Holiday homes

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Holiday homes

If you own a holiday home, you can only claim tax deductions for expenses to the extent the home is rented out or genuinely available for rent. Even if you don't rent it out, there are capital gains tax implications when you sell it.

Holiday homes – not rented out

If you own a holiday home and do not rent out the property, you do not include anything in your tax return until you sell it.

You will have to keep records from the time you purchase the property until the time you sell it to be able to work out the capital gain or loss when you sell.

See also:

- Your home and other real estate

Holiday homes – rented out

The principles that apply to a rental property also apply to a holiday home if it is rented out.

If you rent out your holiday home, you can claim expenses for the property based on the proportion of the income year it was rented out or was genuinely available for rent.

You have to apportion your expenses between periods of:

- genuine rental
- use for private purposes – such as when you use it yourself, or allow your family, relatives or friends to use it free of charge
- use by family or friends when you charge less than market rent.

See also:

- Rent out part or all of your home
- The sharing economy and tax

Holiday homes that are not genuinely available for rent

Expenses are only deductible if your holiday home is genuinely available for rent.

Factors that may indicate a property is not genuinely available for rent include:

- it is advertised in ways that limit its exposure to potential tenants – for example, the property is only advertised
    - at your workplace
    - by word of mouth
    - on restricted social media groups
    - outside annual holiday periods when the likelihood of it being rented out is very low
- the location, condition of the property, or accessibility to the property, mean that it is unlikely tenants will seek to rent it
- you place unreasonable or stringent conditions on renting out the property that restrict the likelihood of the property being rented out – such as
    - setting the rent above the rate of comparable properties in the area
    - placing a combination of restrictions on renting out the property – such as requiring prospective tenants to provide references for short holiday stays and having conditions like "no children" and "no pets".
    - setting the minimum night stay to five but booking Friday-Sunday for personal use
- you refuse to rent out the property to interested people without adequate reasons.

These factors generally indicate the owner does not have a genuine intention to make income from the property and may be reserving it for private use.

See also:

- Expenses you can claim

Claiming deductions

If you rent out your holiday home and also use it for private purposes, your expenses are apportioned on a time basis. You cannot claim deductions for the proportion of expenses that relate to the private use.

Private purposes include use by you, your family, your relatives and your friends free of charge.

If your holiday home is rented out to family, relatives or friends below market rates, your deductions for that period are limited to the amount of rent received.

Example 1 – Private use by owner

Gail and Craig have a holiday home which they purchased in 2016 and is rented at market rate. They have a real estate agent advertise it for rent during the year and communicate regularly to ensure the property is being managed.

Gail and Craig use the property themselves for four weeks during the year.

During the year, Gail and Craig's expenses for the property are $34,802. This includes interest on the funds borrowed to purchase the holiday home, property insurance, the agent's commission, maintenance costs, council rates, the decline in value of depreciating assets and capital works deductions.

Gail and Craig receive $25,650 from renting out the property during the year.

No deductions can be claimed for the four weeks Gail and Craig use the property themselves.

Gail and Craig can claim deductions for their expenses based on the proportion of the income year the property was rented out or was genuinely available for rent.

Income tax return

Gail and Craig's rental income and deductions for the year are as follows:

Rent received		$25,650
Rental deductions	(48/52 × $34,800)	$32,123
Rental loss		($6,473)

As they are joint owners, Gail and Craig claim a rental loss of $3,237 each in their tax returns.

Gail and Craig need to keep records of their expenses. If they make a capital gain when they sell the property, the proportion of expenses (interest, insurance, maintenance costs and council rates) they could not claim a rental deduction that relates to their own occupation of the property are taken into account in working out their capital gain.

Example 2 – Private use by owner and rented to relatives/friends at a discounted rate

Kelly and Dean have a holiday home which they purchased in 2016. During

holiday periods, the market rent is $840 per week. They have a real estate agent advertise it for rent during the year and communicate regularly to ensure the property is being managed.

Kelly and Dean arrange with the agent for their friend Kimarny to stay at the property for three weeks at a nominal rent of $200 per week. They also use the property themselves for four weeks during the year.

During the year, Kelly and Dean's expenses for the property are $30,000. This includes interest on the funds borrowed to purchase the holiday home, property insurance, the agent's commission, maintenance costs, council rates the decline in value of depreciating assets and capital works deductions.

Kelly and Dean receive $25,000 from renting out the property during the year. This includes the $600 they received from Kimarny.

No deductions can be claimed for the four weeks Kelly and Dean used the property themselves.

Kelly and Dean can claim deductions for their expenses based on the proportion of the income year it was rented out or was genuinely available for rent at the market rate: 45/52 weeks × $30,000 = $25,962.

If Kimarny had rented the property for the market rate, Kelly and Dean would have been able to claim deductions for the three week period of $1731 (3/52 × $30,000 = $1731).

However, because the rent Kelly and Dean received from Kimarny was less than market rate and their expenses were more than the rent received during that period, they cannot claim all of the expenses. Kelly and Dean can only claim deductions equal to the amount of the rent during this period - that is, $600.

Income tax return

Kelly and Dean's rental income and deductions for the year are as follows:

Rent received		$25,000
Rental deductions	($25,962 + $600)	$26,562
Rental loss		($1,562)

As they are joint owners, Kelly and Dean claim a rental loss of $781 each in their tax returns.

Kelly and Dean need to keep records of their expenses. If they make a capital gain when they sell the property, the proportion of expenses (interest, insurance, maintenance costs and council rates) they could not

claim as a rental deduction because it relates to their own occupation of the property, are taken into account in working out their capital gain.

Example 3 – Rented to relatives/friends at a discounted rate where expenses are less than the rent received for the period

Shahani and Marvin have a holiday home which they bought in 2016 and can be rented at a market rate of up to $1,040 per week. They have a real estate agent advertise it for rent during the year and communicate regularly to ensure the property is being managed.

Shahani and Marvin arrange with the agent for their friends, Katrina and Greg, to stay at the property for one week at a nominal rent of $600, and for a cousin, Gerard, to stay for another week for $600. They also use the property themselves for four weeks during the year.

During the year, Shahani and Marvin's expenses for the property are $30,940. This includes interest on the funds borrowed to purchase the holiday home, property insurance, the agent's commission, maintenance costs, council rates decline in value of depreciating assets and capital works deductions.

Shahani and Marvin receive $46,960 from renting out the property during the year. This includes the $1,200 they received from Katrina, Greg and Gerard.

No deductions can be claimed for the four weeks Shahani and Marvin used the property themselves.

Shahani and Marvin can claim a deduction for their expenses based on the proportion of the income year the property was rented out or was genuinely available for rent at market rates: 46/52 weeks × $30,940 = $27,370.

Shahani and Marvin's deductions for the two weeks Katrina, Greg and Gerard rented their property are not affected because the rent received ($1,200) was more than their expenses for that period - $1,190 (2/52 × $30,940).

Income tax return

Shahani and Marvin's rental income and deductions for the year are as follows:

Rent received		$46,960
Rental deductions	($27,370 + $1,190)	$28,560
Net rental income		$18,400

As they are joint owners, Shahani and Marvin declare net rental income of

$9,200 each in their tax returns.

Shahani and Marvin need to keep records of their expenses. If they make a capital gain when they sell the property, the proportion of expenses (interest, insurance, maintenance costs and council rates) they could not claim a rental deduction that relates to their own occupation of the property, are taken into account in working out their capital gain.

Example 4 – Rented out for part of the year at market rates

Akshay and Jesminda have a holiday home. They rent it out between 20 December and 17 January because they can make a significant amount of money, which helps offset the costs of owning the property for the year. They reserve the property for their own use for the rest of the year.

Akshay and Jesminda's expenses for the holiday home for the year are $31,200. This includes interest on the funds borrowed to purchase the property, property insurance, the agent's commission, repair costs, maintenance costs and council rates.

Akshay and Jesminda receive $3,000 per week from renting the property out during the four weeks over the Christmas-New Year period.

Overall the property expenses are more than the rent they receive. However, because Akshay and Jesminda can only claim deductions for the proportion of the year they rent out the property (four weeks), they declare net rental income in their tax returns:

Rent received		$12,000
Rental deductions	(4/52 weeks × $31,200)	$2,400
Net rental income		$9,600

As they are joint owners, Akshay and Jesminda declare net rental income of $4,800 each in their tax returns.

Akshay and Jesminda need to keep records of their expenses. If they make a capital gain when they sell the property, the proportion of expenses (interest, insurance, repair costs, maintenance costs and council rates) they could not claim a rental deduction that relates to their own occupation of the property, are taken into account in working out their capital gain.

Holiday home not genuinely available for rent

Example 5 – Property advertised for rent but rate is excessive

Viraji owns a holiday home and has a real estate agent who advertises the property for rent.

The market rent of comparable properties in the same location as Viraji's holiday home is $1,000 per week. Viraji arranges for her property to be advertised at $1,500 per week or $300 per night.

Viraji's property is not genuinely available for rent. Her intention is to reserve it for her own use. At no time during the year does anyone rent out the property.

Viraji cannot claim any deductions for the property because it was not genuinely available for rent.

Viraji needs to keep records of her expenses. If she makes a capital gain when she sells the property, her property expenses (such as property insurance, interest on the funds borrowed to purchase the property, repair costs, maintenance costs and council rates) are taken into account in working out her capital gain.

Example 6 – Unreasonable rental conditions placed on property

Josh and Maria are retired and own a holiday home where they stay periodically. They have a real estate agent advertise the property for short-term holiday rental.

Josh and Maria have instructed the agent that they must personally approve tenants before they are permitted to stay and prospective tenants must provide references and have no children or pets.

At no time during the year do Josh and Maria agree to rent out the property even though they receive a number of inquiries.

The conditions placed on the renting of the property and Josh and Maria's refusal to rent it to prospective tenants indicate their intention is not to make income from the property, but to reserve it for their own use. Josh and Maria cannot claim any deductions for the property.

Josh and Maria need to keep records of their expenses. If they make a capital gain when they sell the property, their property expenses (such as property insurance, interest on the funds borrowed to purchase the property, repair costs, maintenance costs and council rates) are taken into account in working out their capital gain.

Example 7 – Private use by owners during key periods with little or no demand for property at other times

Daniel and Kate have two school-aged children and own a holiday house near the beach. The house is located in an area that is popular with summer holiday-makers but is only accessible by four-wheel drive vehicle.

During the year Daniel and Kate advertise the property for rent through a local real estate agent. However, Daniel and Kate advise the agent that during each school holiday period the property is not to be rented out. They want to reserve the property for their own use.

While there would be demand for the property during the summer holiday period, there is no demand outside this period because of the small number of holiday-makers and the location and limited access to the property.

The house is not rented out at all during the income year.

In Daniel and Kate's circumstances, they cannot claim any deductions for the property. They did not have a genuine intention to make income from the property. It was essentially for private use.

If in the circumstances Daniel and Kate happened to rent out the property for a period, they can claim a deduction for a proportion of their expenses based on the period the property was actually rented out. For example, if the house was rented out for two weeks, they could claim a deduction for 2/52 of their expenses.

Daniel and Kate need to keep records of their expenses. If they make a capital gain when they sell the property, the proportion of expenses (interest, insurance, maintenance costs and council rates) they could not claim as a rental deduction because it relates to their own occupation of the property, are taken into account in working out their capital gain.

Travel to inspect or repair a holiday home you rent out

From 1 July 2017 you can no longer claim travel costs that relate to you collecting rent, inspecting, maintaining and making repairs to the property.

See also:

- Rental properties – claiming travel expenses

Denial of decline in value deductions

Decline in value deductions are denied for:

- purchases of non-new holiday homes after 9 May 2017
- homes turned into rental properties after 30 June 2017 unless you carry on a business of property investing or you are an excluded entity.

In addition, decline in value deductions are denied for new holiday homes purchased after 9 May 2017 where the private use is more than occasional. Examples 2–7 would constitute use that is more than occasional, with the result that decline in value deductions would be denied.

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