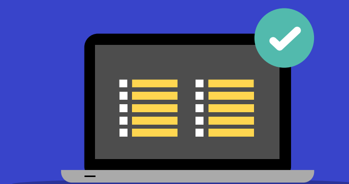
Australian Government
Australian Taxation Office

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. For example, replacing broken window pane and repairing damaged floorboards. You may be able to claim a deduction 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.
- Improvements you make to the property. For example, you replace an entire structure like a roof when only part of it is damaged or renovating a bathroom. These are building costs that you can claim at 2.5% each year for 40 years from the date of completion.
- Damaged items that are detached from the house and cost more than $300. For example, replacing the entire hot water system – the cost must be claimed as a decline in value deduction over several years.

2. Claiming interest on your loan

You can claim interest incurred on the amount borrowed as a deduction if you take out a loan for your rental property.

You can only claim the part of the interest that relates to the rental property. If you use some of the loan 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. If you do this, your interest must be apportioned for the duration of the loan or any refinanced loans, regardless of whether you repay the cost of your boat, holiday or other personal expense. It's important to take this into consideration when using your investment loan for private purposes.

3. 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.
- don't include stamp duty charged by your state or territory government on the property title.

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

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

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.

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 often based on a visit to your property.

6. Claiming body corporate fees and charges

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

If your body corporate raises funds applied to a **special purposes fund** to pay for major capital improvements or repairs of a capital nature, you can't claim an immediate deduction for these amounts. You may be able to claim a capital works deduction for your share of the expense once the work is complete. The cost must also be charged to either the special purpose fund or the general purpose sinking fund, if a special contribution has been levied.

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

8. Apportioning expenses for private use of your property

You must limit the deductions you claim to the periods you can directly connect to earning assessable income. If you use only part of your property to earn rent or you rent it out for part of the year, you must apportion your expenses to reflect the area and days it was rented. Your private use of the property includes if you:

- rent to family or friends below market rates
- keep it vacant.

To claim a tax deduction for periods the property has been kept vacant, you must be able to show a clear intention to rent your property. This includes:

- advertising the property so that someone is likely to rent it by setting the rent in line with similar properties in the area
- avoiding unreasonable rental conditions.

9. Keeping the right records

You must have evidence of your rental property 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.

Don't 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.

This is a general summary only.
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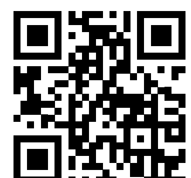
Read our Guide to capital gains tax at ato.gov.au/cgtguide



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