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Negative gearing changes for rental properties

The rules for deducting losses from renting out a property are changing from 1 July 2027.

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Changes to negative gearing rules

From 1 July 2027, changes to negative gearing rules will limit when some net rental losses can be deducted from other income, such as salary, wages or business income.
Changes to negative gearing announced in the 2026–27 Federal Budget don’t apply to the 2026–27 income year.

At a glance

From 1 July 2027, changes will limit when some net rental losses can be deducted from other income, such as salary, wages or business income.

The changes will generally apply to an established residential rental property you acquire, or enter into a contract to acquire, after 7:30 pm AEST on 12 May 2026.

If the changes apply, a net rental loss will be used to reduce net rental income from other residential rental properties but will not reduce your other income. Instead, it will be quarantined, and that quarantined amount may only be used against capital gains from residential rental properties in that income year. Any unused amount can be carried forward to a future income year, and can only be used against net rental income, or an eligible capital gain, from a residential rental property.

The changes don't apply to the 2026–27 income year. They will also not apply in some circumstances, such as when the property:

- is new
- was acquired before the Budget announcement time
- is owned by an excluded entity,
- is used or held for a specified activity or purpose.

Note: Some details of these changes are still being considered by Parliament and are not yet law. We will update this guidance when further information is available.

What is negative gearing

Your rental property is negatively geared if your deductible expenses for that property are more than the income you earn from it in the same income year. This results in a net rental loss for that property.

Currently, if your rental property makes a net rental loss, you can deduct that loss from your assessable income, including salary, wages and business income. This reduces your overall taxable income and the tax you must pay.

Changes to negative gearing

The changes to negative gearing **don't** apply if:

- your property is a new residential rental property
- you acquired, or entered into a contract to purchase, an established residential rental property (any residential rental property that isn't new) or your ownership interest in it, before 7:30 pm AEST on 12 May 2026
- you are an excluded entity
- your property is used or held for a specified activity or purpose.

If the changes to negative gearing apply, from the 2027–28 income year onwards, net rental losses from your residential rental properties can't be deducted from your **'other income**'. **'Other income**' is all your assessable income, such as salary and wages and business income, excluding:

- rental income from a residential rental property

- revenue gains from the sale of residential rental properties used in carrying on a business of letting properties or from a profit-making undertaking
- capital gains from the sale of residential rental property.

A net rental loss that can't be deducted from your other income is set aside. This is called a quarantined amount.

Quarantined amounts

A quarantined amount is the net rental loss from residential rental properties that are subject to the negative gearing changes. In future income years, quarantined amounts can **only** be

- deducted from net rental income you earn from a residential rental property
- used to reduce revenue gains you make from the sale of residential rental properties, used in carrying on a business of letting properties or from a profit-making undertaking used to reduce capital gains from a residential rental property.

A quarantined amount that can't be used in the income year it arises, is carried forward to future income years.

If your property is impacted by the negative gearing changes, you can work out your quarantined amount.

How to calculate your quarantined amount

Step 1 – Work out your rental income

Add up all the gross rent and any other income you earned during the income year from your residential rental property.

Step 2 – Work out your deductible expenses

Add up all the deductible expenses you can claim for your residential rental property for that income year.

Step 3 – Work out your net rental income or loss

Subtract the deductible expenses (Step 2) from the gross rental income (Step 1) to work out if you have a net rental loss or net rental income for that property.

For example:

> $20,000 gross rent − $30,000 deductible expenses = $10,000 net rental loss

Or:

> $40,000 gross rent − $15,000 deductible expenses = $25,000 net rental income.

If you have more than one residential rental property that is affected by the changes, you need to combine the relevant income and deductions from those properties when working out your net rental loss. You don't work out a quarantined amount separately for each property.

If you have net rental income, you **do not** have a quarantined amount.

If you have a net rental loss, continue to step 4.

Step 4 – Work out your quarantined amount

If you have net rental income or revenue from the sale of a rental property, not affected by the changes, you reduce your net rental loss by those amounts.

Any remaining net rental loss will be your quarantined amount.

Example: single property – using and carrying forward quarantined amount

Rashid buys an established residential rental property after 7:30 pm on 12 May 2026 and rents it out straight away.

In the 2027–28 income year, Rashid's gross rent from the property is $30,000 and his deductible rental expenses are $45,000. This means Rashid has a net rental loss of $15,000 from the property in the 2027–28 income year.

Rashid's only other income is salary and wages of $140,000.

Rashid's $15,000 net rental loss can't be used to reduce his salary and wage income. It is his quarantined amount for the 2027–28 income year.

In the 2028–29 income year, Rashid's gross rent from the property is $36,000 and his deductible rental expenses are $30,000. This means Rashid made a net rental income of $6,000 for the 2028–29 income year.

Rashid uses $6,000 of the $15,000 quarantined amount (from the 2027–28 income year) and deducts it from his net rental income in the 2028–29 income year. This reduces his net rental income to nil.

Rashid carries forward the remaining quarantined amount of $9,000. In a future income year, he can only use it against net rental income, or an eligible revenue or capital gain, from a residential rental property.

Example: multiple properties – using and carrying forward quarantined amount

Monique bought an established residential rental property (Property A) on 10 January 2000. She bought another established residential rental property (Property B) on 5 November 2026. She rents out both properties, isn't an excluded entity, and doesn't use or hold either property for a specified activity or purpose.

The changes don't apply to Property A because Monique acquired it before 7:30 pm AEST on 12 May 2026. They do apply to Property B because it is an established residential rental property acquired after that time, Monique isn't an excluded entity, and the property isn't used or held for a specified activity or purpose.

In the 2027–28 income year, Monique calculates her quarantined amount as follows:

Step 1 – Work out gross rent

- Property A = $20,000
- Property B = $30,000

Step 2 – Work out deductible rental expenses

- Property A = $15,000
- Property B = $50,000

Step 3 – Calculate the net rental income or loss for each property

- Property A:

  $20,000 – $15,000 = $5,000 net rental income

- Property B:

  $30,000 – $50,000 = $20,000 net rental loss

Step 4 – Calculate the quarantined amount

- Property B has a net rental loss of$20,000. Monique uses the $5,000 net rental income from Property A to reduce her net rental loss to $15,000. The remaining $15,000 is her quarantined amount for 2027–28.

Monique carries forward the $15,000. In a later income year, she can use the carried-forward amount only against net rental income, or an eligible capital gain, from a residential rental property.

For the 2026–27 income year, you won't have a quarantined amount regardless of whether the changes to negative gearing will apply to you in the 2027–28 and later income years. This means you will be able to use your net rental losses to reduce your other assessable income in the 2026–27 income year.

The negative gearing changes only affect residential dwellings that are used or held to provide residential accommodation. If your property isn't used or held for this purpose, these changes don't affect you.

How the changes will apply

This table sets out whether the changes will apply to different property types.

Changes to different property types

Property type	Treatment

Established residential rental properties bought, or which you entered into a contract to buy, before 7:30 pm AEST on 12 May 2026	You can continue to deduct net rental losses from other income (like salary and wages) before and after 1 July 2027 until the property is sold.
New residential rental properties	You can continue to deduct net rental losses from other income (like salary and wages) before and after 1 July 2027 until the property is sold.
Established residential rental properties bought, or which you entered into a contract to buy, after 7:30 pm AEST on 12 May 2026 and before 1 July 2027 (transitional arrangements)	You can deduct net rental losses from other assessable income (like salary and wages) until 30 June 2027, but not from 1 July 2027. From 1 July 2027, net rental losses are quarantined amounts and can be used to reduce net rental income, revenue or capital gains from residential rental properties you own. Quarantined amounts which can't be used will be carried forward to future income years.
Established residential rental properties purchased on or after 1 July 2027	Net rental losses will be quarantined amounts. The quarantined amounts can be used to reduce net rental income, revenue gains or capital gains from residential rental properties you own. Quarantined amounts that can't be used will be carried forward to future income years.

Residential rental properties

A residential rental property is any 'dwelling' used or held to provide residential accommodation, but excludes:

- caravans, mobile tiny homes or mobile homes
- hotels, motels, inns, hostels or boarding houses
- property providing accommodation to students in connection with a school or education institution that isn't a school
- boats or other marine vessels.

A 'dwelling' is generally a building or structure used to provide residential accommodation, whether for short-term or long-term occupation. This includes a detached or semi-detached house, apartment or townhouse.

To the extent that either of the following are available for use by the occupant of your rental property, they are taken to be part of the property:

- land adjacent to the property
- a garage, storeroom or other structure associated with the property.

Properties which aren't used to provide residential accommodation (commercial or non-residential properties) aren't subject to the changes to negative gearing.

Example: rental property not used for residential accommodation

Neville owns a commercial building which is rented out to tenants who use the separate spaces in the building as retail outlets or business premises.

During 2027–28, Neville makes a net rental loss from the property.

As Neville doesn't use his rental property to provide residential accommodation, he can deduct a net rental loss from his other income. His net rental loss isn't a quarantined amount.

New residential rental properties

New residential rental properties aren't subject to the changes to negative gearing. Whether a property is a new residential rental property depends on specific requirements, which may include the type of property, how the property was created, when you became the owner and whether it genuinely adds to housing supply in Australia.

You shouldn't assume that properties being advertised or sold as new or near new will automatically be new residential rental properties.

Note: The meaning of a new residential rental property is subject to the final legislation. We will update our guidance when further information is available.

Date property acquired

When you acquired your residential rental property, or your ownership interest in it, can affect whether the negative gearing changes apply to you.

If you enter into a contract to purchase a residential rental property, or an ownership interest in it, you are taken to have acquired the property or your share of it on the date you enter into the contract.

Special rules may apply if you acquire a property interest from a deceased estate or a relationship breakdown. In some circumstances, you may be taken to have acquired your interest at the same time as the former owner acquired it.

Property interests acquired from a deceased estate

If you acquire a residential rental property because of the death of another person, you may be taken to have acquired that interest when the deceased person originally last acquired their interest.

This means if the deceased person acquired the property interest before 7:30 pm AEST on 12 May 2026, you may be treated as having acquired it before that time as well.

Property interests acquired following a relationship breakdown

If you acquire a residential rental property, or an ownership interest in a property, from your current or former spouse or partner because of a relationship breakdown, you may be taken to have acquired that interest when the other person originally acquired it.

That means if the transferring spouse or partner acquired the property interest before 7:30 pm AEST on 12 May 2026, you may be treated as having acquired it before that time as well.

Excluded entities

The changes to negative gearing won't apply if you are either a:

- widely held unit trust (a fixed trust that is a unit trust and not closely held).
- complying superannuation entity, including:
  - complying superannuation funds
  - complying self-managed superannuation funds
  - pooled superannuation trusts.

A widely held unit trust is generally a unit trust with a large number of investors. They commonly include certain managed investment structures that are available to a broad group of investors.

Used or held for a specified activity or purpose

You won't have a quarantined amount from a residential rental property to the extent the property is used or held for certain activities or purposes specified in the law. This exemption may apply only to the extent that a residential rental property is used or held for a specified activity or purpose.

Note: The details of the specified activities or purposes are subject to the final legislation. We will update this guidance when further information is available.

Records you must keep

You must keep records that show:

- when you entered into the contract to buy your ownership interest in the residential rental property
- settlement date

- construction or completion documents, if relevant
- gross rental income and deductible rental expenses
- how the residential rental property was used or held
- documents supporting whether you are an excluded entity
- documents supporting whether the property is a new residential property.

Good record-keeping will help you work out if the changes apply to you and how any quarantined amounts should be treated.

QC 108354

What to consider before buying a rental property

If you're buying a rental property, it's important you get the right advice from the very beginning.

Last updated 24 March 2026

Before you buy your rental property

When you’re preparing to buy a rental property, there are a few important things to think about to make sure you start off on the right track.

Get the right information

Whether you have just bought a rental, or you are thinking about buying one, it’s important to get the right information before you start. Speaking with a registered tax agent, or doing your own research from a reliable source (like our website) can help you prepare and understand why you need to:

- keep records right from the start
- work out what expenses you can claim as deductions (including how and when)

- work out if you need to pay tax instalments (PAYG Instalments) throughout the year
- declare all rental-related income in your tax return
- consider the capital gains tax (CGT) implications if you sell.

You should also check this information regularly to ensure you're relying on the most up-to-date advice.

Tax agents must be registered with the Tax Practitioners Board (TPB). You can find a registered tax agent or check if a person is registered by visiting the TPB website.

For more help see, Residential rental properties.

Use our net rental income worksheet to find common rental expenses and help you estimate if a property is likely to generate a net income or loss before you buy.

Example: getting information from a reliable source

Jing decides to buy a rental property.

Jing hasn't owned a rental property before and is feeling overwhelmed by some of the information she has found online. Her friends offer to help.

Jing bases her early decisions on the information her friends give her instead of getting her information from a reliable source like a tax professional or our website. She doesn't consider how these decisions will affect her tax situation.

Learn which records you need to keep

The key to making tax time easier is keeping good records and creating a record system that works for you.

When you buy a rental property, you will need to keep records from the time you buy the property, through to 5 years after you sell it.

There are many types of rental records you will need to keep. These can be in either paper or digital format. We recommend you keep a back-up of all your digital records.

Understand your expenses before getting started

There are a number of rental expenses you may incur when preparing to buy a rental property. Not all of these expenses can be claimed in your tax return.

Borrowing expenses can be claimed as a deduction spread over 5 years, or the term of your loan – whichever is shorter. This includes things like:

- loan establishments costs
- title search fees
- lenders mortgage insurance.

Expenses that you can't claim include:

- the amount you borrow to buy the property
- stamp duty charged by your state or territory government
- legal expenses, including solicitors' and conveyancers' fees for the purchase of the property.

Instead, you may be able to include these amounts in the cost base of your property. This can help you reduce the amount of Capital gains tax (CGT) you pay when you sell your property.

Example: expenses that can't be claimed in your tax return

Jing tries to understand what her budget and potential cash flow will be.

She has a lot of costs during this period, such as:

- state government taxes
- building and pest control inspections
- council rates
- purchasing and title transfer costs.

Jing assumes that as these costs are related to purchasing the property, she can claim them in her tax return.

Jing checks the ATO website and learns that purchasing and title transfers costs **are not deductible**. Instead, these costs need to be included in her cost base which is used to work out her capital gain (or loss) when she sells the property.

When you've bought the rental, but before it's tenanted

Before you rent your property, there may be existing damage that you want to repair.

Decisions on making repairs before your property is rented

If you do any work to repair damage that existed to your property when you first purchased it, these are called ‘initial repairs’. For example, scuffed walls or damaged floorboards.

These are **capital expenses**, and you can’t claim them as a deduction right away.

Initial repairs are part of the acquisition cost and included in the cost base of the property for CGT purposes, unless they're:

- capital works
- depreciating assets.

Example: painting the walls before the property is rented

Jing decides to have her rental property painted throughout, before seeking a tenant. Jing assumes she can claim the work as an immediate deduction.

However, Jing makes this decision before understanding how the event will be treated in her tax return. If she knew she couldn’t claim it straight away, she may have decided to spend the money on painting later when she didn’t have as many initial expenses.

After your property is rented

When your property is rented, you'll need to manage ongoing decisions about repairs, maintenance and improvements, and prepare for lodging your first tax return as an investor.

Know what income you will need to report

You must declare all the income you receive for your rental property in your tax return.

Some examples include:

- rental income you receive from tenants (including cash payments)
- bond money you retain (if tenants leave damage to your property)
- insurance payouts (whether for loss of rent, damage from a natural disaster, or another unexpected event).

Example: property damaged while rented out

Jing now has tenants renting her rental property.

A short time later, the roof gets damaged during a storm. There is one section of broken tiles, but the rest of the roof is still in good condition. Jing makes a claim through her landlord insurance.

She arranges for the damage to be repaired and pays the contractor.

The insurance company agrees to reimburse Jing for the repairs and pays her a lump sum.

Jing will need to report this lump sum amount as assessable income in her next tax return and claim a deduction for the cost of the repair to the roof.

Understanding repair, maintenance or improvement

You may incur some expenses to complete works on your rental property. For example, fixing a broken shower, replacing the carpet, or building a new fence.

If and how you can claim these expenses as deductions will depend on whether the work is a repair, maintenance, or improvement to your rental property.

Generally, if you:

- replace a part of something that is worn out, damaged or broken because of renting out the property, it's likely to be a repair
- do work to prevent deterioration or fix existing deterioration to keep the property in a tenantable condition, it's likely to be maintenance
- renovate, replace an entire structure that's partly damaged, or add a new structure to improve the property, it’s an improvement – and likely to be capital works.

Use our quick reference guide to work out the category of your rental property expense.

Example: when both maintenance and improvements are made

Jing receives an annual statement from her property manager at the start of the new financial year.

With Jing's agreement, the property manager arranges for a gardener to cut the grass and maintain the plants on a monthly basis.

At Jing's instruction, the gardener also lays some pavers around the back door as the ground is boggy. The tenants are very happy with the improvement.

However, the gardener has invoiced the work together as a lump sum instead of separating the gardening (maintenance) and the paving (capital works improvement). Jing needs to ask the property manager to arrange for separate invoices so she can claim appropriately.

Lodging your first tax return as an investor

When you lodge your first tax return as an investor, you will need to make sure you have all your information available, including:

- all rental income you received

- dates that the property was rented
- evidence of all your expenses.

If you lodge with a tax professional, it's best you speak to them as early as possible (for example, when you first buy a rental property). They can let you know exactly what details you will need, and which records you need to keep.

Example: lodging a tax return for the first time as an investor

Jing visits her tax agent, Darsha, in July. She takes her receipts and the annual landlord statement from her property manager. Darsha is surprised to learn that Jing has purchased an investment property.

Darsha gives Jing the ATO's Rental properties guide. She explains the different deductions Jing will be able to claim immediately, those that can be claimed over a period of time, and those that are included in the cost base when selling the property.

Jing is surprised to find out she can't claim an immediate deduction for the painting work. This is because the expense was incurred to make the property suitable to be rented so it is an initial repair.

Authorised by the Australian Government, Canberra.

QC 106252

Owning and renting a property or holiday home

Understand the tax requirements for owning and renting a property and holiday home and what records you should keep.

Last updated 21 May 2026

Renting out your property or holiday home

If you rent out property, you need to:

- keep records right from the start
- work out what expenses you can claim as deductions
- work out if you need to pay tax instalments throughout the year
- declare all rental-related income in your tax return
- consider the capital gains tax implications if you sell.

If you have an investment property that isn't rented or isn't held to produce assessable income, then you generally can't claim deductions because it doesn't generate rental income. If the property is your holiday home, ownership and use expenses can't be claimed unless the property is used (or held for use) mainly to produce rental income.

If you buy a rental property or holiday home, you'll need the date of purchase and costs of buying the property as part of your records. The date you enter into the contract is the purchase date (not the settlement date) for capital gains tax purposes.

Co-owning rental property

If you co-own the property you'll need to know your ownership interest, to make sure you:

- keep the right records
- report the correct share of the rental income
- claim the correct amount for expenses you incur.

For more information, go to the rental properties guide – Co-ownership of rental property.

Buying a home

If you buy a home that is your main residence, you should also keep records. You'll need these records to make sure you don't pay more tax

than you need to, if you later decide to:

- make your residential property available for producing assessable income
- rent out all or part of your home through the sharing economy
- use all or part of your home to produce income.

For more information, see:

- TR 2026/1 *Income tax: rental property income and deductions for individuals who are not in business*
- PCG 2026/2 *Apportionment of rental property deductions – ATO compliance approach*
- PCG 2026/3 *Application of section 26-50 of the Income Tax Assessment Act 1997 to holiday homes that you also rent out – ATO compliance approach.*
- Keeping records for property.

Investment or business

Most rental activities are in the form of an investment. You need to work out if your activities amount to:

- carrying on a business
- a domestic arrangement
- sharing part of your home
- a holiday home that isn't used, or held for use, mainly to produce rental income
- normal commercial practices.

For more information see, Rental property as investment or business.

If you're investing in property you intend to rent out as affordable housing, there are registration requirements and criteria you need to meet. See, Investing in affordable rental housing.

Foreign resident investors

If you're a foreign resident or a temporary resident and you plan to invest in residential rental property, you'll first need to:

- apply for approval, pay the application fee and wait to be approved before you make a purchase
- keep the right records
- report the correct share of the rental income.

Rental property video series

Media: Rental property video series
https://ato.vudoo.io/embed/44255332639 (**Duration:** 0:15)

For more information about rental and investment properties, see:

- Rental properties guide
- Tax time toolkit for investors.

QC 23627

Rental income you must declare

Check which rental income you must declare and where you should declare it in your tax return.

Last updated 21 May 2026

What you must declare

You must declare all the income you receive from renting, leasing or licensing your rental property (including from overseas properties) in your tax return. This includes:

- short-term rentals
- renting your property through a sharing platform
- renting part or all of your home

- formal and domestic arrangements where you rent out to family and friends whether for commercial (or market) rates or at less than those rates.

Types of rental income

Rental income can be payments you receive in cash or in the form of goods and services. You need to work out the monetary value of any payments you receive in the form of goods and services.

Rental income is payment for rent from your tenant. This is paid to either you, your agent or a property manager.

Payments relating to your rental income may include:

- bond money you retain in place of rent or keep because of damage to the property
- letting and booking fees you retain when renters or holiday makers cancel a booking
- insurance payouts, such as
  - damage from a natural disaster (such as a bushfire, flood or cyclone)
  - damage from an unexpected event (for example a burst sewage pipe)
  - for the loss of rent
- money you receive from a relief fund in a disaster
- payments for deductible expenses, such as
  - payments from a tenant to cover the cost of repairing property damage
  - government rebates for buying a depreciating asset (for example, a solar hot water system)
- lump sum payments of rental income
- any assessable amounts relating to limited recourse debt arrangements involving your rental property.

For more information, see:

- TR 2026/1 *Income tax: rental property income and deductions for individuals who are not in business*
- PCG 2026/2 *Apportionment of rental property deductions – ATO compliance approach*
- PCG 2026/3 *Application of section 26-50 of the Income Tax Assessment Act 1997 to holiday homes that you also rent out – ATO compliance approach.*

Domestic arrangements

Payments you receive from householders or family members that relate to the provision of family care or shared responsibility for household expenses are of a domestic nature. This means you:

- don't declare the amount you receive as income
- you can't claim deductions for any expenses.

However, amounts you receive in a shared household or family situation are assessable income to the extent they relate to providing a lease or licence for the use of your property. You need to work out if the:

- the amounts received are for shared household expenses or as a payment for the use of the property under a lease or licence
- arrangements are consistent with normal commercial practices in the area
- amount you receive is less than the commercial rent for the property.

If the arrangement for the use of the property under a lease or licence is consistent with the market rate rent for the property under normal commercial practices, we treat you the same as any other owner in a comparable arms-length situation.

If you are renting your property to family or friends and not charging rent at a market rate, it is likely your property has a mixed use of producing assessable income and a private or domestic use of providing accommodation for your family or friends. In these situations, your deductions should be apportioned to exclude the private or domestic use of the property. Where your expenses that would otherwise be deductible exceed the rent received, we will accept that

it is fair and reasonable for you to limit those deductions to the amount of the rental income derived from the property, resulting in no net rental taxable income or loss.

For more information, see:

- TR 2026/1 *Income tax: rental property income and deductions for individuals who are not in business*
- PCG 2026/2 *Apportionment of rental property deductions – ATO compliance approach*
- PCG 2026/3 *Application of section 26-50 of the Income Tax Assessment Act 1997 to holiday homes that you also rent out – ATO compliance approach.*

Rental income and completing your tax return

You must declare rental income and related payments in your tax return in the year your tenant pays rent. If your tenant pays rent to your agent or property manager, declare rental income in the year your tenant pays them, not when it's transferred to you.

You need to declare rental income based on your legal ownership of the property. For example, if you own 50% of a property you must declare 50% of the rental income in your tax return.

Example: reporting rental income

Stephanie and Patrick own a unit as tenants in common in equal shares (50% each). They have rented the property for the full year, via a property manager. The property manager takes care of routine maintenance and deducts the expenses and property management fees from the rental income the tenant pays. The balance is then paid into Stephanie and Patrick's bank account.

The tenant gives notice that they will be moving out and directs the property manager to use their bond to pay the final month's rent. The bond is released to the property manager on 30 June 2026. The income isn't paid into Stephanie and Patrick's account until 4 July 2026.

When Stephanie and Patrick are preparing their tax return, they need to ensure they:

- report the gross rent they earn, before it's reduced by property management fees and any expenses paid on their behalf by the property manager
- include the bond money retained for the final month's rent in their 2026 tax return as income, as that's the year it was received by the property manager
- report their income and expenses according to their legal ownership (50% each).

Where to report

In your individual tax return, include amounts that you earn:

- in Australia at 'You had Australian interest, or other Australian income or losses from investments or property'
- from overseas property at 'Other foreign income'.

You can claim a foreign income tax offset for the tax you pay on rental income you earned in another country.

There are also special rules that apply to the deductibility of rental expenses that you can claim against your foreign rental income.

Media: How to include rental income and expenses in myTax https://tv.ato.gov.au/media/bd1bdiubtjsfhw (**Duration:** 1:56)

QC 23632

Deductions for a rental property that isn't a holiday home

Your rental property must be rented out or available to rent on commercial terms to claim deductions for your

expenses.

Last updated 21 May 2026

Claiming deductions for a holiday home

If your rental property is also your holiday home, see Holiday homes for information about what expenses you can and can't claim as deductions.

Claiming rental expenses as a deduction

For a property that isn't a holiday home, you can claim a deduction for expenses that relate to a rental property you own if the expenses are incurred in gaining or producing your assessable rental income. This means your property must be either:

- used to produce assessable income, that is, rented to a tenant
- held to produce assessable income on commercial terms.

There are also some rental expenses you can't claim regardless of whether the expenses are incurred in gaining or producing your assessable rental income.

Certain factors indicate whether a rental property is held to produce assessable income or isn't held to produce assessable income.

Depending on how you use your rental property, you may have to reduce deductions for some of your expenses.

For more information on the expenses you may be entitled to claim, see How to claim rental expenses and Common property expenses.

Rental property is held to produce assessable income

Your property is held to produce assessable income where your property is available for rent on commercial terms.

Factors that show a property is available for rent on commercial terms include:

- it being advertised in ways that give it broad exposure to possible tenants
- the rental terms, including the rate of rent, are similar to comparable properties in the same area
- requests to rent the property being actively monitored.

If you rent a room in your home, your property will not be available for rent on commercial terms on days when the room is unoccupied during the income year.

Example: property not held to produce income for part of the year

Jemima owns a 2-bedroom apartment Sydney. To help pay off her mortgage, Jemima lists the second bedroom on a sharing economy platform. Jemima's second bedroom is advertised on the platform for the entire year of income.

During the income year (which is not a leap year), Jemima rents the second bedroom in her apartment for a total of 86 days.

Jemima's second bedroom isn't available for rent on commercial terms for the days it is unoccupied, that is 279 days (365 days - 86 days) of the income year.

Jemima can claim a deduction for the expenses directly incurred in earning rent from her second bedroom, that is, platform fees and cleaning expenses after a guest stay. However, the other expenses she incurs in earning her rental income will need to be apportioned using both the:

- area-based method – the floor area of the second bedroom and 50% of the area of the common areas divided by the total floor area of the apartment
- time-based method – days used for rent (86 days) divided by the number of days in the income year.

Example: property held to produce assessable income

Patrick owns a property in Hobart which he wants to rent out on a long term basis. He engages a real estate agent to find a tenant and manage the property for him.

Patrick's agent provides him with a list of similar rental properties in the area and the amount they currently rent for. After considering this and further discussions with his agent, Patrick decides on a weekly rent amount which reflects the market rate for his property. The property is then advertised for rent by the agent.

After 2 weeks on the market, Patrick has received no applications so his agent suggests he drops the weekly rent by $50. After dropping the rent, he receives several applications over the next week which are all passed onto Patrick to consider. Patrick selects a tenant who moves into the property 2 weeks later (5 weeks after it was first advertised for rent).

Patrick's rental property is available for rent on commercial terms during the 5 week period starting from when the property is listed with real estate agent and up to when the tenants move in.

For more information on how to apportion your expenses if your property isn't rented or held to produce assessable income, see Claim the right amount of expenses – methods of apportionment.

Rental property isn't held to produce assessable income

Factors that show a property isn't held to produce assessable income, that is, available for rent on commercial terms include:

- it being advertised in ways that limit its exposure to potential tenants – for example, the property is only advertised
  - at your workplace
  - by word of mouth
  - on restricted social media groups

  - during periods when the likelihood of it being rented out is very low
- the property is blocked out for private usage by you or your family and friends (at less than market rates) during periods of likely rental demand
- the location, condition of the property, or accessibility of the property mean that it's unlikely tenants will seek to rent it
- placing unreasonable or stringent conditions on renting out the property, when compared to similar properties, that reduce the likelihood of the property being rented out, for example
  - setting the rent above the rate of comparable properties in the area
  - requiring prospective tenants to provide references for short holiday stays as well as having conditions like ‘no children’
  - making parts of the property inaccessible to tenants
- requests to rent the property are not actively monitored or you refuse to rent out the property to interested people without adequate reasons.

These factors generally show you:

- don't have a genuine intention to earn rental income from the property
- may have other purposes, such as using it or reserving it for personal use.

Example: property not held to produce income

Jay owns a property in Adelaide. He lists it with a real estate agent for long term rent but against their advice, Jay sets the rent higher than the amount that similar properties in the area rent for.

Over the income year, Jay's real estate agent has received 2 applications to rent the property. Jay has rejected both applications. At various times during the income year, Jay's agent advises him to reduce the rent to attract more attention however Jay refuses.

Jay's property isn't held to produce income. He can't claim a deduction for any expenses incurred in respect of the property for the income year.

For more information, see:

- TR 2026/1 *Income tax: rental property income and deductions for individuals who are not in business*
- PCG 2026/2 *Apportionment of rental property deductions – ATO compliance approach*
- PCG 2026/3 *Application of section 26-50 of the Income Tax Assessment Act 1997 to holiday homes that you also rent out – ATO compliance approach.*

QC 66383

Rental property as investment or business

If you own a rental property or holiday home, work out if your rental arrangements are for investment or business.

Last updated 22 June 2026

Common rental arrangements

Common rental arrangements include where you:

- rent part of the property (rent out a room)
- rent the property for part of the year
- have a domestic arrangement with family members (meaning, you receive payment for board and lodging)
- rent the property to your family or friends

- rent your property consistent with normal commercial practices (arms-length arrangements).

Find out more about Rental income you must declare.

Rental investors

Most owners are investors who are not in the business of letting rental properties, even where they own more than one investment property. This is because they:

- have minimal involvement in rental activities (for example, interviewing potential tenants or inspecting the property)
- still rely on income from other sources, like their job.

Carrying on a business of letting rental properties

Your income from the letting of property to a tenant, or multiple tenants, will not typically amount to the carrying on of a business, as such activities are generally considered a form of investment rather than a business.

As the owner of rental properties, some of the factors that show you are carrying on a business of letting rental properties are the:

- significant size and scale of the rental property activities
- significant number of hours spent on the activities
- extensive personal involvement in the activities
- business-like manner in which the activities are planned, organised and carried on.

There are 8 indicators to determine if a business is being carried on. These are listed in paragraph 13 of TR 97/11 *Income tax: am I carrying on a business of primary* production? Although the ruling refers to primary production, these are equally relevant to non-primary production activities.

Example: not carrying on a business

Saania owns 16 rental properties, 14 of which are managed by real estate agents. Saania frequently attends personally to rental property matters, for example collecting rent and arranging for repairs to be done. She also undertakes regular analysis to measure the financial performance of her rental properties.

Saania isn't carrying on a business of property investing because the activities are no more than letting properties.

Example: carrying on a rental property business

Mr and Mrs Smith own several rental properties either as joint tenants or equal tenants in common. They own 8 houses and 3 apartment blocks. Each block comprises 6 residential units. So, they own a total of 26 rental properties.

The Smiths actively manage all of the properties. They devote a significant amount of time to these activities – an average of 25 hours per week each. They undertake all financial planning and decision-making for the properties. They interview all prospective tenants and conduct all of the rent collections. They carry out regular property inspections and attend to all of the everyday maintenance and repairs themselves or organise for them to be done.

The Smiths are carrying on a rental property business. This is indicated by the following factors:

- the significant size and scale of the rental property activities
- the number of hours they spend on the activities
- their extensive personal involvement in the activities
- the business-like manner in which the activities are planned, organised and carried on.

For more information, see Property used in running a business.

QC 66425

Records for rental properties and holiday homes

Find out about what records to keep and for how long for rental properties and holiday homes.

Last updated 21 May 2026

How long to keep rental records

You need to keep records for **5** years. Depending on your situation, that is 5 years from the date:

- you lodge your tax return
- of your last claim for the decline in value of an asset
- it is certain that no capital gains tax event can occur after you acquire, sell or otherwise dispose of property
- you resolve any disputes you have with us.

If you incurred a tax loss or made a net capital loss in an income year, you should keep records relevant to how you calculated the loss until at least the end of the time limit you have to amend the assessment for the income year when the tax loss is fully deducted or net capital loss is fully applied to other capital gains.

You will need these records to work out how much:

- rental income you need to declare
- you can claim as a deduction for your expenses
- capital gain or loss you make when you dispose of your rental property.

In some circumstances, you may need to provide these records as proof that you were the one to incur the expense.

Format of your rental records

Rental records must be in English or be readily translatable into English.

You can keep your records in either paper or digital format. If you make copies, they must be a true and clear copy of the original.

We recommend you keep a back-up of all your digital records.

Types of rental records to keep

You should keep records of the following transactions for your rental property or holiday home:

- Rental income
- Rental expenses
- When you buy a rental
- While you own a rental
- When you sell a rental

Rental income

Records of the amounts you receive, for example:

- a statement from your property or managing agent
- a rent book or bank statements that shows the rental payments going into your account
- documents that show a record of any bond money you retain in place of rent.

For more information on rental income, see Rental income you must declare.

Rental expenses

Records for expenses you incur, for example:

- bank statements showing the interest charged on money you borrowed for the rental property
- loan documents
- land tax assessments
- documents or receipts that show amounts you pay for the property, for example:

  - advertising (including efforts to rent out the property)
  - bank charges
  - council rates
  - gardening
  - property agent fees
  - repairs or maintenance
- documents showing details of expenses related to:
  - the decline in value of depreciating assets
  - any capital works expenses, such as structural improvements
- before and after photos for any capital works.

If you have a holiday home and weren't able to deduct ownership and use expenses, you may be able to add these amounts to the cost base of the property when you sell it, so you should keep records that relate to these expenses.

When you buy a rental property

Records when you buy (invest) in a rental property, for example:

- contract of purchase
- conveyancing documents
- loan documents
- costs to buy the property
- borrowing expenses.

While you own a rental property

Records for while you own a rental property, for example:

- documents that show periods of personal use by you or your friends
- documents that show periods the property is used as your main residence
- loan documents if you refinance your property

- documents, receipts and before and after photos for capital improvements
- tenant leases
- documents for all rental expenses.

When you sell your rental property

Records for when you sell or otherwise dispose of your rental property, for example:

- contract of sale
- conveyancing documents
- sale of property fees
- calculation of capital gain or loss.

Records for multiple properties

Keep separate records for each property, if you have:

- more than one property (including a block of apartments or similar)
- a duplex
- property that has been sub-divided.

This will ensure that you declare the correct rental income and claim the correct rental expenses for each property. It will also ensure that if you later sell or otherwise dispose of one or part of a property, you will have records to work out your capital gain or loss.

QC 66379

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We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

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