Rental Properties and Holiday Homes – Reducing Claimable Deductions

The ATO have released guidance on additional legislation applicable from **1 July 2026** to clarify how income and expenses for rental properties which double as a holiday homes should be treated.

A **holiday home** refers to property that is used (or held for use) for holidays or recreation (or the recreation of family members and friends).

The ATO have clarified that in order to claim deductions for these properties, the home must be **mainly used to earn assessable income**. Where the property isn't considered to be used primarily to earn assessable income the following types of ownership expenses will not be deductible

- interest
- council and water rate
- body corporate fees
- capital works decline in value.

The following expenses will continue to be deductible

- advertising
- cleaning costs after a guest stay
- booking fees and commissions.

If the holiday home is used mainly to produce income, but there's a small portion of private use (for example, a week or a few weekends in the off-season where there was no booking, or very low chance of a booking) then you can claim a deduction for ownership costs. These expenses may then be apportioned and not claimed for any period of private use.

Determining if your property is held primarily to earn assessable income will determine whether you can claim ownership expenses. In determining this the following factors need to be considered:

- the way your holiday home is actually used
- how much time your holiday home was dedicated to income-producing use
- how much time you used your holiday home for your own private use or for potential private use by you or your family and friends
- how often your holiday home is available or used as a rental at times when the use of the property is desirable for holiday pursuits (such as during school holidays, public holidays or peak seasonable demand periods).

It will not be enough to compare the days the home is used or blocked out for use by you and your family and friends compared to the number of days it is rented or advertised for rent. If you prioritise the use of the property for personal rather than income-producing use particularly in high demand periods it would be considered to not be held mainly for rental income and **all** ownership expenses would be non-deductible. Rental income can therefore only be offset against non-ownership expenses which relate solely to earning rental income. Determining the primary use will be different for each property and may differ over time. Proving the principal use will be the responsibility of the taxpayer therefore we encourage you to keep appropriate records and contact us to discuss any queries you may have.

For more information and practical examples, see:

TR 2026/1 *Income tax: rental property income and deductions for individuals who are not in business*

PCG 2026/2 *Apportionment of rental property deductions – ATO compliance approach*

PCG 2026/3 *Application of section 26-50 of the Income Tax Assessment Act 1997 to holiday homes that you also rent out – ATO compliance approach.*