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Holiday house rules

You've purchased a holiday house and now you need to decide if you keep it for yourselves, or rent it out to help pay for it. There's a lot to consider…

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If you don't like the idea of someone else using your holiday house and you won't rent it out, there are still a few things to remember. All the holding costs for the property can be used to reduce the capital gain when you sell in the future. These include interest, council rates, water rates, insurance and repairs. Make you keep all these receipts so you can reduce your capital gain when you sell the property.

If you have decided you're going to rent out the property when you aren't using it then you need to be aware of a number of things to ensure you're declaring all your income and claiming the correct deductions.

First and foremost the property must be genuinely available for rent when you're not using it. The ATO have flagged rental properties in general, and holiday homes in particular, as an area where they will be reviewing income and deductions. In the second half of last year they wrote to a large number of rental property owners in relation to the deductions they had claimed. In their latest ruling the ATO said they would look at the period of time properties are available for rent and whether "active and bona fide efforts to let the property at a commercial rental were made during the relevant period".

Some holiday rental owners are giving agents authority to rent but whenever the agent contacts them with a tenant they don't allow them to rent the property. Some only have their properties available for rent in the off-peak season where rents are low. It's important to have your property "genuinely available for rent" when you are not using it, then you're able to claim deductions against that income. If your property is not genuinely available for rent then you're only entitled to claim deductions up to the amount of rental income you receive.

If you and your accountant have determined that your property is genuinely available for rent when you're not using it, the next step is to apportion the expenses for your "private-use" periods. Add up all the nights you, or friends or family not paying market rates of rent, have stayed in the property. This includes trips where you may have mowed the lawn or undertaken any other general maintenance while staying in the property. Work out how many nights the property was available for rent and then use these figures to determine a private-use percentage. Say you come up with 43 per cent private use, this means that you can claim 57 per cent of the expenses in relation to the property against the rental income you have received.

The types of deductions you can claim are the same as for any other rental property: council rates; insurance; water rates; interest; land tax; repairs and maintenance; and depreciation to name the most common.

Depreciation is an important consideration as some short-stay accommodation can claim four per cent building depreciation (instead of the usual 2.5 per cent). If your house is fully furnished you can also claim depreciation of the furniture, so it would be well worth your while having a depreciation schedule prepared.

In summary, if you're renting out your holiday house, you need to apportion your deductions for the private-use periods to ensure you don't wind up on the ATO's target list.

Pat Mannix and Bec Mackie *have been operating Gatherum-Goss & Assoc for more than seven years and both have extensive experience dealing with tax and structuring advice for investors. For more information, go to www.gatherumgoss.com*