

*This guide has been prepared by an independent third-party firm*

*Disclaimer: Please understand that this information is a general guide only, which does not take into account your personal circumstances, and is not comprehensive. It is not intended to be legal or tax advice and should not be relied upon as such. If you are unsure about your local tax obligations or how the law applies to you in your particular circumstances, we encourage you to refer to the Australian Taxation Office ("ATO")'s official website, or seek advice from qualified professionals.*

*Please note that we do not update this information in real time, so you should still check to confirm if any laws or procedures have changed recently.*

*We also draw your attention to the fact that Airbnb may have a legal obligation to report income earned by Australian users of the platform under the ATO's Sharing Economy Reporting Regime (SERR). Therefore, if there is a mismatch between the information reported by Airbnb under the SERR and the income you reported in your annual income tax return, the tax authorities may ask you questions.*

December 2022

## **AUSTRALIA – TAX CONSIDERATIONS ON SHORT TERM ACCOMMODATION**

The following information can help you start thinking about some of the tax requirements that may apply to you when providing short-term accommodation in Australia.

Tax can be tricky and it is important to ensure that you keep up to date with your tax obligations and remain tax compliant. The timely preparation, filing and payment of taxes are your responsibility.

If you are supplying short-term accommodation in Australia, make sure that you understand the following types of taxes and pay the ones that apply to you:

1. [Income tax](#)
  - 1.1. Working out rental income to declare
  - 1.2. Rental expenses to claim
2. [Capital gains tax](#)
3. [Goods and services tax \(GST\)](#)
4. [Land property taxes](#)

### **1. INCOME TAX**

When you earn income in Australia, it is likely that you will be required to pay tax on this income to the ATO. Below is a brief outline of tax that may arise on income earned from short-term accommodation in Australia and some information on how this tax can be paid to the ATO. Generally, Australia does not differentiate between short term accommodation and long term rentals, for income tax purposes.

Generally, individuals or companies must lodge an individual or corporate income tax return with the ATO following the tax year end. You can choose to prepare and lodge their own tax return, or with the assistance of a registered tax agent. Tax returns can be lodged with the ATO by paper or electronically via the [myGov](#) website.

Australia's tax year runs from 1 July to 30 June.

For individuals, the deadline for filing is generally 31 October, following the end of the tax year (this deadline may be extended if you use a tax agent). For companies, the deadline for filing is generally the 15th day of the seventh month following the end of the income year.

#### *Resident tax rates 2022–23*

The following rates apply to individuals who are Australian residents for tax purposes for the year ending 30 June 2023:

Taxable income	Tax on this income
0 - A\$18,200	Nil
A\$18,201 - A\$45,000	19c for each A\$1 over A\$18,200
A\$45,001 - A\$120,000	A\$5,092 plus 32.5c for each A\$1 over A\$45,000
A\$120,001 - A\$180,000:	A\$29,467 plus 37c for each A\$1 over A\$120,000
A\$180,001 and over	A\$51,667 plus 45c for each A\$1 over A\$180,000.

In addition, a Medicare levy of 2% is payable. Relief from the Medicare levy may be available to certain low-income earners. If you are required to pay the Medicare levy, you may also have to pay an additional Medicare levy surcharge if you and your family do not have an appropriate level of private patient hospital cover and you earn above a certain income.

#### *Australia income tax obligations for an Australian individual in receipt of foreign rental income*

If you are an Australian tax resident, you are taxable on your worldwide income and are therefore taxable on any foreign-sourced rental income. Any income from rental properties located outside Australia should be reported on your tax return.

#### *Australia income tax obligations for a non-resident individual*

If you are a non-resident, you will generally be subject to tax in Australia on your Australian-sourced income, unless you are eligible for relief under a tax treaty between your country of residence and Australia. Australian-sourced income generally includes income from rental properties located in Australia. You are required to file an income tax return and pay any associated Australian income tax if you earn any Australian-sourced income.

#### *Foreign resident tax rates 2022–23*

Non-residents are taxable on the first dollar of their Australian taxable income. These rates apply to individuals who are foreign residents for tax purposes for the year ending 30 June 2023.

Taxable income	Tax on this income
0 - A\$120,000	32.5c for each A\$1
A\$120,001 – A\$180,000	A\$39,000 plus 37c for each A\$1 over A\$120,000
A\$180,001 and over	A\$61,200 plus 45 cents for each A\$1 over A\$180,000

If you are a non-resident, you may wish to obtain specific advice on how Australian tax laws apply to you, the application of the laws of your country of residence, and any tax treaty between your country of residence and Australia.

#### *Company tax rates 2022–23*

The following rates of tax apply to companies for the year ending 30 June 2023.

Income category	Company tax Rate
Base rate entities	25%
Otherwise	30%

### **1.1. Working out rental income to declare**

Rental and rental-related income is the full amount of rent and associated payments that you receive, or become entitled to, when you rent out your property, whether it is paid to you or your agent. All rental income and rental-related income should be included in assessable income in your tax return in full.

Examples of rental-related income include:

- bond money retained by you as the host (for example due to damage to the rental property requiring repairs or maintenance)
- insurance payouts in some circumstances
- reimbursement of deductible expenditure
- letting and booking fees
- lump sum payments of rental income
- any assessable amounts relating to limited recourse debt arrangements involving your rental property

### **Co-ownership of rental property**

If you are a co-owner of a rental property and are not in the business of letting rental properties, you must divide the income and expenses for the rental property in line with your respective interests in the property. For example, if there are two co-owners who hold a property as joint tenant, they must divide the rental income and expenses in respect of that property in equal shares. In general, rental income and expenses must be attributed to each co-owner according to their legal interest in the property, notwithstanding any written or verbal agreement between the co-owners stating otherwise.

On the other hand, if you are carrying on a business of letting rental properties in partnership with other co-owners, you must divide the rental income or loss according to the partnership agreement, whether or not the partner's legal interests in the properties are different to the entitlements to profits and losses under the partnership agreement. If no partnership agreement is in place, you should divide the rental income or loss equally among the partners.

### **Rental property as investment or business**

Most property owners are investors who are not in the business of renting out properties.

However, if you are carrying on a rental property business as opposed to holding rental property as an investment, differing taxation rules can apply. For example, certain additional deductions may be claimed where it is a genuine business that is carried on. In addition, business taxpayers are subject to certain record keeping rules.

As noted above, different rules may also apply to the division of income and expenses from

rental property where co-owners are carrying on a rental property business.

There are a number of factors that are relevant to determining whether you may be carrying on a rental property business and the types of additional deductions and obligations that may apply as a result. You should obtain advice specific to your situation.

## **1.2. Rental expenses to claim**

You can claim a deduction for certain expenses you incur for the period your property is rented or is genuinely available for rent. Deductions can only be claimed to the extent the expense has been incurred by you. You cannot claim a deduction for any expenses which have been paid for by the tenant, or for expenses which are capital or private in nature.

There are 3 categories of rental expenses:

### **(1) Expenses for which you can claim a deduction now**

Examples of expenses for which you may be entitled to an immediate deduction in the income year you incur the expense include:

- advertising expenses in connection with advertising for tenants (not for acquiring or disposing of the property)
- council rates
- land tax
- maintenance expenses such as cleaning, gardening
- mortgage interest
- rental agent fees
- utilities
- water rates

### *Mortgage interest*

Interest expenses, which are charged on the principal amount of a loan that you take out for a rental property, are generally deductible in the year in which you incur the interest expense.

You can claim interest expenses charged on a loan that you used to:

- purchase a rental property
- purchase a depreciating asset for the rental property
- make repairs to the rental property
- finance renovations on the rental property

However, you cannot claim interest expenses that you incur:

- for any period you used the property for private purposes
- on the portion of the loan used for private purposes either when you originally took out the loan or refinanced
- on a loan you used to buy a new home, if you do not use the new home to produce income (even if you use your rental property as security for the loan)
- on the portion of the loan you redraw for private purposes, even if you are ahead in your repayments

Your ability to deduct interest is subject to the concepts outlined below, including apportionment and the property being genuinely available for rent.

#### *Apportionment of rental expenses*

Expenses claimed must be apportioned such that they only relate to the rooms rented and for the period of time that the rooms are being rented or are genuinely available for rent.

#### *Is your property genuinely available for rent?*

Broadly, genuinely available for rent means that the property is advertised, giving it broad exposure to potential tenants, and tenants are reasonably likely to rent the property considering all the circumstances.

#### *Property available for part-year rental*

Where your home is only available for rent during parts of the year, the expenses should be apportioned to reflect this period only. Deductions cannot be claimed for the portion of expenditure related to periods when the property or rooms are used for private purposes.

#### *Renting part of your property*

Where you are renting only part of your property, you can only claim expenses associated with the renting out of that part of the property. As a general guide, you should apportion expenses on the basis of the floor-area solely occupied by the renter (user), and add that to a reasonable amount based on their access to common areas.

Sample computation - Apportionment of expenses where part of a residential property is rented for part of the year

Laura owns a 2 bedroom house in Australia. She occasionally rents out the spare room in her house on the weekends.

The total gross rent received for the year ended 30 June 2022 was A\$10,000. It has been assumed that the floor-area of the house is used 30% for personal use, 30% by the tenant, 40% are common areas, and the room was rented out for 50 days during the 2022 tax year.

Laura incurred the following expenses in relation to her entire house in 2022:

		A\$\$
Gross rental income		10,000
Expenses		
	Council rates	(1,000)
	Mortgage interest	(10,000)
	Water rates	(500)
	Gardening	(300)
	Land tax (e.g. based on an assessment from the Department of State Revenue)	(3,000)

Calculation of taxable income

Gross rental income		10,000
Less: allowable expenses		
	Council rates	(69) [1,000 * 6.85%]
	Mortgage interest	(685) [10,000 * 6.85%]
	Water rates	(34) [500 * 6.85%]
	Gardening	(21) [300 * 6.85%]

	Land tax (based on the assessment from the New South Wales Department of Revenue)	(206) [3,000 * 6.85%]
Taxable net rental income		8,985

Note: allowable expenses are 6.85% of overall expenses. This is calculated after adding the following two calculations together:

- Tenant's room occupancy =  $(30\% \times 50/365) \times 100 = 4.11\%$ . This is calculated by multiplying the following:
  - 30% to reflect the floor area used by the tenant; and
  - $(50/365)$  to reflect that the room was available for rent for 50 days out of 365 days.
- Common areas =  $((40\% \times 50/365) \times 50\%) \times 100 = 2.74\%$ . This is calculated by multiplying the following:
  - 40% to reflect the floor area that is a common area;
  - $(50/365)$  to reflect that the room was available for rent for 50 days out of 365 days; and
  - 50% to reflect that the common area is shared equally among Laura and the tenant. In other words, Laura is only entitled to deduct the portion referable to the tenant's use of the common area.

**(2) Expenses for which you cannot claim deductions**

Examples of expenses for which you cannot claim deductions include:

- the amount you borrow for the property
- loan balances for the property
- repayments of principal against the loan balances

Certain expenses (for example, legal fees for the purchase of the property) are not immediately deductible, but may be able to be included in the cost base of your property for capital gains tax purposes.

Travel expenses relating to a residential rental property are generally not deductible and not recognized for capital gains tax purposes.

**(3) Expenses deductible over a number of income years**

Examples of expenses you may incur for your rental property that may be claimed over a



number of income years include:

- borrowing expenses
- amounts for the decline in value of depreciating assets (allowed only in certain circumstances)
- capital works deductions

### *Borrowing expenses*

Certain borrowing expenses, incurred to take out a loan to buy property, may be deductible over five years or the term of the loan, whichever is shorter.

The following items can be claimed as a deduction for borrowing expenses:

- loan establishment fees
- lender's mortgage insurance (insurance taken out by the lender and billed to you)
- title search fees charged by your lender
- costs for preparing and filing mortgage documents (including solicitors' fees)
- mortgage broker fees
- fees for a valuation required for loan approval
- stamp duty charged on the mortgage

Note that mortgage interest is generally deductible in the income year in which you incur the expense (as discussed above).

### *Amounts for the decline in value of depreciating assets*

You may also be able to deduct an amount equal to the decline in value for an income year of a depreciating asset that you held for any time during the year. The deduction is reduced to the extent the asset was not used for an income-producing purpose. Assets are depreciated over their effective life. The effective life of an asset is generally determined using safe harbors published annually by the ATO and you have the option to use either the straight line or the diminishing value method to calculate depreciation. Deductions for tax depreciation are generally not available for second-hand or used assets. Immediate deductions for certain assets which cost less than A\$300 may be available in limited circumstances.

### *Capital works deductions*

The cost of undertaking capital works is generally only deductible in limited circumstances.

Capital works deductions may be available for construction expenditure (such as building construction costs or the cost of structural improvements) at a rate of 2.5% each year for 40 years, from the date the construction was completed. The total deductions cannot exceed the construction expenditure. Very generally, deductions can only be claimed to the extent the

property is rented or is genuinely available for rent during the year.

### Record keeping obligations

You must keep records of all your income and expenses relating to your rental property. You should also keep records relating to your ownership and all related costs of acquiring and disposing of property for capital gains tax purposes. Records may include:

- statements from the platform that show your income;
- appropriate tax receipts and other documentation for any expenses you claim deductions for (e.g., land tax assessments, credit card records, bank statements, etc.);
- documents supporting the extent to which the property / rooms were rented or genuinely available for rent (e.g., advertisements); and
- calculations regarding the extent to which the expense is deductible.

Records must be kept for at least five years from the date you lodge your tax return.

## **2. CAPITAL GAINS TAX (CGT)**

Capital gains tax is payable on a capital gain made on the sale of any Australian property held on capital account, unless a relevant exemption applies.

The capital gain is broadly calculated as the capital proceeds you receive less the cost base of the property.

The cost base generally consists of the amount you paid for the property plus certain incidental costs associated with acquiring, holding, and disposing of the property, excluding any amounts you have deducted or can deduct.

The time of the capital gains tax event is generally the date when you enter into the contract.

A taxpayer's net capital gain for the relevant income year is included in the taxpayer's assessable income for that income year and taxed at the taxpayer's individual tax rate. There is no separate tax rate applied to capital gains.

Australia does not differentiate between short term accommodation and long-term rentals from a CGT perspective. However, where an individual resident taxpayer has owned the property for more than 12 months, they may be entitled to a 50% discount on the capital gain, after first applying all available capital losses. The discounted amount is included in working out the taxpayer's net capital gain for the income year.

Non-residents and temporary tax residents are also liable to pay CGT on the sale of real property located in Australia.

### **Main residence exemption**

A resident taxpayer's "main residence" may be generally exempt from CGT. This exemption may be reduced or lost where the property has also been used to produce income (for example, by renting it out in whole or in part). The rules which apply to work out your capital gain in these circumstances are complex and you should obtain specific advice on how these rules may apply to you. The main residence exemption is only available to foreign residents in limited circumstances.

*How does the CGT main residence exemption work?*

Very broadly, the full main residence exemption is available in respect of a property if you are an individual who uses a dwelling as your main residence throughout your period of ownership and it has not been used to produce assessable income.

*How does listing my main residence for rental on Airbnb affect my eligibility to claim the CGT main residence exemption?*

Listing your main residence for rental on Airbnb means you are using your property to produce assessable income. In this situation, your eligibility for the main residence exemption is calculated under a different set of rules that may result in only a partial exemption being available to you.

The availability of the main residence exemption is further complicated if parts of your main residence were available for rent during your ownership period or if the entire residence was rented out for part of your ownership period.

As these rules are complex, you should obtain advice specific to your situation.

## **3. GOODS AND SERVICES TAX (GST)**

GST is a broad-based consumption tax, which can apply on supplies for goods, services, real property and other rights.

**Do I need to collect GST from guests if I am letting short-term residential accommodation in Australia?**

Generally, GST may not need to be charged to customers where you supply holiday short-term residential accommodation (or in other words, premises). If so, you will not be liable for GST on

the rent you charge, and you cannot claim any GST credits for associated expenses.

However, the renting out of commercial premises or commercial residential premises will be subject to GST. Broadly, commercial residential premises can include accommodation which is operated with a commercial intention, is capable of multiple occupancy, occupants have status as guests and where there is central management of the premises (e.g. to accept reservations, receive payments and perform or arrange services). Examples include hotels, motels, hostels, serviced apartments and boarding houses.

### **Do I need to register for GST?**

If you are renting out commercial premises (including commercial residential premises), and your annual turnover meets or exceeds A\$75,000, you should register for, and charge, GST to your customers in Australia.

In general, the same rules will apply to non-residents of Australia.

We encourage you to consult a tax advisor if you need assistance in determining whether you need to register for and charge Australian GST.

### **GST applies to me. How much GST do I need to collect from my guests?**

If GST does apply, e.g. if you are supplying commercial premises (including commercial residential premises), you would be liable for GST at 1/11 of the GST inclusive price (which equates to an effective GST rate of 10%).

We encourage you to consult a tax advisor about whether your property and your rental activities would be subject to GST.

## **4. LAND AND PROPERTY TAXES**

Land tax is an annual tax payable to the revenue authority of the relevant state or territory. Land tax is assessed each year based on the aggregate value of the land owned by the taxpayer, as at 31 December. Land tax thresholds and rates differ depending on the state in which the property is located. There may also be a surcharge on land tax where a foreign person is involved.

Land tax generally applies to all income producing properties where the land value exceeds a certain threshold, unless an exemption applies (which typically has to be applied for). Any principal place of residence (or similar) exemption your rental property is entitled to may also be affected by income producing activities. You should obtain specific advice on how these rules

may apply to you.

Council rates are also generally payable to the local municipality, and will differ between municipalities.