MIXED USE ASSETS

DEFINITIONS

Mixed Use Asset

1. An asset used to earn income and also used privately.
2. There are more than 62 days per annum when the asset is unused
3. Includes ships, boats, other watercraft or aircraft which cost more than $50,000 or any asset which is land (including improvements to land).

Private Use

1. Use of the asset by a natural person who is either the person who owns, leases, licenses, or otherwise has the asset.
2. Use of the asset by a natural person who is associated with the person who owns, or otherwise has the asset eg brother, uncle, child, grandchild, etc
3. Use of the asset by a person who is not associated with the owner but who pays less than 80% of the market value for the use of the asset.

Private Use Exemptions

1. The owner uses the asset to earn income in the ordinary course of their business.
2. The owner uses the asset whilst undertaking repairs caused by someone who rented the asset.
3. The owner uses the asset to relocate it at the beginning or end of a hire period and that the cost of the relocation has been considered when calculating the income derived for that hire period.

APPORTIONING EXPENSES

Old Rules Versus New Rules - Comparison

Rental income	$6,160 pa
Mortgage interest	$16,200 pa
Property cost/rateable value	$350,000
Private use days	40 days pa
Number of days rented	44 days pa

	Old Rules	**New Rules**
Rental income	$6,160	$6,160
Interest deduction*	$14,424	$8,486
Net taxable income/(loss)	$(8,264)	$(2,326)

*Calculation for interest deduction

Old Rules		
Private use disallowed	Private days/total days per year x mortgage interest	40/365 x $16,200
Interest deduction	allowed Non private days/total days per year x mortgage interest	325/365 x $16,200
New Rules		
Interest deduction allowed	Rented days/total rented days plus private days x mortgage interest	44/84 x $16,200

RESTRICTION OF USE OF LOSSES

Under the old rules, taxable losses from mixed use assets are available for offset against any other income earned during the year eg salary.

Under the new rules, taxable losses may only be offset against other income if the rental income received from the mixed use asset during the year is greater than 2% of the value of the asset. Losses which cannot be offset in the year incurred may be carried forward for offset against future profits from the use of the same asset.

For land purposes, the value is the local rateable value of the property or the cost of the property if purchased after the date of the latest rateable value. Using the above example, the loss from the mixed use asset $2,326 would not be available for offset against income in the year as the rental income $6,160 is less than 2% of the rateable value $7,000 ie 2% of $350,000. Note: rental income received which is less than 80% of market value does not count towards the 2% test.

OPTION TO OPT OUT

Some owners of mixed use assets may be entitled to treat the asset as being outside the tax system. This option is not available if the mixed use asset is owned by a company. Opting has 2 consequences;

1. Income from the asset is not subject to tax
2. No deductions can be claimed for expenditure relating to the asset

To be eligible to opt out the gross income from the mixed use asset (excluding any income which is less than 80% of market value) should be less than $4,000 per annum.

The decision to opt out must be made in each year and you are still required to retain sufficient records to provide evidence that you are entitled to opt out.