Mixed-use Assets

New tax rules come into effect

- From the 2013-2014 tax year for holiday homes
- From the 2014-2015 tax year for boats and aircraft

The rules establish a new basis for apportioning deductible expenditure relating to certain assets which are used both privately and to earn income (mixed-use).

The new rules apply to assets to the following assets

- Land including improvements to land - typically holiday homes
- Ships, boats and other water craft with a cost in excess of $50,000
- Aircraft with a cost in excess of $50,000

Entities subject to rules

Any person claiming deductions in relation to the asset, not just the owner of the asset (includes a lessee).
The rules apply to deductions claimed in all entities other than companies =that are not close companies (generally companies where there are five or fewer ultimate natural person shareholders).

You have a mixed-use asset if, during the tax year, it is used for both private use and income earning use, and it is also unused for 62 days or more.

"Private use" means of your mixed-use asset means use by:

- You, your family or associated people, whether or not you receive income from the asset
- Non-associated people if you receive income at less than 80% of market rates

Income received for private use is exempt income and expenses for private use is not deductible.

"Income-earning use" means use by a non-associated person who pays you at 80% or more of market value.

"Counted days" are those days when the asset is in use for other than income-earning use.

Expenditure subject to apportionment

The proportion of expenditure that will be deductible is calculated by multiplying the expenditure by the following formula:

$$\frac{\text{Income-earning days}}{\text{Income-earning days + counted days}}$$

Interest deduction for a company that has a mixed-use asset

Close companies, excluding LTC's and QC's that have mixed-use assets are subject to interest apportionment rules. The company's interest-bearing average debt at the beginning and end of the financial year tis apportioned to the most recent rating valuation for land and for other assets, the tax value for depreciation purposes and interest on that amount of debt is subject to the apportionment rules above. Thus interest is allocated on borrowings up to the full market value of the asset or tax

book value for boats and aircraft. The actual purpose of the borrowing is irrelevant for this apportionment exercise.
Companies that may be adversely affected by the way interest has to be treated either now or at some future date can transfer the mixed-use assets out of the company by 31 March 2014 and depreciation recovery is deferred until the new owner sells.

Other rules include

- Rental income of less than $4,000 per year can be treated as outside the tax system
- Where the income earning use of the asset is 2% or less of the asset value (not cost), tax losses are ring fenced

For a more detailed explanation of the mixed-use assets rules click on the following Inland Revenue link:

http://www.ird.govt.nz/business-income-tax/expenses/holiday-homes/#10

GST adjustments for mixed –use assets

Changes to GST on mixed-use assets apply:

- for holiday homes from 17 July 2013
- for boats and aircraft from 1 April 2014.

For detail refer to the following Inland Revenue link:

http://www.ird.govt.nz/gst/additional-calcs/change-adjust/mixed-use/#01