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.

QC 103902

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'll 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'll 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 don't 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, you can't claim a deduction for expenses that relate to:

- periods when the property is not genuinely available for rent
- periods when the property is used for a private purpose
- the part of the property that isn't 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: overpriced rental

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 doesn't reduce the rent at any time and uses the property herself for holidays.

Viraji's property isn't 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: rental property with unreasonable conditions

Josh and Maria are retired and own a holiday home where they stay periodically. They hire a real estate agent to advertise the property for short-term holiday rental but insist on personally approving all tenants. They require prospective tenants to provide references and don't allow tenants with children or pets.

Throughout the year, despite receiving several inquiries, Josh and Maria refuse to rent out the property. Their strict conditions and refusal to accept tenants indicate their intention isn't to earn rental income, but to keep the property for their own use. As a result, 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

Daniel and Kate have 2 school-aged children and own a holiday house near the beach. The house is in a popular summer holiday area 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, they advise the agent not to rent it out during school holiday periods, as they want to use it themselves.

While there is demand for the property during summer holidays, there is no demand outside this period because of its location, limited accessibility, and the small number of holiday-makers during off-peak seasons. As a result, 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 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 wasn't 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: holiday home genuinely available for rent with minor private use

Gail and Craig jointly own a holiday home which they rent out at market rates to holiday-makers. They hire a property manager through a local real estate agent to advertise and oversee the property. After considering a long-term lease; they decide short-term rentals are more profitable.

The property is available for rent year-round, including peak periods such as 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're unlikely to find tenants.

During the year, their property expenses 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 **capital works** deductions.

Gail and Craig receive $25,650 from renting out the property during the year. They can claim a deduction for the full amount of $1,828 for agent's commission and advertising costs. The remaining $34,801 must be apportioned for the time 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: part-year rental at market rates

Akshay and Jesminda have a holiday home that they rent out for 4 weeks each year, between 20 December and 17 January. They rent it out during this 4 week period because it earns them $3,000 per week (a total of $12,000), helping to offset the costs of owning the property.

For the rest of the peak holiday period and several weekends during the year, they reserve the house for their personal use. 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 $1,100 for the agent's commission and advertising costs. They must apportion the remaining $31,200 of expenses for the 4 weeks they rent out the property. 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 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 council has rules for short-term rental properties: they must be registered and can only be rented out for up to 180 days per year.

To keep within the 180-day limit, Bindi and Ash stop renting out their property from late April to late October each year. During this time, they either use the property themselves or allow family and friends to use it.

From 1 November to 28 April (179 days), Bindi and Ash receive $18,500 from renting their holiday home. Their expenses for the income year total $32,250. This amount includes agent's commission and advertising costs of $2,535.

The property isn't 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. However, they can claim deductions for:

- expenses during the 179 days the property is rented or genuinely available for rent
- the full $2,535 for agent's commission and advertising as it relates solely to the rental period.

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 tax returns.

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

Marie owns a holiday home in a seaside town. Her family uses the property during the December to January school holidays and Easter break each year. The rest of the year, she rents it out using an accommodation sharing platform to help cover her property expenses.

On the platform, Marie marks school holidays and Easter as 'blocked' for her family's use. These are also the town's busiest times for tourists, especially the December–January summer holidays.

Marie personally uses the property for 20 days in December–January and another 20 days during other school holidays and Easter. She rents it out to other holiday-makers for 25 days during quieter periods outside of school holidays and Easter.

Marie receives $3,000 in rental income for the year. Her expenses total $60,000 which includes $450 in platform commission for the rented days.

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 tax return.

Example: private use by owner and rented to friends at a discount

Kelly and Dean jointly own a holiday home. During holiday periods, the market rent is $840 per week. They hire a real estate agent to advertise and manage the property.

Kelly and Dean arrange with the agent to have the property blocked out for 7 weeks during the income year. They use it for 4 of those weeks and their friend Kimarny stays at the property for the other 3 weeks at a reduced rent of $200 per week.

The total rent Kelly and Dean receive for the income year, including Kimarny's rent, is $34,200.

Kelly and Dean's expenses for the property are $41,499 for the income year. This includes agent commission and advertising of $1,499. The remaining expenses of $40,000 include 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.

Kelly and Dean can't claim any deductions for the 4 weeks they use the property themselves. They 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

They can claim the full $1,499 for agent's commission and advertising.

For the 3 weeks Kimarny rented the property at a reduced rate, they can only claim deductions equal to the rent they received ($600). This is because Kimarny paid less than the market rate and their expenses are more than the rent for the 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 + $1,499 + $600 = $36,714
- net rental loss $34,200 − $36,714 = ($2,514)

As they are joint owners, Kelly and Dean declare net rental loss of $1,257 each in their tax returns.

Example: private use and expenses less than discounted rent received

Shahani and Marvin jointly own a holiday home. They advertise it for rent at market rates of up to $1,040 per week. They hire a real estate agent to advertise and manage the property.

During the year:

- their friends, Katrina and Greg, stay at the property for one week at a reduced rent of $600
- a cousin, Gerard, stays for another week for $600
- Shahani and Marvin also use the property for 4 weeks.

Shahani and Marvin's expenses for the property total $30,939. 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 in rent for 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. They 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 can still claim deductions for the 2 weeks Katrina, Greg and Gerard rented their property. This is because the rent received ($1,200) is more than their expenses of $1,122 for that period ([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 sell the property and make a capital gain, the expenses that relate to their personal use are considered when working out their capital gain. These are the expenses they couldn't claim a deduction for, such as interest, insurance, maintenance costs and council rates because it related to their own occupation of the property.

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 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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