Making the most of rental and holiday properties

Although a rental or holiday house can be a good way to build wealth or diversify your existing property portfolio, investors need to take care before diving in, as the Australian Taxation Office is paying much closer attention to the deductions that go hand-in-hand with property investing.

Goodbye to travel deductions

The most recent legislative target is the expenses property investors have traditionally claimed for travelling to inspect their holiday home or investment property. The size of these deductions is clear, with Treasury anticipating $540 million in additional revenue over the next four financial years from eliminating these claims.

Since 1 July 2017, property investors can no longer claim for travel to maintain or collect rent for their residential rental property, or to inspect it either during or at the end of a tenancy unless they are in the business of property investing.

In addition, travel expense claims for preparing the property for new tenants, or visiting an agent to discuss the rental property, will also cease.

Holiday homes under the microscope

The ATO is also taking a closer look at deductions where holiday homes are partly used by the owner. Of particular interest are properties that are vacant for long periods, or where the owners reserve it for family and friends.

To avoid problems, the key is only claiming deductions for periods when the property is rented out, or genuinely available for rent. For example, if you rent the property for nine months but use it privately the rest of the year, you can only claim three-quarters of your annual expenses.

Simply claiming your property is available for rent will not cut it with the taxman either, as owners must widely advertise their property to potential tenants, place reasonable conditions on renters, and not refuse rentals without adequate reasons.

Tips for potential investors

If undeterred by the tighter rules, potential investors should still carefully consider the potential for wealth creation, not just the lifestyle or tax benefits. This is particularly important if you plan to negatively gear. As with everything related to tax, having paperwork to back up deductions is vital.

Claiming large deductions when the property is only tenanted for short periods is also a recipe for trouble.

Source: Colonial First State.