Inland Revenue
Te Tari Taake

Individuals

Ngā Hunga Takitahi

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Boarders, flatmates and tenants - tax responsibilities

Use this factsheet if you're a boarding service provider, have a homestay, students or flatmates paying to live in your home. It will help you to work out if you need to declare this income for tax purposes.

Providing accommodation in your private home, sleep-out or caravan on your property - including to your own relatives - may be considered taxable income. We recognise that you'll have costs in providing accommodation so we explain the options to work out if you have income you'll need to pay tax on.

Boarders in private homes

To work out the income from your boarding services you can choose to use the standard cost method or actual cost method. You don't have to tell us what method you elect to use, but if you don't complete a return of income by the due date for filing, we'll assume you chose the standard cost method.

Note: These rules don't apply to flatmates.

Standard cost method

The standard cost method consists of two calculations:

- the weekly standard cost per boarder
- the annual capital standard cost.

1. Weekly standard cost

There are different weekly standard costs for:

- one or two boarders
- three or four boarders.

Note: You can't use the weekly standard cost method if you have five or more boarders. Instead, you complete a tax return and include all payments received as income. You can claim expenses as long as they're allowed under our tax rules and you keep records to support your claim.

If your income is less than the weekly standard cost allowed, you don't need to show this income in your return, keep records of related costs, or pay tax on the income you receive from boarders.

The weekly standard costs change every year. You can find the latest rates at **www.ird.govt.nz** (search keyword: boarders).

If your income is more than the weekly standard cost allowed, read on.

2. Annual capital standard cost

Only use this calculation when your income from boarders is more than the weekly standard cost. The formula represents the cost of using your private home to provide private boarding services, and includes financing and depreciation costs.

Don't include any of these in your calculation:

- a child under 18 who accompanies a parent or guardian where there's no separate charge for the child's keep
- a child over five who's in a shared custody arrangement and they live with you (as the provider) for less than six months
- a dependent child attending boarding school or living elsewhere for more than half of the year.

Income to be included in your return

The amount of income you declare depends on the number of boarders you have at any time in a year and if the income exceeds the weekly standard cost rate. To work out how much, if any, income to show in your return, you can use the "Standard cost home-based boarding services calculator" at **www.ird.govt.nz**

You'll need this information when you use this calculator:

1. You own the home
   - the purchase price of your house
   - the value of any improvements to the house
   - the value of any accomodation supplement you receive.
2. You rent your home
   - weekly amount of rent you pay
   - the value of any accomodation supplement you receive.

If you don't use the calculator, you need to add up the amount you received from your boarders, then deduct both the weekly standard cost and your annual capital cost. Show any excess income in your tax return for that tax year. You can't claim losses.

Who should declare the income?

If you provide boarding services with your spouse or partner, the person most directly involved on a day-to-day basis should declare the income.

Rental property owned by a family trust

If you provide boarding services from a home in a family trust and you're a beneficiary of the trust, you can only calculate the standard cost for the annual capital component based on any rent paid. Any rent claimed will be based on:

- the period the boarding service is provided
- the proportion of boarders compared to the average number of household occupants.

Use this calculation to work out the rent you claim:

$$\text{Rent claimable} = \frac{\text{annual rent paid}}{1} \times \frac{\text{service period}}{\text{52 weeks}} \times \frac{\text{number of boarders}}{\text{average household number}}$$

Actual cost method

If you use this method you have to keep full records of your income and expenses for the year. You'll also need to complete a tax return to declare any profit or claim any loss.

More information

You can find full details in our *Tax Information Bulletin* Vol 17, No 10 (December 2005). Go to **www.ird.govt.nz** (search keywords: tax information bulletin).

Flatmates and tenants

In most flatting situations payments made by one flatmate to another as a share of the overall cost of the accommodation isn't likely to be classed as taxable income.

But if one flatmate (usually the house owner) sets out to profit from the contributions of others who share the accommodation, this profit is income. If you're in this situation you need to declare this as income. Use the ordinary tax rules (rental income, less allowable expenses) to work out the final amount to put in your end-of-year tax return.

If you live in a property and have other tenants living in another part of your multi-flat building you must declare your rental income.

Use one of the following methods to work out which expenses you can claim against your rental income:

1. Keep a record of the expenses that relate to the part of the property you're renting out, and claim these as costs against your income.
2. Keep a record of your total expenses for the property, and apportion these according to the area of the rented-out part. For example, if you rent out a flat that takes up a quarter of the area of your house, you can claim 25% of the house expenses.

To find out more refer to our *Rental income (IR264)* guide at **www.ird.govt.nz** (search keyword: IR264).