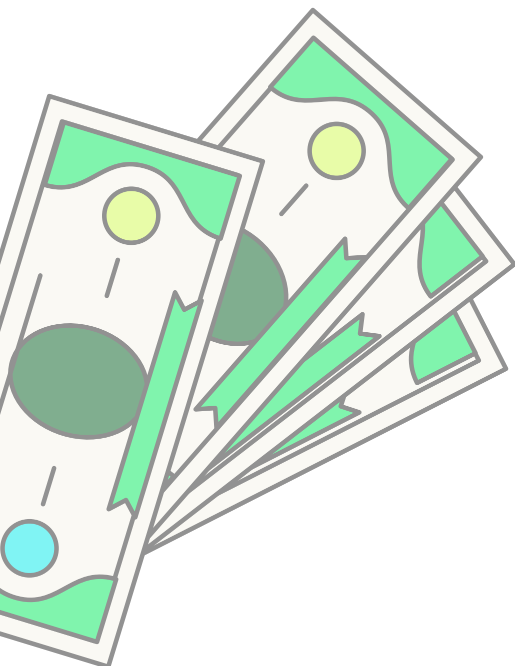
Property investor guide.

Basic tax information in regards to your investment property. This booklet is provided with the compliments of H&R Block.



Income from rent

All income from rent is assessable in the hands of a taxpayer who is the legal owner of the property.

Australian Tax Residents are required to pay tax in Australia on their world wide income, so income from foreign investment properties is taxable in Australia.

Rental income includes the full amount of:

- rent money you earn when you rent out your property.
- rental bond money retained in place of rent or kept because of damage to the rental property requiring repairs.
- an insurance payout received for lost rent or a reimbursement of any rental expenses you have claimed as a tax deduction.

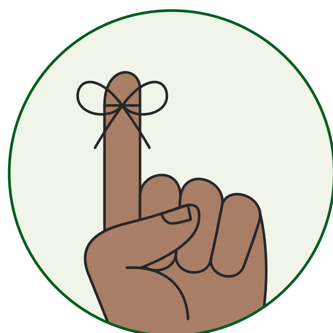
Co-ownership of rental property

If the title deed shows that you are a part owner of the property, include only your share of the rent and expenses on your tax return.

Co-owners who are not carrying on a rental property business must divide the income and expenses for the rental property in line with their legal interest in the property. If they are:

- **Joint Tenants** each hold an equal interest in the property.
- **Tenants in Common** may hold unequal interests in the property – for example, one may hold a 20% interest and the other an 80% interest.

Rental income and expenses must be attributed to each co-owner according to their legal interest in the property, despite any agreement between co-owners.



Note: Interest on money borrowed by only one of the co-owners which is exclusively used to acquire that person's interest in the rental property does not need to be divided between all of the co-owners.

If you don't know whether you hold your legal interest as a joint tenant or a tenant in common, read the title deed for the rental property.

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Rental property expenses

What you can claim

You can claim a deduction for certain expenses incurred for the period your property is rented or is available for rent.

However, you cannot claim expenses of a capital or private nature.

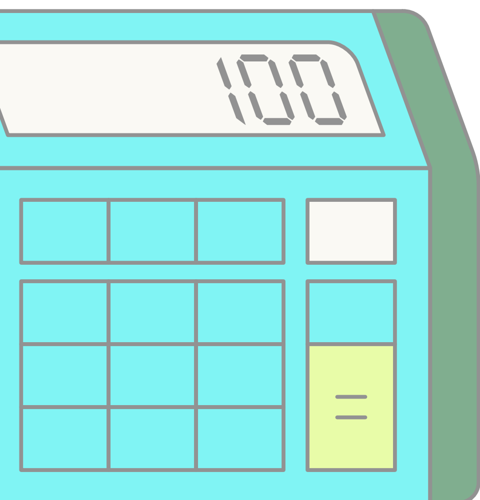
You may be able to claim decline in value deductions or capital works deductions for certain capital expenditure, this is also known as depreciation.

Apportioning expenses

There may be situations where not all of your expenses are deductible and you need to work out the deductible portion.

To do this you subtract any non-deductible expenses from the total amount you have for each category of expense; what remains is your deductible expense.

The following sections give examples of when you may need to apportion your expenses.



1. PART-YEAR RENTAL

If you use your property for both private and income-producing purposes, you cannot claim a deduction for the portion of any expenditure that relates to your private use.

Examples of properties you may use for both private and income-producing purposes are:

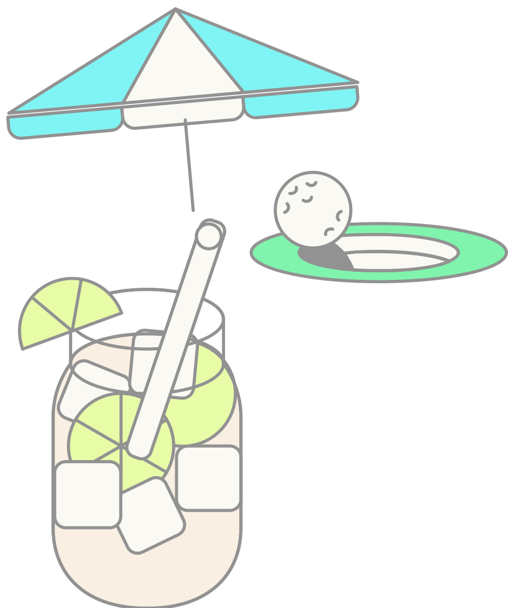
- A property you own changes from being your main residence to a rental property (or from being a rental property to your main residence) part way through the year
- Holiday homes and time share units.

In these cases you can claim expenses only for the period your property was rented or available for rent.

In some circumstances it may be easy to decide when expenditure is private in nature. For example, council rates paid for a full year would need to be apportioned on a time basis according to rental and private use where a property is used for both purposes during the year.

In other circumstances, where you are not able to specifically identify the direct cost, your expenses will need to be apportioned on a reasonable basis.

For Example: Pete will be travelling for 6 months and decides to rent his house while he is away. His property is rented from 1 September to 28 February during this tax year. He can only claim those expenses relating the period it is rented or available for rent.



2. HOLIDAY HOMES

Special rules apply to holiday homes that are rented out and also used for private purposes. If your rental property is also your holiday home, certain deductions relating to the ownership or use of the property (such as interest expenses, borrowing expenses, council and water rates, body corporate fees, repairs and maintenance, capital works and decline in value) will be denied, unless the holiday home is used (or held for use) mainly to produce assessable income. Expenses that relate specifically to the rental income (such as management fees, advertising, cleaning after tenants leave) will still be deductible. When determining whether a property is used mainly to produce assessable income, the ATO do not just consider the amount of time the property is rented or available for rent. You will need to show that you prioritise earning rental income over the private use of the property. The ATO have provided the following examples as a guide:

Example 1: Natalie and Scott own a house in the Barossa Valley. They advertise the property year-round on a sharing economy platform. The property has a high occupancy rate during the usual 4-month peak period, and a low occupancy rate at other times.

Each year, while on holiday, Natalie and Scott stay at the property for one week during peak period, otherwise they actively manage the property to maximise rental income. Natalie and Scott's attitude towards the marketing of the property shows an intent to prioritise income derived from the property, and their personal use is incidental to this. They will be able to claim deductions for the expenses incurred. If Natalie and Scott do stay at the property, they will be required to apportion deductions for their personal use of the property.

Example 2: Andy is an avid golfer. He purchases a property on a golf course in the Hunter Valley, New South Wales. The property is advertised online via sharing economy platforms. Andy stays at the property approximately 1 or 2 Sundays each month to play golf. The property has a minimum stay requirement of 4 nights but has a recurring block-out period on Sundays to allow Andy to use the property when he wishes on those days. Andy also ensures that prospective tenants are made aware that the property has poor mobile phone reception and does not have any internet available for use by tenants. The property is let approximately 5 or 6 times per year for the minimum 4-night stay. Andy is prioritising his personal use of the property over any income-producing use. The property is a holiday home that is not mainly being used to produce assessable income, so Andy will not be able to claim any deductions relating to property ownership. He can only claim a deduction for the costs directly related to the rental, such as management fees, advertising, cleaning of the property after the tenants leave.

3. PART-PROPERTY RENTAL

If only part of your property is used to earn rent, you can claim only that part of the expenses that relates to the rental income.

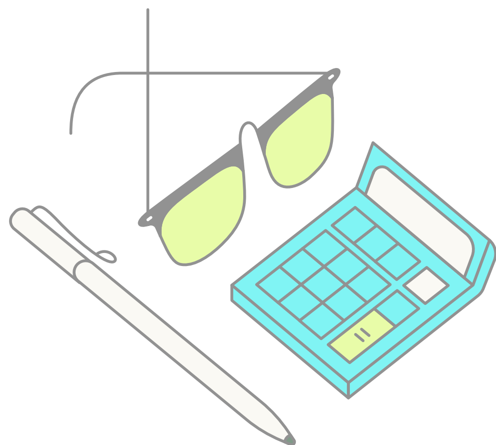
You will need to work out a reasonable basis to apportion the claim. As a general guide, apportionment should be made on a floor area basis.

If you are renting a room in the home you live in, you can only claim deductions for the period the room is available for rent on a commercial basis. The ATO take the view that for any period the room is unoccupied, it is not considered to be available for rent on a commercial basis. This is because when a room in your home is not being rented out, it is treated as being used privately.

For Example: Calculate the floor area in the part of the property that your tenant rents. Then add a reasonable figure for tenant access to the general living areas, including garage and outdoor areas. Take this total and work out what proportion it is of the whole floor area of your property. This will give you a reasonable basis to apportion expenses.

4. RENTING OUT YOUR PROPERTY AT NON-COMMERCIAL RATES

If you rent out your property, or part of your property, at less than normal commercial rates, this may limit the amount of deductions you can claim.



For Example: Karen allowed her friend Geraldine to move into her rental property for six weeks. Geraldine paid reduced rent of $100 per week, although the commercial rate of rent for the property is $200 per week.

Karen incurred rental property expenses of $900 for the six week period.

As the property was rented for personal reasons at less than commercial rates and Karen's expenses exceeded the rent she received, her deductions are limited to $600 (that is $100 x 6 weeks) for the period. In her circumstance, she can only claim deductions up to the amount of rent she received.

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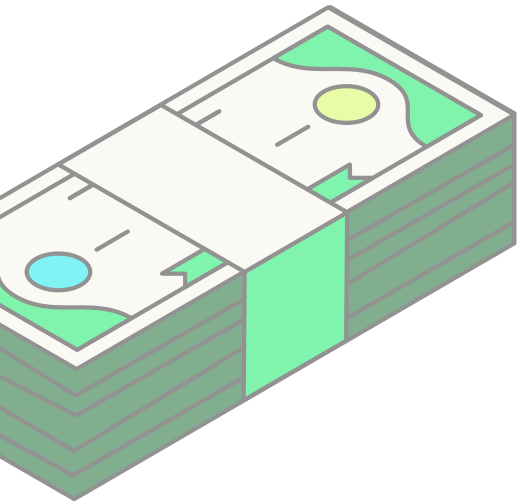


Monies received from a boarder

Monies received from a Boarder under a domestic arrangement, may be regarded by the Commissioner of Taxation as having no tax consequences. The income will not be taxable and expenses will not be allowed as a deduction. Examples of such arrangements are:

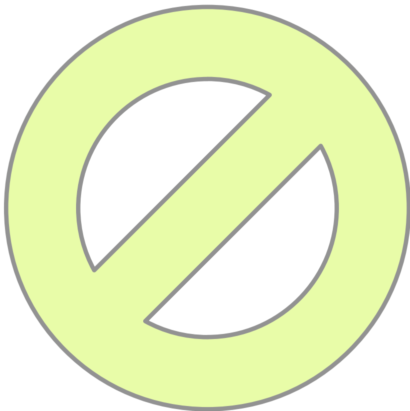
- A family member making a token contribution
- An exchange student not paying commercial rent
- Any other class of Boarder not paying arm's length commercial rent.

Where the tenant is a Boarder paying commercial rent then interest and expenses will be allowed as a deduction apportioned according to area usage. Where the tenant pays for room and board at commercial rates, the cost of meals are also deductible.

Pre-payment of expenses

If you prepay a rental property expense, such as insurance or interest on money borrowed, that covers a period of 12 months or less and the period ends on or before the 30 June in the next tax year, you can claim an immediate deduction.

A prepayment that doesn't meet these criteria and is $1,000 or more may have to be spread over two or more years.



EXPENSES YOU ARE NOT ABLE TO CLAIM INCLUDE:

- Costs of acquiring and disposing of your rental property.
  - Examples of expenses of this kind include the purchase cost of the property, real estate agent's fee on sale, surveyor's building reports, conveyancing costs, advertising expenses and transfer or stamp duty on the transfer of the property (you can claim stamp duty on a lease of property).
  - However, if you acquired the property after 19 September 1985, these costs may form part of the cost base of the property for capital gains tax purposes.
- Expenses not actually incurred by you, such as water or electricity charges borne by your tenants.
- Expenses that are not related to rental of a property, such as expenses connected to your own use of a holiday home that you rent out for part of the year.
- Travel and car expenses incurred after 1 July 2017.
- Expense relating to the ownership or use of a holiday home, unless the property is mainly used or held for use to produce assessable income.

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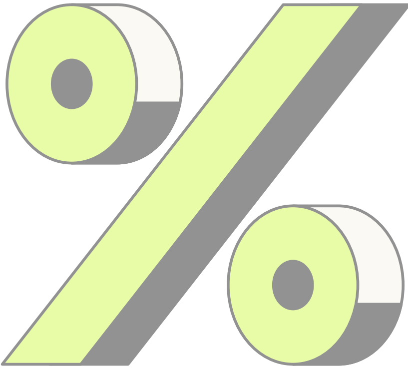
EXPENSES YOU CAN CLAIM IMMEDIATELY

You may be able to claim an immediate deduction in the year you incur the expense for the following rental expenses:

Note: *You can claim a deduction for these expenses only if you actually incur them.*

- advertising for tenants
- bank charges
- body corporate fees
- cleaning
- council rates
- electricity and gas
- gardening and lawn mowing
- in-house audio/video service charges
- insurance – building, contents, public liability
- interest on loans
- land tax
- legal expenses
- lease costs - preparation, registration, stamp duty
- mortgage discharge expenses
- pest control
- property agent’s fees and commission
- quantity surveyor’s fees
- repairs and maintenance
- secretarial and bookkeeping fees
- security patrol fees
- servicing costs – for example, servicing a water heater
- stamp duty on property purchase (ACT only)
- stationery and postage
- telephone calls and rental
- tax-related expenses
- water charges.



Interest on loans

If you take out a loan to purchase a rental property, you can claim the interest charged on that loan, or a portion of the interest, as a deduction. However, the property must be rented, or available for rental, in the income year for which you claim a deduction. If you start to use the property for private purposes, you cannot claim any interest expenses incurred after you start using the property for private purposes.

While the property is rented, or available for rent, you may also claim interest charged on loans taken out:

- to purchase depreciating assets
- for renovations, or
- for repairs.

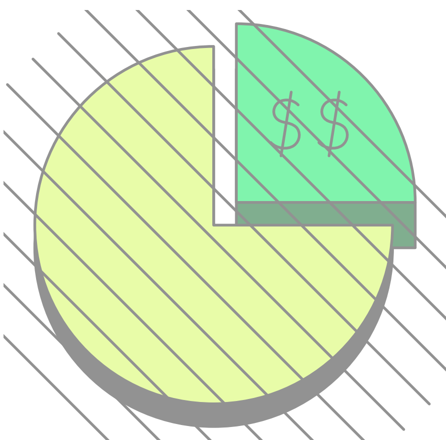
Loan, or part loans used for private purposes

Banks and other lending institutions offer a range of financial products which can be used to acquire a rental property.

Many of these products permit flexible repayment and redraw facilities. As a consequence, a loan might be obtained to purchase both a rental property and a private car. In cases of this type, the interest on the loan must be divided into deductible and non-deductible parts according to the amounts borrowed for the rental property and for private purposes.

Some rental property owners borrow money to buy a new home and then rent out their previous home. If there is an outstanding loan on the old home and the property is used to produce income, the interest outstanding on the loan, or part of the interest, will be deductible.

However, an interest deduction cannot be claimed on the loan used to buy the new home because it is not used to produce income. This is so whether or not the loan for the new home is secured against the former home.

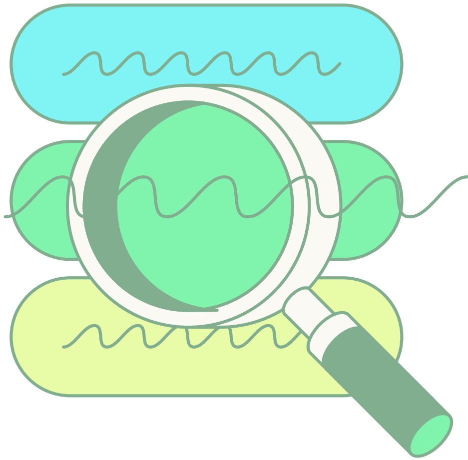


Borrowing Expenses

Borrowing expenses are the expenses you incur to take out a loan to buy property, such as loan establishment fees, lender's mortgage insurance (insurance taken out by the lender and billed to you), title search fees your lender charges, costs for preparing and filing mortgage documents (including solicitors' fees), mortgage broker fees, fees for a valuation required for loan approval, transfer duty stamp duty you pay on the mortgage.

You must claim a deduction for all eligible borrowing expenses for 5 years or spread it over the term of the loan, whichever is shorter.

If the total deductible borrowing expenses are $100 or less, they are fully deductible in the income year you incur them.



GST

THIS ONLY APPLIES TO COMMERCIAL RENTAL PROPERTIES

You charge GST on Commercial properties only if you are registered for GST. You can also claim back the GST on the expenses.

You cannot charge GST on residential properties even if, you are registered for GST as residential properties are input taxed which means they are exempt from GST.

You also cannot claim the GST on expenses incurred for a residential property.

Depreciation and building cost write off

When you replace items that each cost more than $300 or items that are similar, you cannot claim an immediate deduction but the claim is spread over a number of years (depreciated).

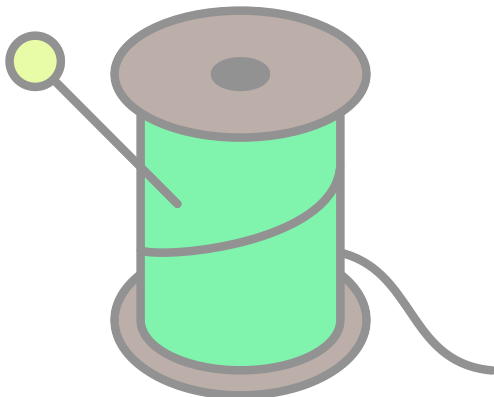
These items are depreciated over a period of time as defined by the 'Life Expectancy' issued by the ATO Commissioner. You will be able to claim a percentage of the cost each year until the cost is all written off.

From 1 July 2017, depreciation deductions on plant and equipment are only available on expenditure incurred by investors on brand new assets for their residential property, not to subsequent owners of the property. Plant and equipment items are usually mechanical fixtures or those that can be 'easily' removed from a property (e.g. dishwashers and ceiling fans). If you purchased (or entered into a contract to purchase) residential property before 7:30PM (AEST) on 9 May 2017 you can claim deductions for depreciation of the assets purchased with the property until the asset reaches the end of its useful life or you no longer own the asset. If you purchase residential property after 9 May 2017, which was previously owned by somebody else, you cannot claim depreciation on plant and equipment which was already in the property when you acquired it. You can however claim depreciation deductions for expenditure on new plant and equipment which you incur after purchasing the property.

The actual cost of the building (not the purchase price) can also be written off over 25 or 40 years depending on the purpose the building was used for.

Deductions can be claimed for the periods that the property was rented or available for rent.

Improvements or Capital Works are also depreciated over the 25 or 40 year period.



Repairs vs improvements

Repairs that you make to the property may be deductible. However, the repairs must relate directly to wear and tear or other damage that occurred as a result of renting out the property.

Repairs generally involve a replacement or renewal of a worn out or broken part – for example, replacing some guttering damaged in a storm or plastering a hole in a wall that was damaged by the tenant.

However, replacement of an entire structure or unit of property (such as a complete fence or building, stove, kitchen cupboards etc) or renovations, extensions or alterations are deemed to be improvements (capital or capital in nature).

Costs for improvements are not available for an immediate deduction but are added to the Capital cost of the properties and may form part of the cost base of the property for Capital Gains Tax purposes.

Costs of improvements may be claimed under the Capital works deductions (25 or 40 year period).

INITIAL REPAIR RULE

The ATO considers that the price you pay for the property takes into account any repairs that need to be undertaken immediately to get the property ready for earning income.

This means that repairs carried out that rectify defects that existed when you purchased the property (even if you weren't aware of the defects at the time of purchase) are not allowable deductions.

The cost of any such repairs should be itemised and kept so that they can be included when calculating any capital gain upon disposal of the property (and possibly reducing it).

REPAIRS WHEN PROPERTY IS NO LONGER AVAILABLE FOR RENT

If the property is no longer available for rent, the cost of repairs may still be deductible provided:

- the need for the repairs is related to the period in which the property was used to produce income and
- the property was income producing during the income year in which the cost of the repairs was incurred which means all repairs must be carried out by 30 June.

CHANGES TO NEGATIVE GEARING

From 1 July 2027, losses related to existing residential investment properties purchased from 7:30pm AEST 12 May 2026 will only be deductible against other income from residential properties, including capital gains.

However, when an investor has excess losses, they will be able to carry forward that excess to offset residential property income in future years. These changes will apply to individuals, partnerships, companies and most trusts. Widely held trusts (for example, most managed investment trusts) and superannuation funds (including SMSFs) will be excluded.

Existing property owner will be able to continue to negatively gear any properties held before the time of announcement (7:30PM AEST on 12 May 2026). All future investors will still be able to negatively gear property investments if they are new builds.

PAYG income tax withholding variations

Where the rental property is negatively geared (expenses and deductions are higher than the rental income) the regular rate of withholding tax on salary and wages would lead to a large credit at the end of the income year.

You may apply to the Commissioner of taxation to vary the amount of tax being deducted from your salary and wages.

The main purpose of varying the amount of withholding is to ensure that the amount of tax being withheld during the income year best meets your end of year liability. By reducing the amount of tax you pay through your salary and wages, you are effectively getting the benefit of paying less tax rather than waiting to lodge the tax return at the end of the year to get your refund.

Record keeping for investment properties and other real estate

Real estate can include your family home, vacant blocks of land, business premises, rental properties, holiday houses and hobby farms.

You will need to keep:

- a copy of the purchase contract and all receipts for expenses relating to the purchase of the property – for example, transfer-duty, legal fees, survey and valuation fees
- all records relating to the CGT event and all relevant expenses – for example, the sale contract and records of legal fees and stamp duty, and
- a record of capital expenditure on improvements, non-capital costs and capital expenditure on maintaining title or right to the asset that you incurred during your period of ownership.

These costs may form part of the cost base in working out whether you have made a capital gain or capital loss at the time the CGT event happens.

Capital expenditure on improvements may include building an extension, addition or improvement, including initial repairs carried out.

You may include only non-capital costs incurred on ownership of a CGT asset acquired on or after 21 August 1991 and only if you are not entitled to a tax deduction for them.

If the property is your home and you use it to **produce income** (for example, by renting out part or all of it), you will need to keep records of the period the home is producing income and the proportion of the home you have used to produce income.

If, after 20 August 1996, you use your home for income-producing purposes for the first time, you will be taken to have acquired your home at that time for its market value. You will use this as your acquisition cost to calculate a capital gain or capital loss at the time the CGT event happens. You will still need to keep details of expenses relating to your home after the date it started producing income.

Due to the Capital Gains Tax changes, for properties sold after 1 July 2027, and held for more than 12 months, it is advisable for property owners obtain a valuation on 1 July 2027. Property owned prior to 1 July 2027 and sold after 1 July 2027 may be eligible for the 50% CGT discount on the gain accrued prior to 1 July 2027. Indexation and the minimal tax will be used to calculate the gains accruing after 1 July 2027. Property owners will have a choice between using the value of the property on 1 July 2027 to calculate the discount capital gain up to that date or a specified apportionment formula that estimates the asset's value on 1 July 2027.

Record keeping requirements

You are required to keep the records pertaining to the purchase of the rental properties, related purchase expenses, costs of improvements and disposal costs, for a period of 5 years after disposal of the property.

Any records relating to income received, as well as any expenses that relate to the income are required to be kept for 5 years from the tax year they are claimed in.

If you are claiming depreciation you need to keep these receipts for 5 years from the last year of claim.

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