



Practical Compliance Guideline compendium – PCG 2026/2

❶ Relying on this Compendium

This Compendium of comments summarises and provides responses to submissions received during public and targeted consultation on draft Practical Compliance Guideline PCG 2025/D6 *Apportionment of rental property deductions – ATO compliance approach*. It is intended to promote transparency and explain how stakeholder feedback was considered in finalising the document only.

It is not a publication that has been approved to allow you to rely on it for any purpose and is not intended to provide you with advice or guidance, nor does it set out the ATO's general administrative practice. Therefore, this Compendium does not provide protection from primary tax, penalties or interest for any taxpayer that purports to rely on any views expressed in it.

Consultation period: 12 November 2025 to 30 January 2026

We thank all submitters for their time and contributions.

Summary of issues raised and responses

All legislative references in this Compendium are to the *Income Tax Assessment Act 1997*.

Issue 1 – Example 2 is unclear and potentially incorrect

Paragraph or section of draft product

Example 2

Issue raised

The house in Example 2 of the draft Guideline satisfies the definition of 'leisure facility', as it is 'used ... for holiday', or rented out for people to use for holiday. Therefore, it is necessary to consider whether section 26-50 applies. Based on the information provided, the property would not be considered mainly used to produce income.

As the property is a holiday home not mainly used to produce income, it is not within the scope of the Guideline and should be changed to avoid inconsistency with the scope of the Guideline.

ATO response

We have clarified Example 2 of the final Guideline, removing inferences that the property is a leisure facility.

Outcome

Clarified

Issue 2 – Example 3 facts should be updated

Paragraph or section of draft product

Example 3

Issue raised

Example 3 of the final Guideline should make clear the circumstances in which Gail and Craig can stay in the property for 30 days a year, and it not be considered a holiday house. It is difficult to envisage the relevant facts for which their use of the property would not be considered a 'holiday' or 'recreation'. The conclusion that they can deduct their interest expense is inconsistent with the view of the rest of the draft Guideline.

ATO response

Example 3 of the draft Guideline was intended to illustrate time-based apportionment in situations where section 26-50 does not apply.

We have clarified, in Example 3 of the final Guideline, that Gail and Craig do not use the property for their holidays and recreation, so it is not their holiday home.

Outcome

Clarified

Issue 3 – time-based method

Paragraph or section of draft product

Time-based method

Issue raised

The final Guideline should confirm that ‘days used to produce income’ in the time-based method includes days on which the property is not occupied, but the owner derives rental income. This situation may arise where a prospective tenant or holidaymaker has made a non-refundable booking for that day, but they were unable to physically stay at the property.

ATO response

A property is occupied for rent for the days someone pays for the right to occupy the property but does not actually physically occupy it.

We have included, at paragraph 14 of the final Guideline, wording so that the term ‘days used to produce income’ includes the days for which rent is paid even if the property is not physically occupied.

Outcome

Position amended

Issue 4 – clarify how ‘held for use’ applies during vacancy

Paragraph or section of draft product

Not applicable – relevant to document scope

Issue raised

Vacancy is common in short-term rental accommodations due to seasonality, minimum stays, cancellations and regulatory constraints. Vacancy should not imply recreational holding where the property remains genuinely available for rent on reasonable terms. The final Guideline should clarify how ‘held for use’ applies during vacancy.

ATO response

Whether a property is held for use for rent will depend on the factors in paragraphs 16 and 17 of the final Guideline. Vacancy is relevant but not a determinative factor in isolation.

Outcome

No change

Issue 5 – factors indicating property is not available for rent on commercial terms

Paragraph or section of draft product

Paragraph 17

Issue raised

In paragraph 17 of the final Guideline, the factor should be amended to exclude the reference to ‘annual holiday periods’ as there may be one-off events outside holiday periods which would genuinely create high demand for short-term accommodation in the local area.

The ATO should reconsider what is an unreasonable or stringent condition, particularly in relation to a ‘no pets’ condition. Recent amendments to the *Residential Tenancies Act 2010* (NSW) were not made to the New South Wales short-term rental accommodation rules, allowing short-term rental accommodation to continue to have ‘no pets’ clauses. Accordingly, it is difficult to conclude that a ‘no pets’ condition on a short-term accommodation is an unreasonable or stringent condition.

ATO response

In paragraph 17 of the final Guideline, the reference to ‘outside annual holiday periods’ and ‘no pets’ have been removed as factors that are relevant in determining if the property is not available for rent on commercial terms.

Outcome

Position amended

Issue 6 – renting out a room in your home and separate dwellings

Paragraph or section of draft product

Paragraph 15

Issue raised

The final Guideline should clarify that the approach in paragraph 15 (about renting out a room in your home) would not apply to a separate dwelling on the same land (for example, a granny flat) that is available for rent. In this case, ownership expenses should be deductible for the number of days the separate dwelling is available for rent on commercial terms.

ATO response

Whether a separate dwelling on the same land can be considered available for rent on commercial terms is dependent on the particular facts. No change has been made to the Guideline. However, we will consider including an example in content on ato.gov.au.

Outcome

No change

Issue 7 – clarification: the time-based method cannot be used to determine if the exception to section 26-50 applies

Paragraph or section of draft product

Time-based method

Issue raised

The time-based approach can be used to apportion deductions under section 8-1 where the exception in section 26-50 is satisfied, but it is not available to determine where a property is held ‘mainly’ to produce assessable income to qualify for the exception in section 26-50. This distinction should be clearly explained in, or following, paragraph 14 of the final Guideline and in the final Guideline for draft Practical Compliance Guideline PCG 2025/D7 *Application of section 26-50 of the Income Tax Assessment Act 1997 to holiday homes that you also rent out - ATO compliance approach*.

ATO response

Paragraph 6 of the Guideline explains that the Guideline does not apply to deductions that are denied under section 26-50.

Content has been included to clarify that you can only use the time-based method for deductions that are not denied because the property is a holiday home, in paragraph 14 of the final Guideline.

Outcome

Clarified

Issue 8 – decline in value of depreciating assets

Paragraph or section of draft product

Not applicable – relevant to document scope

Issue raised

The final Guideline should include commentary on:

- apportionment of decline in value of depreciating assets on a time basis
- tax treatment of repairs and replacements due to a tenant breaking the asset.

ATO response

A detailed explanation of deductions for the decline in value of depreciating assets and repairs and replacements is beyond the scope of the Guideline.

Outcome

No change

Issue 9 – Example 5 – area of building only or whole property

Paragraph or section of draft product

Example 5

Issue raised

Example 5 of the draft Guideline takes the whole area of the property into account, *including the garden*, while most other apportionment methods only look at the size of the building, not the whole property. In *Ogden and Commissioner of Taxation* [2016] AATA 32, regarding home office claims, the Administrative Appeals Tribunal pointed out that apportionment should include whole property not just the building.

The final Guideline should provide clarification of whether the area of the building only or the area of the whole property should be used.

ATO response

A definition of 'Common areas' has been included to clarify that common areas can include outdoor spaces in paragraph 30 of the final Guideline. Further, we have clarified Example 6 of the final Guideline so that it is clear that the dwelling is a high-rise apartment without any shared outdoor space.

Outcome

Clarified

Issue 10 – inconsistency between content on ato.gov.au and Example 6

Paragraph or section of draft product

Example 6

Issue raised

The 'Renting out part of your home' example in [Renting out part of a home](#) (QC 105372) is exactly the same as the example in Example 6 of the draft Guideline, except that the outcomes and calculations are different.

Example 6 of the draft Guideline does not mention utility rates or body corporate fees while the content on ato.gov.au does.

ATO response

Example 6 of the final Guideline uses the same method of calculation as the example in QC 105372 (where the calculation is broken up into room occupancy and common areas). The 2 examples conclude a different deductible percentage because of the difference in days used to produce income in each example.

Example 6 of the final Guideline does not change our existing view regarding the apportionment of body corporate fees or utility rates.

Outcome

No change

Issue 11 – further guidance on apportionment of running expenses or operating costs

Paragraph or section of draft product

Not applicable – relevant to document scope

Issues raised

Further guidance on apportionment of running expenses where, for example, a property is used privately by the owner or owners and also where part of a taxpayer's home is rented (for example, the taxpayer lets one bedroom of their home with shared access to general living areas) should be included in the final Guideline. Expenses related to short-term rentals, such as, platform fees, cleaning, linen, consumables and utilities should be included.

ATO response

The Guideline is not able to consider all possible factual circumstances.

We will consider adding further guidance to future versions of the ATO Rental Properties Guide.

Outcome

No change

Issue 12 – where deductible expenses do not exceed assessable income – clarify that no further apportionment of deductible expenses is required

Paragraph or section of draft product

Not applicable – relevant to document scope

Issue raised

The ATO has traditionally taken the approach that where the amount of otherwise deductible expenses does not exceed the amount of non-commercial rent received from friends or relatives, no further apportionment of deductible expenses is required. In this case, a deduction would be available in full for the deductible expenses related to the property while it is rented to relatives or friends. The ATO should make this approach clearer as part of the final Guideline.

ATO response

Paragraph 44 and Example 7 of the final Guideline reflect the position that where a property is rented to family members and friends at non-market rates, it is fair and reasonable to limit deductions to the amount of the rental income from the property.

Apportionment may still be required to reflect the areas of the property available to the tenant or the time the tenant rented the property. This has been clarified in footnote 11 at paragraph 44 of the final Guideline.

Outcome

Clarified

Issue 13 – mortgages with multiple purposes and redraw facilities

Paragraph or section of draft product

Paragraph 50

Issue raised

At paragraph 50 of the draft Guideline, the ATO (in the final Guideline) should make a further comment to distinguish an amount withdrawn from a redraw facility from an amount withdrawn from an interest-offset account of the type covered by Taxation Ruling TR 93/6 *Income tax and fringe benefits tax: loan account offset arrangements*.

ATO response

Paragraph 51 of the final Guideline makes a reference to a redraw facility and a footnote has been added to refer to TR 93/6.

Outcome

Clarified

Issue 14 – taxpayers are required to declare all income but are required to apportion or deny deductions

Paragraph or section of draft product

Not applicable – relevant to document scope

Issue raised

The final Guideline should:

- reconsider the balance between income declaration and expense deductibility
- allow taxpayers to claim all genuine expenses incurred in holding and maintaining a rental property, regardless of private use or below-market rent, provided that income is declared
- recognise that ownership costs are unavoidable and directly linked to the ability to produce rental income.

ATO response

This submission raises policy issues which are a matter for government and outside the scope of the Guideline.

Outcome

No change

Issue 15 – provision of further examples and guidance

Paragraph or section of draft product

Not applicable – relevant to document scope

Issue raised

The final Guideline should include more examples to cover specific fact patterns.

ATO response

The Guideline is not able to consider all possible factual circumstances.

Outcome

No change

ATO references

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