

Mixed Use Assets

Assets used by you, privately, but also rented

Questionnaire – 2023 tax year

Do you, personally, through a family trust, or company own any of the following costing more than \$50,000? If you receive annual income of more than \$4,000 from other people using the asset, you will probably be liable for some tax.

Note. If you get below market rent, see us, as the \$4,000 may have to be adjusted.

- Holiday home, bach etc YES/NO
- boat YES/NO
- aircraft YES/NO

If you have answered YES to any of these please complete the questions below. If you have more than one of these assets, complete a fresh questionnaire for each asset.

I own a:-

(Address of property or boat/aircraft name).....

Market value \$.....

Market rental (how much a person should pay each day?) \$...../day

How many days was it rented/chartered/leased during the financial yeardays

How many days did you use it personallydays
(Leave out nights you stayed in the holiday home in order to carry out repairs)

How many days did you let your friends/family use it for free or nominal rent (being less than 80% of market rental)days

Income received from renting at 80% or more of market rental \$.....

Income received from renting at LESS than 80% of market rental \$.....

Total income received \$.....

Expenses – to be shared between income earning and other use

Cleaning \$.....

Fuel (for boat or aircraft) \$.....

Light, heat and power \$.....

Insurance \$.....

Interest on loans borrowed to buy the asset \$.....

Rates \$.....

Repairs and maintenance (general – not directly caused by tenants only) \$.....

Travel relating to carrying out general repairs or maintenancekms

Other – supply details \$.....

Small chattels purchased (less than \$500) list please with prices:-

Description	Amount	
	\$	
	\$	

Large chattels purchased (more than \$500) list please with prices and dates bought.

If you owned the asset prior to the 2016 tax year include in the list of chattels items bought earlier at their cost or market value, whichever is the lower in each case.

Date purchased	Description	Amount
		\$
		\$

Expenditure 100% claimable – being only relating to deriving market rental

Advertising \$.....

Food for charter guests E G boat hire \$.....

Repairs and maintenance (direct damage by tenants renting) \$.....

Travel relating to undertaking repairs caused only by customerskms

Other – supply details \$.....

Companies

If the asset is owned by a company, there are special rules for claiming interest. See us to discuss.

Notes supplied

Please also read the notes on Mixed Use Assets to help you complete the questionnaire.

Notes on mixed use assets

- Applies to real property, boats and aircraft costing more than \$50,000.
- Rental income of less than \$4,000 can be treated as outside the tax system.
- Ring fenced losses can also be treated as being outside the tax system.
- Where the income earning use of the asset is 2% or less of the asset value, tax losses are ring fenced. Note it is “Asset value” and not original cost. For land use capital value set by local authority unless acquisition cost is more recent than the valuation.
- If the mixed use asset is in a company, there are special rules for dealing with interest expenditure. They are aimed at allocating the interest cost firstly to the mixed use asset, regardless of when the company debts were incurred or what they were applied to. The idea is to allocate the interest for the year **up to the full market value of the asset or tax book value for boats and aircraft**. If asset value is equal to or more than the debt, the whole debt is taken into account for apportionment purposes.
- If the asset value exceeds the debt in the company, look at associated companies and apportion their debt. If there is still some asset value left over, look at shareholders who have borrowed to buy shares in the company. The interest they have incurred is treated as though it was incurred by the company to the extent there is still some asset value left over.
- To determine the extent of borrowed money in the company, take the average debt for the year. I. E. beginning plus end debt divided by two and compare this with the value of the mixed use asset.
- The rules relating to companies do not apply to widely held companies, only close companies (extended to include companies where trusts own more than 50%).
- Private use **does** apply where a natural person “otherwise has the asset”. An example might be a bach owned by a family trust.
- If an individual or an associated person makes a contribution to the rent, this would be treated as exempt income. The mixed use asset rules still apply.
- If you rent your cottage to someone who pays less than 80% market value treat this as part of your private use and the income as exempt.
- Exceptions for arm’s length are:-
 - Reduced price because of renting in off peak season.
 - Reduced price because the period is exceptionally long.
 - Asset is being rented at a reduced price to establish a profile or market share.
- Exemption from rules:
 - Where the boat or plane is normally used for income earning purposes and your private use is minimal. E. G. Using the plane for a day’s hunting. Apply FBT etc
 - Staying in the bach to repair it after a bad tenant is not counted as occupation by the owner.
 - Moving the aircraft or boat to another location at the beginning or end of a period of hire in order to enable it to be available for hire.
 - Residential property which has long term rental as its only income earning use. E G You rent for 8 months, occupy for a month and can’t get a tenant for three months.
 - Where a boat or aircraft merely switches use completely. E G Your boat was used for chartering and now you have decided to make it a private asset.
- Fully deductible expenditure is expenditure which relates only to the income deriving process. E. G. advertising.
- “Where costs are incurred to repair explicit damage caused when an asset is used to earn income, that repair cost will be deductible in full.”
- Do not include rent from associated persons or rent at less than 80% of market value in your calculation when determining the \$4,000 threshold.
- Expenditure which relates purely to the private use of the asset is not apportioned.

The MUA adjustment overrides FBT, deemed dividend and the entertainment apportionment rules. These rules do not apply if MUA applies