Inland Revenue
Te Tari Taake

QUESTIONS WE'VE BEEN ASKED | PĀTAI KUA UIA MAI

Income tax – Which rules apply if I have a dwelling I sometimes rent out as short-stay accommodation and also sometimes use privately?

Issued | Tukuna: 3 April 2025

QB 25/02

This question we've been asked (QWBA) helps you work out which income tax rules apply to a dwelling you sometimes rent out as short-stay accommodation (for example, through Airbnb, Bookabach, Booking.com or Holiday Houses) and also sometimes use privately (for example, as a holiday home).

REPLACES | WHAKAKAPIA:

- **QB 19/06**: What income tax rules apply if I have a dwelling that I sometimes rent out as short-stay accommodation and sometimes use myself? (Inland Revenue, 20 May 2019)

Question | Pātai

Which income tax rules apply if I have a dwelling I sometimes rent out as short-stay accommodation and also sometimes use privately?

Answer | Whakautu

Different rules could apply in this situation, and this can change from year to year. At the end of each income year, you need to work out which rules apply:

- **the mixed-use asset rules; or**
- **the standard tax rules.**

The rules that apply will determine the income tax treatment for that dwelling. The main difference between the mixed-use asset rules and the standard tax rules is how you calculate the proportion of expenses you can deduct.

This QWBA helps you work out which income tax rules apply to the dwelling for each income year. You need to revisit which rules apply each year.

Key terms | Kīanga tau tāpua

Guest means a person provided with short-stay accommodation in return for payment.

Mixed-use asset means an asset that is used both privately and to earn income and is also unused for at least 62 days in the year. This would include many holiday homes.

Short-stay accommodation means accommodation provided for up to four consecutive weeks in a dwelling that is not the guest's ordinary residence. It does not include accommodation provided to residential tenants, boarders or care home residents, and it does not include student or emergency accommodation.

Explanation | Whakamāramatanga

1. If you have a dwelling you sometimes rent out as short-stay accommodation and also sometimes use privately, you need to work out which income tax rules apply so you can meet your tax obligations. The dwelling could be a holiday house or a separate dwelling on the same property you live on (for example, a sleepout or cottage).
2. Depending on your circumstances, the dwelling will either fall under:
   - the mixed-use asset rules; or

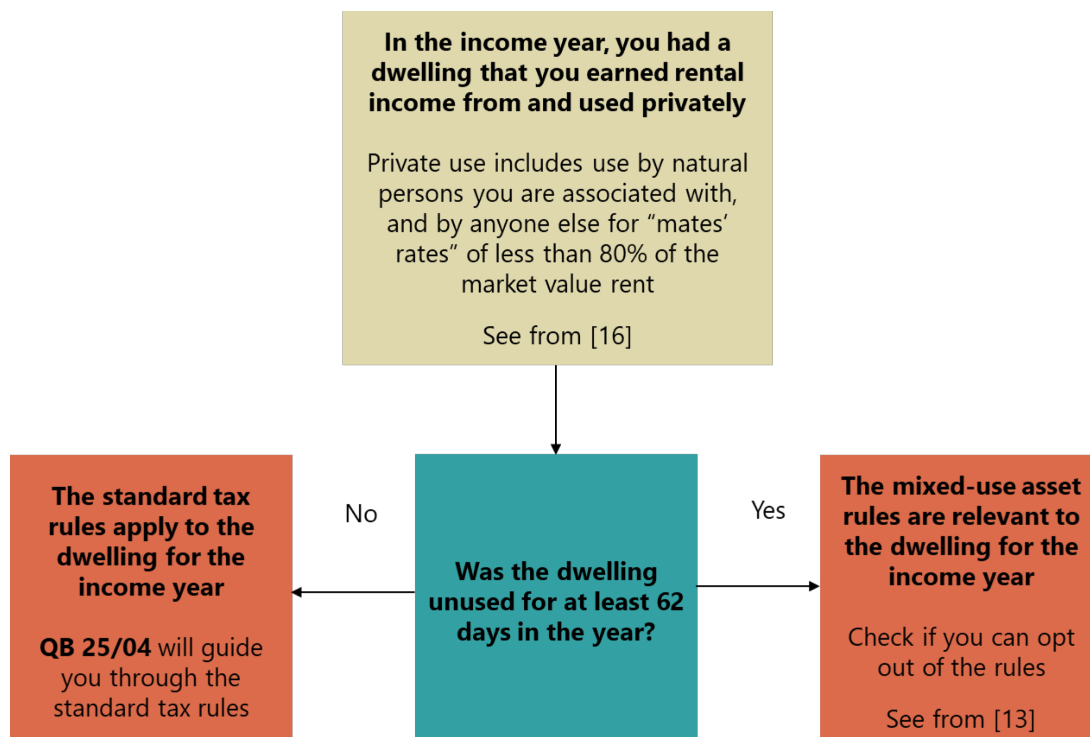
- the standard tax rules.

3. This QWBA explains how to work out which income tax rules apply in your situation.

Mixed-use asset rules or standard tax rules?

4. The mixed-use asset rules deal with deductions for certain assets (including land) that are used both privately and to earn income but are also unused for significant periods during the year.
5. Under both the mixed-use asset rules and the standard tax rules, expenses that relate solely to the use of the asset to derive income are generally fully deductible and expenses that relate solely to private use of the asset are not deductible.
6. The main difference between the two sets of rules is the method for calculating the deductible proportion of expenses for the asset that relate to both income-earning and private use. Under the mixed-use asset rules, this is based on the amount of income-earning use relative to the total use of the asset during the income year. Under the standard tax rules, this is based on the amount of time the asset is used for income-earning or available for income-earning during the income year.
7. The factor that determines which rules apply is whether the asset is unused for 62 days or more during an income year.

Figure | Hoahoa 1 – Do the mixed-use asset rules or the standard tax rules apply?



8. A dwelling can flip in and out of the mixed-use asset rules from one year to the next, so you need to look at which rules are relevant to the dwelling for **each income year** (for most people this is 1 April – 31 March).[1] The mixed-use asset rules can apply to most ownership structures, so it does not matter if you own the property or if it is owned by another entity or held in another structure such as a trust or a family company.

9. The dwelling will be a mixed-use asset if, during the income year it was:
   - used it to earn income;
   - used privately (this includes use by family members, or by friends renting it for "mates' rates" that are less than 80% of the market value rent); and
   - not used for at least 62 days in the year.

Standard tax rules

10. If the dwelling does not meet the three criteria at [9] for an income year, the standard tax rules will apply. QB 25/04: **Income tax – How do the standard tax rules apply if I provide short-stay accommodation?** explains how the standard tax rules work. You need to revisit which rules apply each year.

Mixed-use asset rules

11. If the dwelling meets the three criteria at [9] for an income year, the mixed-use asset rules are relevant. QB 25/03: **Income tax – How do the mixed-use asset rules apply if I provide short-stay accommodation?** explains how the mixed-use asset rules apply.

12. However, there are two situations where you can opt out of the mixed-use asset rules and the standard tax rules altogether for the rental income from the dwelling.

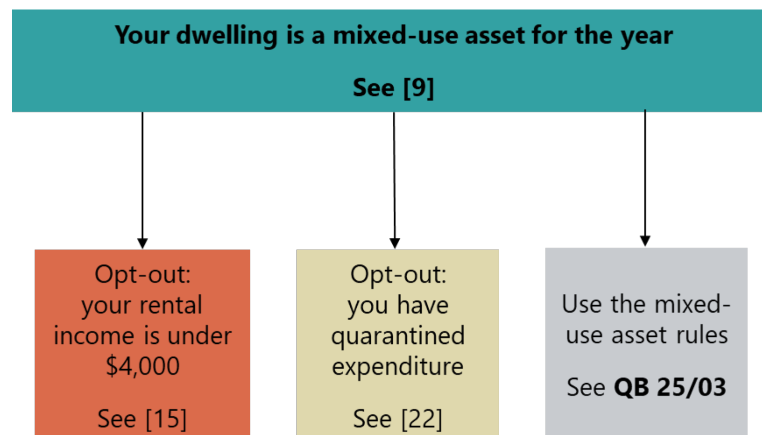
[1] Guidance on moving between the standard tax rules and the mixed-use asset rules can be found in **IS 25/08 Income tax – Implications of a residential property moving between the standard tax rules and the mixed-used asset rules**.

Opting out of the tax rules if the dwelling is a mixed-use asset

13. If the dwelling is a mixed-use asset, you can opt out of the mixed-use asset rules and the standard tax rules (collectively referred to in this QWBA as "the tax rules") if:

- your rental income for the year from the dwelling is under $4,000; or
- you made a loss from the dwelling and some of your deductions for the year would be quarantined (that is, carried forward to the next year) if you applied the mixed-use asset rules.

Figure | Hoahoa 2 – Opting out of the tax rules



14. If you choose to opt out of the tax rules for the rental income from the dwelling, the income is exempt. This means you do not pay tax on the rental income, and you cannot claim deductions for your expenses that relate to the dwelling.

Opt-out: rental income from the dwelling is under $4,000

15. You can opt out of the tax rules for the rental income from the dwelling where the gross rental income (before expense deductions) for the income year is under $4,000.

16. The $4,000 threshold for opting out of the tax rules **does not include** exempt income. Exempt income is income from renting out the dwelling to associated persons (for example, family members), and income from renting out the dwelling for less than 80% of the market value rent (for example, renting it to friends for "mates' rates"). This is explained in more detail from [17].

Income from renting to associated persons is exempt income

17. Income from renting out the dwelling to natural persons you are associated with (for example, close relatives such as your children, grandchildren, siblings or in-laws) is exempt income.

18. If a trust, partnership or company owns the dwelling, income from renting out the dwelling to associated natural persons (for example, for a trust, the settlors and beneficiaries) is exempt income.

19. **A guide to associated persons definitions for income tax purposes – IR620** can help you work out if someone is associated with you.

Income from renting at "mates' rates" is exempt income

20. Income from renting out the dwelling at "mates' rates" of less than 80% of the market value rent is exempt income.

21. This does not include income from renting out the dwelling at a lower price because it is off-peak season, a longer-term rental, or for other similar reasons. This is because in those situations the market rate is the lower price.

Opt-out: quarantined expenditure

22. You can also opt out of the tax rules for the rental income from the dwelling if for the income year you would have had quarantined expenditure under the mixed-use asset rules for the dwelling.

23. You would have had quarantined expenditure under the mixed-use asset rules if:
    - your income from renting out the dwelling during the income year was less than 2% of the property's value; and
    - you made a loss from renting out the dwelling (that is, the expenses you can deduct for the income year under the mixed-use asset rules exceed the income).

24. In this situation, if you **do not opt out** of the tax rules, you can only deduct your expenses for the dwelling up to the amount of the rental income. Your expenses over and above your income from the dwelling are "quarantined" – meaning they are carried forward to a future income year to offset against any future income from the dwelling.

25. Alternatively, you can **opt out** of the tax rules by treating the income for the year as exempt, and not claiming any deductions for your expenses related to the dwelling.

26. In working out if your income was less than 2% of the property's value, you **do not include** exempt income (amounts of income described in [16]). It is only your taxable income from the dwelling that counts towards the 2% threshold.

27. The property value you use to measure the 2% threshold against is generally the local rating value. However, if you bought the property from someone you are not associated with since the rates value was last set, you use the purchase price.

28. If there is another dwelling on the same property, the 2% threshold is measured against a proportion of the local rating valuation, based on the percentage of the total land area that the asset is on. For example, if you have a sleepout that is a mixed-use asset on the same property as your house, and the area of the sleepout is 20% of the total section, you measure the 2% threshold against 20% of the rating valuation.

If you decide to opt out

29. If one of above situations applies, and you choose to opt out of the tax rules for the rental income from the dwelling, you do not need to declare that income in your tax return for that income year. All the income from renting out the dwelling is classed as exempt income, and you cannot claim any related expenses as deductions.

30. For each income year, you need to revisit whether the dwelling is a mixed-use asset and if it is, whether you are able to opt out of the tax rules.

If you cannot or do not opt out

31. If the dwelling is a mixed-use asset and you cannot or do not opt out of the tax rules for the rental income, the mixed-use asset rules will apply for the income year. QB 25/03 explains how the mixed-use asset rules work. You'll need to revisit which rules apply each income year.

What records do I need to keep?

32. You need to keep good records to work out each year which rules apply. This includes records of:

    - the number of nights the dwelling is used privately (this includes by you, by people you are associated with, and by anyone else if they pay less than 80% of the market value rent);
    - the number of nights you rent out the dwelling, and how much income you receive;

- when the dwelling was available to be rented out (this will be relevant if the standard tax rules apply); and
- any expenses you may claim deductions for.

References | Tohutoro

Other references | Tohutoro anō

A guide to associated persons definitions for income tax purposes – IR620 (guide, Inland Revenue, 2024)
ird.govt.nz/-/media/project/ir/home/documents/forms-and-guides/ir600---ir699/ir620/ir620-2024.pdf?modified=20240508212528&modified=20240508212528 (PDF 610KB)

QB 25/03: Income tax – How do the mixed-use asset rules apply if I provide short-stay accommodation?
taxtechnical.ird.govt.nz/questions-we-ve-been-asked/2025/qb-25-03

QB 25/04: Income tax – How do the standard tax rules apply if I provide short-stay accommodation?
taxtechnical.ird.govt.nz/questions-we-ve-been-asked/2025/qb-25-04

IS 25/08 Income tax – Implications of a residential property moving between the standard tax rules and the mixed-used asset rules
taxtechnical.ird.govt.nz/interpretation-statements/2025/is-25-08

About this document | Mō tēnei tuhinga

Questions we've been asked (QWBAs) are issued by the Tax Counsel Office. QWBAs answer specific tax questions we have been asked that may be of general interest to taxpayers. While they set out the Commissioner's considered views, QWBAs are not binding on the Commissioner. However, taxpayers can generally rely on them in determining their tax affairs. See further Status of Commissioner's advice (Commissioner's statement, Inland Revenue, December 2012). It is important to note that a general similarity between a taxpayer's circumstances and an example in a QWBA will not necessarily lead to the same tax result. Each case must be considered on its own facts.