



## TAURANGA BOYS' COLLEGE

*Best for Boys | Tama Tū Tama Ora*

### HOMESTAY CARER'S TAX LIABILITY

#### Changes to tax laws

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This advisory is to make schools aware that the way that tax liability is calculated by the Internal Revenue Department (IRD) for income from boarders, such as international students paying homestay fees, has changed. You may receive enquiries from your homestay parents, and below is a summary of the new regulations and links to the IRD for further information.

Up until 31 March 2019 if the income from the boarders did not exceed the old values below, there was no tax.

\$270 per week for 1 + 2 boarders = \$560

\$222 per week for 3 +4 boarders = \$444

Total income for 4 boarders = \$984

From 1 April 2019 the income from boarders is taxable but not if it is below the new standard costs.

#### Standard Costs method:

- weekly standard-cost per boarder, a set amount of \$207/week for the 2021/22 tax year (for up to 4 boarders)
- annual housing standard-cost, calculated with Inland Revenue's formula (due to high cost of houses, the probability of exceeding the standard cost is low)
- annual transport standard-cost, calculated with Inland Revenue's formula

#### Actual Cost Method:

If you have 5 or more boarders, you must use the actual cost method. If you have up to 4 boarders, you can still choose to claim actual costs.

Under this method all your income from the rental is assessable income and must be declared. To use this method, you need to:

- keep full records of your actual income
- keep full records of your expenses
- complete an IR3 annual tax return to return income and claim actual expenditure incurred

**The following worksheet steps you through the standard cost method and formulae used.**

Renting to boarders in your own home? What tax do you have to pay?

Income earned from rent is taxable and you can claim deductions for costs related to earning that income. Different tax rules apply depending on the circumstances.

For tax purposes, renting to boarders is different from short-stay accommodation (such as Airbnb bookings) or that provided to tenants, care home residents, or student or emergency accommodation.

This fact sheet looks at private boarding services provided in your home where you have no more than four boarders at any time. A boarder is a person who pays you for lodging. This does not include a child younger than five who accompanies a boarder. Boarding services are typically provided to students and include accommodation as well as regular meals and other services (e.g. laundry) typical in a household.

Figures to focus on

<b>207</b>	Weekly standard-cost amount set by Inland Revenue for the 2021-22 income year, relating to direct costs, subject to CPI adjustment. There are also standard costs for annual cost of home and transport, calculated by formula.
<b>5,000</b>	If your tax due at end of year is more than \$5,000, you'll have to pay provisional tax instalments the next year.
<b>60,000</b>	If you earn more than \$60,000 a year from your taxable activities, you must register for GST. If you earn less than \$60,000 a year, you can choose to register for GST. If you are GST registered, you can't claim standard costs.

I have boarders in my home: what do I need to know?

Income from boarders is taxable. You can claim on costs related to earning that income. However, most of your actual costs would only be partly deductible as they relate both to your private household costs and to earning boarding income.

If you are eligible and choose to use Inland Revenue's standard costs method, that might be simpler for you as income equal to or below standard costs is tax-exempt. A taxpayer can claim standard costs instead of claiming on their actual expenses.

If you claim deductions for actual expenses, you need to declare all income from renting to boarders. Inland Revenue will want to know that you are only claiming for costs related to earning income and not for costs incurred because of your own private use. You apportion your costs according to amount of time you have boarders, and the average number of boarders relative to total number of people in your home.

What's the standard cost method for boarding services provided in my home?

Inland Revenue set standard costs that they see as reasonable expenses while providing boarding accommodation. Income earned up to the level of the standard costs is tax-exempt. Income earned over and above the standard costs is taxable.

Up until the end of the 2018/19 tax year, if you earned \$270 per week or less each from one or two boarders, the income was tax-free. If you had a third or fourth boarder, this threshold lowered to \$222 each. If your income from boarders was more than the weekly standard cost, you could also

calculate the annual capital standard cost to factor in the cost of using your home to provide private boarding services.

From the beginning of the 2019/20 tax year, the standard cost method was changed, and now works differently.

From 1 April 2021, standard costs comprise:

- weekly standard-cost per boarder, a set amount of \$207/week for the 2021/22 tax year
- annual housing standard-cost, calculated with Inland Revenue's formula
- annual transport standard-cost, calculated with Inland Revenue's formula

Who CAN'T use the standard cost method?

You can't use the standard cost method if, in the same year:

- you have more than four boarders at the same time at any time
- the accommodation provided is part of a GST taxable activity
- you are not a natural person (e.g., you're managing the property as a company)
- the property is held in a trust EXCEPT where you either:
  - paid all the costs represented by the annual housing standard-cost element; or
  - don't include the annual housing standard-cost element in your standard-costs
- the accommodation is also being used to provide short-stay accommodation
- you are also claiming for standard costs for some other kind of accommodation provided in your home
- you are claiming for any deductions

If you are otherwise eligible to use the standard costs method, you can choose not to apply it and claim actual costs instead.

What do standard costs cover?

1. Weekly standard-cost covers direct costs such as food and household bills, items and services typically provided to boarders: food, linen, laundry and cleaning services, power, telephone, internet, use of bedroom chattels and general household furniture, and incidentals such as gifts, leisure and entertainment activities you might provide.

If your income from boarders is no more than the weekly standard-cost per boarder, you won't have to return any boarding income, or do any calculations. The income is treated as tax-exempt.

2. Annual housing standard-cost covers costs for the use of the house in providing accommodation: financing costs (e.g., home loan interest), rent, insurance, rates, and repairs and maintenance. This is reckoned differently depending on the ownership of the home.

If...	cost of the home is based on...
you own your home	4% of the cost of the home (including all capital improvements)
you rent your home	total rent you paid for the year
your home is in a trust	total you paid for the year for financing costs or rent, insurance, rates, repairs and maintenance

If you receive an accommodation supplement from the Ministry of Social Development, it affects your annual housing standard-costs calculation. The cost of the home is set against any accommodation supplement received and then multiplied by the percentage of boarders to total

occupants and by the number of full weeks in the year you provided boarding services divided by total weeks in the year:

$$\left( \text{cost of the home} - \text{accommodation supplement} \right) \times \frac{\text{total boarders}}{\text{total occupants}} \% \times \frac{\text{boarding weeks}}{52}$$

Children under five are not counted as occupants of a home. Children 5-18 years of age are not counted as occupants if there is no separate charge for their keep. If you have a shared-care arrangement for a child over 5 years of age or a child is away at boarding school or elsewhere part of the year, base the child's occupancy on the percentage of the year the child typically lives with you. Visiting family or short stay guests who stay with you free of charge are not counted as occupants either.

If you have several boarders in a year, but they stay for different periods, use the formula above separately for the boarders that stay for different lengths of time. Add up the separate amounts to determine total annual housing standard-cost.

3. Annual transport standard-cost covers expenses for fuel, insurance, registration, warrants of fitness, repairs and maintenance, and depreciation. It is calculated like this:

$$\text{annual transport standard-cost} = \text{kilometre rate} \times \text{kilometres travelled}$$

The kilometre rate is set by Inland Revenue. Kilometres travelled are those trips where the dominant purpose is transporting boarders, even though you might also be transporting other people at the same time. Where the dominant purpose isn't to transport the boarder, you can't apportion or claim the kilometres travelled for those trips.

To include this standard-cost element, your boarding agreement should include the requirement to provide transport to the boarder. Maintain a log book to record the number of kilometres claimed for the year. Maintaining a log book for a three-month test period is not enough unless it produces an accurate representative result.

All of these must be calculated inclusive of GST, if any.

You can't claim additional costs if they relate to an item covered by any of the standard cost components. If the amount you calculate for standard costs exceeds your total income from boarders, you can't claim losses.

If you receive reimbursements for add-on costs not covered by standard-costs (say, where your boarder reimburses you for monthly train passes you bought for them), these don't count as income. But don't try to claim a deduction for the costs you've been reimbursed for.

What if I am also receiving an accommodation supplement or other benefit?

If you receive an accommodation supplement from the Ministry of Social Development, it affects the annual housing standard-costs calculation as outlined above.

If you receive any assistance from MSD or from WINZ, you need to let them know about your income from boarders.

What if I don't want to use the standard cost method? The actual cost method

If you have 5 or more boarders, you must use the actual cost method. If you have up to 4 boarders, you can still choose to claim actual costs. Under this method all your income from the rental is assessable income and must be declared. To use this method, you need to:

- keep full records of your actual income
- keep full records of your expenses
- complete an IR3 annual tax return to return income and claim actual expenditure incurred

100% deductible expenses

Expenses that relate solely to providing boarding services are 100% deductible:

- advertising, commission or fees paid to a platform to rent out rooms
- supplies used solely by boarders
- additional insurance and rates paid (over what you would normally pay) because you let to boarders
- repairs for damage while earning taxable income except for ordinary wear and tear

Apportioning mixed expenses

Other costs will only be partly deductible because they also relate to your private use of the home. These need to be apportioned and include:

- groceries and household cleaning products
- power
- internet
- home loan interest
- property insurance and rates (if you must pay more because you rent out the property)
- repairs and maintenance

The usual calculation for this is based on floor area and weeks let to boarders:

- 100% deductible: areas for boarders' exclusive use during their stay (bedroom),
- 50% deductible: areas common to both you and your boarders (such as lounge and dining, laundry, and kitchen)

Deductions will equal:

$$\begin{array}{l} \text{deductions} \\ \text{for exclusive areas} \end{array} = \frac{100}{100} \times \frac{\text{areas for boarders' exclusive use}}{\text{total floor area}} \times \frac{\text{boarding weeks}}{52}$$

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$$\begin{array}{l} \text{deductions} \\ \text{for common areas} \end{array} = \frac{50}{100} \times \frac{\text{areas in common with boarders}}{\text{total floor area}} \times \frac{\text{boarding weeks}}{52}$$

Deductions for depreciation on chattels

You can also claim deductions for depreciation on chattels. Chattels are subject to wear and tear, reducing their value while being used to earn income. If they are only used by boarders

(e.g., chattels in a bedroom you only use for boarders), the depreciation will be 100% deductible. If they are in common use areas, you can only claim the proportion relating to income producing times.

First work out the depreciation losses for the year for chattels. Then work out the deductible portion.

For items that cost \$500 or less, the depreciation loss is the item's cost. For items that are part of a set purchased at the same time from the same supplier the \$500 threshold applies to the set. Above \$500, and the items must be depreciated using the diminishing value or straight-line method. Ask us about calculating depreciation.

Once you know the depreciation losses for the year, you can calculate the proportion you can claim. The formula to calculate deductions is based on the weeks the room is rented out as a proportion of all weeks in the year:

$$\text{deductions} = \text{losses} \times \frac{\text{boarding weeks}}{52}$$

Do I need to file a tax return?

If your income from providing boarding services doesn't exceed standard costs, you don't need to file a return. If it does, you need to file a return for the income over standard costs. If you're claiming actual costs you need to declare all income from boarders and the costs related to providing boarding services.

What if I co-own the property?

If you own (or rent) the house jointly, the income needs to be split appropriately between the owners when declaring the income in the tax return.

Can I work out if I'll have tax obligations in advance?

You can work out ahead of time whether you're likely to have taxable income if you plan to provide boarding services. If the forecast taxable income is significant, then you could also plan tax payments to minimise any use of money interest that may become payable on tax due.

Is the board you're planning to charge higher or lower than the weekly standard costs? If it's lower, your income from board will be tax exempt.

If it's higher, apply the formula for annual housing standard-cost and work out how much that will be per week. If the amount of board you plan to charge is still higher and providing transport is part of your boarding agreement and you can estimate the number of kilometres this is likely to involve, apply the formula for the number of weeks you plan to provide boarding services.

$$\text{weekly standard-cost} + \frac{\text{annual housing standard-cost}}{\text{no. of weeks boarding services provided}} + \frac{\text{annual transport standard-cost}}{\text{no. of weeks boarding services provided}}$$

If the amount of board you plan to charge is still the higher figure, the difference is your probable amount of taxable income. Remember, you may still end up owing tax for some of your boarding income if:

- the number of occupants of your home who aren't boarders (and are over 5 years old) increases during the year
- your rent decreases during the year (if you rent your home)
- you start receiving an accommodation supplement during the year, or the accommodation supplement you already receive increases

### Record Keeping

If you would like to talk through exactly how the rules apply in your case, please contact an accountant or tax advisor. Whether you use standard-cost or actual-cost basis to claim deductions, you need to keep records to support your claim. As you may not know till the end of the tax year whether you'll want or be able to use the standard-cost method, make sure you have full records of:

- the number of weeks of the year you had boarders
- total income from boarders
- the number of other occupants in your home during the year
- the cost of capital improvements you made or how much rent you paid for the year
- how many kilometres you travelled in the year, in a motor vehicle you pay running costs for, where the dominant purpose for the trips related to transporting boarders
- expenses related to providing services to boarders and, if you can, detail about whether the expenses relate solely to boarding services or whether they are household expenses that cover both household and boarders

Worksheet for calculating standard-costs for private boarding services:

<https://www.ird.govt.nz/-/media/project/ir/home/documents/forms-and-guides/ir1200---ir1299/ir1255/ir1255-aug-2022.pdf>

### Document Updates

This section records updates to documents so that schools are aware of what has changed.

December 2022

Updated rates and taxation figures for the 2021/22 tax year