

Fact sheet: Mixed use assets

Bach, boat or plane — getting the tax right

Do you have a holiday home which you also rent out commercially? Or do you own a boat or a plane which you use privately as well as renting out for charter or other commercial purposes? These are known as mixed use assets.

You have a mixed-use asset if, during the tax year, the asset is:

- used for both private use and to earn income
- unused for 62 days or more.

From the 2013–14 income year until the 2023–24 income year, special rules applied for mixed use assets in terms of both income tax and GST obligations. From 1 April 2024, the rules no longer apply for GST, but they still apply for income tax purposes, governing the way you calculate what is and isn't deductible on a holiday home, boat or plane that is used both privately and for business.

Under these rules, you are only able to claim deductions for costs incurred that relate to the asset's income-earning use. You are not able to claim deductions for your own private use (note private use may include renting out mixed-use assets at less than market value). So, you need to keep track of when the asset is used to earn income and when it is used privately.

If annual income is less than \$4,000 there may be the opportunity to opt out of the mixed-assets rules, noting however that if you take this option then you will not be able to claim associated expenses.

Good records are important

Along with the normal records required for income and expenses, you should keep the following:

- how the asset is used for each day of the year
- details of who used the asset, including:
 - the number of days in use by family, relatives, or associated persons
 - the person's relationship to you (e.g., son, friend)
 - the number of days in use by people not related to you (i.e. non-associated persons)
 - the rent or hire charged to each person
- details of any repairs carried out, including the reason for repairs and whether you carried out the repairs yourself and, in the case of a holiday home, stayed at the property to do so

To comply with the rules, when we are getting ready to complete your tax return, we will ask you for these details. We will also ask for details of expenses incurred for the asset, including:

- the cost of advertising for tenants or clients
- the cost of repairing damages caused by tenants or clients
- in the case of holiday homes, whether any days spent in the property were to repair damage from income-earning tenants (as this counts as income earning days)
- mortgage or loan interest
- rates
- insurance

Exemptions and deductions

There are exemptions for both income arising from private use (which may include charging out at less than

market value), and if total income from the mixed-use asset is less than \$4,000. As mentioned above, if income is treated as exempt, then associated expenditure will not be deductible.

You can also claim GST on the proportion of expenses relating to the asset's business use, if you're GST-registered.

Make sure your records keep track of the information outlined above, to be able to calculate what is and isn't deductible.

Our recommendation

The mixed-use asset apportionment and adjustment rules relating to GST were repealed from 1 April 2024. The repeal only relates to GST. The rules for income tax still apply.

If you are GST registered, GST apportionment continues to apply to your mixed-use assets. However, your GST input tax deductions and adjustments will instead be calculated using the same general GST apportionment rules that apply to other assets.

If you would like to talk through exactly how the rules apply in your case, call us.

Contact us if you'd like a tracking sheet to help you keep track of when the holiday home, boat or plane is in use to make your tax exposure easier to monitor.

Last reviewed on 17 June 2024

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