Airbnb from your own home? Find out about tax

If you provide short-stay accommodation in your home, typically through Airbnb, be aware of the tax rules that apply.

You may rent part or all your home to guests as short-stay accommodation. This might be one or more rooms, or the whole home. Income from it is taxable.

Figures to focus on

100	If you rent part or all your home to guests as short-stay accommodation, you may be able to claim standard costs. But only if you rent to guests for up to 100 nights in the year (counting each room that's rented out separately).
5,000	If your tax due at end of year is more than $5,000, you'll have to pay provisional tax instalments the next year. This increased from $2,500 from the 2020/21 tax year.
60,000	If you earn more than $60,000 a year from your taxable activities, you must register for GST. If you earn less than $60,000 a year, you can choose to register for GST. If you are GST registered, you can't claim standard costs.

Calculating standard costs

Inland Revenue set the standard costs each year based on their estimate of average nightly costs to a host. Income earned up to the level of the standard costs is exempt from tax. Income earnt over and above the standard costs is taxable. For the 2021-22 year, the nightly standard-cost is:

- $55 where you own your home; or
- $50 where you rent your home

Exempt income = Total room rental nights × nightly standard-cost

Taxable income = Total rental income – Exempt income

What does standard cost cover?

Standard costs cover:

- financing, rent, insurance, and rates
- providing guests with breakfast, pantry staples, linen, bathroom and laundry facilities, cleaning, power, telephone, internet, bedroom, and general household furniture
- advertising and host service fees

You can't claim additional costs if they relate to an item covered by the standard costs. If an additional cost is not covered by standard costs, you can only claim the proportion that relates directly to renting the accommodation to guests. You must be able to document what the additional costs are.

If you receive reimbursements for add-on costs not covered by standard-costs (say, where your guest reimburses you for toll calls), these don't count as income. But don't try to claim a deduction for the costs you've been reimbursed for.

Who CAN'T use the standard cost method?

You can't use the standard cost method if, in the same year:

- you rented out rooms for more than 100 nights
- the accommodation provided is part of a GST taxable activity
- the property is held in a trust EXCEPT where you paid all costs for the property (eg, mortgage interest or rent, insurance, rates, repairs and maintenance)
- you are not a natural person (eg, you're managing the property as a company)
- the accommodation is also being used for boarders
- you are also claiming for actual costs in providing accommodation to flatmates
- you are (or anyone else in your home is) also claiming standard costs for some other household service such as childcare provider

What if I am also receiving an Accommodation supplement from MSD?

If you receive an accommodation supplement from the Ministry of Social Development, it affects the standard-costs calculation. Standard costs (and exempt income) will equal:

$$(\text{Total room rental nights} \times \text{nightly standard-cost}) - \text{accommodation supplement}$$

The amount for the accommodation supplement in this formula is apportioned against the room rental nights like this:

$$\text{Total accommodation supplement} \times \frac{\text{Total room rental nights}}{365}$$

If you receive any assistance from MSD, you need to let them know about your rental income.

What if I don't want to use the standard cost method? Claiming actual costs

If you rent to guests for over 100 nights in the year you must use the actual costs method. But if you're renting for fewer than 100 nights you can still choose to claim based on actual costs. Under this method all your income from the rental is assessable income and must be declared.

100% deductible expenses

Expenses that relate solely to your rental activity are 100% deductible:

- advertising, commission, or fees paid to a platform to rent out rooms or your home
- supplies used solely by paying guests
- additional insurance and rates paid (over what you would normally pay) because you rent out the property
- repairs for damage while earning taxable income except for ordinary wear and tear

In situations where you can identify usage charges for a period where you moved out and rented out your whole home, you can claim related costs as fully deductible.

Apportioning mixed expenses

Other costs will only be partly deductible because they also relate to your private use of the home. These need to be apportioned and include:

- power
- internet

- home loan interest (be aware that the rules for deducting interest have changed – we can go over this with you to determine how this affects you)
- property insurance and rates (if you must pay more because you rent out the property)
- repairs and maintenance

The usual calculation for apportionment is based on floor area and number of nights rented:

- 100% deductible: areas rented to guests for their exclusive use during their stay (their room and ensuite),
- 50% deductible: areas common to both you and your guests (such as lounge and dining)

Deductions will equal:

$$\textbf{Deductions for exclusive areas\%} = 100 \times \frac{\textbf{areas exclusively for guests}}{\textbf{total floor area}} \times \frac{\textbf{nights rented}}{\textbf{365}}$$

$$+$$

$$\textbf{Deductions for common areas\%} = 50 \times \frac{\textbf{areas in common with guests}}{\textbf{total floor area}} \times \frac{\textbf{nights rented}}{\textbf{365}}$$

If you rent out your home for a period, and the guests have access to the whole house, you don't need to factor in the floor area calculations. Your deductions would be based on the number of nights the house is rented out.

There are some situations where you may consider the nights the space is available to be rented out as well as the nights it's actually rented out. An example is where you run a bed and breakfast with high occupancy from your home. You would have to be able to demonstrate that when the space isn't being rented out, you don't use it at all, not even for storage. You must record when the space was available to be rented out. It needs to be evidence of active, regular marketing of the space at market rates, and that it's available at times and for periods that demonstrate it's genuinely available to rent. If this is your situation, replace 'nights rented' with 'nights rented + nights available for rent' in the calculations above.

Deductions for depreciation on chattels

You can also claim deductions for depreciation on chattels. Chattels are subject to wear and tear, reducing their value while being used to earn income. If they are only used by guests (eg, chattels in a bedroom you only use for renting out), the depreciation will be 100% deductible. If chattels are in common areas but you have rented out the whole house, the depreciation will be 100% deductible for that period. If the chattels are in common areas while you're also there, you can only claim the proportion relating to income earning. There is a specific formula this.

First work out the depreciation losses for the year for chattels. Then work out the deductible portion.

As part of its COVID-19 tax relief measures, the Government temporarily adjusted the low-value asset threshold for depreciation, allowing the immediate expensing of assets costing less than the threshold amount. For assets purchased on or after 17 March 2021, this threshold is fixed at $1,000. For items that fall below the threshold, the depreciation loss is the item's cost. For items that are part of a set purchased at the same time from the same supplier, the threshold applies to the set. Above the threshold, the items must be depreciated using the diminishing value or straight-line method. Ask us about calculating depreciation.

Once you know the depreciation losses for the year, you can calculate the proportion you can claim. The formula to calculate deductions is based on the nights the space is rented out or available to be rented out as a proportion of all the nights in the year it is available for any purpose (rather than total nights in the year):

$$\text{deductions} = \text{losses} \times \frac{\text{nights the space is rented out or available to be rented out}}{\text{nights the chattels are used or available for any purpose}}$$

Do I need to file a tax return?

If your income from providing accommodation doesn't exceed standard costs, you don't need to file a return. If it does, you need to file a return for the income that isn't covered by standard costs. If you're claiming actual costs you need to declare all income from short-stay accommodation and all costs related to providing it.

What if I co-own the property?

If you own (or rent) the house jointly, the income needs to be split appropriately between the owners when declaring the income in the tax return.

If the property is owned in a trust, it's more complicated. Please ask us to cover this with you.

If you lease your home from a relative (other than a trust) and use it to earn income, you must be paying an adequate amount of rent for the property to the extent of the income-earning use. Otherwise, Inland Revenue can potentially look at this and reassess tax due based on market value amounts.

It's important to keep records

Whether you use standard-cost or actual-cost basis to claim deductions, you need to keep records to support your claim. As you may not know till the end of the tax year whether you'll want to or will be eligible to use the standard costs method, make sure you have full records of:

- total room rental nights (counting each room that's rented out separately)
- total income from the rentals, and
- expenses