Inland Revenue
Te Tari Taake

IR264
October 2020

Rental income

Tax rules for people who rent out residential property and holiday homes

Introduction

We've written this guide for people who rent out residential property or holiday homes. In it we explain:

- what income to include in your tax return
- the expenses you can deduct from this income for tax purposes
- the limits on expenses you can claim if your residential rental property makes a loss
- the records you need to keep
- what to do if the property is owned by more than one person
- what happens if the property is sold.

The guide is meant for people who own one or two rental properties, and who are not in the business of providing residential rental accommodation.

If you have several rental properties or you're a commercial operator, we recommend you use a tax agent.

Important changes

New residential property deduction rules (also known as the ring-fencing rules) apply to most residential rental properties from the start of the 2019-2020 income year, which for most people ends on 31 March 2020. The changes are outlined in Part 2 and include:

- limits on the amount of deductions you can claim if your residential rental property makes a loss in an income year
- carrying forward excess deductions (what previously would have been your rental loss)
- what happens to excess deductions when disposing of residential property
- limits on the amount of interest expenditure you can claim for an investment in a residential land-rich entity.

ird.govt.nz

Go to our website for information and to use our services and tools.

- **Log in or register for myIR** - manage your tax and entitlements online.
- **Calculators and tools** - use our calculators, worksheets and tools, for example, to check your tax code, find filing and payment dates, calculate your student loan repayment.
- **Forms and guides** - download our forms and guides.

Forgotten your user ID or password?

Request a reminder of your user ID or reset your password online. You'll need to know your IRD number and have access to the email address we hold for you.

How to get our forms and guides

You can get copies of our forms and guides at **ird.govt.nz/forms-guides**

The information in this guide is based on current tax laws at the time of printing.

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Part 1 - General

Rental income - which income is taxable?

Normally income that you receive from renting out property will be liable for income tax, so you must include it in your tax return. This income could be from renting out land or buildings, or it could be income you earn by having private boarders or flatmates living with you. Our website **ird.govt.nz** has more information on private boarders and flatmates.

Note

The income and expenses rules in this part apply to all rental properties. But if you rent your holiday home to the public for short-term stays, you may need to calculate the proportion of your expenses that you can deduct.

You'll find more information about holiday homes in Part 4 of this guide.

Note

If you earn income from renting out residential property, there may be a limit on the amount of expenses you can claim in an income year.

You’ll find more information about residential rental properties in Part 2 of this guide.

Rent in advance

Any rent paid to you in advance, is taxable in the year you receive it in. So if your tenant paid rent on 30 March 2020 for the next two weeks, you'd return this income in the income year 1 April 2019 to 31 March 2020 (if you have a standard 31 March balance date).

Tenancy bond

Amounts you receive for tenancy bond and pass on to the Ministry of Business, Innovation and Employment are not income.

Amounts you receive from the Ministry of Business, Innovation and Employment for payment of damages, rent arrears etc, should be included as income.

Expenses you can deduct from your rental income

When you own a rental property, you're likely to have maintenance and administrative costs. You can claim all or some of these costs depending on how the property is used and the nature of the work being done. If you use the property for both rental and private use then costs need to be apportioned. Go to Deducting your expenses on page 43 or 45, depending on your situation.

For properties subject to the residential property deduction rules, the amount of expenses you can claim as deductions each year generally cannot be more than your residential rental property income. There are no changes to what expenses you can claim, but there is a limit on the total amount of deductions that can be claimed for the year. Allowable deductions you cannot claim for the year are carried forward for use in a future year. Find out more in Part 2 - Residential property deduction rules (also known as ring-fencing rules).

Generally, you can only claim expenses from earning your rental income. Other costs you might have that relate to your rental property may not be claimable, unless your rental activity amounts to being in the business of providing rental accommodation.

If you're unsure whether you're in the business of renting property, or if you can claim an expense, we recommend speaking with a tax agent.

The following costs or expenses can be deducted from your rental income for tax purposes.

Rates and insurance

You can claim the rates and insurance on your rental property.

Interest

You can claim the interest charged on any money you borrow to finance your rental property. However, you can't claim all the interest as an expense if you borrowed the money for another purpose as well as buying the rental property.

Example

The loan finances both the rental property and the house you live in. You can only claim the interest for the rental property.

Note

If you are claiming interest on money borrowed to acquire an interest in an entity that owns residential land, the amount of interest that you can claim may be limited by the residential property deduction rules. Go to Investment in an entity with significant holdings in residential land - the interposed entity rules on page 26.

Agent's fees and commission

If you use an agent to collect the rent and/or maintain the property, the cost of the agent's fees can be deducted. Any commission paid to an agent to find tenants for the property is also deductible.

Repairs and maintenance

The cost of repairs and maintenance you do, or pay someone else to do, on the rental property is normally deductible as an expense.

Examples of repairs and maintenance are:

- replacing a broken shower head
- plastering and painting a crack in the wall
- replacing a blown element in a hot water cylinder
- redecorating the property so that it's in the same condition it was in when you bought it to use as a rental property.

If you do the repairs yourself, you can't claim your time as an expense, only the materials you purchase.

There are some circumstances when the cost of repairs can't be deducted as an expense because they're considered a capital improvement, such as where you:

- buy a rundown property and spend large sums of money on it to significantly improve or alter it before renting it out.
- carry out work which significantly improves the property, for example you take down a badly deteriorated wall and put a conservatory in its place.

These are capital expenses and the cost of the work is depreciated. From the 2011-12 income year, depreciation on buildings reduces to 0% where buildings have an estimated useful life of 50 years or more. This applies regardless of when the building was acquired.

In some situations it can be difficult to work out whether work done on the property is repairs and maintenance or capital improvements. If you're not sure, we recommend speaking with a tax agent.

Motor vehicle expenses

If you use your own vehicle in the course of renting out your property, for example, travelling to inspect a property or to do some repairs, you may be able to claim some vehicle running costs as an expense against your income. There are two options for claiming motor vehicle expenses:

1. Use the Inland Revenue kilometre rates. These rates are based on the average cost to run a motor vehicle. They're available at **ird.govt.nz/vehicle-expenses**

   To claim kilometre rates you need to keep a vehicle logbook and record the date, distance travelled and reason for each trip related to your rental activity.
2. Claim a percentage of the total running costs such as petrol, oil, repairs, registration, insurance and depreciation. You need to keep records of the running costs. At the end of the year, add them all up and work out what percentage of these running costs and depreciation relates to your rental activity. To do this you'll need to keep an annual logbook and record the:
   - total mileage for the year
   - total distance travelled as part of your rental activity, with a breakdown of the date, distance and reason for each trip.

   Alternatively, you can keep a logbook for a test period of at least three months every three years that shows:
   - the odometer reading at the start of the test period
   - total distance travelled as part of your rental activity, with a breakdown of the date, distance and reason for each trip
   - the odometer reading at the end of the test period.

The test period must fairly represent your normal vehicle running conditions. Also, if you believe that the proportion of rental-related travel has changed by more than 20%, you must re-run your test period or keep an annual logbook.

If you do not maintain actual records or a logbook, then the default method applies to limit your motor vehicle expenses to lesser of:

- the proportion of total expenses that is commensurate with the proportion that business travel bears to total travel, and
- 25% of total expenses.

Example

Nicole uses her own car for her rental activity. She's decided to keep a logbook for a three-month test period.

Vehicle logbook (3-month period) 1 February 2019 to 30 April 2019						Odometer reading (at start of period) 25,236	
Date	Journey		Odometer reading				
	From	To	Start	Finish	Dist (km)	Reason for trip	Driver's signature
1.2.19	Home	Ngaio	25,236	25,275	39	Property inspection	NG
5.2.19	Home	Petone	25,430	25,477	47	Pick up new shower head	NG
6.2.19	Home	Ngaio	25,503	25,542	39	Install shower head	NG
15.3.19	Home	Ngaio	27,342	27,381	39	Show prospective tenant	NG
20.3.19	Home	Ngaio	27,645	27,684	39	Property inspection	NG
18.4.19	Home	Ngaio	28,837	28,876	39	Property inspection	NG
Rental activity distance					**242**	**Reading at end of period**	**29,241**
Total distance travelled						**(29,241 - 25,236)**	**4,005**

Total distance travelled in three months: 4,005 km
Distance travelled for rental activity: 242 km

$$\frac{242}{4{,}005} = 6.04\%$$

Nicole can claim 6.04% of her running costs and depreciation on the vehicle as an expense against her rental income.

Remember, you have to keep your vehicle records for seven years, even if you stop renting out your property.

Travel expenses

If your rental property is somewhere in New Zealand other than your hometown you may have to travel to do property inspections and maintenance.

If you travel using other transport and the trip is solely to inspect or do maintenance on the rental property the cost is usually fully deductible.

This might include:

- air fares
- taxis
- rental car hire
- overnight accommodation.

If your travel is for both business (rental property activity) and personal reasons, you can only deduct the portion/part that relates to earning your rental income. This is to take into account any private use, which isn't deductible. Deductions are only allowed for expenses that are part of earning your rental income.

Example

John lives in Wellington. He has a rental property in Tauranga. He has to go to replace some boards in the fence. He decides he'll go for the weekend and catch up with an old friend. John spends half his time on rental property maintenance and half his time meeting his friend. Based on the time spent on rental property maintenance only half the cost of travel and accommodation can be claimed as tax deductible. The other half is a personal cost.

If John was going to Tauranga for a holiday and just decided to pop in on his rental property, he wouldn't be able to claim any of the cost.

If John's trip is solely to visit the rental property then the travel costs are fully deductible.

Don't forget you need receipts or invoices for any travel costs that you claim, whether this is the full cost or part-cost. Go to page 12 for more on record keeping requirements.

Fees

You can deduct as an expense any fees that you incur in:

- arranging a mortgage to finance the rental property
- drawing up a tenancy agreement
- ongoing administration costs for the mortgage
- getting a valuation required to obtain a mortgage. (A valuation acquired for insurance purposes isn't deductible)
- taking legal action to recover unpaid rent
- evicting a tenant.

You can also claim legal fees as part of buying a rental property provided your total legal fees for the income year are $10,000 or less.

Mortgage repayment insurance

You can claim a deduction for the cost of any mortgage repayment insurance you have on a mortgage that meets the conditions set out in the section on interest on page 6.

Accounting fees

If you use an accountant to prepare your accounts the cost of the fees are tax deductible. Any fees paid when setting up the rental property, such as investigating the viability of the rental, are not deductible.

Depreciation

Depreciation covers the cost of wear and tear and general ageing of assets used to produce income.

You can:

- claim a deduction for depreciation on any furniture or fittings that belong to you, or
- elect not to claim depreciation - see page 34.

Note

When you sell or dispose of an asset (except a building) for an amount different from its adjusted tax value,* you must account for the difference - either a loss or a gain - in your income tax return.

* Adjusted tax value is generally the cost price, less depreciation deducted each year.

For more information about depreciation see Part 3 of this guide.

Expenses you can't deduct for tax purposes

You cannot claim deductions for capital expenses, private expenses, or expenses that do not relate to your rental.

Capital expenses are the costs of buying a capital asset or increasing its value, for example the cost of buying the property and making improvements. Private expenses are things you buy or pay for that are for your own benefit, rather than to generate rental income.

The following are expenses you can't deduct from your rental income in your tax return:

- the purchase price of a rental property
- the capital part of any mortgage repayments
- interest on money you borrow for some purpose other than financing the rental property, even if you use the rental property to secure the loan
- the cost of repairing or replacing any damaged part of the property, if the repairs or replacement make improvements to the property and increase its value
- the cost of adding to or improving the property
- real estate agent or legal fees charged as part of selling the property.

Note

Generally, you can’t claim legal fees charged as part of selling the property. However, you may be able to claim your legal expenses for selling a rental property if:

- you are in the business of providing residential rental accommodation, and
- your total legal expenses for the income year are $10,000 or less (including any legal expenses relating to buying the property).

For more information about the expenses you can claim talk to your tax agent.

Expenditure to meet Healthy Homes standards

Owners of residential rental properties are required to make sure their properties meet certain minimum standards.

The 2019 regulations apply progressively when there are changes in tenancies after 1 July 2021 with universal application from 1 July 2024.

Costs incurred in meeting the standards will be capital in nature and not deductible if the work:

- results in the reconstruction, replacement or renewal of the whole asset or substantially the whole asset; or
- goes over and above making good wear and tear (ie, is not a repair) and changes the character of the asset.

Expenditure to meet the standards will be revenue in nature if work to repair or maintain an asset is completed without reconstructing, replacing or renewing the whole asset, or substantially the whole asset, or without changing its character.

If the property isn't rented out for the full year

You can claim a deduction for any expenses that you incur while your rental property is either rented out or is available to be rented out. But if the property isn't occupied by tenants or available for rent for part of the year, you can't claim the full year's ongoing costs, such as rates, insurance and interest.

Example

You own a property and live in it for the first three months of the year. You then rent it out for the rest of the year. The cost of rates, insurance and interest for the year is $9,230. To work out your rental income for the year, deduct the ongoing costs for the nine months the property was rented out, that is, 9/12ths of the expenses.

$9,230 ÷ 12 = $769.16 per month

$769.16 × 9 = $6,922.44 The amount of these expenses you can claim for the year.

If a property isn't occupied or available for letting for a short time, because of redecorating or other maintenance, you can still get a deduction for the ongoing costs for that period. The redecorating or maintenance costs will also be deductible, as long as the work done isn't classed as capital improvements.

If your residential rental activity makes a loss

In this guide, “rental loss” refers to when your deductions for a rental property exceed the income you earned from that property. Rental losses can only be used to reduce your overall tax liability by offsetting the losses against other income, like salary and wages, up to and including the 2018-2019 income year.

From the start of the 2019-2020 income year, deductions you can claim for residential rental property in a particular year generally cannot be more than income you earn from that property. Any deductions in excess of your income from the property for the year will be carried forward to the next year you earn income from the residential property. Find out more in Part 2 - Residential property deduction rules (also known as ring-fencing rules).

Example

You own a property and receive $15,000 rental income for the year. In that year, you incur $16,000 of expenses. Under the new rules, you can only claim $15,000 of expenses against your rental income for the year and must carry forward the excess deductions of $1,000 to a future income year in which you receive income from your residential property.

Note

Accumulated tax losses brought forward from the 2018-2019 income year are not affected by the new rules for rental deductions, even if they include rental losses. You may continue to offset these tax losses against your net income. However, from the start of the 2019-2020 income year onwards, excess residential rental deductions will be carried forward separately from the accumulated tax losses.

If the property is rented out at less than market value

If you rent your property out for less than its true rental value, for example, to a relative or friend at mates' rates, and you still make a profit from it, the profit is taxable as part of your income. But if you make a loss in this situation, because the expenses of the property are more than the reduced rental income, you generally won't be able to deduct expenses more than the amount of income you received.

Record keeping

You must keep records to be able to calculate the income and expenses of your rental property and for us to confirm your accounts. These include:

- a record of all receipts and payments
- bank statements, cheque butts and deposit books
- invoices and receipts
- working papers for all calculations, including your vehicle logbook
- a list of assets and receipts with cost price and purchase date
- a copy of the rental agreement and rent book
- a copy of any loan mortgage agreement.

It's a good idea to use a separate bank account for your rental activity.

Note

You must keep accurate records of the purchases and sales of your rental assets so we can check your depreciation deductions if we need to.

Keep all your records for seven years, even if you stop renting out the property. You don't need to send your records or working papers with your tax return, but you must keep them in case we want to see them.

Example - Rental income - IR3R

Inland Revenue
Te Tari Taake

Rental income

IR3R
April 2020

- Read our booklet **Rental income - IR264** to help you fill in this form.
- Attach this form to your income tax return and keep a copy for your records.

Year ended 31 March: 2020

Your name: Nicole Gregg

IRD number: 123 456 789
(8 digit numbers start in the second box. 12345678)

Address of property rented: 115 Smith Street
Ngaio

Period the property was available for renting: 12 months

Income - read Note 2 over the page.

		Box	Amount
1.	Total rents	1	$ 12,480.00
2.	Other income (specify) 2A: Interest from rental bank account	2	$ 140.00
3.	Gain or loss on disposal (enter any loss in brackets)	3	$ NIL
4.	**Total income**	4	$ 12,620.00

Expenses - read Note 3 over the page.

		Box	Amount
5.	Rates	5	$ 1,580.00
6.	Insurance	6	$ 620.00
7.	Interest	7	$ 2,205.00
8.	Agent's collection fees	8	$ 250.00

9 Repairs and maintenance—read Note 4 over the page.

Item	Amount	Total
Shower head	$ 60.00	
	$	
	$	$ 60.00

10 Other (specify)

Item	Amount	Total
Vehicle costs	$ 152.00	
	$	
	$	$ 152.00

Depreciation - print the details below.

		Box	Amount	Box	Amount
11.	Buildings - read Note 6 over the page.	11	$		
12.	Assets - read Note 7 over the page.	12	$ 4,000.00	13	$ 4,867.00
14.	**Total expenses**			14	$ 8,867.00

15. **Net rents** (total rents less expenses) - subtract Box 14 from Box 4 and print in Box 15. Copy this amount to your tax return, if the property is NOT residential property. For residential property, use the **Residential property deductions worksheets - IR226** to help you complete your return. Read note 5 over the page. — 15 $ 3,753.00

Depreciation of buildings - read Note 6 over the page.

16. Date purchased 16: 01 04 2019 (Day Month Year)
17. Construction materials and building description 17: Wooden framed

Method	Box	Cost of buildings (excluding cost of land) / Opening adjusted tax value	Box	Rate	Box	Depreciation claimed	Box	Closing adjusted tax value
Straight line method (SL)	18	$ 150,000.00	19	0 %	20	$ 00.00		
Diminishing value method (DV)	21	$	22	%	23	$	24	$

25 **Depreciation of assets** - read Note 7 over the page.

Asset	Date purchased	Cost	Opening adjusted tax value	Rate	Method SL/DV	Depreciation claimed	Closing adjusted tax value
Chattles (Pooled)	01 04 2019	$ 10,000	$	40 %	DV	$ 4,000.00	$ 6,000
		$	$	%		$	$
		$	$	%		$	$
		$	$	%		$	$
		$	$	%		$	$
					Total	$ 4,000.00	

Note

From the start of the 2011-12 income year, depreciation on buildings is 0% where buildings have an estimated useful life of 50 years or more. This applies regardless of when the building was acquired.

Calculating the net rent

If you own a residential rental property that is subject to the residential property deduction rules, you can use the **Residential property deductions worksheets - IR1226** to calculate your net residential income and any excess residential rental deductions you may have. These worksheets help you calculate the amounts that you need to transfer to the section in your return for Income from residential property. Find out more in Part 2 - Residential property deduction rules (also known as ring-fencing rules).

For rental properties that are not subject to the rules, once you've worked out what your income and expenses are, transfer the information to our **Rental income - IR3R** and calculate the net rent. Transfer the net rent figure from Box 15 to your income tax return and attach the IR3R. Find an example of a completed IR3R on the previous page.

Paying income tax

If you're an individual property owner, or a partner in a partnership, you need complete an IR3, or if you're a non-resident, an IR3NR, income tax return each year. You can submit your return online in myIR. You can also download a return from **ird.govt.nz/end-of-tax-year** and send it to us by post.

If your rental property is not subject to the residential property deduction rules, the net income from that property is added to your other income, and the net loss is offset against your other income.

If your rental property is subject to the rules, you cannot offset your net loss against your other income. Any excess deductions will need to be carried forward until the next year you earn residential income.

You then work out the tax on your total taxable income. If you have any tax credits, such as PAYE or RWT on interest or dividends, these are deducted from the tax on your total taxable income.

After deducting any tax credits you'll have a balance to pay or to be refunded.

The tax year ends 31 March each year for most people. If you have any tax to pay, known as residual income tax, for the year, it usually needs to be paid to us by 7 February of the following year. If you have a tax agent with an extension of time you have until 7 April.

When you start renting out your property, you’ll need to file a tax return each year. You can do this in myIR.

Provisional tax

If you have to pay income tax of more than $5,000 ($2,500 for the 2019/20 and earlier years) at the end of any tax year, you'll most likely have to pay provisional tax for the following year. Provisional tax isn't a separate tax, but a way of paying the tax on your income as you receive it through the year. You usually pay three instalments of provisional tax, based on what you expect your tax at the end of the year to be. If your balance date is 31 March then your instalment dates are 28 August, 15 January and 7 May each year. For more information read our **Provisional tax - IR289** guide.

Note

If you're registered for GST and also have to pay provisional tax, please read our **Provisional tax - IR289** guide.

If the property is owned by more than one person

If you own a residential property with one or more people, your income tax obligations will depend on the nature of the relationship with the other people.

You may own a residential property jointly with one or more people but not have entered into a formal legal partnership with them. For example, the owners of a jointly owned property may be married or in a civil union, in a de facto relationship, or relatives. In this case, each of you must file an individual tax return for your share of the rental income and deductions. A copy of the rental accounts or completed **Rental income schedule - IR3R** must be included in each individual tax return. You don't need a separate partnership IRD number and you don't need to submit an IR7 return.

If:

- You are in a legal partnership that carries on a business in New Zealand (and you may have entered into a formal agreement recording the purpose of the partnership and details such as the responsibility, contribution and share of each of the partners), or
- You own a property in partnership which is a limited partnership registered under the Limited Partnerships Act 2008

then your partnership needs its own IRD number. You can get this by completing an **IRD number application - resident non-individual - IR596** form. The partnership only needs to keep one set of accounts to record its income and expenses and file an IR7 income tax return each year. This return shows the rental income calculated in your **Rental income - IR3R** schedule and the amount of each partner's share. Each individual in the partnership then uses that share to complete their IR3 tax return.

If the partnership owns residential property subject to the residential property deduction rules, use the **Residential property deductions worksheets - IR1226** to calculate each partner's net income and any excess deductions.

Note

Each partner's individual tax return must include their share of the rental profit or loss.

What happens if the rental property is sold or you move into it?

If you sell or move into your rental property, you'll need to make some adjustments in your tax return.

The amount of expenses you can claim for a loss-making residential rental property may change depending on whether the sale of the property was taxable. Find out more in Part 2 - Residential property deduction rules (also known as ring-fencing rules).

Please read the depreciation section on page 27 and then refer to pages 36-41. The rules applying to building sales can be quite complex so you may want to consult your tax advisor.

Note

If you're an offshore RLWT person and sell or dispose of your residential rental property you may have residential land withholding tax (RLWT) deducted. This will apply if:

- the property was purchased or acquired on or after 1 October 2015 through to 28 March 2018 inclusive and is being sold or disposed of within two years, or
- the property was purchased or acquired on or after 29 March 2018 and is being sold or disposed of within five years.

For more information go to **ird.govt.nz/rwlt**

GST (goods and services tax)

Renting out residential property is exempt from GST. You cannot claim GST on expenses from a residential property, and you cannnot include GST in the rent you charge. But, when you claim income tax deductions you use the cost of the expense including the GST.

If you're a property developer and you buy residential properties, you may have to pay GST. Go to **ird.govt.nz/gst** for more information.

Working for Families Tax Credits and student loans

When you apply for Working for Families Tax Credits you must show any rental income you earn. Go to **ird.govt.nz/working-for-families** to find out more.

If you're a student loan borrower, from 1 April 2014 rental losses won't reduce your income for working out your student loan repayment obligation. Prior to this the rental loss did reduce your income and repayment obligation.

Depreciation on buildings

If you sell a rental property that you owned before 2003 and have depreciation recovered for income tax purposes, you can reduce your income for Working for Families Tax Credits by the amount of any depreciation recovered.

Child support

From 1 April 2019, residential rental losses will generally no longer reduce your income for working out how much child support you pay. This is because a child support assessment is based on your taxable income.

Part 2 – Residential property deduction rules (also known as ring-fencing rules)

Overview of the rules

In some situations, you may have more expenses on a residential rental property in an income year than the rental income you earn. This is sometimes described as a "rental loss".

In previous years, rental losses could be used to reduce your overall taxable income. From the start of the 2019-2020 income year, this is no longer the case.

Now, you can generally only deduct expenses for residential rental property up to the amount of income you earn from the property for the year. Any deductions that exceed your income from the property, called excess deductions, must be carried forward to the next income year you earn income from the property (or from another residential property). This means that rental property losses cannot be used to reduce your tax liability for other income, such as salary and wages or business income. These rules are the residential property deduction rules, also known as the ring-fencing rules.

The rules apply whether you hold the property yourself, or in a partnership, look-through company, or close company. They also apply to trustees of a trust who earn taxable income from a residential rental property.

The rules may also apply to limit interest deductions if you have borrowed money to invest in an entity and more than 50% of the entity's assets are residential land.

Property the rules apply to

The residential property deduction rules apply to most residential land in New Zealand and overseas – the exceptions are listed in the next section. Residential land includes a rental property with an existing dwelling, land that is to have a dwelling built on it, and bare land that may have a dwelling built on it under the relevant district plan.

Income and deductions for residential land subject to the new rules are now reported in a new section of the income tax return separate from other kinds of rental income.

Property the rules do not apply to

The residential property deduction rules do not apply to:

- Your main home - if you have more than 1 home, this is the home you have the greatest connection with
- Your holiday home, if it is used privately, used to earn income, and it is unused for at least 62 days in the year. See part 4 for more information about the mixed-use asset rules
- Farmland
- Land that is used mainly as business premises
- Most accommodation provided to employees or other workers
- Property owned by companies other than close companies.

Rents for these kinds of properties must be reported in the Other rents field in the IR3 income tax return.

Residential land may also be excluded if it is land that will be taxed on sale regardless of when it's sold. This is called revenue account land. For this land to be excluded from the rules you must notify us that it is revenue account land. You must also be able to separately identify the deductions for that land, unless all your residential land is subject to tax on sale. There is no need to notify us of land that will be taxed because it was acquired for a land-related business. For more information about revenue account land and how to notify us, go to 'Residential rental property that is on revenue account' on page 25.

How do I calculate my net residential income?

You must calculate your residential income and the total deductions you can claim for the year for a residential portfolio or individual residential property. See the next section for an explanation of the portfolio basis and individual property basis.

You can generally claim allowable deductions up to the amount of residential income you earned in the income year. If you have more deductions than income for a residential portfolio or individual property, then you will have excess deductions.

Working out what to show on your income tax return

You can use our **Residential property deductions worksheets - IR1226** to calculate:

- the amount of deductions you can claim for the year against your income from a residential portfolio or individual property
- your net residential rental income for a residential portfolio or individual property
- the amount of any excess deductions for a residential portfolio or individual property that you must carry forward to a future income year.

These amounts are calculated for each residential portfolio and individual property you own and are then added together and included in your income tax return.

To calculate your **total residential income** for a residential portfolio or individual property, add together the following amounts:

- Rental income
- Net income from the disposal of the property (or another property in the portfolio if you have a portfolio)
- Depreciation recovery income for an individual property or residential portfolio - typically only relevant if you sell the property
- The net income (rental income, depreciation recovery income, and net income from taxable sales) from residential land that is excluded because it is revenue account land. For more information about revenue account land, go to Residential rental property on revenue account on page 25.

To calculate your **total deductions** for a residential portfolio or individual property for an income year, add together all of the following amounts:

- Deductible expenses for the individual property or the portfolio (as applicable), for the current income year
- Any excess deductions brought forward for the portfolio or individual property (as applicable) from previous years
- Any excess deductions left over after the sale of another residential property or the last property in a residential portfolio.

What do I do if I have excess deductions?

You will need to calculate the amount of excess deductions you have (if any) for each residential portfolio and each individual property you own. If your deductions exceed your residential income for an individual property or residential portfolio in a year, the excess deductions cannot be used to offset income in that year. The excess deductions will instead be carried forward to the next year you derive residential income, and are added to your deductions for the individual property or residential portfolio in that year.

It is important to remember that, provided there has not been a sale of property, excess deductions can only be used against income from the same individual property or residential portfolio the excess deductions relate to. This means excess deductions from a property in a portfolio can offset any income from the portfolio, but cannot be used to offset income from any other residential property. Excess deductions from an individual property can only be offset against income from that same property.

If you have sold an individual property or the last property in a residential portfolio and you have unused excess deductions remaining, there are different rules depending on whether the sales were taxable or not. If the sales were non-taxable, the excess deductions are transferred to another residential property that you own. If you do not own any other residential property, the unused excess deductions are carried forward until you do. For more information see Transferred excess deductions at page 24.

If the sales are taxable, the excess deductions may be released. Released excess deductions can be used to offset any other residential rental income and other income such as salary and wages and business income. However, the amount released will be reduced by the amount of all unused excess deductions transferred to the property from non-taxable sales. For more information on released excess deductions see What happens when I sell a residential rental property at page 22.

Once you have calculated your excess deductions for each residential portfolio and individual property, you enter the total amount of excess deductions from all your residential properties into the Excess residential deductions carried forward field on your IR3 income tax return.

Note

If you file your return in myIR, the amount that you enter in your return in the Excess residential rental deductions carried forward box will be pre-populated on your return for the next income year in the Excess residential rental deductions brought forward box.

Note

You will need to keep track of the amount of excess deductions carried forward for each individual property and portfolio each year. This is because the amount you show in your return in each box is the total for all your individual properties and portfolio.

Note

The shareholder continuity rules apply to close companies that have excess deductions. When there has been a change of shareholding, a close company's excess deductions cannot be used in a later income year if the rules that restrict the carrying forward of a company's loss balance apply. This guide does not cover the continuity rules for companies. Talk to your tax agent if you think that these rules apply.

Applying the rules on the portfolio basis or the individual property basis

You can calculate your net residential rental income and excess deductions using one of two methods, or a combination of both. These methods are:

- The portfolio basis
- The individual property basis (also called the property-by-property basis)
- A combination of the portfolio basis and the individual property basis.

Portfolio basis

Under the portfolio basis you calculate your income and deductions across a residential portfolio.

A portfolio includes all residential properties in your portfolio from the beginning of the income year you first had the residential portfolio until the end of the income year you dispose of the last property included in the portfolio. This means that properties in a portfolio can change from year to year as they are bought and sold.

Example

Kate and David have bought and sold the following residential investment properties, and have not elected to apply the residential property deduction rules on a property-by-property basis for any of them. This means the portfolio basis applies to them.

Year 1 – Own property A and property B.

Year 2 – Sell property B in May. Buy property C in August.

Year 6 – Sell property A in September, buy property D in December.

Year 10 – Sell properties C and D.

Year 11 – Buy properties E and F.

Properties A, B, C and D are all part of the same portfolio. It does not matter that they were not all held at the same time. There was a portfolio of properties from Year 1 until the end of Year 10, although the composition of the portfolio changed over that time.

Properties E and F are part of a new portfolio because when they were purchased Kate and David no longer owned any of the properties that had been part of the first portfolio.

The allowable deductions from all the properties in your portfolio can be offset against residential income you earn from all the properties in the portfolio. You work out if you have any excess deductions across the portfolio overall.

Once you use the portfolio basis for calculating your residential income, you must continue using the portfolio basis while there are properties in that portfolio.

Example

Ngaire owns two residential rental properties. For the 2019-2020 income year, property A has income of $15,000 and deductible expenses of $2,000. Property B has income of $12,000 and deductible expenses of $15,000.

In Ngaire's 2019-2020 income tax return, she calculates her net residential rental income and excess deductions for the two properties on a portfolio basis. The portfolio has income of $27,000 and deductible expenses of $17,000. This means that Ngaire has net residential rental income of $10,000 and no excess deductions to carry forward.

Ngaire cannot change the way she calculates her net residential income for these two properties in a future income year.

Individual property basis

For the individual property basis, you apply the rules to a single property separately. This means that the deductions for an individual property can be offset only against the income from that property. You can have more than one individual basis property, but you must do the calculations for each property separately. Your net income from each property gets combined in your tax return, as well as the excess deductions for each property.

If you have expenses that relate to more than one property, such as interest on a loan used for two properties, the individual property basis can't be used.

You must choose to use the individual property basis from the first year the rules apply to the property. This could be when you buy the property, start renting out the property, or the start of the 2019-2020 income year when the rules came in.

You can decide at any time to move to the portfolio basis, but once you start using the portfolio basis you must continue to use this method.

Example

Aroha owns two residential rental properties. For the 2019-2020 income year, property A has income of $15,000 and deductible expenses of $2,000. Property B has income of $12,000 and deductible expenses of $15,000.

In Aroha's 2019-2020 income tax return, she calculates her net residential rental income and excess deductions on an individual property basis for both properties.

As a result, property A has net residential rental income of $13,000 and no excess deductions to carry forward. Property B has net residential income of $0 and excess deductions of $3,000 to carry forward.

Example

In the 2019-2020 income year, Aroha had two properties that she accounted for income and deductions on an individual property basis - property A and property B.

In the following year, Aroha buys a third residential rental property, property C. Aroha decides that the new property will form a portfolio with property A.

Aroha completes her 2020-2021 return on the basis that she has one property on an individual property basis, property B, and a portfolio consisting of two residential rental properties, property A and property C.

Aroha cannot go back to applying the individual property basis to property A.

Combination of portfolio basis and individual property basis

This guide and the **Residential property deductions worksheets - IR1226** are aimed at people who own one or two rental properties, and who are not in the business of providing residential rental accommodation. However, if you have two or more residential properties you own, you may use a combination of the portfolio basis and the individual property basis. This means that some properties can be held on the portfolio basis and some can be held on the individual basis.

In any case, it is important to calculate your deductions for each residential portfolio and individual property that you own. In your income tax return, you will show totals for all your residential properties.

If you are unsure about which option is right for you, we suggest you talk to your tax advisor.

What happens when I sell a residential rental property?

You may still have unused excess deductions for a residential rental property after it is sold. In some circumstances these excess deductions may be released. This means they can be used against your other income, such as your salary and wages.

Sale of an individual property basis property

If you sell a property treated on an individual property basis and the sale is not taxable, any unused excess deductions must be transferred, or carried forward until they can be transferred, to another residential portfolio or individual property that has earned residential income. If you have another individual property or residential portfolio you can transfer the unused excess deductions from the property that was sold to the other individual property or residential portfolio in the current year. You can offset the transferred excess deductions against residential income of the other property. You need to track the transferred deductions until they are used to offset income as they can never be released.

If you do not have other residential rental properties, the unused excess deductions must be carried forward to the next income year you earn residential income from another individual property or portfolio. At this point the unused excess deductions would be treated as transferred to that individual property or portfolio (see Transferred excess deductions on page 24).

If the sale of the individual property was taxable, any unused excess deductions for the property will be released. However, if the excess deductions included an amount transferred from another property the amount released must is reduced by an amount equal to the total unused excess deductions transferred. The excess deductions released can be used to offset any income you have from any source in the year of the sale. The excess deductions released can also be carried forward to future years as part of a tax loss if you have a net loss for the tax year.

Example

Nikita has three residential rental properties – property A and property B are in a portfolio, and Nikita used the individual property basis for property C. Nikita also has salary income of $70,000. Property C has accumulated excess deductions of $80,000.

Nikita decides to sell property C. The sale is taxed and has a net gain of $60,000. Nikita uses $60,000 of the excess deductions against the net sale income from Property C. Because Nikita has applied the residential property deduction rules on a property-by-property basis for this property, the remaining excess deductions of $20,000 are released and used against Nikita's salary income.

Sale of one property in a portfolio

If you have taxable income from the sale of a property that is part of a residential portfolio, and there are other properties still in the portfolio, include the net income from the sale in your residential income for the portfolio for the year.

You need to keep track of whether the sale of each property in your portfolio was taxable or not so that when you dispose of the last property in your portfolio, you can correctly deal with any remaining excess deductions. For more information about what happens when you dispose of the last property in a portfolio, go to the Sale of all properties in a portfolio section.

Example

In the 2019-2020 income year, Minerva owns two residential rental properties and applies the residential property deduction rules on the portfolio basis.

In the 2020-2021 income year, Minerva sells one of her properties. The sale is taxable, and Minerva earns net income of $20,000 from the sale. This amount is added to the rental income of $30,000, giving a total income of $50,000 for the portfolio. Deductions for the portfolio amounted to $35,000.

In her tax return, Minerva can use all the deductions for the portfolio in that year because the deductions of $35,000 are less than the total income of $50,000. Minerva will have net residential income of $15,000.

If the sale of the property was not taxable, then the residential income of the portfolio would be $30,000. In this situation, because the deductions of $35,000 are more than the income of $30,000, Minerva can't use all of the deductions for the income year. Minerva would show in her tax return net income of $0 for the portfolio and excess deductions to carry forward of $5,000.

Sale of all properties in a portfolio

If you sell all the properties, or the last property, in your residential portfolio in an income year, you may still have unused excess deductions. If the sale of each of the properties in the portfolio was taxable, any unused deductions would be released. This means they can be used to offset any income you have from any sources in the year of the sale, or be carried forward to future years as a regular loss if required. However if the excess deductions included an amount transferred from another property the amount released is reduced by an amount equal to the total unused excess deductions transferred. For more information, go to Transferred excess deductions on page 24.

If any of the properties in the portfolio in any income year were not taxed on sale, any unused excess deductions for the portfolio must be transferred, or carried forward until they can be transferred, to another residential portfolio or individual property that has earned residential income. If you have another individual property or residential portfolio you can transfer the unused excess deductions from the property that was sold to the other individual property or residential portfolio in the current year. You can offset the transferred excess deductions against residential income of the other property. You need to track the transferred deductions until they are used to offset income as they can never be released.

If you do not have other residential rental properties, the unused excess deductions must be carried forward to the next income year you earn residential income from another residential portfolio or individual property. At this point the unused excess deductions would be treated as transferred to that individual property or portfolio (see Transferred excess deductions on page 24).

Example

Jairus owns a portfolio of two residential properties. He has not previously owned other residential properties. In the 2019-2020 income year, Jairus sells both of his properties for a total net taxable gain of $10,000. He also has gross rental income of $20,000 from the properties in that year, rental deductions for the properties of $35,000, and a salary of $70,000.

The taxable sale and rental income gives Jairus a total of $30,000 residential income from the portfolio for the year. He can use $30,000 of the rental deductions against his residential income. Because the sale of both properties in the portfolio were taxed, the remaining $5,000 of rental deductions are released and can be used against his salary income.

If only one of the properties was taxed on sale, any excess deductions must continue to be carried forward and used against any residential income Jairus has from another residential property or portfolio in the future.

Transferred excess deductions

You may have unused excess deductions remaining after the non-taxable sale of an individual property or residential portfolio. In this situation, the unused excess deductions must be transferred to another residential rental property. The transfer can be made in the year of sale to another residential portfolio or individual property that you have earned residential income from. Otherwise, the unused excess deductions are carried forward to the next income year that you earn residential income and then they are transferred.

Once transferred, the excess deductions continue to be subject to the residential property deduction rules and they become part of the total deductions of the property they were transferred to.

When an individual property is sold, and the sale is taxable, excess deductions are released. When the last property in a residential portfolio is sold, and each sale in the portfolio was taxable, any excess deductions remaining are released. Once released, these excess deductions can be used to offset income from other sources, such as salary and wages or business income. However, transferred excess deductions can never be released from the residential property deduction rules. They can only be offset against residential income. In this situation, the amount of any excess deductions transferred to the property is subtracted from the amount of excess deductions that would otherwise be released.

Example

George owns a residential rental property A. In the 2019-2020 income year George sells property A and the sale was not taxable. After the sale, George has remaining unused excess deductions of $2,000.

Two years later, George acquires another residential rental property, property B, and earns rental income from it. The unused excess deductions from property A transfer to property B.

In the 2023-2024 income year, George sells property B. The sale is taxable under the bright-line rules and George makes a loss on the sale. George has excess deductions of $5,000 for property B, including the $2,000 of deductions transferred from property A.

Because the sale of property B was taxable, some of the excess deductions can be released from the rules. The released amount is the total remaining excess deductions of $5,000 less the transferred deductions of $2,000 from property A.

This means that $3,000 of deductions are released and can be used against any other income George has. The excess deductions of $2,000 transferred from Property A must be carried forward to the next year George earns income from a residential property.

Residential rental property on revenue account

The residential property deduction rules may not apply to residential land that is taxable on sale regardless of when it is sold. This is called revenue account land.

For this land to be excluded from the rules, you must let us know it is revenue account land. You must also keep the deductions relating to the land separate, unless all your residential land is subject to tax on sale. If you do not let us know the land is revenue account land, you'll need to apply the rules to it.

If the land is taxed on sale because it is held by a person in the business of dealing, development, subdivision, or building business you don't need to let us know for the exclusion to apply.

If you have net income from revenue account land that is excluded from the rules, you can include it in the calculation of residential income that income to offset residential rental deductions from a residential portfolio or individual basis property.

You can include net income from revenue account land in the residential income of a portfolio or an individual basis property. You can also spread the income across more than one property or portfolio, but you cannot use any of the income more than once.

Net income from residential land that is revenue account land is included as residential income in your IR 3 tax return. However, net losses for this type of property should be included as Other rents or Income from taxable property sales/disposals.

To notify us of land that is revenue account land and excluded from the rules, you will need to provide us with the address of the property and its land title number or certificate of title number. The certificate of title number for your property can be found through your local council or at **homes.co.nz** We will also need confirmation that you can separately identify any deductions relating to the revenue account property. You can notify us with this information by contacting us by phone, or secure mail in myIR.

Investment in an entity with significant holdings in residential land – the interposed entity rules

There are special rules that may apply if you have borrowed money to buy a share or interest in an entity like a close company, partnership, or look-through company, and the entity holds significant interests in residential land. These rules are called the interposed entity rules. The interposed entity rules may apply if more than 50% of the entity's assets by value are residential land.

In this situation, the amount of the interest expense you can claim as a deduction may be limited.

The amount of the interest that can be deducted in the year is calculated as the lesser of:

- The interest paid times the percentage of the entity's capital that has been used to acquire residential rental property, or
- Your share of the entity's calculated net residential income.

Any excess amounts of interest expenditure are carried forward to later income years.

Talk to a tax agent if you think the interposed entity rules may apply to you. Read the **Tax Information Bulletin, Vol 31, No 8 (September 2019)** for more information.

Part 3 - Depreciation

Assets, such as the stove and carpets, that are part of the property or used in your rental activity, will eventually reduce in value through wear and tear or by becoming out of date. This reduction in the value of your assets is known as depreciation. Each year you calculate the depreciation amount and deduct it as an expense.

This is a summary of the depreciation rules relating to rental properties. For more information about depreciation go to **ird.govt.nz** or download our **Depreciation - a guide for businesses - IR260** to find out more.

We set depreciation rates for various assets, excluding land as it's not depreciated, for tax purposes. We base these rates on:

- it's estimated useful life
- it's estimated residual value.

Pages 30-33 list the assets commonly used in rental activity and their depreciation rates.

If you're claiming depreciation you have to keep a schedule of all the assets you're depreciating. This should show the depreciation claimed in previous years and the adjusted tax value of each asset. The adjusted tax value is generally the cost price, less depreciation deducted each year.

You can choose not to claim depreciation - go to page 34.

Note

If you inherited the property, the cost price for depreciation is its market value at the time the property is transferred to you as the new owner. The exception is for a spouse, civil union, or de facto partner, in this case the transfer is at cost or adjusted tax value.

If you've claimed depreciation on the sale of a building prior to the 2011-12 income year, you're required to account for the gain in your income tax return- go to pages 36-39.

If you rent a holiday home to the public for short-term stays, there may be limits to the amount of depreciation you can claim. See Part 4 for more information.

Depreciation methods

You can depreciate an asset individually or as part of a group or pool of assets - go to page 33. But you can't pool the assets if you also use them privately, for example, the chattels in a holiday home you sometimes rent out and sometimes use yourself.

If you choose to calculate depreciation on individual assets, you can use either the diminishing value method or the straight line method.

If you pool your assets you can only use the diminishing value method.

Diminishing value method

Using this method, the amount of depreciation is worked out on the adjusted tax value of the asset. This value is the original cost price (including GST) less any depreciation already claimed in previous years.

Example 1

Using diminishing value method

Asset: Dishwasher - purchased after 20 May 2010

Cost: $1,200

Depreciation rate: 30%

Value at	Adjusted tax value start of the year	Depreciation rate	Depreciation claimed	Adjusted tax value end of year
Year 1	$1,200.00	30%	$360.00	$840.00
Year 2	$840.00	30%	$252.00	$588.00
Year 3	$588.00	30%	$176.40	$411.60
Year 4	$411.60	30%	$123.48	$288.12
Year 5	$288.12	30%	$86.44	$201.68

Note

This table excludes the 20% loading which ceased from 20 May 2010.

Straight line method

Each year you claim a set percentage of the asset's original cost. This percentage is set so that the depreciation you claim over an asset's expected useful life works out to its original cost at the time you acquired it.

Example 2

Using the straight-line method to depreciate the dishwasher in Example 1.

	Original cost	Depreciation rate	Depreciation claimed	Adjusted tax value
Year 1	$1,200	21%	$252.00	$948.00
Year 2	$1,200	21%	$252.00	$696.00
Year 3	$1,200	21%	$252.00	$444.00
Year 4	$1,200	21%	$252.00	$192.00
Year 5	$1,200	21%	$192.00	$0.00

You can claim $252.00 for the first four years, but, in the fifth year the final claim is $192.00. This is because the dishwasher's adjusted tax value is less than the original calculated depreciation of $252.00. The amount of depreciation claimed can't exceed the adjusted tax value.

Note

You don't have to use the same method for all your assets, but you can't switch methods for an asset part-way through any income year.

You can change the method you choose for any asset from year to year. If you do change methods, the asset's opening value at the start of one year must be its adjusted tax value at the end of the previous year, not its original cost.

Assets not used for the full year

You have to reduce the amount of depreciation you claim on an asset if it hasn't been part of your rental activities for the whole year. You do this based on, the number of months that you use it for rental purposes.

Depreciation on buildings

From the 2011-12 income year depreciation on buildings is 0% where buildings have an estimated useful life of 50 years or more. This applies regardless of when the building was acquired. If you're completing a tax return for an earlier income year, our Depreciation rate finder can help you find the correct rate of depreciation for your building. Go to **ird.govt.nz/depreciation** for more information.

Depreciation on contents

The following tables show the rates for some commonly used assets.

If you have an asset that was acquired before the end of your 2004-2005 income year different rates will apply. If this is the case, or an asset being used isn't listed, go to **ird.govt.nz/depreciation** to find out more.

Table 1 - Assets acquired on or after 1 April 1995 and up to 31 March 2005

Asset	Diminishing value %		Straight line %	
	General rate	Rate plus 20%	General rate	Rate plus 20%
Appliances (small)	40	48	30	36
Bedding, linen	50	60	40	48
Blinds, drapes and curtains	22	26.4	15.5	18.6
Carpets	33	39.6	24	28.8
Crockery, cutlery, glassware	50	60	40	48
Dishwashers	26	31.2	18	21.6
Furniture (loose)	18	21.6	12.5	15
Lawnmowers	40	48	30	36
Light fittings	18	21.6	12.5	15
Microwave oven	26	31.2	18	21.6
Ovens and stoves	22	26.4	15.5	18.6
Paintings, drawings	9.5	11.4	6.5	7.8
Refrigerators and freezers	22	26.4	15.5	18.6
Televisions, videos, stereos	33	39.6	24	28.8
Utensils, pots, pans	50	60	40	48
Washing machines, dryers	26	31.2	18	21.6

Table 2 - Assets acquired on or after 1 April 2005 and up to 31 March 2011

Asset	Diminishing value %		Straight line %	
	General rate	Rate plus 20%	General rate	Rate plus 20%
Appliances (small)	50	60	40	48
Bedding, linen	67	80.4	67	80.4
Blinds, drapes and curtains	25	30	17.5	21
Carpets	40	48	30	36
Crockery, cutlery, glassware	67	80.4	67	80.4
Dishwashers	30	36	21	25.2
Furniture (loose)	20	24	13.5	16.2
Lawnmowers	50	60	40	48
Light fittings	20	24	13.5	16.2
Microwave oven	30	36	21	25.2
Ovens and stoves	25	30	17.5	21
Paintings, drawings	10	12	7	8.4
Refrigerators and freezers	25	30	17.5	21
Televisions, videos, stereos	40	48	30	36
Utensils, pots, pans	67	80.4	67	80.4
Washing machines, dryers	30	36	21	25.2

Note

The 20% loading doesn't apply to secondhand assets, and has been removed for assets purchased after 20 May 2010. The general rate of depreciation will apply.

Assets purchased, or with binding contracts for purchase, entered into on or before 20 May 2010 can continue to use the general rate with loading.

Where there's a capital improvement to an asset with the 20% loading, this improvement needs to be depreciated separately from the original asset, and without the loading allowance.

Low value items

Where you purchase an asset that has a low value you can fully deduct the cost of that asset at the time of purchase. This removes the need to depreciate that low value asset over its useful life.

A low value asset is determined by its cost;

- Up till 16 March 2020 - Up to $500
- 17 March 2020 till 16 March 2020 - Up to $5,000
- 17 March 2021 onwards - Up to $1,000

Fully or partly furnished properties

If you rent your property out fully or partly furnished you can either depreciate the contents individually or, if there are many items included in the contents (for example, loose furniture, paintings), choose to pool the assets.

Table 3 - Assets acquired on or after 1 April 2011

Asset class	Estimated useful life (years)	Diminishing value rate %	Straight line rate %
Chattels (default class)	5	40	30
Air conditioners and heat pumps (through wall or window type)	10	20	13.5
Air ventilation systems (in roof cavity)	10	20	13.5
Alarms (burglar/smoke, wired or wireless)	6.66	30	21
Appliances (small)	4	50	40
Awnings	10	20	13.5
Bedding	3	67	67
Blinds	8	25	17.5
Carpets	8	25	17.5
Clotheslines	8	25	17.5
Crockery	3	67	67
Curtains	8	25	17.5
Cutlery	3	67	67
Dehumidifiers (portable)	4	50	40
Dishwashers	6.66	30	21
Drapes	8	25	17.5
Dryers (clothes, domestic type)	6.66	30	21
Freezers (domestic type)	8	25	17.5
Furniture (loose)	10	20	13.5
Glassware	3	67	67
Heaters (electric)	3	67	67
Heaters (gas, portable and not flued)	5	40	30
Lawn mowers	4	50	40
Light shades/fashion items affixed to a standard light fitting*	10	20	13.5
Linen	3	67	67

* Light fittings are connected to the electrical wiring and part of a residential rental building and without the function of lighting would not be considered complete.

Table 3 - Assets acquired on or after 1 April 2011 (continued)

Asset class	Estimated useful life (years)	Diminishing value rate %	Straight line rate %
Mailboxes	15	13	8.5
Microwave ovens	4	50	40
Ovens	8	25	17.5
Refrigerators (domestic type)	8	25	17.5
Satellite receiving dishes	12.5	16	10.5
Stereos	5	40	30
Stoves	8	25	17.5
Televisions	5	40	30
Utensils (including pots and pans)	3	67	67
Vacuum cleaners (domestic type)	3	67	67
Washing machines (domestic type)	6.66	30	21
Waste disposal units (domestic type)	8	25	17.5
Water heaters (heat pump type)	10	20	13.5
Water heaters (over-sink type)	10	20	13.5
Water heaters (other eg, electric or gas hot water cylinders)	15.5	13	8.5
Water heaters (solar type)	10	20	13.5

Pooling assets

If you have a number of low-value assets that you can’t fully depreciate in the first year, you can use a pool system to depreciate them collectively as if they were a single asset. Go to page 31 for more on low value items.

This means you do not have to work out the depreciation on each one separately. You can pool assets that individually cost up to $5,000, or have been depreciated and now have an adjusted tax value of $5,000 or less. You can apply to us to pool assets when their values are more than $5,000. You can also have more than one pool. Once an asset is included in a pool you cannot treat it as a single asset again later, except where the asset is now used by you privately.

Note

The maximum pooling value of $5,000 applies from the 2015-16 income year. If you're filing for income years prior to this the maximum pooling value is $2,000.

You depreciate each pool using the diminishing value method, at the lowest depreciation rate applying to any asset in the pool.

Example

A pool of chattels (purchased before 1 April 2005) consisting of carpets (39.6% depreciation rate), light fittings (21.6%), drapes (26.4%), stove (26.4%) and dishwasher (31.2%) is created. The lowest rate in the pool is light fittings, so the depreciation rate to use is 21.6%. If the carpets weren't included in the pool, the rate to use for the pool would still be 21.6%, but the carpets could then be depreciated individually at 39.6%.

If you sell an asset in a pool for more than its cost, this capital gain is included in your tax return as taxable income.

Electing not to depreciate an asset

You may decide you don't want to claim a depreciation deduction, for example, when renting out your home while you're overseas.

Note

In this section, the term asset doesn't include a building. From the 2011-12 income year depreciation on buildings is 0%.

If you decide not to claim depreciation on an asset, and you don't want to pay tax on depreciation recovered when depreciation wasn't claimed, you should elect not to treat the asset as depreciable. Tell us on an asset-by-asset basis by telling us which assets you're choosing not to depreciate. Tell us which asset you're making an election for in your tax return for the income year when:

- you purchase your asset
- you change the use of your asset from non-business to business.

Once you've given us your election not to depreciate an asset you can't claim depreciation on this asset in future years.

It won't be a depreciable asset and the depreciation recovery or loss on sale provisions won't apply. **If you do not make an election not to depreciate an asset, even if you haven't claimed depreciation, you'll be considered to have claimed it.** The amount considered to be a claim needs to be included in the depreciation recovery calculation.

Note

You can backdate an election not to depreciate an asset you never claimed depreciation on. The election is made by telling us in your tax return in any income year after acquiring the asset.

Example

Geoff rented out his house while he was overseas for a year, from June 2018.

Q Does he have to claim depreciation on the chattels left in the house for the period the house is rented out?

A No, Geoff can elect not to depreciate the depreciable assets in the house for the period the house is rented.

Geoff must tell us in his tax return for the 2018-2019 year. If no election is made, it's assumed that depreciation has been claimed.

Working out the value of chattels

When you buy a property, you need to work out the value of your chattels so you can make a claim for depreciation.

If you have a registered valuation, use the total value of all the chattels and apportion this amongst them on a market value basis.

If you don't have a registered valuation, use the market value of each chattel as its opening tax value on which to claim depreciation. You can get market values from second-hand dealers or from classified advertisements for similar items of the same age and condition.

Note

You can find examples of depreciable items, eg, fixtures, fittings and chattels, in our interpretation statement **IS 10/01: Residential rental properties - depreciation of items of depreciable property**.

Transferring personal assets to your rental activity

Sometimes you might transfer a personal asset into your rental property. For example, you buy a new stove for your own house and move your old stove into your rental property.

If one of your personal assets becomes part of your rental activity, use its market value at the time of the change to use as the opening book value for depreciation.

Example

At the local second-hand dealer there's a stove the same as the one you're moving into the rental property. It's being sold for $250. This can be used as market value.

The opening value in your assets register will be $250.

Note

This rule doesn't apply to buildings - go to page 38 for more information.

Renting out your own home

If you start to rent out the home that you were living in, you need to use the market value of your chattels at the time you started renting the property to calculate depreciation.

You also need to make some adjustments if you later move back into the property - page 38.

Selling and disposing of assets

If you sell or dispose of a rental asset that is not a building (page 36), for a different amount to its adjusted tax value, you need to account for the difference - either a loss or a gain. Remember the adjusted tax value is the remaining value of your asset once all depreciation calculated has been deducted from the value of the asset.

If you sell an asset for more than its adjusted tax value, you'll have to include the difference between the sale price and the adjusted tax value in your taxable income.

Only include the difference between the original cost and the adjusted tax value in your taxable income if the asset is sold for more than its original cost.

Note

Costs incurred in selling an asset, such as commission and advertising, can be deducted from the sale price before you work out the loss or gain on sale.

Example 1 - All depreciation deductions have been claimed

Stove purchased for	$ 1,400
Less depreciation allowed as a deduction	$ 1,260
Adjusted tax value	$ 140
Sale price of stove	$ 250
Less adjusted tax value	$ 140
Depreciation recovered	$ 110

The depreciation recovered is $110 and is included as taxable income in the year the stove was sold.

Example 2 - Not all depreciation deductions have been claimed

When an asset is sold and you didn't claim all the depreciation you still have to calculate it as if all depreciation has been claimed, to find the adjusted tax value when accounting for the difference.

Depreciation claimed:

Income year	Depreciation claimed	Book value
		$ 1,400
2011	$252	$ 1,148
2012	nil	$ 1,148
2013	$252	$ 896
2014	$252	$ 644
2015	nil	$ 644

For 2012 and 2015 the depreciation that hasn't been claimed is considered to have been claimed. So the total depreciation allowed as a deduction is $1,260 ($252 × 5 years).

Stove purchased for	$ 1,400
Less depreciation allowed as a deduction	$ 1,260
Adjusted tax value	$ 140
Sale price of stove	$ 250
Less adjusted tax value	$ 140
Depreciation recovered	$ 110

The depreciation recovered is $110 and is included as taxable income in the year the stove was sold.

Gain

If you sell an asset for more than its adjusted tax value, include in your taxable income the lesser of:

- the total depreciation that could have been deducted, or
- the amount by which the sale price received exceeds the adjusted tax value, or
- the amount by which the original cost exceeds the adjusted tax value.

Loss

If you sell an asset for less than its adjusted tax value, you can claim a deduction for the difference between the sale price and the adjusted tax value.

Note

If you sell an asset for a price that's substantially different from its true market value at the time, for tax purposes the sale is treated as though you had sold the asset for its true market value. This is so people can't avoid paying tax by selling assets to their associates for artificially low prices.

If you keep an asset, but stop using it for rental purposes, you'll have to make an adjustment as if you'd sold it for its market value at the start of the next tax year. For example, you take an asset from your rental property for your own personal use or you move into the property.

You make the adjustment in your income tax return for the year after the asset changed use or the year after you ceased renting the property.

Sale of a building

If you sell a building that you've previously claimed depreciation on this section applies to you. Depreciation on buildings only applied before the 2011-12 income year.

When a building is sold for more than its adjusted tax value, the depreciation recovered is taxable income. The amount of depreciation recovered is the lesser of:

- the original cost price of the building, less the adjusted tax value, or
- the sale price, less the adjusted tax value.

This ensures that any capital profit made on the sale of a building isn't included as taxable income.

Moving back into your own home

If you stop renting your own home and move back into it (or move into a property you have been renting), you treat this as if you've sold the property. The sale value of the property is the market value as at the beginning of the next income year.

If you've claimed depreciation on the property, and the sale value is more than its adjusted tax value, the depreciation recovered is taxable income. The depreciation recovered is the lesser of:

- the original cost price of the property less the adjusted tax value or
- the sale value less the adjusted tax value.

You'll need to show the depreciation recovery income in your income tax return the year after you moved back into the property.

Example

Original purchase price (excluding land value)	$ 100,000
Total depreciation claimed	$ 10,000
Adjusted tax value	$ 90,000
Depreciation recovered $10,000	
Sale value (excluding land value)	$ 125,000
Adjusted tax value	$ 90,000
Gain on sale	**$ 35,000**

The depreciation recovered ($10,000) is less than the gain on sale ($35,000). Include the $10,000 of depreciation recovered as income in your tax return the year after you move back into the property.

Generally, depreciation claimed on a house would be recoverable because the market value of the house would usually be higher than the adjusted tax value. Chattels though, in most circumstances, depreciate faster than a house and the market value of the chattels is likely to be close to the adjusted tax value, reducing any likely difference.

When you rent out your home with the intention of moving back in the future you may want to consider the effect of depreciating each asset. Electing not to depreciate the asset could reduce any depreciation to be recovered.

Bright-line test for residential property

If you buy or acquire a rental property on or after 1 October 2015 and sell or dispose of it within the bright-line period, any gain in value may be taxable income.

The bright-line test will apply if:

- the property was purchased or acquired on or after 1 October 2015 through to 28 March 2018 inclusive and is being sold or disposed of within two years, or
- the property was purchased or acquired on or after 29 March 2018 and is being sold or disposed of within five years.

If you sell the property for a loss, you cannot claim any excess deductions as a loss unless you have other income from a taxable property sale. These will need to be held and offset in a future year, when you have income from a taxable property sale.

For more information see our guide **Buying and selling residential property - IR313**.

Note

Losses on the sale or disposal of buildings aren't deductible, unless the building has been rendered useless for the purposes of deriving income - page 41.

Example

Original purchase price (excluding land value)	$140,000
Less total depreciation claimed (before 2011-12 income year)	$ 12,600
Adjusted tax value	$127,400
Less sale price	$160,000
Gain on sale	$ 32,600
Depreciation recovered	$ 12,600

The depreciation claimed ($12,600) is less than the gain on sale ($32,600) and is included as income.

The rules applying to building sales can be quite complex, so you may need to talk to a tax agent.

Disposal costs

You're allowed a deduction for the cost to dismantle, demolish and remove an asset. You include this cost when you work out a loss or gain on the disposal of the asset.

Example

Machinery is damaged by a flood and a cost is incurred to remove the machinery from the business premises.

Original purchase price		$ 1,200
Less total depreciation claimed		$ 1,000
Adjusted tax value		$ 200
Proceeds from sale as scrap metal	$ 500	
Less cost of removal from premises	-$ 800	
Net disposal proceeds		-$ 300
Loss on disposal		-$ 500

Insurance proceeds

Assets lost or destroyed

If you receive an insurance payout for an asset which is lost or destroyed, treat it like you've sold the asset for the amount of the insurance payout:

- If the insurance payout is more than the asset's adjusted tax value but less than its original cost, you must include the difference between the insurance payment and the adjusted tax value as taxable income.
- If the insurance payout is more than the asset's adjusted tax value and also more than the asset's original cost, you must include the difference between the cost and the adjusted tax value as taxable income. The difference between the insurance payout and the asset's cost is a capital gain and not taxable.
- If the insurance payout is less than the asset's adjusted tax value, you can treat it like a loss on sale and claim the difference. Remember, if the asset was a building, there's no deduction for any loss on sale.

Damaged assets

If you receive an insurance payout to repair a damaged asset, don't include it as income and don't claim the cost of the repairs which are covered by the insurance. However, please note the following:

- If the insurance payment is more than the cost of the repairs, you need to deduct the excess from the asset's adjusted tax value. If this makes the adjusted tax value a negative amount, you're required to include this amount in your gross rental income.
- If the insurance payout is less than the cost of the repairs, you can deduct the extra cost of the repairs from your taxable income. Remember to keep all invoices relating to the repairs.

Loss on disposal of buildings

If an unexpected event causes damage to the building or to the neighbourhood of the building so that it's useless and can't be used to earn income, then you're allowed a deduction for a loss on the disposal of the building. This is providing the damage hasn't been caused by the owner. The unexpected event could be a natural disaster such as an earthquake, flood or fire.

Damage of the neighbourhood of the building can be where:

- two buildings next door are badly damaged by fire, and your building has to be demolished to demolish the fire damaged buildings
- the building is undamaged but an earthquake has made the ground unstable so that it must be demolished.

You can offset any disposal costs (for example, demolition costs) from any disposal proceeds to calculate the final loss or gain on disposal.

Example

A building is damaged in an earthquake and must be demolished.

Original purchase price		$ 140,000
Less total depreciation claimed (before 2011-12 income year)		$ 40,000
Adjusted tax value		$ 100,000
Insurance proceeds	$ 120,000	
Less demolition costs	-$ 25,000	
Net disposal proceeds		$ 95,000
Loss on disposal		-$ 5,000

The building is disposed of for less than its adjusted tax value resulting in a loss of $5,000. This can be claimed as a deduction.

Part 4 - Holiday homes

Mixed-use asset rule

There are special rules for mixed use assets, including holiday homes. These rules came into effect from the beginning of the 2013-14 tax year.

If, during the tax year, your property is used both for private use and income-earning use, and it's unoccupied for 62 days or more, then you have a mixed-use holiday home.

If your holiday home is used privately and for income-earning but is not vacant for 62 days or more, the standard tax rules apply. For more information about how the standard tax rules apply to holiday homes, go to Standard tax rules on page 44.

The rules do not apply if your property is a residential property used for long-term rental.

If you own a mixed-use holiday home, you might need to pay tax on the income you earn from letting it and apportion some of your expense claims.

Note

If you buy or sell your property part-way through the tax year, you'll need to reduce the 62 days figure to reflect your period of ownership.

Example

You buy your property on 1 October. Your period of ownership from 1 October to 31 March is 182 days. The 62 days figure is reduced as follows:

$$\frac{182 \times 62}{365} = 30.91 \text{ days}$$

Private use

Private use of your property means use by:

- you or your family, even if 100% market rent is paid.
- non-associated people if you earn rent at less than 80% of market rates.

Income-earning use

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

Paying tax on your rent

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

Deducting your expenses

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

1. Fully deductible

You can claim 100% of any expense relating solely to the income-earning use of the holiday home.

Examples: Costs of advertising for tenants, costs of repairing damage caused by tenants.

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 which are unavailable to the non-associated people renting the holiday home.

3. Apportioned

If an expense relates to both income-earning use and private use, you need to apportion it using this formula:

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

Expenses might include mortgage interest, rates, insurance, repairs for general wear and tear, depreciation on chattels.

Note

If you're registered for GST, you'll need to make adjustments in your GST return. Read our **GST guide - IR375** for details.

Exemptions

If your income from income-earning use is less than $4,000 for the year, you can choose to keep the holiday home outside the tax system. That means your rental activity doesn't need to be included in your income tax return. You don't return any of your income from the holiday home and you can't claim any of your expenses for the holiday home.

You can also choose to keep your rental activity outside the tax system if you have an amount of quarantined expenditure for the year. Quarantined expenditure is explained in the next section.

These exemptions don't apply to holiday homes owned by companies.

Quarantining expenditure (mixed-use asset)

If you make a loss from your mixed-use asset, sometimes you won't be able to claim the loss straightaway. Instead, you'll have to quarantine the excess expenditure and carry it forward to a future tax year to offset against future profits from the asset. This rule applies if your gross income from income-earning use of the asset is less than 2% of the value of the asset.

The cost or value of the asset is the most recent of the:

- purchase price or market value if purchased from an associated person, or
- most recent capital value or valuation completed by the relevant local authority.

Example 1

David has a city apartment with a rateable value of $300,000. He rents out the apartment and also uses it privately. He receives market rate rental of $4,000 from non-associates, and $6,000 from associates. His total allowable expenditure, after applying the apportionment rules is $15,000.

Since David's income from non-associates is less than 2% of the apartment's rateable value, the excess expenditure of $11,000 can't be claimed as a deduction.

The quarantined expenditure can be offset against profits in subsequent income years.

Example 2

In the next income year, David makes $10,000 from renting his city apartment at market rates to non-associates. His total allowable expenditure after applying the apportionment rules is $8,000. As calculated above, he also has expenditure of $11,000 quarantined from the previous income year.

David can deduct $2,000 of that quarantined expenditure to reduce his profit to zero. The $9,000 left continues to be quarantined and can be used as a deduction in a later income year.

There are restrictions around the use of the quarantined deductions in later years. The profit:

- must be from the use of the same asset
- must come from the asset being used as a mixed-use asset.

There is one exception to the same asset rule - if the asset for which the loss arose is damaged, destroyed, or lost and is no longer held by the person, and the replacement asset is identical or substantially the same as the original mixed-use asset, the loss from the first asset can be offset against subsequent profits from the second asset.

You can find more information about mixed-use holiday homes at **ird.govt.nz/mixed-use**

Standard tax rules

If your holiday home is used privately and for income-earning but is not vacant for 62 days or more, the mixed-use asset rules will not apply. The standard tax rules for what counts as income and how expenses should be apportioned apply.

Paying tax on your rent

You must pay income tax on rent earned from income-earning use.

Under the standard rules, the amounts you receive from paying guests will generally be income. This includes mates' rates rent.

An exception would be where family or friends use the property and are not charged rent, but make a minor contribution to your expenses, for example, they pay you $20 towards power. In that situation, the contribution isn't rental income, but you also can't claim any deductions for that period.

Deducting your expenses

Expenses from holiday homes that are in the standard tax rules fall into three categories:

1. Fully deductible

You can claim 100% of any expense relating solely to the income-earning use of the holiday home.

Examples: Costs of advertising for tenants, cleaning costs for the rental periods, any additional insurance or rates you have to pay because you rent the property out.

2. Not deductible

You cannot claim any expenses relating to the private use of the holiday home.

Example: If you use the property for a month over the summer and you can identify actual usage charges for some of your expenses, like power, you cannot deduct any of the usage component for that period.

3. Apportioned

If an expense relates to both income-earning use and private use, you need to apportion it using this formula:

$$\text{Expense} \times \frac{\text{nights the property is rented out or available to be rented out}}{\text{nights in the year}}$$

Expenses might include mortgage interest, rates, insurance, repairs for general wear and tear. Depreciation on chattels is dealt with separately on page 35.

You'll need to keep track of the number of nights you rent out the dwelling, and you'll need to have evidence of when it was available to be rented out. This evidence needs to show the property was genuinely available to rent – including that there was active and regular marketing of the property at market rates.

Depreciation

Once you know the depreciation losses for the year for the chattels in the property that paying guests can use (page 35), you need to work out what proportion of those losses you can deduct. To do this, use this formula:

$$\text{Depreciation losses} \times \frac{\text{nights the property is rented out or available to be rented out}}{\text{nights in the year the property is used or available for any purpose}}$$

The difference between this formula and the approach for mixed expenses is that if the property is not available for use by anyone for a period, those nights are not counted. For example, if the property cannot be lived in while some building work is being done).

Part 5 - Services you may need

myIR

AYou can manage your tax and entitlements online with a myIR account.

In myIR you can:

- check if you're due a refund
- keep up-to-date with your student loan
- check and update your Working for Families Tax Credit details
- review your KiwiSaver contributions
- manage your child support payments
- file returns
- update your contact and bank account details.

myIR is available 24 hours a day, seven days a week. Find out more, and register, at ird.govt.nz/myIR

Forgotten your user ID or password?

Request these online from the myIR login screen and we'll send them to the email address we hold for you.

0800 self-service numbers

Our 0800 self-service numbers are open 7 days a week - except between 5am and 6am each day. Make sure you have your IRD number ready when you call.

For access to your account-specific information, you'll need to be enrolled with voice ID or have a PIN.

Order forms, guides and returns	0800 257 773
All other services	0800 257 777

When you call, confirm what you want from the options given. If you need to talk with us, we'll re-direct your call to someone who can help you.

Need to speak with us?

Have your IRD number ready and call us on one of these numbers.

General tax, tax credits and refunds	0800 775 247
Employer enquiries	0800 377 772
General business tax	0800 377 774
Overdue returns and payments	0800 377 771

We're open 8am to 8pm Monday to Friday, and 9am to 1pm Saturday. We record all calls.

Our self-service lines are open 7 days a week - except between 5am and 6am each day. They offer a range of automated options, especially if you're enrolled with voice ID.

Find out more at **ird.govt.nz/contact-us**

Tax Information Bulletin (TIB)

The TIB is our monthly publication containing detailed technical information about all tax changes. Subscribe at **classic.ird.govt.nz/subscribe** and we'll send you an email when we publish each issue.

For more detail about the residential property deduction rules legislation, see **Tax Information Bulletin, Vol 31, No 8 (September 2019)**, pages 51 to 66.

Publications

These publications contain information that may be useful.

Buying and selling residential property - IR313

This guide will help you to understand whether you should be paying tax when you sell a property and tells you about your responsibilities.

Depreciation - a guide for business - IR260

This guide explains how to claim depreciation on your business assets.

GST - do you need to register? - IR365

This is an introduction to GST (goods and services tax). It helps you work out if you have to register for GST.

GST guide - IR375

A detailed guide about GST (goods and services tax) for all individuals, businesses and organisations that have to charge GST.

Provisional tax guide - IR289

Tells you what provisional tax is and how and when it must be paid.

Penalties and interest - IR240

A guide to help you understand the different types of penalties and interest we may charge if you don't file or pay on time. It also tells you how you can reduce or avoid penalties.

QB 19/06 – Which income tax rules apply?

Helps you to decide which rules apply to your holiday home (and other short-stay accommodation).

QB 19/07 – Applying the mixed-use asset rules

Explains how to apply the mixed use asset rules to your holiday home (and other short-stay accommodation).

QB 19/08 – Applying the standard rules

Explains how to apply the standard income tax rules to your holiday home (and other short-stay accommodation).

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your tax and entitlements under the Acts we administer. We may charge penalties if you do not.

We may also exchange information about you with:

- some government agencies
- another country, if we have an information supply agreement with them, and
- Statistics New Zealand (for statistical purposes only).

You can ask for the personal information we hold about you. We'll give the information to you and correct any errors, unless we have a lawful reason not to. Find our full privacy policy at **ird.govt.nz/privacy**

New Zealand Government