

Renting your holiday home



With summer just around the corner and beach holiday homes back on the agenda, perhaps it is time to revisit a few tax matters about their use. And the big issue is how you claim expenses if your holiday home is only rented for part of the year.

The ATO takes the view that you can claim expenses for the property based on the extent that they are incurred for the purpose of producing rental income, but you'll need to apportion your expenses if your property is available for rent for only part of the year.

Moreover, it has to be genuinely available for rent! The ATO says that factors that may indicate a property isn't genuinely available for rent include:

- » It's advertised in ways that limit its exposure to potential tenants; eg, the property is only advertised at your workplace or on restricted social media groups.
- » The location, condition of the property, or accessibility of the property mean that it's unlikely tenants will seek to rent it.
- » You place unreasonable or stringent conditions on renting out the property that restrict the likelihood of securing renters; eg, setting the rent above the rate of comparable properties in the area, requiring prospective users to give references for short holiday stays and conditions like "no children" and "no pets".
- » You refuse to rent out the property to interested people without adequate reasons.

The ATO also requires you to apportion your expenses if you charge less than market rent to family or friends to use the property. And in this case, the general rule is that you can only claim expenses up to the amount of rent derived – so that you have a tax-neutral outcome.

Importantly, the ATO also says that it may not be appropriate to apportion all expenses on the same basis. For example, expenses that relate solely to the renting of your property are fully deductible and you don't need to apportion them based on the time the property was rented out. Such expenses include real estate commissions and the costs of advertising for tenants.

And again, you can't claim a deduction for expenses that relate to periods when the property is not genuinely available for rent or periods when the property is used for a private purpose or for the part of the property that isn't rented out – eg, the cost of cleaning your holiday home after you, your family or friends have used the property for a holiday, or a repair for damage.

Oh, and finally just a word on selling the property.

If you have never lived in it as your home, then you will be subject to CGT if you sell it (unless you bought it before 20 September 1985). And this will be the case regardless of whether you only used it as a holiday home or you partly rented it as well.

Importantly, in calculating the capital gain you can include in its cost all the non-deductible costs of owning or holding the property such as mortgage interest, insurance, repairs, council rates, etc, – and even the cost of having the lawns regularly mown. However, you will need to have kept appropriate records of these expenses if you wish to use them.

And of course, you are entitled to the 50% CGT discount to reduce the amount of any assessable gain.

These then are some of the important factors you need to keep in mind about tax and holidays homes. But there are a lot more things that you need to know. So, come have a chat to us if you want some help. 💰

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