Property and land

Find out about deductions, income and tax implications for residential rental properties, holiday homes and vacant land.

Residential rental properties

If you own a residential rental property, find out about keeping records, declaring income and claiming expenses.

Holiday homes

Find out about deductions and tax implications if you own a holiday home.

Vacant land and subdividing

Find out the tax treatment and if you can claim deductions for holding, selling or subdividing vacant land.

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Holiday homes

Find out about deductions and tax implications if you own a holiday home.

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Holiday home – not rented out

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

When you sell the property, you will need to calculate your capital gain or loss.

Keep all 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.

Holiday home – rented out

If your holiday home is rented out, you need to include the rental income you receive as income in your tax return.

You can claim expenses for the property based on the extent that they are incurred for the purpose of producing rental income.

You will need to apportion your expenses if:

- your property is genuinely available for rent for only part of the year
- your property is used for private purposes for part of the year
- only part of your property is used to earn rent
- you charge less than market rent to family or friends to use the property.

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 would not need to apportion them based on the time the property was rented out. Such expenses include:

- real estate commissions
- costs of advertising for tenants
- phone calls you make to a tradesperson to fix damage caused by a tenant
- the cost of removing rubbish left by tenants.

On the other hand, no deduction can be claimed for expenses that relate solely to periods when the property is not genuinely available for rent, used for a private purpose or relates to the part of the property that is not rented out. This would include 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 you have caused while staying there.

For information on how to apportion expenses, see the examples in Holiday home – part year rental.

If you have a rental property that is an apartment in a commercial residential property, see **Holiday apartments in commercial residential properties.**

Holiday home – not genuinely available for rent

Expenses may be deductible for periods when the property is not rented out if the property is genuinely available for rent.

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 – 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 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 renting out the property, such as
  - setting the rent above the rate of comparable properties in the area
  - placing a combination of restrictions on renting out the property – for example, requiring prospective tenants 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.

These factors generally indicate the owner doesn't have a genuine intention to earn rental income from the property and may have other purposes, such as using it or reserving it for private use.

Example: property advertised for rent but rent 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 $2,000 a week. Viraji arranges for her property to be advertised at $4,000 a week or $570 a night.

At no time during the year does anyone rent the property. Viraji does not reduce the rent at any time and uses the property herself for holidays.

Viraji's property is not genuinely available for rent. Her intention is not to earn rental income but to reserve it for her own use. Viraji can't claim any deductions for the property.

Viraji needs to keep records of her expenses. If she makes a capital gain when she sells the property, her property expenses are taken into account to **work out her cost base**. This includes expenses such as:

- property insurance
- interest on the funds borrowed to purchase the property

- repair costs
- maintenance costs
- council rates.

Example: 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 instruct the agent that they must personally approve tenants before they are permitted to stay. 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 isn't to earn rental income from the property, but to reserve it for their own use. Josh and Maria can't 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 are taken into account to work out their capital gain.

Example: private use by owners during key periods with little or no demand for property at other times

Daniel and Kate have 2 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 vehicles.

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 isn't to be rented out. They want to reserve the property for their own use.

While there is demand for the property during the summer holiday period, there is no demand outside this period because of the small number of holiday-makers, the location and the limited access to the property. The house isn't rented out at all during the income year.

In Daniel and Kate’s circumstances, they can't claim any deductions for the property. They don't have a genuine intention to earn rental income from the property. It is essentially for private use.

If in the circumstances Daniel and Kate happen 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 is actually rented out. For example, if the house is rented out for 2 weeks, they can claim a deduction for their expenses for 2 weeks out of the 52 weeks in the year. Daniel and Kate would need to keep records of these expenses.

Holiday home – part year rental

If you rent out your holiday home and also use it for private purposes, you must apportion your expenses. You can't claim deductions for the proportion of expenses that relate to your private use or if it was not genuinely available for rent, such as when used or reserved for yourself, friends or family.

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: investment property made genuinely available for rent, with minor private use

Gail and Craig jointly own a holiday home which they rent out at the market rate to holiday-makers. They have a property manager at a local real estate agent advertise it for rent during the year and communicate regularly to ensure the property is being managed. Gail and Craig consider renting out the property on a long-term lease; however determine they can derive more profit from short-term rental.

The property is available for rent during all holiday periods, including weekends, school holidays, Easter and Christmas. Gail and Craig use the property themselves for 4 weeks during the year, in 'off-peak' periods when they are unlikely to find tenants.

During the year, Gail and Craig’s expenses for the property are $36,629. This includes $1,828 for agent's commission and the costs of advertising for tenants. It also includes interest on the funds borrowed to purchase the holiday home, property insurance, maintenance costs, council rates, the **decline in value of depreciating assets** and **deductions for capital works**.

Gail and Craig receive $25,650 from renting out the property during the year. They can claim the full amount for agent's commission and advertising ($1,828) as a deduction. The other expenses incurred by Gail and Craig ($34,801) can be claimed based on the proportion of the income year the property is rented out or is genuinely available for rent. They **can't** claim any deductions for the 4 weeks they use the property themselves.

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

- rent received = $25,650
- rental expenses ((48 ÷ 52) × $34,801) + $1,828) = $33,952
- rental loss is $25,650 − $33,952 = ($8,302).

As they are joint owners, Gail and Craig claim a rental loss of $4,151 each in their tax returns.

Example: 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. This helps offset the costs of owning the property for the year. They reserve the property for their own use for the rest of the peak holiday period, and a number of other weekends during the year.

Akshay and Jesminda receive $3,000 a week from renting the property out during the 4 weeks over the Christmas-New Year period. The property is not rented out any other time during the year.

Akshay and Jesminda's expenses for the holiday home for the year are $32,300. This includes $1,100 for agent's commission and the cost of advertising for tenants. It also includes interest on the funds borrowed to purchase the property, property insurance, repair costs, maintenance costs and council rates.

Akshay and Jesminda can claim a deduction for the full amount of the agent's commission and advertising ($1,100) but they can only claim the other expenses they incurred for the proportion of the year they rent out the property (4 weeks). They declare net rental income in their tax returns as follows:

- rent received = $12,000
- rental deductions ((4 ÷ 52 weeks) × $31,200) + $1,100 = $3,500
- net rental income $12,000 − $3,500 = $8,500.

As they are joint owners, Akshay and Jesminda declare net rental income of $4,250 each in their tax returns.

Example: not available for rent for part of the year

Bindi and Ash own a holiday home in a regional town located close to several bushwalking tracks. The most popular times for tourists to visit the town is over the warmer summer months up until the end of the Easter school holidays. The local government requires properties that are let on a short-term basis to be registered and limits the number of days they can be let, up to 180 days.

To keep within the 180-day limit, Bindi and Ash don't advertise or let the property on a short-term basis from the end of April to the end of October each year. During this period, they use the property themselves or allow family and friends to use it.

During the period from November to April, Bindi and Ash receive $18,500 from renting their holiday home. They incur expenses of $32,250 in respect of the property over the whole income year. This amount includes agent's commission and advertising costs of $2,535.

The property is not rented or genuinely available for rent during the period from 29 April to 31 October (186 days). Bindi and Ash can't claim a deduction for expenses incurred during this period. They can claim expenses for the period the property is rented or genuinely available for rent (179 days). They can also claim the full amount of the agent's commission and advertising as that relates solely to the period it was rented.

Bindi and Ash calculate their deduction for the property as:

- ((179 days ÷ 365 days) × $29,715) + $2,535 = $17,108

The net rental income from the property is $1,392 ($18,500 – $17,108). Bindi and Ash jointly own the property so they each declare net rental income of $696 in their returns.

Example: rented out for part of the year at market rates

Marie purchases a property in a seaside holiday town so that her family can holiday there over the December to January school holidays and Easter period each year. For the remainder of the year, Marie rents the property out via an accommodation sharing platform so that she can claim some of the costs of holding the property against the rental income.

On the platform, Marie 'blocks out' the school holiday and Easter periods for her family's use. The town's busiest times for tourists are during the school holidays; particularly the December/January period when the weather is warmest.

Marie uses the property personally for 20 days per year over December to January holiday period and a total of another 20 days during school holidays and Easter. Marie rents out the property to other holiday-makers for 25 days per year at times outside school holidays and Easter.

Marie receives $3,000 from renting her property and incurs expenses of $60,000 in relation to the property which includes $450 commission paid to the accommodation sharing platform when the property is rented.

Marie can't claim any deductions for:

- the time she uses the property herself
- the period the property is not in use.

Marie can claim deductions for the period the property is actually rented (25 days). Marie would calculate her deductions as:

- rent received = $3,000
- rental expenses ((25 ÷ 365) × $59,550) + $450 = $4,529
- net rental loss = $3,000 − $4,529 = ($1,529).

Marie can claim a net rental loss of $1,529 in her income tax return.

Example: private use by owner and rented to relatives/friends at a discounted rate

Kelly and Dean jointly own a holiday home. During holiday periods, the market rent is $840 a 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 3 weeks at a nominal rent of $200 a week. They also use the property themselves for 4 weeks during the year.

During the year, Kelly and Dean's expenses for the property are $40,000. 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 **deductions for capital works**.

Kelly and Dean receive $600 from renting out the property to Kimarny during the year. They can't claim any deductions for the

4 weeks they use the property themselves or the period that the property is not rented out.

Kelly and Dean can claim a deduction for their expenses based on the proportion of the income year the property is rented out or is genuinely available for rent at market rates:

- (45 ÷ 52 weeks) × $40,000 = $34,615.

Kelly and Dean can claim deductions for the 3 weeks Kimarny rented the property but they can only claim deductions equal to the amount of rent during that period ($600). This is because the rent they receive from Kimarny is less than market rate and their expenses are more than the rent received during that period ((3 ÷ 52) × $40,000 = $2,308).

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

- rent received = $34,200
- rental expenses = $34,615 + $600 = $35,215
- net rental loss = $34,200 − $35,215 = ($1,015)

As they are joint owners, Kelly and Dean declare net rental loss of $508 each in their tax returns.

Example: rented to relatives/friends at a discounted rate where expenses are less than the rent received for the period

Shahani and Marvin jointly own a holiday home. They advertise it for rent at a market rate of up to $1,040 a 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 4 weeks during the year.

During the year, Shahani and Marvin’s expenses for the property are $29,184. This includes agent commission and advertising of

$1,755. It also includes interest on the funds borrowed to purchase the holiday home, property insurance, maintenance costs, council rates, the **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 receive from Katrina, Greg and Gerard.

Shahani and Marvin can't claim a deduction for the 4 weeks they use the property themselves.

Shahani and Marvin can claim a deduction for their expenses based on the proportion of the income year the property is rented out or is genuinely available for rent at market rates:

- (46 ÷ 52 weeks) × $29,184 + $1,755 = $27,572.

Shahani and Marvin's deductions for the 2 weeks Katrina, Greg and Gerard rented their property are not affected because the rent received ($1,200) is more than their expenses for that period of $1,122 ((2 ÷ 52) × $29,184).

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

- rent received = $46,960
- rental expenses $27,572 + $1,122 = $28,694
- net rental income $46,960 − $28,694 = $18,266.

As they are joint owners, Shahani and Marvin declare net rental income of $9,133 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 expenses (interest, insurance, maintenance costs and council rates) they can't claim as a rental deduction relating to their own occupation of the property are taken into account in working out their capital gain.

For more information about renting out all of part of your house, see **Renting out all or part of your home** and **Sharing economy and tax**.

Holiday apartments in commercial residential properties

An apartment that is part of commercial residential premises is treated like other residential rental properties.

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Holiday apartments in commercial residential properties

An apartment that is part of commercial residential premises is treated like other residential rental properties.

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Holiday apartments and GST

Commercial residential premises are generally subject to GST. However, an individual holiday apartment doesn't have the characteristics of commercial residential premises. If you lease or sell your holiday apartment, you may not have to pay GST.

Leasing

If you lease your apartment to either a guest or a management company (to use as part of commercial residential premises), you make an input taxed supply of residential premises. This means you:

- are not liable for GST on the income
- can't claim GST credits for anything you purchase or import to lease the premises.

As with any rental property, you must declare the income you receive in your income tax return, and you can claim tax deductions for many of the associated expenses.

Example: Leasing out your apartment to a management company

Aiko owns a strata-titled apartment. When she leases her apartment to Mink Management Services (MMS) the supply is input taxed.

MMS will group Aiko's apartment with other apartments in a complex and let them out as serviced apartments.

Even though Aiko's apartment is located within commercial residential premises, her apartment doesn't, by itself, have the characteristics of commercial residential premises – it is residential.

This means Aiko:

- isn't liable for GST on the income
- can't claim GST credits for anything she purchases or imports to lease the premises.

Selling

If you sell your apartment it's considered residential premises and is input taxed, regardless of whether it's located within **commercial residential premises**. This means you:

- are not liable for GST on the income
- can't claim GST credits for anything you purchase or import to make the sale.

If you make a capital gain when you sell your apartment, you may need to pay capital gains tax, just as you would when selling any rental property.

QC 23638

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