

Overview

Some assets, such as holiday homes, aircraft and boats are often used to earn income for their owners and are also used privately. These are commonly referred to as mixed-use assets.

Currently, the tax rules allow deductions for expenditure incurred in earning taxable income and disallow deductions for expenditure that relates to the private use of an asset. However, these rules can be difficult to apply to expenditure that does not clearly relate to either the income-earning or private use of an asset. Examples include expenditure that arises while a holiday home, boat or aircraft is unused, and expenditure on general repairs and maintenance.

The general presumption is that owners will claim that their asset is available for income-earning use while the asset is not being used privately. This provides them with a basis for claiming tax deductions for expenses relating to this period. However, if the asset is primarily used privately, or the income-earning and private use is relatively equal, the level of deductions owners can claim is often not aligned with the actual income-earning use of the asset.

The bill proposes new rules that prescribe the amount of deductions that owners of certain assets can claim. Generally, the rules will apply to assets used to earn income, are used privately and are unused for more than 62 days in an income year. The rules apportion general expenditure on the basis of actual income-earning use divided by the total actual use of the asset. The resultant expenditure will be an allowable deduction.

The proposed new rules are designed to improve fairness in the tax system by ensuring that tax deductions are broadly aligned with the income that is earned. They are also intended to increase economic efficiency by reducing the extent to which investment in such assets is driven by tax considerations.

The proposed new rules have been developed in response to submissions received in response to the officials' issues paper, [*Mixed-use assets*](#), released in August 2011 and subsequent consultation with interested parties.