28 June 2012

Rental property deductions

In preparation for tax time the ATO has put together some tips to help investment property owners correctly claim rental property deductions this year.

This year we are writing to over 100,000 rental property owners, so knowing what you can and cannot claim will help to ensure your return is filled in correctly.

Here are some tips to avoid a follow-up from the ATO:

What can I claim straight away?

- Interest on a loan to:
  - purchase a rental property or purchase land to build a rental property
  - purchase a depreciating asset for the property, such as an air conditioner
  - finance renovations like a deck
- Cost of repairs and maintenance such as:
  - repairs to part of the guttering or windows damaged in a storm
  - maintaining plumbing, repairing electrical appliances or machinery
- Tenancy costs such as:
  - the cost of preparing a lease agreement with your tenant, and
  - costs associated with evicting a tenant.

What can I claim over a number of years?

Expenses that can be claimed over a number of years include:
- the cost of depreciating assets (‘decline in value’ deduction) such as:
  - stoves
  - refrigerator
  - kitchen cupboards
  - air conditioning, and
  - hot water systems
- the cost of building construction and structural improvements (capital works deduction) made by you or a previous owner
- borrowing costs such as:
  - stamp duty charged on a mortgage
  - loan establishment fees, and
  - title search fees charged by your lender

  If these amounts are less than $100 in total they can be deducted immediately, otherwise they are generally deductible over five years or over the term of the loan, whichever is less.

What cannot be claimed?

- deductions for rental properties not genuinely available for rent

- interest on a loan you use to buy a home that you do not use to produce income or from the time you start using the property for private purposes
- borrowing expenses or interest on the portion of the loan you use for private purposes like buying a new car
- travel expenses when the main purpose of the trip is a personal holiday
- stamp duty charged by your state/territory government on the transfer of the property title or leasehold interest
- insurance premiums where under the policy your loan will be paid out in the event that you die, become disabled or unemployed, and
- solicitor fees for the purchase of the property and the preparation of loan documents.

What if I sold a rental property?

You may have a capital gain or loss that you will need to include in your return if you sold a rental property in the 2011-12 financial year unless you acquired it before 20 September 1985.

You can also make a capital gain or loss from some capital improvements made since 20 September 1985 to a property you acquired before that date.

To work out whether you have a capital gain visit www.ato.gov.au/cgt for more information.

More information

The ATO website www.ato.gov.au/rental has information outlining what you can and cannot claim for your rental property.

If you would like to talk to someone at the ATO about tax deductions for rental properties call **13 28 61**.