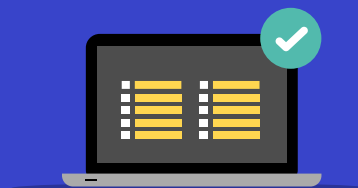




Australian Government
Australian Taxation Office

Top 10 tips

to help rental property owners
avoid common tax mistakes



Whether you use a tax agent or choose to lodge your tax return yourself, avoiding these common mistakes will save you time and money.

1. Getting initial repairs and capital improvements right

You can't claim an immediate deduction for:

- Initial repairs on damage existing when you bought the property, even if you don't fix the issues immediately. For example, replacing broken cupboard doors or repairing damaged floorboards. You may be able to claim the deduction over several years as capital works. You can use any unclaimed part of these costs to work out your capital gain or capital loss when you sell the property.
- Improvements you make to the property. For example, replacing the entire roof with a better material when only part is damaged or remodelling a bathroom. These are capital improvements you can claim as a capital works deduction at a rate of 2.5% each year for 40 years from the date of completion.
- Replacement of damaged depreciating assets that cost more than \$300. For example, replacing the hot water system. These costs you claim as a decline in value deduction over the effective life of the asset.

For more information, see ato.gov.au/rentalrepairsfactsheet.

2. Claiming interest on your loan

You can claim the interest you pay on the principal amount borrowed as a deduction when you have a loan for your rental property.

You can only claim the portion of the interest that relates to the rental property.

You can't claim the interest on any portion of the loan you use to buy personal items, such as paying school fees or going on a holiday. You must separate the interest for the rental property from interest relating to private use. It's important to take this into consideration when using your investment loan for private purposes.

For more information, see ato.gov.au/Rentalinterestexpenses.

3. Claiming borrowing expenses

If your borrowing expenses are over \$100, the deduction is spread over 5 years or the term of the loan, whichever is shorter. If they are \$100 or less, you can claim the full amount in the income year you incur the expense.

Borrowing expenses:

- include loan establishment fees, title search fees and costs of preparing, stamp duty on the mortgage and filing mortgage documents.

Claiming borrowing expenses (continued)

- don't include stamp duty charged by your state or territory government on the property title (this stamp duty is included in the property's cost for CGT purposes).

Remember to apportion your borrowing expenses in the first year based on the number of days you own the property.

- ❶ For more information and examples, see ato.gov.au/Rentalborrowingexpenses.

4. Claiming purchase costs

You can't claim deductions for the costs of buying your property. These include conveyancing fees and stamp duty (for properties outside the ACT). If you sell your property, these costs are added to the cost base and are used when working out if you need to pay capital gains tax.

- ❶ For more information, see ato.gov.au/Rentalborrowingexpenses.

5. Getting construction costs right

You can claim certain building costs, including extensions, alterations and structural improvements as **capital works** deductions. Generally, you can claim a capital works deduction at 2.5% of the construction cost for 40 years from the date construction was completed.

You use any unclaimed capital works expenses when working out your capital gain or loss when you sell or dispose of the property.

- ❶ For more information, see ato.gov.au/Rentalrepairsfactsheet.

6. Claiming body corporate fees and charges

Payments you make to your body corporate **administration fund** for your rental property are deductible in full in the year you incur them.

You can't claim an immediate deduction when your body corporate raises funds applied to a **special purposes fund** to pay for major capital improvements or repairs of a capital nature.

Once the work is complete, you may be able to claim a capital works deduction for your share of the expense. The cost must be charged to either the special purpose fund or the general purpose sinking fund, if a special contribution has been levied.

- ❶ For more information, see ato.gov.au/rentalbodycorporate.

7. Apportioning expenses and income for co-owned properties

If you own a rental property with someone else, you must declare rental income and claim expenses according to your legal ownership of the property.

As joint tenants your legal interest will be an equal split.

As tenants in common you may have different ownership interests.

8. Apportioning expenses for private use of your property

Any deductions you claim must directly relate to earning assessable rental income. You must apportion your expenses to reflect the area and days it was rented, if you:

- use part of your property to earn rent
- rent it out for part of the year.

Private use of the property includes if you rent to family or friends below market rates or keep it vacant.

9. Keeping the right records

You must have evidence of your rental property income and expenses to claim a deduction.

You need to consider capital gains tax (CGT) when you sell your rental property, so keep all records for the entire period you own it, and for 5 years from the date you sell it.

10. Getting your capital gains right when selling

When you sell your rental property, you may make a capital gain or a capital loss. Generally, this is the difference between:

- what it cost you to buy and improve the property
- what you receive when you sell it.

Don't include amounts already claimed as a deduction against rental income earned from the property, including decline in value (depreciation) and capital works.

Include your capital gain or loss in your tax return in the year you sign the sale contract. Capital losses can be carried forward to reduce capital gains in later years.

- **i** For more information, see ato.gov.au/CGTpropertyale.

i This is a general summary only.

For more information go to ato.gov.au/rental

Watch our short videos at ato.gov.au/rentalvideos

Download our Rental properties guide at ato.gov.au/rentalpropertyguide

Read our Capital gains tax guide at ato.gov.au/cgtguide

