



Holiday homes: What the ATO's new guidance means for you

For many Australians, a holiday home does double duty. It's a place to escape with family and friends, and during the rest of the year it's listed on Airbnb or Stayz to help cover the costs.

Until recently, many owners assumed they could claim most of the usual deductions for the property without much trouble, as long as appropriate apportionments were made. However, that position is now under more scrutiny than ever following the release of some new draft guidance documents by the Australian Taxation Office (ATO) - TR 2025/D1, PCG 2025/D6 and PCG 2025/D7.

The ATO is looking to significantly tighten the rules around holiday homes that are used to derive some rental income. While the documents are still in draft form, they clearly signal the ATO's compliance focus going forward.

What is the ATO Concerned About?

In simple terms, the ATO wants to distinguish between properties that are genuinely held to maximise rental income and those that are primarily lifestyle assets with some incidental rental use.

The ATO confirms that all rental income must be declared, even if it is occasional or earned through informal arrangements. However, if the property is really a holiday home and isn't used mainly to produce rental income during the year then the owner can't claim any deductions for expenses such as interest, rates, land tax, repairs and maintenance.

That is, the ATO might not allow any of these expenses to be claimed as a deduction, even if the property is used to generate taxable rental income for some of the year at market rates. If the property is classified as a holiday home by the ATO then owners can only claim deductions for limited direct expenses such as cleaning or advertising.

The ATO is particularly focused on properties that:

- Are blocked out for private use during peak periods (for example, school holidays or ski season),
- Are advertised inconsistently or at above-market rates,
- Generate ongoing tax losses year after year.

How Expenses Must be Claimed

Even if the property isn't classified as a holiday home, it will often still be necessary to apportion expenses if the property is only used partly for income producing purposes. PCG 2025/D6 outlines how expenses should be apportioned. The key principle is that claims must be "fair and reasonable". Common methods include:

- Time-based apportionment (for example, based on days rented or genuinely available for rent), and
- Area-based apportionment (where only part of a property is rented).

Getting this wrong, or failing to keep evidence, increases audit risk. The ATO has access to booking platform data and can easily compare listings, calendars and reported income.

The Financial Impact can be Significant

Consider a holiday unit that earns \$30,000 a year in off-peak rent but is kept for private use during peak holiday periods. Under the new approach, the ATO may conclude the property is really a holiday home and could reduce deductible expenses from tens of thousands of dollars to only a small fraction, resulting in a materially higher tax bill.

Co-ownership also needs care. Income and deductions are generally split according to ownership interests, regardless of who uses the property more. Renting to relatives at discounted rates can further limit deductions.

Practical Steps you Should Take Now

Although the guidance is proposed to apply from 1 July 2026 (with transitional relief for arrangements in place before 12 November 2025), now is the time to review your position:

- Are you holding and using the property to genuinely maximise rental income? Is the property advertised broadly and consistently, including during peak periods?
- Use market pricing: Set rent in line with comparable properties in the same area.
- Keep strong records: Retain booking calendars, advertisements, enquiries, and a diary showing private versus rental use.
- Review ownership and strategy: In some cases, changing how a property is operated can improve its commercial profile and tax outcome, but beware of CGT liabilities, duty and legal fees.
- Document existing arrangements: If you may qualify for transitional relief, evidence is critical.

The Bottom Line

The ATO is not banning deductions for holiday homes, but it is drawing a firmer line between genuine investment properties and lifestyle assets. With the right structure, pricing and record-keeping, many owners can still claim appropriate deductions and improve cash flow.

If you own a holiday property, a proactive review could save you from an unpleasant surprise later.

Please contact us if you would like us to assess your current arrangements and help you plan ahead: 1300667897.

