New Boarder Rules

New rules apply from the start of the 2019-20 Income Year, which is 1/4/19 for most tax payers.

Old Rules

For the year ending 31/03/19, if you earned $270 per week or less from one boarder, then you could use the standard cost method and not have to pay tax on the boarder income. For a second boarder, the standard cost is the same ($270 per week), and if you have a third or fourth boarder, these reduce to $222 each. This saved considerable time as you would not need to calculate income and expenses if under the weekly threshold.

The old boarder rules were great if you had no or a low mortgage on your personal house. Therefore, your expenses relating to the income would be very low.

Key Point

Under the old or new rules, a boarder includes food. So, an international student would be a good example, where food, heating, power, internet, furniture, sheets and towels, are all provided to the international student.

If you just rent a room, with no food provided, then this is a flatmate. Flatmate income is taxable, and you need to return the income each year and claim associated costs.

Providing some tea and coffee is not enough to change from flatmate to boarder!

In new determination by IRD, it includes "in conjunction with regular meals…." so makes this key point very clear.

NEW RULES

First - You need to choose whether to use the standard cost, or whether to return the income and expenses from the boarding activity. Generally, the standard cost is a lot simpler, and great if you have no or low mortgage. The actual income and expenses is more complicated but can result in a loss if you have a high mortgage.

Example: Tom and Jane have a boarder who pays $320 per week for 40 weeks. Total $12,800

The Standard Cost has three parts.

1. Weekly standard-cost per boarder (covers food and household bills)

This is $186 per week - IRD will most likely update this each year as costs change.

NOTE: If your boarder income was below the $186 per week, you wouldn't need to work out the next step! Example is over $186, so would need to continue. Or $186 for 40 weeks is $7,440, and Tom and Jane have received more than this.

2. Annual Housing Standard-Cost

a) House cost (includes improvements) * 4% (or total rent paid for year). Example House cost $480,000, so 4% = $19,200.
b) Less any accommodation supplement received - often $0.
c) Multiply by percentage of boarders. Example Tom and Jane have one boarder. So there is one boarder out of a total of three occupants = 1/3rd or 33.33%.
d) Number of weeks there are boarders divided by total weeks. Example Tom and Jane's boarder stays 40 out of 52 weeks. So 40/52 = 0.77

Annual Housing Standard-Cost ($19,200 - $0) * 33.33% * 0.77 = $4,927.50

NOTE: If your boarder income for the year was less than the weekly standard cost * the number of weeks, plus the annual housing standard-cost, then you wouldn't go to the 3rd step, as the income would already be non-taxable. Example $7,440 from step 1 and $4,927.50 from step 2 = $12,367.50, so boarder income of $12,800 is more, so would continue to step 3.

3. Transport Standard-Cost

If you don't use your vehicle to provide transport to your boarder - Your boarder income over the step 1 and 2 combined is taxable income. Example $12,800 - $12,367.50 = $432.50 taxable income if don't transport boarder.

If you do transport your boarder - Kilometre rate allowed by IRD, most likely 79 cents per km but does depend on total kilometres per year, or you could use AA rate.

Example - Tom and Jane keep a log book and transport their boarder 45 km per week, for 40 weeks = 1800km. At 79 cents per kilometre = $1,422.

Example Overall Costs = $7,440 from step 1 and $4,927.50 from step 2, plus $1,422 from step 3 = $13,789.50. As this is more than the boarder income of $12,800, Tom and Jane do not need to return anything. They cannot claim a loss.

If your boarder income was more than the total costs, then you would need to return this as taxable income.

New Rules Don't Apply

- If property is part of GST taxable activity.
- More than four boarders.
- Taxpayer chooses not to apply it.
- Trust property, unless the host paid all the costs.
- **Property is used in the same income year to provide both boarders and short term accommodation (Airbnb, etc).**

If you are any of these, then you need to return the income and claim the appropriate expenses.

Kind regards
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