

ACCELERATE

September • 2017 | Issue • 004 | Rental Properties

THE MONTHLY NEWSLETTER FOR GROWING BUSINESSES

TAX IS PAYABLE ON
RENTAL INCOME . . .
MOSTLY



If you receive income, you must pay tax. So if you have rental income, you have to pay tax on it, right?

Maybe, maybe not – if you get rent from boarders or homestays.

Boarders and homestays

When you get income from boarders or homestays, your tax position depends on how many boarders you have, and how much you charge, compared with the IRD's standard-cost method. In other words:

If you have . . .	Then the standard 2017 cost is . . .
One or two boarders	\$263 a week for each
Three or four boarders	\$263 for boarders one and two, and \$215 for boarders three and four

2017 figures from www.ird.govt.nz/technical-tax/determinations/other/standard-cost/standard-cost-boarding/

If you charge less than standard-cost figures for four or fewer boarders, you don't have to declare that income.

With standard-cost, when you charge more than the IRD figures you may have to pay tax. If you claim for losses, your return must not only show all payments received, but list actual costs, backed up by full documentation (this is called the actual-cost method).

ACTUAL-COST METHOD

Your tax position is unequivocal if you have five or more boarders – you must report that income. If you and your spouse or partner have boarders and tax is payable, the person who's most directly involved each day should declare the income.

If you get your rental income in advance, it's taxable in the year in which you receive it.

Owning property for generating rental income is not, usually, classified as carrying on a business, but you may deduct related expenses. Those include:

- Rates and insurance
- Interest
- Fees or commission
- Repairs and maintenance
- Related motor vehicle and travel expenses
- Mortgage repayment insurance
- Accounting costs for preparation of related accounts
- Depreciation

Rental property expenses should still be deductible even when the property is temporarily vacant.

You can't charge GST on rent, or claim it on the property's purchase price or ongoing rental costs. But when you claim deductions, you use the cost of the expense, including GST. However, that's not the case for homestays, farm stays, bed-and-breakfast businesses, short-term stays (think Airbnb below) and other types of "commercial dwelling".

One exception is if you buy a house for development, but rent it out as an interim measure. In that case the developer can claim the GST input tax on the purchase. However, if the house is used concurrently for taxable and non-taxable purposes, adjustments may be needed. It can be complex and we can help you with this.

RENTALS AND DEPRECIATION

The land a rental property is located on is not depreciable because it can't be consumed and has no replacement cost. However, buildings, fixtures and land improvements are considered technically depreciable, even though they have a depreciation rate of 0 percent.

Chattels, like stove and carpets, will depreciate, and you may choose to calculate those and deduct the total as an expense.

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THAT DEPENDS

If you rent out your holiday home sometimes, you may have to pay tax on that income.

The IRD says you have a “mixed-use” holiday home if, during the tax year, you use it for:

- Private use, and
- Income-earning use, and
- It's unoccupied for 62 days or more.

It is still private use if you receive rent from family members, or from non-family members who pay less than 80 percent of market rates.

The property becomes “income-earning” if you get rent from non-family members at 80 percent or more of market rates.

You can keep the property outside the tax system if it's privately owned, and your income-earning revenue is less than \$4000 a year. But then you can't claim any of your related expenses. You can also remain outside the tax system if you make a loss, and your gross income from income-earning use is less than two percent of the property's rateable value.

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

If you make a loss from your mixed-use holiday home, and your gross income from income-earning use is less than two percent of the rateable value, you can't claim the loss in the current year. You must carry it forward to offset against income from your holiday home in a future tax year.

BOATS AND AIRCRAFT MAY GENERATE A TAX LIABILITY

Sometimes boats and aircraft are used for private and commercial purposes. In such cases, the income from their use may be liable for tax.

Boats and aircraft (valued at more than \$50,000) become mixed-use assets if they are used privately sometimes, and commercially at other times – and not used at all for 62 days of the tax year.

Income-earning days include time you spend either occupying or using the asset to:

- Repair damage, provided it happened during income-earning days and isn't normal wear and tear
- Relocate the asset, if you're paid to do that.

But just taking the craft out for repair, or to fix normal wear and tear, is private use.

You must keep a detailed logbook for each mixed-use asset that records:

- Date of use
- Number of flying hours (if an aircraft)
- Who used the asset (owner or other)
- If not the owner, who was the skipper or pilot
- What the use was
- If you received payment and, if so, was it at least 80 percent of normal market rates.

AIRBNB USUALLY A TAX CASE ON ITS OWN

If you use Airbnb to provide short-term accommodation in your house in which you also live, the IRD's "mixed-use asset (holiday home)" rules don't apply and guests are not classed as boarders. Except when you list a whole house which is vacant for 62 days each year, mixed-use asset rules do apply and calculations differ from those for homes where the hosts also live.

CLAIMABLE EXPENSES

Anything you spend as an Airbnb service provider may be claimed as an expense. For shared expenses, like power and Internet, claims need to be fair and reasonable.

You can claim some home utilities, rates, insurance, and interest – and all food and other consumables that guests use. You can also claim depreciation on chattels and appliances used by guests only. You can claim some depreciation on other shared chattels and appliances, like claiming a portion of utilities.

If you spend money to keep your property attractive for guests, you can claim some of those costs.

You'll have to apportion expenses and, to do that, you need to know:

- The floor area used exclusively by Airbnb guests (say, 25m²)
- The shared area used by you and Airbnb guests (say, 90m²)
- Total of guests plus you and your family

Your apportionment calculation then is: Guest floor area + (total shared floor area x [one divided by total guests plus family] x percentage of year you have guests). Then you divide that product by total floor area, and the resulting figure is the apportionment percentage you use for expenses.

If your room or home was unavailable for part of the year, your calculations must reflect that.

Unlike residential rent, GST applies to Airbnb. You must register for and file GST if your turnover is \$60,000 or more in the past 12 months, or will be \$60,000 or more in the next 12 months.

There's a lot to this, so we recommend that you get professional advice.

KEY TAX DATES SEPTEMBER 2017

DATE	CATEGORY	DESCRIPTION
5 September	PAYE	Large employers return and payment
20 September	PAYE	Small employers return and payment Large employers return and payment
20 September	RWT	RWT return and payment due for deductions from dividends and deductions of \$500 or more from interest paid during August
20 September	NRWT / Approved Issuer Levy	Payment and return for August
28 September	GST	Return and payment for August

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