



“The Bottom Line”

**SIMMONDS LE-FEVRE**

Tax & Super Information that's Important to You

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### About this newsletter

Welcome to your tax and super update from Simmonds Le-Fevre. This newsletter is aimed at keeping you on top of the issues you need to know about and changes as they happen. If you have any queries don't hesitate to contact us.

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# Change to the tax treatment of holiday homes

No doubt noting the growing trend for people to rent out property for short-term accommodation, the ATO has withdrawn a 40-year old ruling and replaced it with a new draft Taxation Ruling accompanied by two draft Practical Compliance Guidelines that between them cover everything relating to renting out all or part of your property without carrying on a business, including income and deductions in a variety of circumstances.

**T**his article focuses on holiday homes, which have always been a bit of a grey area from a tax perspective. The new guidance material tightens up the rules around the deductibility of ownership costs (mortgage interest, rates, insurance, maintenance and repairs), although not by as much as it might seem at first glance.

The ATO has always maintained that net rental losses from a holiday home are only deductible if the property is genuinely available for rent on commercial terms, particularly around peak seasonal times. Blocking out large slabs of time over Christmas and the school holidays for the owner's personal use of their beach

*continued overleaf* ➡

## Change to the tax treatment of holiday homes... cont

house or for use by family and friends for free or at below market rates while asking for unrealistically high rents or imposing onerous conditions on would-be renters would not be regarded as making the property genuinely available for rent.

Under the withdrawn guidelines, this issue was addressed by only allowing deductions for holding costs on a time basis – eg, if the holiday home was let to unrelated parties on commercial terms for, say, 18 days in an income year, the owner would have to include all of the rent received as assessable income but could only claim 4.9% of the outgoings, including holding costs. There was no deduction for holding costs attributable to the time spent at the property by the owner, nor for the period when the property was vacant.

The new guidance material uses a different approach. After many years it has occurred to someone in the ATO that a holiday home is a “leisure facility”, and under the law the cost of acquiring or holding a leisure facility is non-deductible. So even the 4.9% that was deductible under the withdrawn guidelines will no longer be deductible. Perhaps not much of a change in the scheme of things, but in the wrong direction for holiday home owners.

But there is an exception to the blanket disallowance of holding costs for leisure facilities, and this is where they are “mainly” used to produce rental income. This opens up the same can of worms that the withdrawn guidelines had to grapple with, but the guidance material does provide some practical examples about the meaning of “mainly” in this context.

A time analysis is a useful starting point, but it is not in itself determinative. Other less tangible factors include the pattern of use of the holiday home and

the times it is set aside for the owner’s personal use. The mere fact of advertising the holiday home for rent is helpful, provided the rent being sought is commercial and the home is genuinely available to rent at peak times.


Much useful guidance is provided on apportionment where the rental pattern establishes the main use of the holiday home is to produce rental income. One of the examples given makes it clear that the numerator in the apportionment formula is the sum of the number of days the property is actually let plus the number of days it was vacant but genuinely available for rent. That makes it worthwhile clearing the “mainly” requirement if you can.

Because the leisure facility approach is new, the ATO has stated that it will not devote compliance resources to applying the new stricter view to properties owned before 12 November 2025 for the income years ending 30 June 2026 or earlier.

Holiday home owners should keep careful records of their holiday home, including:

- » Detailed logs of rental and private use
- » Evidence of market-based pricing and booking acceptances and rejections
- » Evidence of not blocking peak periods for personal use

As your trusted advisors, it’s our job to alert you to tax changes that might affect you. But we also realise there are intangible benefits and priceless memories that can come from the enjoyment of a well located holiday home, whether it’s on the beach or near the snowline. Enjoy what you have and perhaps don’t base all your decision making around a 4 or 5 per cent tax deduction.

 **In the meantime, we’re here to help clarify any questions you might have about the tax treatment of short-term rentals generally, including holiday homes. 💰**

This information has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs.