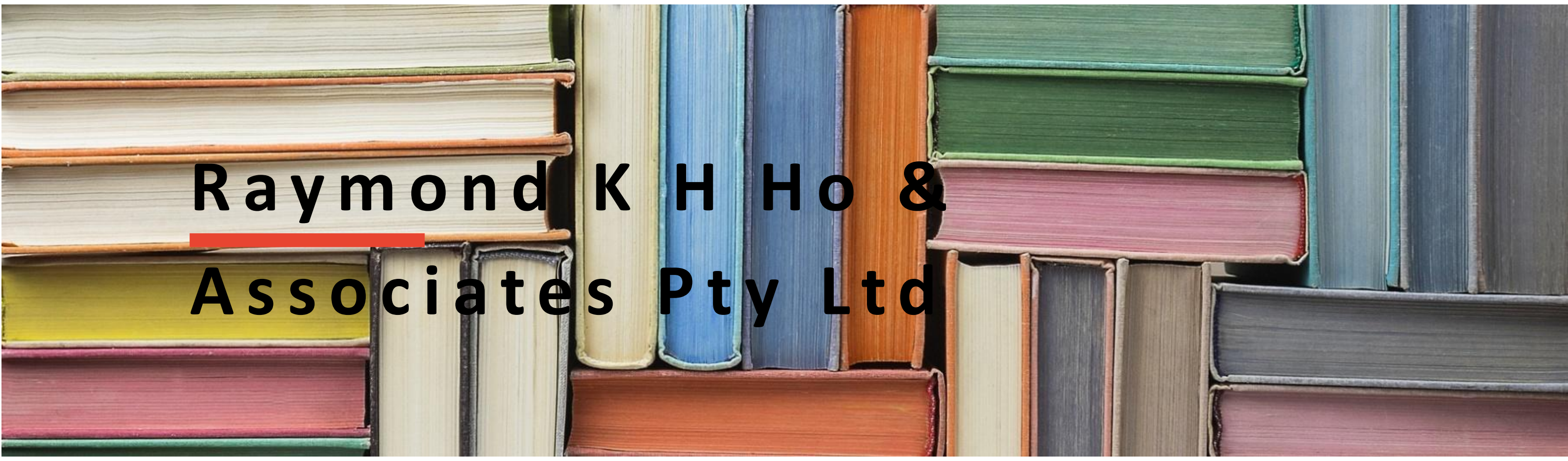

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This month we look at the ATO's sharpened compliance focus across property, business incentives and emerging technologies. New draft guidance on holiday homes signals a much tougher approach to deductions for short-term rentals, particularly where lifestyle use blurs with genuine income-earning intent. The Federal Government's review of the Electric Car Discount also places current EV tax benefits under the spotlight, prompting businesses and employees to revisit timing and eligibility. We then turn to the rise of AI-generated tax "advice" — and the costly traps emerging as the ATO cracks down on misinformation. Finally, we unpack the nuances of downsizer contributions and the main residence exemption, highlighting key conditions and misconceptions that frequently trip up retirees.

INSIDE

Holiday Homes Under the Microscope: What the ATO's New Guidance Means for You

For many Australians, a holiday home does double duty. It's a place to escape with family and friends, and during the rest of the year it's listed on Airbnb or Stayz to help cover the costs.

Until recently, many owners assumed they could claim most of the usual deductions for the property without much trouble, as long as appropriate apportionments were made. However, that position is now under more scrutiny than ever following the release of some new draft guidance documents by the Australian Taxation Office (ATO) - TR 2025/D1, PCG 2025/D6 and PCG 2025/D7.

The ATO is looking to significantly tighten the rules around holiday homes that are used to derive some rental income. While the documents are still in draft form, they clearly signal the ATO's compliance focus going forward.

What is the ATO Concerned About?

In simple terms, the ATO wants to distinguish between properties that are genuinely held to maximise rental income and those that are primarily lifestyle assets with some incidental rental use.

The ATO confirms that all rental income must be declared, even if it is occasional or earned through informal arrangements. However, if the property is really a holiday home and isn't used mainly to produce rental income during the year then the owner can't claim any deductions for expenses such as interest, rates, land tax, repairs and maintenance.

That is, the ATO might not allow any of these expenses to be claimed as a deduction, even if the property is used to generate taxable rental income for some of the year at market rates. If the property is classified as a holiday home by the ATO then owners can only claim deductions for limited direct expenses such as cleaning or advertising.

The ATO is particularly focused on properties that:

- Are blocked out for private use during peak periods (for example, school holidays or ski season),
- Are advertised inconsistently or at above-market rates,
- Generate ongoing tax losses year after year.

How Expenses Must be Claimed

Even if the property isn't classified as a holiday home, it will often still be necessary to apportion expenses if the property is only used partly for income producing purposes. PCG 2025/D6 outlines how expenses should be apportioned. The key principle is that claims must be "fair and reasonable". Common methods include:

- Time-based apportionment (for example, based on days rented or genuinely available for rent), and
- Area-based apportionment (where only part of a property is rented).

Getting this wrong, or failing to keep evidence, increases audit risk. The ATO has access to booking platform data and can easily compare listings, calendars and reported income.

The Financial Impact can be Significant

Consider a holiday unit that earns $30,000 a year in off-peak rent but is kept for private use during peak holiday periods. Under the new approach, the ATO may conclude the property is really a holiday home and could reduce deductible expenses from tens of thousands of dollars to only a small fraction, resulting in a materially higher tax bill.

Co-ownership also needs care. Income and deductions are generally split according to ownership interests, regardless of who uses the property more. Renting to relatives at discounted rates can further limit deductions.

Practical Steps you Should Take Now

Although the guidance is proposed to apply from 1 July 2026 (with transitional relief for arrangements in place before 12 November 2025), now is the time to review your position:

- Are you holding and using the property to genuinely maximise rental income? Is the property advertised broadly and consistently, including during peak periods?

- Use market pricing: Set rent in line with comparable properties in the same area.
- Keep strong records: Retain booking calendars, advertisements, enquiries, and a diary showing private versus rental use.
- Review ownership and strategy: In some cases, changing how a property is operated can improve its commercial profile and tax outcome, but beware of CGT liabilities, duty and legal fees.
- Document existing arrangements: If you may qualify for transitional relief, evidence is critical.

The Bottom Line

The ATO is not banning deductions for holiday homes, but it is drawing a firmer line between genuine investment properties and lifestyle assets. With the right structure, pricing and record-keeping, many owners can still claim appropriate deductions and improve cash flow.

If you own a holiday property, a proactive review could save you from an unpleasant surprise later. Please contact us if you would like us to assess your current arrangements and help you plan ahead.

Electric Car Discounts Under Review: What It Means for Your Business (and What You Should Do Now)

Electric vehicles (EVs) are no longer a niche choice. By late 2025, they account for more than 8% of new car sales in Australia, driven in no small part by generous tax incentives. One of the most significant is the Federal Government's Electric Car Discount, introduced in mid-2022. For many businesses and employees, it has materially reduced the cost of owning or leasing an EV.

That said, the rules are now under review. While no immediate changes are proposed, this is an important moment to understand the benefits, assess whether they suit your circumstances, and consider timing.

How the Electric Car Discount Works (in Plain English)

The discount is not a cash rebate. Instead, it operates through tax concessions that can significantly reduce the real cost of an EV:

1. Fringe Benefits Tax (FBT) exemption

Where an eligible EV is provided to an employee as a fringe benefit, private use is exempt from FBT. This is often the biggest saving. Without the exemption, FBT is effectively charged at up to 47%. For many employees, the exemption can reduce the annual after-tax cost of a vehicle by thousands of dollars.

Important points:

- The exemption applies to battery electric vehicles and hydrogen fuel cell vehicles.
- Plug-in hybrid vehicles lost eligibility for new arrangements from 1 April 2025.
- The car must be first held and used after 1 July 2022 and be below the luxury car tax threshold at first purchase.

2. Higher luxury car tax (LCT) threshold

Fuel-efficient vehicles, including EVs, benefit from a higher LCT threshold ($91,387 for 2025–26, compared to $76,950 for other cars). This can prevent the 33% luxury car tax applying to part of the purchase price.

3. Reduced import costs

Certain EVs are also exempt from the 5% customs duty, reducing upfront acquisition costs.

Commercially, these settings have made EVs very competitive. Lower running costs (electricity versus fuel, fewer servicing requirements) and solid resale values have strengthened the business case, particularly for salary packaging and small fleets.

Why the Government Is Reviewing the Rules

A statutory review of the Electric Car Discount has now commenced. The key reason is cost. Uptake has exceeded expectations, and the projected cost to the budget has increased significantly over the forward estimates.

The review will examine:

- Whether the concession is still required to encourage EV adoption.
- Whether eligibility settings should be tightened (for example, limiting benefits to certain vehicle types or price points).
- How the discount interacts with other policies, such as the National Vehicle Emissions Standard commencing in 2025.

Public consultation is underway, with a final report not due until mid-2027. Importantly, there is no suggestion of immediate changes, and any reforms are more likely to be prospective.

Practical Takeaways for Business Owners and Employees

While uncertainty always creates hesitation, the current rules are clear and legislated. From a practical perspective:

- Now is a good time to review fleet or salary packaging arrangements, particularly if you are considering replacing a vehicle in the next 12–24 months.
- Existing arrangements are expected to be grandfathered, reducing the risk of retrospective changes (although we can’t guarantee this).
- Ensure vehicles are clearly under the LCT threshold at first purchase and meet all eligibility criteria if you want to access the FBT exemption.
- Check the tax treatment of charging infrastructure provided in connection with an eligible EV, this won’t necessarily qualify for an FBT exemption.

Final Thought

The Electric Car Discount remains one of the most valuable concessions available for employee vehicles. While a review introduces longer-term uncertainty, the commercial reality today is that EVs can deliver genuine tax and cash-flow savings when structured correctly.

If you are considering an EV—either personally or through your business—now is the right time to run the numbers. Please contact our team if you would like tailored advice on whether an electric vehicle strategy makes sense for you under the current rules.

AI Tax Tips: Helpful Shortcut or Costly Trap?

As a business owner or investor, time is always tight. So it's no surprise many people now turn to AI tools like ChatGPT for quick answers on tax deductions, super contributions or structuring ideas. The responses sound confident, arrive instantly and cost nothing. What could go wrong?

Plenty.

The Australian tax and super system is complex, highly fact-specific and constantly changing. While AI can be a useful starting point, relying on it for decisions can expose you to audits, penalties and poor financial outcomes. We're increasingly seeing the clean-up work when AI advice goes wrong.

Where AI Can Help (and Where it Can't)

AI is quite good at explaining basic concepts in plain English. It can help you understand what "negative gearing" means, outline the difference between concessional and non-concessional super contributions, or prompt you to think about record-keeping. Used this way, it can save time and help you ask better questions.

The problem starts when AI moves from explaining concepts to giving "advice".

Tax and super outcomes depend on your specific facts: your income levels, business structure, age, residency status, assets, timing and future plans. AI does not know these details unless you provide them—and you generally shouldn't. Even then, it cannot exercise judgement or balance competing risks the way an experienced adviser can.

The Accuracy Risk: Confident, but Wrong

AI tools are known to "hallucinate" – that is, provide answers that sound authoritative but are incorrect or incomplete. In practice, this can mean:

- Claiming deductions that don't apply to your circumstances
- Miscalculating capital gains tax or ignoring integrity rules
- Suggesting super strategies that breach contribution caps or eligibility rules
- Quoting legislation, cases and rulings or concessions that don't exist or are out of date.

These errors are rarely obvious to a non-expert, but they are normally obvious to the ATO, courts and experienced advisers.

A recent decision handed down by the Administrative Review Tribunal highlights some of the key problems. In *Smith and Commissioner of Taxation* [2026] ARTA 25 the taxpayer appeared to rely on AI tools to identify cases which supported their argument, but this approach was shot down by the Tribunal. Some of the cases didn't exist and others were simply not relevant to the matter being considered.

If the person using the AI tool doesn't verify the existence of the cases provided by the tool and read them to ensure their relevance then *"the Tribunal's resources are being wasted, as the Tribunal must look for cases that don't exist and read cases that have no relevance at all".*

ATO Scrutiny is Increasing, not Decreasing

The ATO isn't anti-AI—they use it internally for fraud detection and analytics. But for you? The ATO's misinformation guide makes it clear that AI tools can provide false, inaccurate, incomplete or outdated information. The ATO's message is to verify everything, or face the music. Surveys reveal 64% of businesses seek AI accounting help first, only for pros to unscramble the mess—wasting time and money.

[ATO AI transparency statement | Australian Taxation Office]

[Protect yourself from misinformation and disinformation | Australian Taxation Office]

When something is wrong, the ATO will generally amend the return, charge interest and may apply penalties—even if the mistake came from AI advice rather than intent.

We are seeing this play out most clearly with work-from-home claims, property deductions and SMSF compliance.

Superannuation: High Stakes, Little Margin for Error

Super is an area where AI advice can be particularly dangerous. Self-managed super funds, in particular, operate under strict rules. AI often overlooks key issues such as eligibility, timing, purpose tests and investment restrictions. The result can be non-compliance, forced unwinding of transactions and penalties that run into thousands of dollars.

Super mistakes can also permanently damage your retirement savings.

Data Security and Privacy

There is also a practical risk many people overlook: entering personal or financial information into AI platforms. Once data is entered, you lose control over how it is stored or used. This creates privacy and fraud risks that are simply not worth taking.

A Smarter Approach: AI Plus Professional Advice

AI is best used as a support tool, not a decision-maker. It can help you understand the landscape, but important tax and super decisions should always be reviewed in light of your full circumstances.

At our firm, we encourage clients to bring questions early, test ideas and have conversations before acting. That approach almost always costs less than fixing problems after the fact.

The bottom line: AI can be a helpful assistant, but it is not your accountant. When it comes to protecting your wealth and staying compliant, tailored professional advice remains essential.

Downsizer Contributions and the Main Residence Exemption

When clients sell a long-held family home, they may be able to channel part of the proceeds into superannuation by using the downsizer contribution rules.

Basic Eligibility Conditions

To qualify, the seller must meet a number of conditions:

- They must have reached the eligible age of 55 years (at the time of making the contribution).
- The eligible dwelling must be located in Australia and have been owned for at least 10 years.
- The disposal of the dwelling must be exempt from CGT under the main

residence exemption to some extent (full exemption not required).

- The contribution must be made within 90 days of settlement, and an election form must be lodged with the fund no later than when the contribution is received.

The downsizer contribution can only be used once per individual and is limited to the lesser of the gross sale proceeds or $300,000 per person.

Does the Sale Need to be Fully CGT-exempt?

A common question is whether the sale must be fully exempt as the main residence.

Importantly, a full exemption is not required.

Even if only part of the capital gain is exempt under main residence rules, the property may still qualify — provided all other conditions are met.

Is the Property Required to be the Main Residence at Sale?

Equally important: the property does not need to be the seller's principal residence at the time of sale.

Living in the property for some years and renting it out later does not disqualify it, as long as the ownership and residence history supports at least a partial main residence exemption.

Special Rules for Pre-CGT Properties

Where a property was acquired before CGT began, the rules look at whether part of the gain would have been disregarded had CGT applied.

A key requirement is that there is a dwelling that qualifies as the main residence. Disposal of vacant land will generally not satisfy the test and therefore will not meet downsizer requirements.

Eligibility of a Non-Owning Spouse

It is common for only one spouse to be listed on the property title.

A non-owning spouse may still qualify for a downsizer contribution if all other requirements are met, apart from ownership.

However, a spouse who never lived in the property and could not reasonably have treated it as their main residence is unlikely to be eligible.

Preservation and Access to Funds

A downsizer contribution is subject to the standard preservation rules. Once contributed, the amount cannot be accessed until:

- You reach preservation age (60) and retire, or
- You reach age 65, regardless of retirement status.

Consider future cash-flow needs before making the contribution.

Before you Contribute

Although seemingly straightforward, downsizer contributions involve several nuances. Please contact us if you have any questions.

Related links:

- Downsizer super contributions
- Downsizer contributions and capital gains tax