

Holiday rentals provide you with a home away from home to spend time with your loved ones and a steady source of income while renting it out.

To ensure owning a holiday rental brings you the greatest dividends, keeping valid and accurate records from the time you purchase the property is essential, particularly when the time comes to sell the property and calculate capital gains tax (CGT).

It would be fruitful to take into consideration the capital gains that may arise when deciding to sell the holiday home.

Because the holiday rental is not an individual's main residence, it is not exempt from capital gains tax. However, there are smart strategies individuals can adopt to reduce their capital gain.

To understand these strategies, one must understand cost base. The cost base is essentially made up of five elements; five factors that contribute to the profit or loss one encounters through owning a property that isn't their main resident. These factors include:

Money paid or property given for the CGT asset.

Incidental costs of acquiring the CGT asset or that relate to the CGT event.

Costs of owning the CGT asset.

Capital costs to increase or preserve the value of your asset or to install or move it.

Capital costs of preserving or defending your title or rights to your CGT asset.

When a property is used solely for private purposes and was purchased after August 20 1991, the cost base of the property can be increased by including expenditures such as interest, taxes and rates. To calculate capital gains, subtract (from the property's sale price) the cost base plus certain eligible expenses that were incurred as a result of owning the property.

Half of the capital gain is added to the taxable income of a landlord where they have been in possession of the property for at least 12 months, for the year in which they sell the holiday house. This is taxed at the landlord's marginal tax rate.

Owners need to keep in mind that they must keep accurate records throughout their time of ownership, as it is almost impossible to substantiate claims without proper records. Those who have owned the holiday house since before September 20 1985 do not need to worry about CGT.