

# Tax pitfalls

## Airbnb, boarders and short-stays

With tightening rules on residential tenancies, people making greater use of flatmates and boarders to help pay the mortgage and the rise of apps such as Airbnb, it was only a matter of time before people would start querying their income tax and GST obligations around property that had previously not been used to derive income.



STORY  
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Inland Revenue have recently released an overview of the tax implications of those providing accommodation, with useful guidance on the rules applying, all of which are subject to the home owner's situation.

The main questions are whether standard cost determinations should be used and whether GST registration is required in relation to accommodation provided in private homes.

### Provision of accommodation in the taxpayer's main home

Inland Revenue has issued determinations for a 'standard cost method' for providers of private board and short-stay accommodation.

Where a provider meets the conditions, only income derived in excess of the standard cost calculation needs to be returned to Inland Revenue. The intention is that this reduces compliance costs for small-scale accommodation providers.





Photo by Owen Young on Unsplash

Standard costs are determined annually by the Inland Revenue based on the average annual cost of providing private board or short-stay accommodation.

### **Standard cost method for boarders**

From the 2020 income year, hosts providing private boarding service have the option to rely on Determination 19/01 to return income derived from the provision of boarding accommodation.

To apply the determination, the host must:

- Be a natural person or persons (i.e. an individual/individuals);
- Not have more than four boarders at the same time at any time during the income year;
- Not provide private boarding as part of a GST taxable activity; and
- Not rely on any other Inland Revenue determination in relation to the private board accommodation.

The standard cost method for private board accommodation is made of three elements which may be included:

- Weekly standard cost (per boarder); plus
- Annual housing standard cost; plus
- Annual transport standard cost (being transport used in providing boarding services)

The weekly standard cost (per boarder) for the 2020 income year is \$186.

The annual housing standard costs is calculated with reference to the cost of the property, any amounts received from boarders and the number of weeks the accommodation is provided. This varies depending on whether the house is owned or rented, so reference should be made to the determination (Google: "Determination 19/01").

The transport standard costs are calculated based on the number of kilometres travelled using the kilometre rate published by Inland Revenue.

Using this determination means that only weekly income from boarders to the extent it is higher than \$186 plus the annual standard housing cost plus the annual transport standard cost per boarder is taxable.

### **Airbnb: Standard cost method for short-stay accommodation**

Determination 19/02 provides a similar standard cost method for hosts who provide short-stay accommodation to guests in their own home. Short-stay accommodation relates to accommodation provided to a person or group of persons for periods no longer than four consecutive weeks.

In order to use the standard cost method under this determination, the host must:

- Be a natural person or persons (i.e. an individual/individuals);
- Rent out a room (or rooms) in their home to guests for short-stay accommodation;
- Not rent out rooms for more than 100 nights in an income year (counting each room that is rented out separately);
- Not provide the short-stay accommodation as part of a GST taxable activity; and
- Not rely on any other Inland Revenue determination in relation to the short-stay accommodation.

For the 2020 income year, the nightly standard cost method for short-stay accommodation provided is:

- \$50, where the host owns the property
- \$45, where the host rents the property.





## Actual costs

Where accommodation is provided as a private boarding service or short-stay accommodation and the standard cost method cannot be used, actual results (income less expenditure) must be calculated and returned to Inland Revenue as taxable income.

This generally requires an apportionment of costs incurred to reflect the usage of the property in relation to the accommodation service provided and private use by the owner.

The 'Mixed-Use Asset' rules apply here, and care is required in the calculation.

## GST registration

The overview released by Inland Revenue also considers whether GST applies to the provision of short-stay accommodation.

GST does not apply to the provision of accommodation in a residential dwelling. However, short-stay accommodation (being accommodation provided for no more than four consecutive weeks) does not meet the definition of accommodation provided in a residential dwelling.

Therefore, where the amounts received from the supply of short-stay accommodation in any 12-month period exceed the GST registration threshold (NZ\$60,000), the provider must register for and return GST to Inland Revenue.

Once in the GST net, input tax deductions would be available for costs incurred in supplying short-stay accommodation. This could include a second-hand goods credit, or GST paid, on the purchase price of a property, if it is owned.

Conversely, however, there may also be a GST liability when a provider ceases supply of short-stay accommodation, or the property is disposed of. Complex calculations may also be required where there the property is used for both short-stay accommodation and private use, so we recommend discussing with your Baker Tilly Staples Rodway advisor.

In an environment where letting out properties has been made easier through the growth of technology, it is essential cost-saving calculations made available by Inland Revenue are considered. Conversely, it is equally important to ensure the liability for any applicable taxes (such as GST) are reviewed on an ongoing basis.

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If you require any assistance or further information, please contact your local Baker Tilly Staples Rodway advisor.