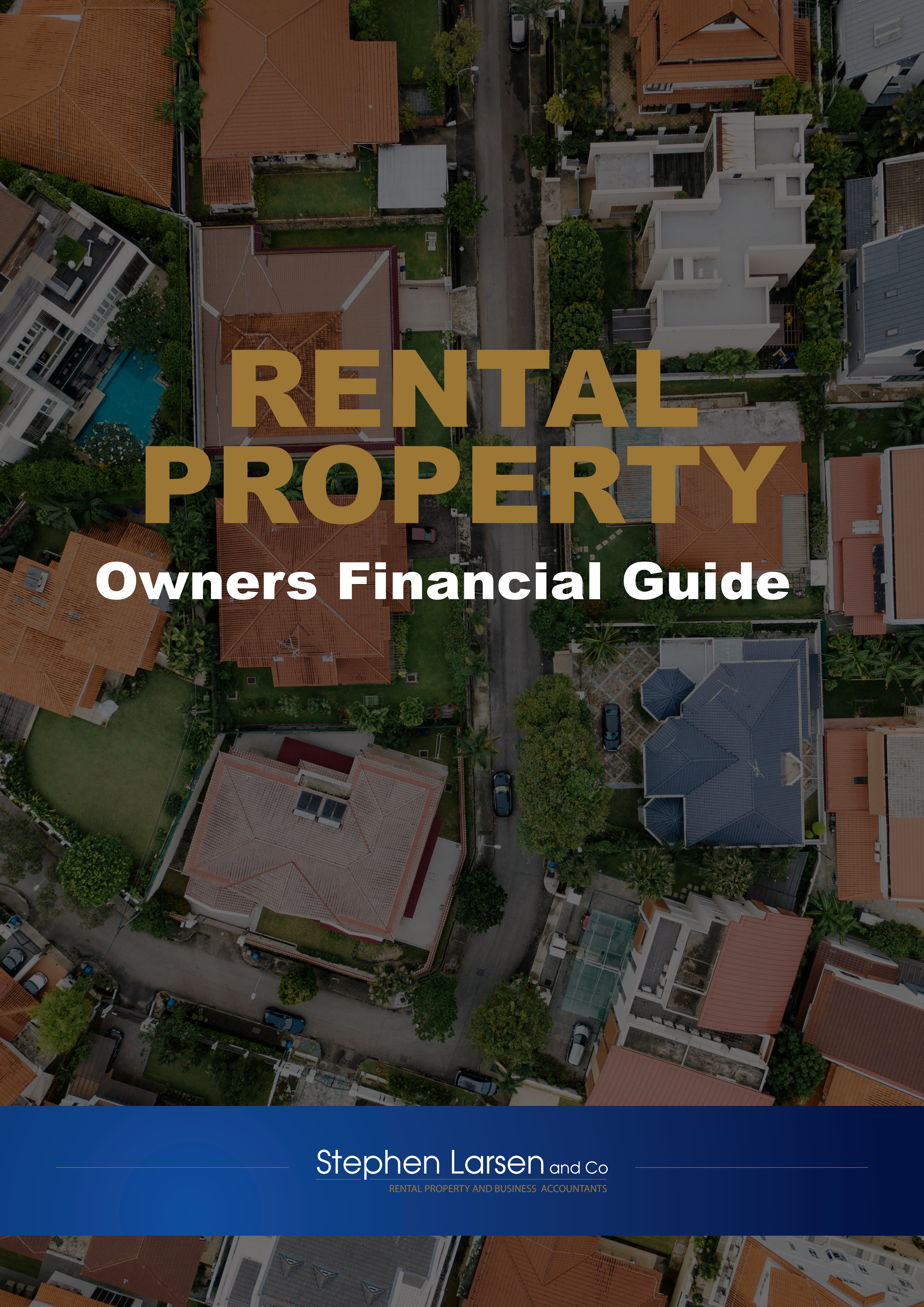


RENTAL PROPERTY

Owners Financial Guide

Stephen Larsen and Co

RENTAL PROPERTY AND BUSINESS ACCOUNTANTS

Important: This is not advice. Clients should not act solely on the basis of the material contained in this Rental Property Guide. Items herein are general comments only and do not constitute nor convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The Rental Property Guide is issued as a helpful guide to our clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.

Contents:

Why Choose Stephen Larsen & Co?

Personal Service: You're not just a number. Our team takes the time to understand your goals and challenges.

Clear Communication: No confusing jargon - just straight-up advice and support.

Proactive Support: From reminders to insights, we go the extra mile to help you succeed.

Running a small business or managing rental properties in New Zealand can be rewarding - but it also comes with financial complexity. That's where Stephen Larsen & Co steps in. With a hands-on, client-focused approach, this accounting firm helps business owners and property investors stay on top of their finances, make smart decisions, and meet all compliance requirements without the stress.

Whether you're a small business owner juggling daily operations or a property investor dealing with changing tax laws, Stephen Larsen & Co can take the accounting weight off your shoulders. We'll give you the clarity, confidence, and expert support you need to grow, plan, and thrive.

Ready to get your accounting sorted? Stephen Larsen & Co is just a call away. **Ph: 06 357 7011 Ph: 04 232 4122**

Keeping Records

Managing a rental property involves more than just collecting rent. One of your key responsibilities is maintaining proper documentation to support your income and expenses.

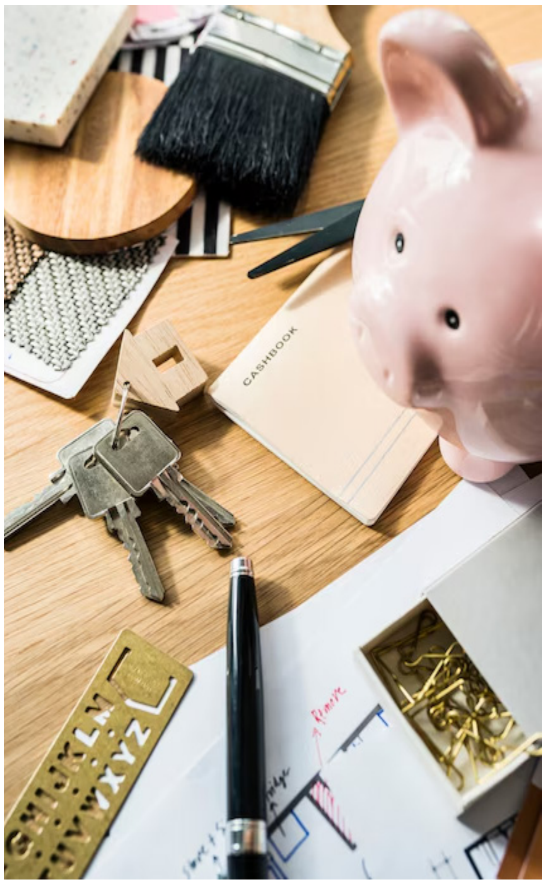
As a rental property owner, it's your responsibility to keep all financial records and source documents. The IRD can audit you at any time, so good record-keeping helps ensure your tax returns are accurate and supports the validity of your claims.

Any expenses you intend to claim must be backed by receipts or invoices. To make things easier, consider taking photos or scanning documents throughout the year. Even if you sell the property, you're required to keep your records for at least seven years. While you don't need a tax invoice for purchases under $50 (including GST), it's still important to record these transactions if you plan to claim them.

Types of Records to Keep:

- Bank, credit card, and loan statements
- Interest and dividend statements
- Rental agreements and bond records
- Mileage for property-related travel
- Annual property managers rental summaries
- Mortgage agreements
- Paid receipts and invoices
- Records of new asset purchases over $1,000
- Insurance policies
- Legal invoices and statements
- Depreciation schedules
- Any worksheets

Rental Bank Accounts



Best practise is too have a separate bank account for your rental property

Set up a separate personal bank account for rental transactions, such as a transactional account. If you have a limited company, a dedicated business account is required. Ensure you can pay from this account with an ETPOS card.

Managing your Accounts

Keep personal and rental expenses separate by using different accounts for each. Deposit all rental income and pay rental expenses electronically to maintain a clear record.

Label personal withdrawals as "personal drawings" and funds added to the rental property as "personal funds introduced." If using a personal credit card for rental expenses, save receipts in a folder.

By having a separate bank account for your rental property you are able to see how much the property is generating cash surplus's or how much of your money you have to put into the bank account to pay the rental expenses.

Difference between Tax Profit + Cash Profit

The difference between *taxable profit* and *cash surplus* for a rental property owner lies in the accounting and cash flow aspects of the business.

Taxable Profit:

Taxable profit refers to the amount of income that is subject to tax after accounting for allowable expenses, deductions, and any other adjustments required by tax law. It is calculated based on the ***accrual basis*** of accounting, which means income and expenses are recognized when they occur, not necessarily when cash changes hands.

For a rental property owner, taxable profit means Rental Income less Expenses and Depreciation:

- **Rental income**: All rent payments received.
- **Expenses**: Property management fees, mortgage interest, insurance, property maintenance costs, depreciation, and other allowable costs.
- **Depreciation:** A non-cash expense that reduces taxable profit, but does not affect cash flow.

Cash Surplus:

Cash surplus refers to the actual cash left over after all expenses have been paid and the rental income has been collected. It is based on ***cash accounting***, which focuses on the timing of cash receipts and payments, rather than when the income or expense is recognized for tax purposes.

For a rental property owner, cash surplus is calculated as:

- **Rental income received:** The actual cash received from tenants.
- **Cash expenses:** Payments made for maintenance, property management fees, utilities, mortgage principal repayments (if applicable), capital expenditure etc

Key Differences:

- **Taxable profit** takes into account all income and expenses, including non-cash items like depreciation, while ***cash surplus*** is solely concerned with the actual cash that flows in and out.
- **Taxable profit** can sometimes be negative due to deductions like depreciation, even if there is a positive cash surplus.
- **Cash surplus** provides a more accurate view of the actual liquidity available for reinvestment, saving, or personal use, while ***taxable profit*** determines the amount of taxes owed to the government.

In summary, taxable profit helps determine your tax liability, while cash surplus reflects the actual money you have after all cash-related transactions.
Download our Free Calculator from our Website which helps you to understand the difference between your Taxable Profit and your Cash Profit.

Tax responsibility

Owning a rental property isn't just about earning income - it also means meeting your tax obligations. As a landlord, you'll need to file annual returns, track rental income and expenses, and potentially pay provisional tax. Staying compliant with IRD requirements is key to avoiding penalties and interest.

Owning a rental property comes with several tax obligations. As an individual, you operate under your personal IRD number and are accountable for meeting all tax requirements and any associated liabilities.

Key responsibilities include:

- Filing an annual income tax return
- Possibly paying provisional tax during the year
- No ACC levies apply to rental income
- Submitting an IR3R form with a set of rental accounts

New Zealand's tax system relies on voluntary compliance, and penalties or interest may apply for late or missed payments. To stay on track, you can:

- Pay the full amount to IRD by the due date
- Set up automatic or regular payments in advance
- Set aside funds in a separate account to cover your tax bill

Rental income is taxable in the year it's received, including rent paid in advance. If your expenses are higher than your rental income, the loss can be carried forward and applied in future years.

In New Zealand, the Bright-line Test is a rule that taxes profits from selling residential property if sold within a set period after purchase. The set period is currently set at 2 years (as at 2025 – please note this may have changed if you are reading this after 2025) If you sell within the "bright-line" period, any gain is generally taxed, unless the property was your main home, inherited, or transferred in a relationship split. It's designed to discourage quick property flipping and cool the housing market.

Claimable Expenses

If you own an investment property, expenses you can claim for include:

- repairs and maintenance (but not renovations that substantially improve the value of the property)
- professional services fees, like accountants, lawyers or property managers
- rates and insurance
- mortgage repayment insurance
- vehicle and travel expenses when you travel to inspect your property or do repairs
- depreciation on capital expenses, like whiteware, appliances or heat pumps
- legal fees involved in buying a rental property, as long as the expense is $10,000 or less.

See Inland Revenue - Rental property expenses for further information.

Depreciation of Chattells

Depreciation of chattels is an important consideration for rental property owners. Chattels refer to removable assets within a rental property, such as appliances, carpets, and curtains. Understanding how depreciation works can help investors maximise tax benefits while maintaining their properties efficiently.

What Are Chattels?

Chattels are tangible, depreciable assets that are not fixed to the structure of the property. Common examples include:

- Whiteware (ovens, dishwashers, refrigerators)
- Heat pumps and air conditioning units
- Carpet and curtains
- Furniture (if the property is furnished)
- Light fittings
- Hot water cylinders

How Does Depreciation Work?

Depreciation accounts for the reduction in value of chattels over time due to wear and tear. In New Zealand, landlords can claim depreciation on eligible chattels to offset rental income for tax purposes. The Inland Revenue Department (IRD) provides depreciation rates based on the estimated useful life of different assets.

There are two main methods of depreciation:

1. **Diminishing Value Method** – The depreciation rate is applied to the asset's book value each year, resulting in a decreasing depreciation amount over time.
2. **Straight-Line Method** – The asset depreciates by the same amount each year over its useful life.

Benefits of Claiming Depreciation

- **Tax Savings** – Depreciation reduces taxable rental income, lowering the amount of tax payable.
- **Improved Cash Flow** – The tax deductions can improve cash flow by offsetting operational costs.
- **Accurate Financial Reporting** – Depreciation ensures property accounts reflect the real value of assets over time.

Depreciation Rates for Common Chattels

The IRD regularly updates depreciation rates, but common examples include:

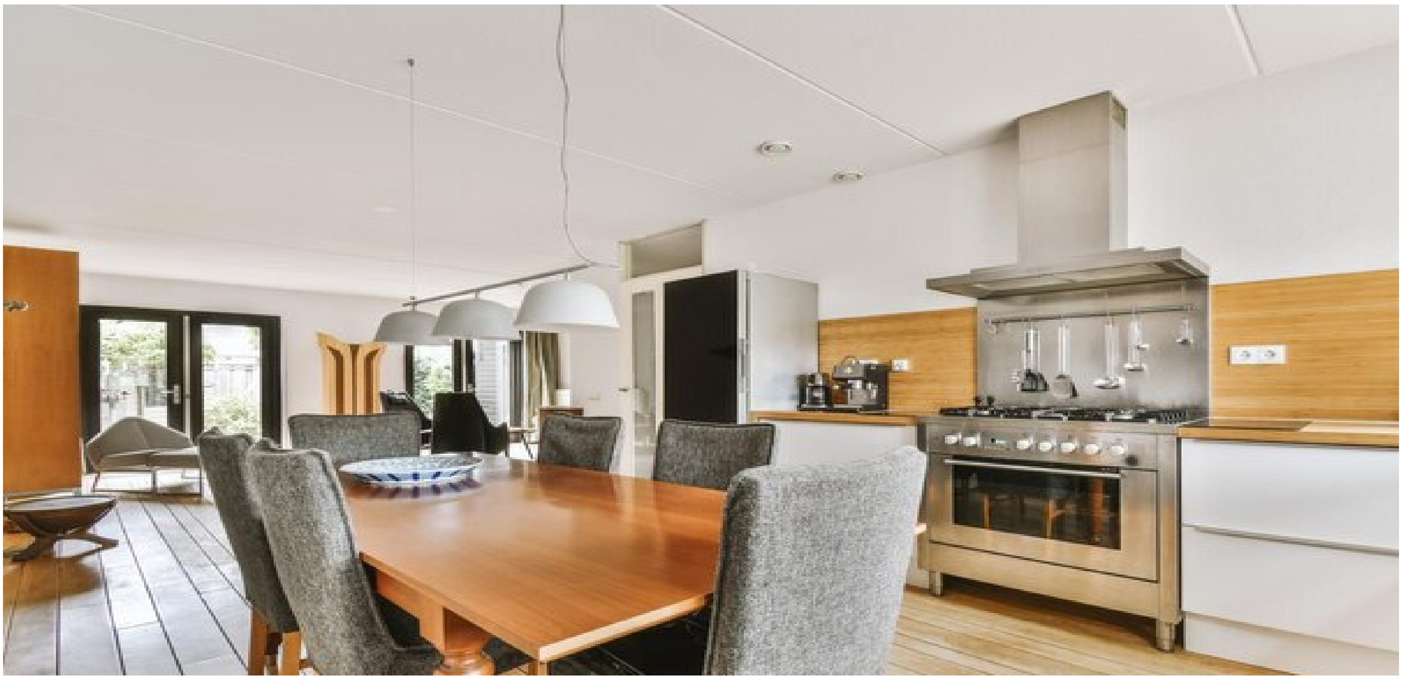
- Carpet: 20-25% (Diminishing Value)
- Heat Pumps: 20% (Diminishing Value)
- Whiteware: 13-25% (Diminishing Value)
- Furniture: 12% (Diminishing Value)

Key Considerations

- New Builds vs. Older Homes – Chattel depreciation is more beneficial in properties with newer assets, as older items may already have minimal residual value.
- Capital Improvements – Some replacements or upgrades may be considered capital improvements rather than chattels, meaning they cannot be depreciated but may be added to the property's cost base.
- Professional Valuations – Getting a chattel valuation at purchase can help determine the correct depreciation amounts and maximise tax benefits.

Conclusion

Depreciation of chattels is a valuable tool for rental property owners looking to optimise their tax position. By understanding which items qualify, how depreciation works, and keeping up with IRD regulations, landlords can ensure they are maximising returns while maintaining compliance. Consulting a property accountant is always recommended to make the most of depreciation claims and other tax-saving strategies.



Ownership Structures

Investing in rental properties in New Zealand can be a profitable venture, but choosing the right ownership structure is crucial for managing risk, tax efficiency, and long-term financial planning. Here, we explore the common ownership structures available to property investors in New Zealand.

Sole Ownership

Sole ownership is when an individual holds full legal and financial responsibility for a rental property. This structure is simple and cost-effective, offering complete control over decision-making. However, it exposes the owner to personal liability and may not be the most tax-efficient option, especially for high-income earners.

Joint Ownership

Joint ownership occurs when two or more individuals co-own a property. This is common among spouses, family members, or investment partners. Joint ownership can be structured as:

Joint Tenancy: Each owner has an equal share, and upon death, their share automatically transfers to the surviving owner(s).

Tenancy in Common: Owners can hold different percentage shares, and their share is passed on to their estate upon death.

While joint ownership can spread financial risk, disagreements between owners can complicate management decisions.

Look-Through Company (LTC)

A Look-Through Company (LTC) is a popular structure for property investors. It allows profits and losses to be passed through to shareholders, who then declare these on their personal tax returns. However, LTCs are subject to specific rules, and compliance requirements can be complex.

Trusts

Holding rental properties in a family trust is a strategy used to protect assets and provide long-term financial benefits. Trusts can offer:

Asset protection from personal liabilities

Potential tax advantages

Flexibility in income distribution to beneficiaries

However, trusts involve ongoing administrative requirements and costs, making them more suitable for long-term investors with multiple properties.

Partnerships

A partnership allows two or more individuals to co-own a property and share profits and losses. Partnerships can be formalized with agreements that outline responsibilities and exit strategies. While partnerships provide flexibility, each partner is personally liable for debts incurred by the partnership.

Company Ownership

Owning rental properties through a standard limited liability company (LLC) can be advantageous for asset protection and tax structuring. Companies pay tax at a flat rate of 28%, which can be lower than personal tax rates for high-income individuals. However, company profits are subject to further tax when distributed as dividends.

Please contact us to discuss the best option for your situation.

Know your responsibilities as a Landlord

Renting out a property in New Zealand comes with legal and ethical responsibilities for landlords. Understanding these obligations ensures compliance with the Residential Tenancies Act and fosters a positive relationship with tenants. Below are the key responsibilities for landlords in New Zealand.

1. Providing a Habitable Property

Landlords must ensure that the rental property is in a reasonable state of cleanliness and repair before a tenant moves in. The property must comply with health and safety standards, including ventilation, heating, insulation, and moisture control requirements.

2. Maintaining the Property

Landlords are responsible for maintaining the property in a reasonable condition and addressing necessary repairs. Any issues reported by tenants must be attended to promptly to prevent further damage and ensure tenant safety.

3. Complying with Healthy Homes Standards

The Healthy Homes Standards require landlords to meet minimum requirements for heating, insulation, ventilation, moisture, and drainage. Compliance with these regulations is mandatory and must be completed within specific timeframes.

4. Collecting and Managing Rent Properly

Landlords must provide a written tenancy agreement that states the rent amount and payment terms. Rent increases must comply with legal notice periods (at least 60 days' written notice and not more than once every 12 months). Landlords cannot demand excessive rent in advance or charge unauthorized fees.

5. Respecting Tenant Privacy

Landlords must provide proper notice before entering the rental property. The required notice periods include:

48 hours for routine inspections (limited to once every four weeks)

24 hours for necessary repairs and maintenance

At least 63 days for termination if the landlord intends to sell or use the property themselves (90 days for most other situations)

6. Handling Bond Money Correctly

If a bond is collected, it must be lodged with Tenancy Services within 23 working days. At the end of the tenancy, any deductions from the bond must be agreed upon by the tenant.

7. Resolving Disputes Fairly

If disputes arise, landlords should attempt to resolve issues directly with tenants. If an agreement cannot be reached, the Tenancy Tribunal provides a formal process for dispute resolution.

8. Providing Proper Notice for Ending a Tenancy

Landlords must follow legal notice periods when ending a tenancy. Fixed-term tenancies cannot be ended early unless both parties agree or specific legal grounds exist.

9. Keeping Accurate Records

Landlords must keep accurate records of rent payments, maintenance, and communications with tenants. These records can be crucial in case of disputes.

Conclusion

Understanding and adhering to landlord responsibilities ensures a positive renting experience for both landlords and tenants. Compliance with New Zealand tenancy laws helps landlords protect their investments while providing safe and secure housing for tenants.

Tips for getting good tenants

You want tenants who'll care for your property and fulfil all their obligations. Before you sign a tenancy agreement you can gather information about potential tenants.

Before you start collecting information about prospective tenants, make sure you know your responsibilities under the Privacy Act 2020 ('the Act'). This Act sets out the rules on what personal information people or agencies can collect and how to store, use, disclose and give people access to their personal information. You should only ask for the minimum amount of personal information you need to help you decide who to rent the property to.

By asking the right questions from prospective tenants, you can make more informed decisions about if they're suitable for your rental. If you decide they're not suitable you can look for a different tenant.

You don't have to tell a prospective tenant why you're not going to rent the property to them, but they may appreciate any feedback you can provide. You can't decide who to rent to or whether to continue a tenancy, if your reasons breach the Human Rights Act 1993. For example, you can't turn down a potential tenant because of their ethnicity.

A casual chat with a potential tenant may give you a feel for how suitable they are. While this is important, you should be methodical when selecting tenants. Your landlord insurance policy may need you to show how you selected your tenants when you make a claim.

You can start interviewing tenants while they fill out the pre-tenancy application form. Ask them if the property suits their needs and if they're interested in living there. Let them know your expectations and answer any questions they have. For example, how much the bond is and when rent should be paid, let them know if you have specific terms.
Check their references, check their credit history, check if they have been to the Tenancy Tribunal. Don't skip important steps. Drive past the house they currently live in. If that house is neat and tidy they will likely look after your property. If it is not neat and tidy then they may treat your property the same way.
Source: tenancy.govt.nz

Old House vs New House

What's Best for Your Rental Property? The right choice depends on your investment strategy

When investing in a rental property in New Zealand, one of the key decisions you'll face is whether to purchase an old house or a new one. Each option has its advantages and drawbacks, depending on your goals as a landlord. Below, we compare the benefits and challenges of both.

Old Houses

Pros:

- Character & Charm – Older homes often have unique architectural features, high ceilings, and solid native timber construction, making them attractive to tenants who appreciate history and style.
- Established Locations – Many older homes are situated in well-developed neighborhoods with access to amenities, transport, and schools.
- Larger Sections – Compared to modern builds, older homes often come with more land, providing potential for future development or additional outdoor space.

Cons:

- Maintenance Costs – Wear and tear over the years means older properties often require ongoing repairs, from plumbing and wiring to roofing and insulation upgrades.
- Compliance Challenges – Older homes may not meet modern Healthy Homes Standards, requiring costly upgrades for insulation, ventilation, and heating.
- Higher Running Costs – Poor insulation and outdated heating systems can make these homes less energy-efficient, leading to higher power bills for tenants and potentially affecting rental appeal.

New Houses

Pros:

- Lower Maintenance – Modern materials and construction techniques mean new homes typically require fewer repairs and less upkeep.
- Healthy Homes Compliance – New builds are designed to meet current building codes, including insulation, heating, and ventilation requirements, making them immediately compliant with rental regulations.
- Energy Efficiency – Double glazing, efficient heating, and better insulation lower power costs, making them more attractive to eco-conscious tenants.
- Higher Rental Appeal – Many tenants prefer the convenience and comfort of a modern home, which may result in higher demand and rental returns.

Cons:

- Smaller Sections – Many new developments prioritize maximizing housing units, meaning smaller land sizes and reduced outdoor space.
- Higher Purchase Prices – Brand-new homes often come with a premium price tag, which could impact initial return on investment.
- Limited Character – While modern homes are practical, they can sometimes lack the character and unique appeal of older properties.

The right choice depends on your investment strategy. If you prefer lower maintenance and regulatory compliance, a new home might be best. If you're willing to manage renovations for long-term gains, an older home could offer value, particularly in sought-after locations. Carefully consider your budget, tenant market, and long-term rental goals before making your decision.

Highs and Lows of Owning a Rental

Owning a rental property can be a lucrative venture, but it's not without its challenges. Success depends on smart buying, careful management and stay ahead of regulatory changes.

The Highs

Steady Rental Income

For many investors, the biggest draw is the promise of reliable cash flow. If managed well, rental income can cover mortgage repayments, property expenses, and even provide a surplus. In high-demand areas such as central Auckland, Tauranga, and parts of Wellington, rental properties often stay tenanted with minimal vacancy periods.

Long-Term Capital Gains

Property values in New Zealand have shown strong growth over the past few decades, particularly in major urban centres. Investors who hold onto their properties long-term have seen significant capital appreciation, sometimes doubling or tripling in value over 10–20 years. Even with recent market corrections, the long-term outlook remains positive in many regions.

Tax Advantages

While recent tax law changes have limited some deductions, landlords can still claim a variety of expenses. These include rates, insurance, property management fees, repairs, and depreciation on certain assets. Structured correctly, these can reduce the tax burden and improve net returns.

Leverage Opportunities

Property allows investors to use other people's money (via bank loans) to generate returns. With the right loan-to-value ratio (LVR) and careful financial planning, even modest market growth can yield strong returns on the investor's initial equity.

Retirement Security

For many Kiwis,rental property is seen as a form of "passive income" for retirement. A portfolio of mortgage-free rental homes can provide a stable and predictable income stream in later life.

The Lows

Tightening Regulations

Recent years have seen a raft of regulatory changes. The introduction of the Healthy Homes Standards requires landlords to meet specific insulation, heating, ventilation, and moisture control benchmarks. Failing to comply can result in significant fines.

Changing Market Conditions

New Zealand's housing market has cooled after a period of explosive growth. Rising interest rates, inflationary pressures, and government intervention have tempered investor confidence. Property values have dipped in some regions, and yields have tightened, particularly for new entrants with high mortgage costs.

Tenant Management

Dealing with tenants can be time-consuming and emotionally draining. While many tenants are respectful and pay on time, others can cause issues - from missed rent payments to damage and disputes. The Residential Tenancies Act is heavily geared toward tenant protection, meaning landlords must tread carefully in enforcing their rights.

High Entry Costs

With median house prices still high in many parts of the country, getting into the market requires significant upfront capital. Deposit requirements (especially for investors, who face a 35–40% LVR restriction) can be a major barrier.

Maintenance and Unexpected Costs

Properties require ongoing upkeep - from minor repairs to major renovations. These costs can be unpredictable and may significantly eat into your returns. Investors must also budget for periods of vacancy, insurance increases, and body corporate fees (for apartments or townhouses).

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