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## Holiday homes

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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 \(/general/capital-gains-tax/your-home-and-other-real-estate/\)](/general/capital-gains-tax/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 \(/General/Property/Your-home/Renting-out-part-or-all-of-your-home/\)](/General/Property/Your-home/Renting-out-part-or-all-of-your-home/)

### 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
  - 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".
- 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 \(/General/Property/Residential-rental-properties/Expenses-you-can-claim/\)](#)

## 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 is rented at market rate. They have a real estate agent advertise it for rent during the year.

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 \(/Individuals/Income-and-deductions/In-detail/Rental-property-expenses/?page=3#Deduction\\_for\\_decline\\_in\\_value\\_of\\_depreciating\\_assets\)](#) and [capital works deductions \(/Individuals/Income-and-deductions/In-detail/Rental-property-expenses/?page=4#Capital\\_works\\_deductions\)](#).

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 x \$34,800)	\$32,124
Rental loss		(\$6,474)

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. During holiday periods, the market rent is \$840 per week. They have a real estate agent advertise it for rent during the year.

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 \$20,800. 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 \(/Individuals/Income-and-deductions/In-detail/Rental-property-expenses/?page=3#Deduction\\_for\\_decline\\_in\\_value\\_of\\_depreciating\\_assets\)](#) and [capital works deductions \(/Individuals/Income-and-deductions/In-detail/Rental-property-expenses/?page=4#Capital\\_works\\_deductions\)](#).

Kelly and Dean receive \$10,000 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:  $45/52 \text{ weeks} \times \$20,800 = \$18,000$ .

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 \$1200 ( $3/52 \times \$20,800 = \$1,200$ ).

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		\$10,000
Rental deductions	(\$18,000 + \$600)	\$18,600
Rental loss		(\$8,600)

As they are joint owners, Kelly and Dean claim a rental loss of \$4,300 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 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.

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 \$400, and for a cousin, Gerard, to stay for another week for \$400. They also use the property themselves for four weeks during the year.

During the year, Shahani and Marvin's expenses for the property are \$13,800. 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 \(/Individuals/Income-and-deductions/In-detail/Rental-property-expenses/?page=3#Deduction\\_for\\_decline\\_in\\_value\\_of\\_depreciating\\_assets\)](#) and [capital works deductions \(/Individuals/Income-and-deductions/In-detail/Rental-property-expenses/?page=4#Capital\\_works\\_deductions\)](#).

Shahani and Marvin receive \$17,440 from renting out the property during the year. This includes the \$800 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:  $46/52 \text{ weeks} \times \$13,800 = \$12,207$ .

Shahani and Marvin's deductions for the two weeks Katrina, Greg and Gerard rented their property are not affected because the rent received (\$800) was more than their expenses for that period -  $\$531 (2/52 \times \$13,800)$ .

### Income tax return

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

Rent received		\$17,440
Rental deductions	(\$12,207 + \$531)	\$12,738
Net rental income		\$4,702

As they are joint owners, Shahani and Marvin declare net rental income of \$2,351 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 X \$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

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### **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

If you rent out your holiday home, you can claim reasonable costs that relate to you inspecting, maintaining and making repairs to the property.

If you are primarily visiting the property to have a holiday and subsequently undertake repairs and maintenance during this period, you can only claim repair and maintenance costs based on the proportion of the income year the property was rented out or was genuinely available for rent. You cannot claim travel costs to and from the property.

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### Example 8 – Deductions for travel expenses to inspect or repair property

Ruth and Bruce own a holiday home. They advertise it for rent through a local real estate agent at rates comparable to other properties in the area.

Ruth and Bruce reserve the holiday home for their own use for four separate one-week periods each year which are outside school holidays. When they visit, they also undertake repairs and maintenance at the property.

Once during the year, Ruth and Bruce had to visit the property to undertake urgent repairs on a broken fence on the eve of a family arriving to rent it out. They stayed overnight at the property because it was impractical for them to travel home after the repairs had been completed.

Ruth and Bruce received \$12,000 in rent and their total expenses for the property for the year were \$26,000.

Their expenses included costs relating to the work they undertook themselves:

- maintenance – mower fuel, council tip fees, trailer hire fees to remove pruning and rubbish
- repairs – the cost of materials to fix the broken fence
- travel to and from the holiday home for the trip they made to fix the broken fence.

Their expenses also included interest on the funds borrowed to purchase the holiday home, property insurance, the agent's commission, council rates, the [decline in value of depreciating assets](https://www.ato.gov.au/Individuals/Income-and-deductions/In-detail/Rental-property-expenses/?page=3#Deduction_for_decline_in_value_of_depreciating_assets) ([/Individuals/Income-and-deductions/In-detail/Rental-property-expenses/?page=3#Deduction\\_for\\_decline\\_in\\_value\\_of\\_depreciating\\_assets](https://www.ato.gov.au/Individuals/Income-and-deductions/In-detail/Rental-property-expenses/?page=3#Deduction_for_decline_in_value_of_depreciating_assets)) and [capital works deductions](https://www.ato.gov.au/Individuals/Income-and-deductions/In-detail/Rental-property-expenses/?page=4#Capital_works_deductions) ([/Individuals/Income-and-deductions/In-detail/Rental-property-expenses/?page=4#Capital\\_works\\_deductions](https://www.ato.gov.au/Individuals/Income-and-deductions/In-detail/Rental-property-expenses/?page=4#Capital_works_deductions)).

The \$26,000 of expenses does not include the travel costs for Ruth and Bruce to visit their holiday home on their separate one-week trips. The main purpose of those trips was to have a holiday and therefore the costs are a private expense.

Ruth and Bruce include the travel costs for the trip they undertook to carry out the urgent fence repairs, because repairing the property was the sole purpose of that trip. Their overnight stay at the property to repair the fence is not for private purposes, but to facilitate the earning of rental income, and so the proportion of expenses Ruth and Bruce can claim for the property is not affected by this.

Ruth and Bruce can claim a proportion of their expenses based on the period they rented out the property, or it was genuinely available for rent:

Rent received		\$12,000
Rental deductions	(48/52 weeks X \$26,000)	\$24,000
Net rental loss		(\$12,000)

As they are joint owners, Ruth and Bruce claim a rental loss of \$6,000 each in their tax returns.

Ruth and Bruce need to keep records of their expenses. If they make a capital gain when they sell the property, the proportion of expenses (interest, insurance, council rates, repairs and maintenance costs) they could not claim as a rental deduction because it relates to their own occupation of the property, (4/52) are taken into account in working out their capital gain.

### See also:

- [Rental properties – claiming travel expenses \(/General/Property/In-detail/Rental-properties/Rental-properties---claiming-travel-expenses-deductions/\)](#)

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