The ATO has holiday homeowners in its sights

This is just one of three top-of-mind issues for practitioners. Here's why rental deductions, along with Payday Super and AML/CTF will prove challenging in 2026.

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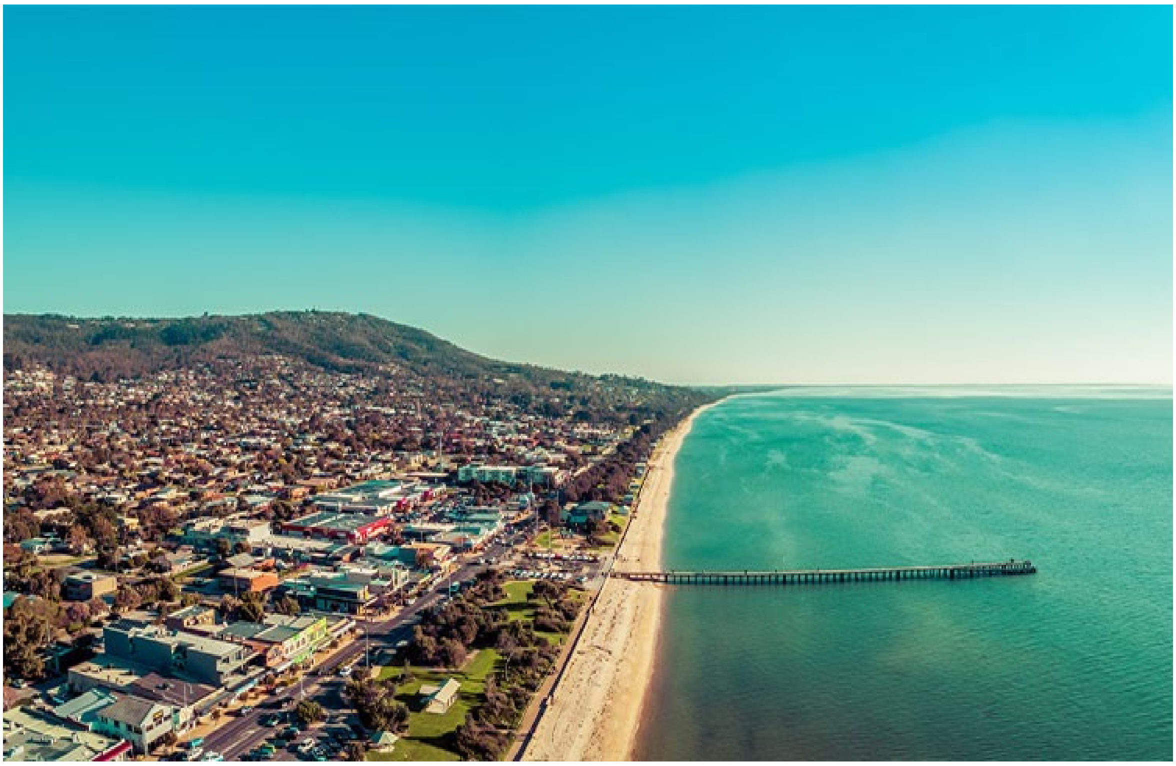
2 Dec 2025



The article is relevant to members in Australia and was current at the time of publication.

A series of regulatory changes are set to impact practitioners and clients over the coming months, and right now is a good time to start preparing for them.

They include a crackdown by the Australian Taxation Office (ATO) on expense deductions associated with rental properties, particularly holiday homes, and the impending introduction of Payday Super.

Separately, from 1 July 2026 many services traditionally provided by accountants, defined in the legislation as “professional services”, will become “designated services” for anti-money laundering and counter-terrorism financing (AML/CTF) purposes.

Entities providing these designated professional services will be brought into the AML/CTF regime and will have AML/CTF reporting obligations.

Holiday homes and expenses

The ATO is toughening its approach to deductions related to properties used for both personal and rental purposes, such as holiday homes.

The regulator has issued a draft taxation ruling (TR 2025/D1) outlining that losses and outgoings on properties used for personal and rental income purposes will need to be apportioned on a “fair and reasonable” basis to work out how a deduction can be claimed under section 8.1 of the Income Tax Assessment Act 1997 (Tax Act).

The ruling details different methods of apportionment based on the time a property is held to produce income on commercial terms throughout the financial year, and an area-based method when only part of a property is used to produce income (see Draft PCG 2025/D6).

Where the ATO deems that a property is mostly used as a holiday home rather than for legitimate rental activities, it will apply section 26.50 of the Tax Act to classify the property as a “leisure facility” (see Draft PCG 2025/D7).

This means that expenses such as mortgage interest, council rates, land tax and maintenance cannot be claimed, and the only allowable deductions will be for cleaning expenses, advertising and agent platform fees.

“The ATO has been increasingly concerned about the overclaiming of rental expenses by people who have properties, in particular, holiday homes,” says CPA Australia’s Tax Technical Adviser, Bill Leung. “In their audits, they keep seeing people overclaiming, and effectively these properties, especially holiday homes, are recording perpetual losses once all the expenses are deducted.”

Leung says the ATO is scrutinising activities where properties listed for rent are deliberately blocked out by the owners during peak periods of the year, so they or their families can use them for their own holidays.

“What the ATO is saying is that if you basically have a mixed bag purpose and you’ve got that personal usage, and the property is not really mainly used for rental purpose, it is going to apply section 26.50 to you.”

Leung says it is important for practitioners to understand how the rules operate and inform their clients accordingly to ensure they are not targeted by the ATO.