Inland Revenue
Te Tari Taake

IR264
April 2018

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 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 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.

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

Contents

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. See our *Boarders, flatmates and tenants - tax responsibilities (IR1037)* factsheet for 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 make adjustments in your tax return.

You'll find more information about holiday homes in Part 3.

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 2015 for the next two weeks, you'd return this income in the income year 1 April 2014 to 31 March 2015 (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. See "deducting your expenses" on page 35.

Generally you can only claim expenses that you incur while 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 (expenses) can be deducted (in full or part) 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.

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, call us on 0800 377 774.

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 mileage rates. These rates are based on the average cost to run a motor vehicle. They're available at **www.ird.govt.nz** (search keywords: mileage rates) or by calling us on 0800 377 774.

   To claim mileage 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 (for example, 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.

   Or, 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.

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 2015 to 30 April 2015						Odometer reading (at start of period) 25,236	
Date	Journey		Odometer reading				
	From	To	Start	Finish	Dist (km)	Reason for trip	Driver's signature
1.2.15	Home	Ngaio	25,236	25,275	39	Property inspection	NG
5.2.15	Home	Petone	25,430	25,477	47	Pick up new shower head	NG
6.2.15	Home	Ngaio	25,503	25,542	39	Install shower head	NG
15.3.15	Home	Ngaio	27,342	27,381	39	Show prospective tenant	NG
20.3.15	Home	Ngaio	27,645	27,684	39	Property inspection	NG
18.4.15	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 incurred in 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. See 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 incurred in 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 25.

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.

For more information about depreciation see Part 2 of this guide.

Expenses you can't deduct for tax purposes

You can't 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.

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

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 repayment(s)
- 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

This guide is meant for people who own one or two rental properties. In this situation you can't claim legal fees charged as part of selling the property.

You may be able to claim your legal expenses for buying or 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.

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

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

$1,230 × 9 = $6,922 (this is 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 the property is rented out at less than market value

If you rent your property out for less than its true rental value, (this most commonly happens when a relative or friend of the property owner rents the property at "mate's rates"), and you 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 offset the loss against other income for tax purposes.

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

IR 3R
April 2014

- **Read our booklet *Rental income (IR 264)* to help you fill in this form.**

Year ended 31 March 2014

Your name: Nicole Gregg

IRD number: 123456789
(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.

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

Expenses—read Note 3 over the page.

Rates		$ 1,580.00		
Insurance		$ 620.00		
Interest		$ 2,205.00		
Agent's collection fees		$ 250.00		
Repairs and maintenance—read Note 4 over the page.				
Shower head	$ 60.00			
	$			
	$	$ 60.00		
Other (specify)				
Vehicle costs	$ 152.00			
	$			
	$	$ 152.00		
Depreciation—print the details below.				
Buildings—read Note 5 over the page.	$			
Assets—read Note 6 over the page.	$ 4,000.00	$ 4,867.00		
Total expenses			B	$ 8,867.00

Net rents (total rents less expenses)—subtract Box B from Box A and print in Box C. Copy this amount to your tax return. **C** $ 3,753.00

Depreciation of buildings—read Note 5 over the page.

Date purchased: 01 04 2013 (Day Month Year)

Construction materials and building description: Wooden framed

Straight line method (SL)

Cost of buildings (excluding cost of land)	Rate	Depreciation claimed
$ 150,000.00	0 %	$ 00.00

Diminishing value method (DV)

Opening adjusted tax value	Rate	Depreciation claimed	Closing adjusted tax value
$	%	$	$

Depreciation of assets—read Note 6 over the page.

Asset	Date purchased	Cost	Opening adjusted tax value	Rate	Method SL/DV	Depreciation claimed	Closing adjusted tax value
Chattles (Pooled)	01042013	$ 10,000	$	40 %	DV	$ 4,000.00	$ 6,000
		$	$	%		$	$
		$	$	%		$	$
		$	$	%		$	$
		$	$	%		$	$
					Total	$ 4,000.00	

Take a copy for your records and staple this page to page 3 of your return.

Note

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.

Calculating the net rent

Once you've worked out what your income and expenses are, transfer that information on to our *Rental income (IR3R)* form, so you can calculate the net rent. Transfer the net rent figure (Box C) into your income tax return and attach the IR3R. See the 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 to send us an IR3 (or IR3NR if you're a non-resident) income tax return each year. You can download one from **www.ird.govt.nz** (search keyword: IR3 or IR3NR).

In this return you need to include enough information to show how you worked out the amount of rental income after deducting expenses. To help you with this calculation, you can use our *Rental income (IR3R)* form - see the example on the previous page.

If your net rent is a profit, you add this to any other income you've earned. If your net rent is a loss you deduct this from any other income you've earned.

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, if you don't already send us a tax return each year, please call us on 0800 377 774 so we can send you one at the end of the year.

Provisional tax

If you have to pay income tax of more than $2,500 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 the rental property in partnership with one or more people, the 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 you're a couple, eg, married, civil union or de facto you don't need a partnership IRD number or IR7 return. Each person just needs to include a copy of the accounts in their IR3 tax returns.

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.

Please read the depreciation section on page 18 and then refer to pages 27-33. 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 **www.ird.govt.nz** (search keywords: RLWT).

GST (goods and services tax)

GST doesn't apply to residential rent, as renting out residential property is exempt from GST. So, you can't claim GST on expenses you incur for a residential property, and you don't 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 - call 0800 377 776 for more information.

Working for Families Tax Credits and student loans

Using rental losses to reduce your income so you get Working for Families Tax Credits only applies to some tax years.

You can't deduct the rental loss from your family income for Working for Families Tax Credits purposes after the 2011 tax year.

If you had a loss prior to 1 April 2011 the treatment of the loss for Working for Families Tax Credits will depend on what type of rental activity you have:

- Investment rental property - the rental loss can be deducted from your family income for Working for Families Tax Credits purposes.
- Rental properties as a business - the rental loss can't be deducted from your family income for Working for Families Tax Credits purposes. If you're not sure if you're in the business of letting properties please call us on 0800 337 774.

When you apply for Working for Families Tax Credits you must show any rental income you earn in the "other income" box on the *Working for Families Tax Credits application form (FS1)*.

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.

Part 2 – 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 **www.ird.govt.nz** or download our *Depreciation - a guide for businesses (IR260)*.

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.

See pages 21-24 for a list of 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 - see page 25.

Notes

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 - see pages 27-30.

If you rent a holiday home to the public for short-term stays, you may need to make adjustments in your tax return. See Part 3 for more information.

Depreciation methods

You can depreciate an asset individually or as part of a group or pool of assets - see page 24.

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 **www.ird.govt.nz** "Work it out".

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 2005 income year different rates will apply. If this is the case, or an asset being used isn't listed, please see **www.ird.govt.nz** for our depreciation rate finder.

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.

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, such as gardening tools, you may use a pool system to depreciate them collectively as if they were a single asset. This means you don't have to work out the depreciation separately on each one. 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 can't 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. You do this on an asset-by-asset basis by telling us which asset(s) 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 don't 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 2013.

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 2014 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 secondhand 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 - see page 29.

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 - see page 31.

Selling and disposing of assets

If you sell or dispose of a rental asset (except a building - see page 29) 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.

You won't be able to 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 - see page 32.

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 consult your tax agent or call us on 0800 377 774.

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 of building		$ 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 3 – Holiday homes

Special rules for mixed use assets, including holiday homes apply. 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. The rules don't 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:

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

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

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.

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 **www.ird.govt.nz** (search keywords: mixed-use).

Part 4 – Services you may need

myIR

A myIR account lets you manage all your Inland Revenue matters securely online. You can update your address, phone, email or bank account details, check your eDocuments, work out your income tax filing options and check your KiwiSaver account.

Register for a myIR account today to:

- check if you're due a refund
- file an EMS, IR3 tax return or GST return
- see payments to or from Inland Revenue (including child support and student loans)
- manage your alert email settings
- apply for/manage your Working for Families Tax Credits.

myIR is available 24 hours a day, seven days a week. Go to **www.ird.govt.nz/myIR** to find out more.

Forgotten your user ID or password?

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

0800 self-service numbers

This service is available to callers seven days a week except between 5am and 6am each day. Just 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. Registering for voice ID is easy and only takes a few minutes. Call 0800 257 843 to enrol.

Order publications and taxpacks	0800 257 773
Request a summary of earnings	0800 257 778
Request a personal tax summary	0800 257 444
Confirm a personal tax summary	0800 257 771
All other services	0800 257 777

When you call, just 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

Our contact centre hours are 8am to 8pm Monday to Friday, and Saturday between 9am and 1pm. We record all calls. Our self-service lines are open at all times and offer a range of automated options, especially if you're enrolled with voice ID.

For more information go to **www.ird.govt.nz/contact-us**

Tax Information Bulletin (TIB)

The TIB is our monthly publication containing detailed technical information about all tax changes. You can find it on **www.ird.govt.nz** under "Newsletters and bulletins" and subscribe to receive an email when each issue is published on our website.

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.

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your liabilities or your entitlements under the Acts we administer. We may charge penalties if you don't.

We may also exchange information about you with:

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

If you ask for the personal information we hold about you, we'll give it to you and correct any errors, unless we have a lawful reason not to. Call us on 0800 377 774 for more information. For full details of our privacy policy go to **www.ird.govt.nz** (search keyword: privacy).