from income-earning use of the holiday home in that year is more than that year's deductions under the mixed-use asset rules.

The maximum amount you can claim from the excess is the difference between that year's income from income-earning use of the holiday home and that year's allowable deductions under the mixed-use asset rules for the holiday home. Any remaining excess continues to be carried forward to future years.

Record keeping

Please keep records so you can work out your income tax obligations at the end of the tax year. Your records should show: private-use days, income-earning days, the expenses you paid, and the name of each guest together with their relationship to you and the rent they paid.

More information

This factsheet has given you a brief overview of the tax rules affecting mixed-use holiday homes owned by a natural person. For more information including how the rules apply to close companies go to taxtechnical.ird.govt.nz and read our:

- **Tax Information Bulletin (TIB) Vol 25, No 9 (October 2013)**
- **Question we've been asked (QB) 19/06**
- **Question we've been asked (QB) 19/07**

Example of calculations required for a mixed-use holiday home

The facts

Peter owns a holiday home in Waihi. During the 2021–22 income year, the home was used by Peter and his family (42 days) and non-associated paying guests (80 days). For the rest of the year (243 days), the home was unused.

Peter's sister paid rent of \$3,150. Rental income from non-associated paying guests came to \$12,000.

Expenses were:

Advertising for guests	\$ 500
General repairs and maintenance	\$ 750
Repairing window (broken by non-associated paying guests)	\$ 150
Cleaning septic tank	\$ 400
Insurance (home and contents)	\$ 800
Lawn-mowing contractor	\$ 250
Fishing licences (for the family)	\$ 250
Rates	\$1,500
Deductible interest*	\$ 800
Total expenses for the year	\$5,400

* interest of \$800 is the portion that is deductible during the phase-out period for the interest limitation rules

The calculations

Peter's property is a mixed-use holiday home because it was used for private use and income-earning use and it was unoccupied for 62 days or more.

His gross rental income is \$12,000. The \$3,150 received from his sister is exempt from income tax because she is a member of Peter's family.

Expenses for the home fall into all three categories.

Fully deductible (expenses relate to income-earning use):

Advertising for guests	\$ 500
Repairing window (broken by non-associated paying guests)	\$ 150
	\$ 650

Not deductible (expenses relate to private use):

Fishing licences (for the family)	\$ 250
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Apportioned (expenses relate to both income-earning and private use):

General repairs and maintenance	\$ 750
Cleaning septic tank	\$ 400
Insurance (home and contents)	\$ 800
Lawn-mowing contractor	\$ 250
Rates	\$1,500
Deductible mortgage interest	\$ 800
	\$4,500

Peter applies the apportionment formula to the apportioned expenses:

$$\begin{aligned} & \text{Expense} \times \frac{\text{income-earning days}}{\text{income-earning days} + \text{private-use days}} \\ & = \$4,500 \times \frac{80}{80 + 42} \\ & = \mathbf{\$2,950.82} \end{aligned}$$

This means Peter's expense claim totals \$3,600.82 (the fully deductible expenses of \$650.00 plus the apportioned expenses of \$2,950.82).

His taxable income from his property is:

Gross income	\$ 12,000.00
Less expenses	\$ 3,600.82
Taxable income	\$ 8,399.18