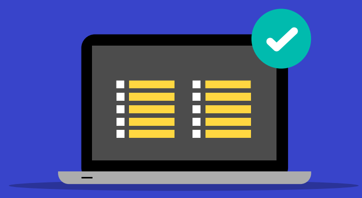
Australian Government
Australian Taxation Office

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. 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, and as tenants in common you may have different ownership interests.

2. Make sure your property is genuinely available for rent

Your property must be genuinely available for rent to claim a tax deduction. This means:

- you must be able to show a clear intention to rent the property
- advertising the property so that someone is likely to rent it and set the rent in line with similar properties in the area
- avoiding unreasonable rental conditions.

3. Getting initial repairs and capital improvements right

Ongoing repairs that relate directly to wear and tear or other damage that happened while renting out the property can be claimed in full in the same year you incurred the expense. For example, repairing the hot water system or part of a damaged roof can be deducted immediately.

Initial repairs for damage that existed when the property was purchased, such as replacing broken light fittings and repairing damaged floorboards are not immediately deductible, but a deduction may be claimed over several years as a capital works deduction. These costs are also used to work out your capital gain or capital loss when you sell the property.

Replacing an entire structure like a roof when only part of it is damaged or renovating a bathroom is classified as an improvement and not immediately deductible. These are building costs that you can claim at 2.5% each year for 40 years from the date of completion.

If you completely replace a damaged item that is detachable from the house and it costs more than $300 (for example, replacing the entire hot water system) the cost must be depreciated over a number of years.

4. Claiming borrowing expenses

If your borrowing expenses are over $100, the deduction is spread over 5 years. If they are $100 or less, you can claim the full amount in the same income year you incurred the expense. Borrowing expenses include loan establishment fees, title search fees and costs of preparing and filing mortgage documents.

5. 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 used when working out if you need to pay capital gains tax.

6. Claiming interest on your loan

You can claim interest as a deduction if you take out a loan for your rental property. If you use some of the loan money for personal use, such as buying a boat or going on a holiday, you can't claim the interest on that part of the loan. You can only claim the part of the interest that relates to the rental property (your interest must be apportioned for the life of the loan).

7. 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.

Where your property was previously owned by someone else and they claimed capital works deductions, ask them to provide you with the details so you can correctly calculate the deduction you're entitled to claim. If you can't get the details from the previous owner, you can use the services of a qualified professional who can estimate previous construction costs.

8. Claiming the right portion of your expenses

If part of your property is used to earn rent or you rent it out for part of the year, you must apportion your expenses to reflect the area and days rented. Your ability to claim rental property expenses depends on whether the property is genuinely available for rent, your private use of the property, or if you rent to family or friends at below market rates.

9. Keeping the right records

You must have evidence of your income and expenses to claim a deduction. Capital gains tax may apply when you sell your rental property, so keep all records for the period you own the property 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.

Your costs must not include amounts already claimed as a deduction against rental income earned from the property, including depreciation and capital works.

If you make a capital gain, include the gain in your tax return for that income year.

If you make a capital loss, you can carry the loss forward and deduct it from capital gains in later years.

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