



No Deduction at all for Holding Costs on Holiday Homes!

There is a new question we will be asking you this year. Just how often do you use your holiday home yourself compared with the rental income it is earning? It is no longer just a question of apportioning expenses between private and income producing times. Unless the holiday home is used mainly to produce income no interest, rates, insurance, body corporate, repairs etc can be claimed. The rent you receive is still income but you only get to deduct direct expenses against it such as agent fees, advertising and cleaning.

The key is the word mainly. It is not just the number of days you also need to consider who uses it during peak times. Whether you block out days or just use standby days when there are no other bookings is taken into consideration. The ATO will also look at how attractive your listing is. Is the rent competitive, do you respond quickly to enquiries, is the property well listed. Cheap rentals to friends will be treated just as if you have used it for private purposes.

The section the ATO use has always been there, they are just interpreting it differently. It is about leisure facilities. The ATO now consider this to include holiday homes. But what is a holiday home? It seems it turns on the way you use the property, not how your paying tenants/guests use it.

From TR 2026/1

30. If your rental property is also your holiday home, certain deductions relating to holding it will be denied because it is a leisure facility (under subsection 26-50(1)) unless an exception applies.

Possibly if you have lived there part of the year or travel there to use it for work accommodation you may not be caught under these provisions. Even though the rest of the year it is a holiday home to your guests.

A point made in paragraph 32:

'Holiday' takes its ordinary meaning as 'a period of cessation from work, or of recreation; a vacation

This point suggests that if you go and stay at your property to work on it, it should not be considered to be your holiday home.

Reference – TR 2026/1

<https://www.ato.gov.au/law/view/document?DocID=TXR/TR20261/NAT/ATO/00001&PiT=99991231235958>

The ATO has also published a practical compliance guideline (auditor's hand book) PCG 2026/3

<https://www.ato.gov.au/law/view/document?DocID=COG/PCG20263/NAT/ATO/00001&PiT=99991231235958>

The guidance takes a much stricter view than the ruling showing just how vulnerable you will be in a one off situation with an auditor. It provides the following examples based on a colour coded sniff test. Green is very good - high level usage of a property to produce rents particularly during peak season. Limited personal and non commercial use (mates rates). Priority given to deriving rent over personal use.

Amber on the other hand will arouse their interest.

Green

Example 1 – limited personal use with high occupancy

26. Eric lives in Victoria and owns an apartment on the Gold Coast, Queensland. The property is near the beach and is managed by property managers as part of the apartment complex rental pool. All rental enquiries are managed and responded to by a dedicated property manager. The property is regularly rented on a short-stay basis and consistently has a high occupancy rate. Eric usually blocks out 4 weeks a year for personal use of the apartment for his annual holiday when rental demand for the property is low.

27. Eric lives interstate but will also occasionally stay at the apartment when visiting the area if the apartment happens not to be already booked out or rented.

28. Because Eric uses the apartment for his holidays and recreation, the apartment is a holiday home. Eric's claim for deductions relating to the Gold Coast apartment would not be denied because it is a holiday home that he uses (or holds for use) mainly to produce income from rent. Eric's use of the property shows clear prioritisation of income-producing activity over personal use. He will be required to apportion deductions under section 8-1 for his incidental personal use of the property.

Example 2 – limited personal use of seasonal property with high occupancy

29. Natalie and Scott own a house in the Barossa Valley. They advertise the property year-round on a sharing economy platform. The property has a high occupancy rate during the usual 4-month peak period, and a low occupancy rate at other times.

30. Each year, while on holiday, Natalie and Scott stay at the property for one week during peak period, otherwise they actively manage the property to maximise rental income.

31. Because Natalie and Scott use the house for their holidays and recreation, the house is a holiday home. Natalie and Scott's claim for deductions for their house would not be denied because it is a holiday home that they use (or hold for use) mainly to produce income from rent. Natalie and Scott's attitude towards the marketing of the property shows an intent to prioritise income derived from the property, and their personal use is incidental to this. If Natalie and Scott do stay at the property, they will be required to apportion deductions under section 8-1 for their personal use of the property.

Example 3 – limited personal use with high occupancy during peak periods

32. Ricky lives in Perth and owns a beach house in Busselton, Western Australia. The beach house is managed by a property manager and is advertised for rent year-round on sharing economy platforms. The beach house is highly desirable during the summer months and is rented at a higher rate during this time. The beach house has a high occupancy rate over the summer months and the school holidays.

33. Ricky usually blocks out one week a year for personal use of the house for his annual holiday when rental demand for the property is low. In addition, throughout the year, including during the summer months, Ricky occasionally uses the property for short stays of 2 or 3 days when it is not already booked or rented. His decision to use the property is generally made around 3 days in advance. If a booking is made within that 3-day period after he has decided to use the property, Ricky accepts the booking, even if it means changing his plans.

34. Because Ricky uses the beach house for his holidays and recreation, it is a holiday home. Ricky's claim for deductions relating to the beach house would not be denied because it is a holiday home that he uses (or holds for use) mainly to produce income from rent. Ricky's use of the property shows clear prioritisation of income-producing use over personal use. He will be required to apportion deductions under section 8-1 for his personal use of the property.

Example 4 – limited personal use with high occupancy during peak periods and short-term rental restrictions

35. Bindi and Ash live in Sydney and own a house in a regional town close to several bushwalking tracks. The local government where the property is located has rules for short-term rental properties which only allow Bindi and Ash to rent out their property for a maximum of 180 days per year. However, where a booking is for 21 or more consecutive days, those days do not count towards the applicable day limits.

36. Tourist demand is highest during the warmer summer months up to the end of the Easter school holidays, allowing the property to be rented at higher market rates. To

maximise occupancy and rental income, Bindi and Ash advertise the property through a local real estate agent specialising in holiday accommodation and list it on several sharing economy platforms. The property has a high occupancy rate during this period.

37. During periods of high rental demand, Bindi and Ash do not block out the property for personal use. However, they stay at the property for one week when it is not already booked or rented.

38. Outside peak periods, when demand for the property is low, Bindi and Ash block out a total of 4 weeks for personal use. At all other times, they actively manage the property to maximise rental income.

39. Once the 180-day limit is reached, Bindi and Ash continue to advertise the property for rent but restrict bookings to stays of 21 or more consecutive days. They vary the rental rate to attract bookings while maximising the rental income received.

40. Because Bindi and Ash use the house for their holidays and recreation, it is a holiday home. Bindi and Ash's claim for deductions relating to the beach house would not be denied because it is a holiday home that they use (or hold for use) mainly to produce income from rent. Their use of the property shows clear prioritisation of income-producing use over personal use. They will be required to apportion deductions under section 8-1 for their personal use of the property.

Then there is the amber zone which “may” be considered by an ATO auditor to be pushing it too far even though the majority of the time the property is earning income.

Amber

Example 5 – personal use during peak period

44. Leonie owns an apartment in Hobart which she markets on a sharing economy platform. When the property is available to guests, it is occupied more often than not.

45. For a few months each year during peak periods, Leonie uses the apartment as a retreat while she is on holiday. Leonie does not respond to enquiries from potential tenants for the periods she wants to use it. Because Leonie uses the apartment for her holidays and recreation, the apartment is a holiday home.

46. Should Leonie want to shift to the green zone, she could reconsider her private usage and make attempts to maximise income from the use of the property by more actively managing the apartment year-round to ensure that it remains used (or held for use) mainly to produce income at all times in the year.

Conclusion:

Pay up your audit insurance and let's put the ATO's interpretation to the test!

Disclaimer, this advice is general in nature, please do not act on it without obtaining professional advice.

'Liability limited by a scheme approved under Professional Standards Legislation.'