

Rental Properties

Rental Income

Rental income and expenses must be disclosed in your income tax return in the year in which it has been received. You are not required to pay tax on rental income which you are entitled to receive, where you have not yet received the cash. You do however; need to include all amounts withheld from your rent such as agent's commissions and repairs. Other income that is assessable as rental income can be:

- Insurance payments to cover loss of rent;
- Amounts paid from tenants to cover damages they may have caused;
- Letting or booking fee;
- Repetitive or recurring activities with which you intend to generate income from the use of your rental property;
- government rebate for purchasing a depreciating asset i.e. solar hot water or a water efficient washing machine; and
- Rental bond money if you are entitled to retain it.

Rental Expenses

Rental expenses are used to reduce the assessable rental income of the taxpayer and effectively reduce the tax payable of the rental income received. There are several different types of expenses when dealing with rental properties, including:

1. Expenses that are not claimable as tax deductions;
2. Expenses that are immediately claimable; and
3. Expenses that need to be expensed over several years

1. Expenses which are not claimable

Expenses which are not able to be claimed as rental tax deductions must not be recorded in the income tax return, however they may be used to reduce future capital gains tax.

Expenses which are incurred through the acquisition or sale of the property are not deductible, but form part of the cost base of the property. Examples of these expenses include:

- Purchase cost of the property;
- Conveyancing costs;
- Advertising expenses on sale of property;
- Stamp duty on the transfer of the property; and
- Surveyor's fees.

This fact sheet is of a brief overview and is not intended to be wholly relied upon the information contained herein. No warranty express or implied is given with respect of the information provided and accordingly no responsibility is taken for any loss resulting from any error or omission contained. You should not copy, distribute, or commercialise the information unless you are authorized to do so.

These expenses may not be deductible against the income of the rental property, but they can be added to the cost base of the property and will reduce the capital gains on disposal of the property in the future.

Other expenses that cannot be claimed as a rental deduction are expenses that are not incurred by you, or rental expenses that are not related to the rental of the property during the period available for rent.

2. Expenses which are immediately claimable

Expenses which are immediately claimed as rental deductions can only be claimed if they are incurred by you (and not the tenant) and incurred during the period with which the property was available for rent. Below is a list of expenses that can be immediately claimed:

- Advertising for tenants;
- Bank charges;
- Body corporate fees;
- Cleaning;
- Council rates;
- Electricity and gas;
- Gardening and lawn mowing;
- In – house audio and video service charges;
- Insurance (building, contents and public liability);
- Interest on loans used to finance the acquisition of the property (only the interest incurred on the rental property loan)
- Interest can also be claimed for loans to buy depreciating assets or repairs and renovations;
- Land tax;
- Lease document expenses;
- Motor vehicle expense (inspection and rent collection);
- Pest control;
- Postage and stationary;
- Property agent fees and commissions;
- Quantity surveyor's fees;
- Repairs and maintenance;
- Bookkeeping fees;
- Security;
- Telephone;
- Tax agent fees;
- Travel expenses (Rent collection, Inspection of property and maintenance of property); and
- Water charges.

For expenses that are only partially related to the rental property, they need to be apportioned. Apportionment can be calculated by working out the percentage of the expense claimable or the percentage of the year the expense was incurred to calculate the total deductible amount.

This fact sheet is of a brief overview and is not intended to be wholly relied upon the information contained herein. No warranty express or implied is given with respect of the information provided and accordingly no responsibility is taken for any loss resulting from any error or omission contained. You should not copy, distribute, or commercialise the information unless you are authorized to do so.

3. Expenses claimable over a number of years

There are some expenses incurred by rental property owners which cannot be claimed as a tax deduction in the year the expense was paid but must be claimed over a number of years.

Repairs and maintenance are deductible as a rental expense as long as they are a result from damage or wear from renting out the property. Repairs are defined as repairing or replacing a part, without improving its performance. However some expenses are not deductible immediately but are of a capital nature such as:

- Replacing entire structures i.e. complete fence, kitchen or bathroom even in need of replacing is classed as capital works deductions;
- Improving the performance, altering, extending or renovating is also classed as capital works deductions as it is improving the value of the house; and
- Initial repairs are also classed as capital works this includes damage that exists at the purchase time.

Capital works deductions are claimed either over a 25 or 40 year basis commencing on the date the construction was completed.

Depreciation of fixtures, fittings and furniture

A depreciable expense is a deduction for the decline in value of an asset purchased to go with the rental property for the purpose of producing assessable income. The decline in value of a depreciating asset is generally calculated based on its effective life however can also be placed into pools and averaged out. Assets costing less than \$300 can be claimed as an immediate deduction and therefore do not have to be depreciated. The main assets that can be depreciated are:

- Floor coverings;
- Fixtures and fittings;
- Window coverings;
- Furniture;
- Appliances;
- Water heaters;
- Cooling systems;
- Cupboards;
- Lighting systems;
- Entertainment units;

N.B. All depreciable assets must be removable without being damaged.

This fact sheet is of a brief overview and is not intended to be wholly relied upon the information contained herein. No warranty express or implied is given with respect of the information provided and accordingly no responsibility is taken for any loss resulting from any error or omission contained. You should not copy, distribute, or commercialise the information unless you are authorized to do so.

Common mistakes when dealing with rental properties

The Australian Taxation Office has stated a number of common mistakes which taxpayers have disclosed in their tax returns in the past and we wish to advise you of the following:-

- 1) Construction costs can be claimed as capital works deductions however the land that the rental property it is build on is not claimable as generally land appreciates in value. Construction costs cannot be claimed as a depreciable asset as they are a *capital works* deduction and must be depreciated on a 25 or 40 year basis.
- 2) Property owners cannot claim expenses like fixing an item that is broken when the house is initially purchased or try to claim a damaged kitchen replacement as a repairs and maintenance deduction. Initial repairs and capital improvements are capital in nature and are not able to be claimed as repairs however can be claimed as capital works deductions.
- 3) When dealing with interest expense sometimes the loan can be for both the rental property and private expenses (e.g.: a car or a boat). A common mistake here is when the property owner tries to claim a deduction for the entire interest expense on the loan. The correct way to calculate the interest expense on the loan is to apportion out the private part of the loan.
- 4) When calculating the travel expenses to inspect or make repairs to a property a common mistake is making a claim for taking a holiday as well as inspecting the house. This can be apportioned for accommodation expenses and may need to only claim expenses that are directly related to the rental property.
- 5) The correct way to claim borrowing expenses is to expense them over the lesser of a five year period or the life of the loan. A common mistake is claiming them all in the first year when they are charged by the bank.
- 6) Record keeping is important when dealing with rental properties as records for the income and expenses need to be kept for five years from the date your tax return is lodged and the records from purchasing and the disposal of the property for five years from the date of property disposal.

If you have any questions or require any further information please feel free to contact your Client Manager and they will be happy to assist you.

This fact sheet is of a brief overview and is not intended to be wholly relied upon the information contained herein. No warranty express or implied is given with respect of the information provided and accordingly no responsibility is taken for any loss resulting from any error or omission contained. You should not copy, distribute, or commercialise the information unless you are authorized to do so.