Rental Accommodation — Quick Reference Guide

This quick reference guide is for individuals or trusts or companies that own and rent out accommodation, and their Tax responsibilities to Revenue Management Division (RMD).
In this guide we explain:

- *What income to include in your Income Tax return*
- *The expenses you can deduct from your gross income for tax purposes*
- *The records you need to keep*

Taxable Rental Accommodation income.

Income that you receive from renting out residential and/or holiday accommodation is liable for income tax, and you must declare it in your Income Tax return.
Rental Accommodation income is income that is generated from renting or leasing out Land and/or Buildings for accommodation whether or not on a long term or a short term basis.

Expenses you can deduct from your rent-al income.

When you own Rental Accommodation, you're may have maintenance and administrative expenses. You can claim these expenses as a tax deduction against income you receive from your Rent-al Accommodation.

If at any time the Rental Accommodation is being used privately, you will need to make an adjustment to record the private use of the Rental Accommodation.
Example: January – June Rental Accommodation. July – December Private dwelling.

If at any time Accommodation is being partially used as Rental Accommodation then you would need to apportion any expense to reflect this.
Example: 1 of 4 Bedrooms being rented.

RMD staff can help you with calculating the required adjustment for private use of a Rental Accommodation.

You can only claim expenses that you incur against your rental income and only for the periods or portions that the property is rented, these expenses may include:

- Interest expenses from the mortgage on your Rental Accommodation.
- Repairs and maintenance work on your Rental Accommodation.
- Accounting fees if an accountant or tax agent prepares your income tax returns and financial accounts.
- Insurance of the Rental Accommodation
- Depreciation expenses on your rental property and any assets provided with the Rental Accommodation

Record keeping.

You must keep records of all income and expenses for your rental accommodation and for RMD audit purposes.

Good records help you make sound business decisions, monitor your business health, analyze your cash flow and demonstrate your financial position to lenders, businesses, accountants and prospective buyers.

These include:

- a record of all receipts and payments
- bank statements, cheque butts and deposit books
- invoices and receipts
- working documents for all calculations, including a vehicle logbook
- A list of assets and receipts with cost price and purchase date (Re: Depreciation Schedule).
- of the rental agreement and rent book
- Of any mortgage loan agreement.

It's a good idea to use a separate bank account for your Rental Accommodation activity, to record your income and expenses.

It is important that you keep accurate records of the purchases and sales of your Rental Accommodation assets, a RMD, Audit officer may check your depreciation deductions.

You can choose to look after your record keeping or engage a bookkeeper or registered agent to do all or part of this work.

If proper records are not kept, RMD may impose penalties.

Note *: Under the Income Tax Act 1997, Your Rental Accommodation records must be kept for five years* after the transaction was completed. Even if you stop renting out the property. These records must be kept in English or Maori. You don't need to send your records or working papers with your tax return, but you must keep them for RMD Audit purposes.*

**Income Tax Act 1997. Section 217: Keeping Business records. Sub Section 1-4.*

Rental Accommodation — Quick Reference Guide Cont...

Calculating your net rental income of your Rental Accommodation.

Once you've worked out your Rental Accommodation Income and Expenses, you will be able to determine what your Net profit or Net loss is for the year.
Your Net profit/loss is declared at Box 13 of your Income Tax Return.

Example Calculator

Income	Less Expenses	= Net Profit/Loss
$50,000.00	$30,000.00	= $20,000.00 Net Profit
$30,000.00	$50,000.00	= -$20,000.00 Net Loss

Paying income tax.

If your net income is a profit, you add this to any other income you have earned.
If your net income is a loss you deduct this from any other income you've earned.

You then work out the tax on your total taxable income. If you have any tax credits (such as PAYE or WHT on interest or dividends) these are deducted from the tax on your total taxable income. After deducting any tax credits you'll have a balance to pay or to be refunded.

Example Calculator

Taxable Income	Less Tax Credits	Tax Payable/Refund
$10,000.00	$20,000.00	$-10,000.00 (Refund)
$20,000.00	$10,000.00	$10,000.00 (To Pay)

Cook Islands Tax Year.

The Cook Islands tax year is 1 January - 31 December. If you have any tax to pay for the tax year, this is due to be paid to RMD by 1 October of the following year. Payments received after 1 November are subject to additional tax.
Example: Income received in Tax year 2018. Declared 1 March 2019. Tax Payable (if applicable) due 1 October 2019. Subject to additional tax as of 1 November 2019.

Provisional Tax.

If you have to pay income tax of more than $5,000 at the end of any tax year, you will have provisional tax obligations for the following tax year.

Provisional tax is not a separate tax, but a way of paying tax on your income as you receive it through the year. You will be obligated to pay two instalments of provisional tax. This based on what you expect your tax at the end of the year to be.

If your balance date is 31 December then your instalment dates are 1 June and 1 December each year you are obligated to pay Provisional Tax.

If for any reason your Tax year is outside the Cook Islands Standard tax year, you will need to confirm your Provisional Tax obligations with RMD or your Tax Agent/Accountant.

Value Added Tax (VAT) Obligations.

The following are key points for your VAT obligations as set out in the Value Added Tax (VAT) Act 1997 in addition to any Income Tax obligations as set out in the Income Tax Act 1997.

- If you earn over $20,000 in gross rental income you can voluntary register for VAT.*
- When you earn over $40,000 in gross rental income you are **required** to register for VAT.**
- When you register for VAT your rental income will include VAT of 15%*** and you will need to file monthly VAT returns on the 20th of the following month.
- You can claim expenses that have had VAT imposed in your monthly VAT returns.
- When you are registered for VAT you must prepare your income tax returns VAT exclusive.

You must keep a copy of your VAT Records along with the records you used to prepare it, until the latest of:

- retain in the Cook Islands all such records for a period of a least 5 years after the end of the monthly return period to which they relate.****

All records should be in writing and in English and New Zealand currency. Information stored electronically must be in a form that is readily accessible.*****

*VAT Act 1997. Section 12: Registration of persons making taxable supplies. Subsection 4; 4(c).
**VAT Act 1997. Section 12: Registration of persons making taxable supplies. Subsection 1; 2; 3.
***VAT Act 1997. Section 11: Rates of Tax. Subsection 1.
****VAT Act 1997. Section 42. Keeping Records. Sub Section 1-6.
*****VAT Act 1997 Section 42. Keeping Records. Subsection 3.

Value Added Tax Act 1997 & Income Tax Act 1997 can be found at: http://www.mfem.gov.ck/tax/legislation

Log online for more

Go to **tax.cookislands.gov.ck** to register. You will be emailed in return with a temporary password, which can be changed to your preferred password when you log in. For assistance contact Revenue Management on 29365.