# Residential rental properties

If you own a residential rental property, find out about keeping records, declaring income and claiming expenses.

## Owning and renting a property or holiday home

Find out about owning and renting a property and holiday home and check what records you should keep.

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Our resource for anyone earning money from their investments, whether you invest in property, shares or crypto assets.

QC 23626

# Owning and renting a property or holiday home

Find out about owning and renting a property and holiday home and check what records you should keep.

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## 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 available for rent, such as a holiday home, then you generally can't claim deductions because it doesn't generate rental income.

If you invest in (buy) a rental property or holiday home, you will 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 will 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 (your main residence), you should also keep records. You will 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 rent
- 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 IT 2167 *Income tax: rental properties – non-economic rental, holiday home, share of residence, etc. cases, family trust cases*.

## Investment or business

Most rental activities are in the form of an investment. See, Rental property as investment or business, to work out if your activities amount to:

- carrying on a business
- a domestic arrangement
- sharing part of your home
- normal commercial practices.

If you are 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 are a foreign resident or a temporary resident and you plan to invest in residential rental property, you will 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

Watch our videos to learn about your tax obligations when investing in a rental property.

For more information about rental and investment properties, see:

- Rental properties guide
- Tax time toolkit for investors.

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# Rental income you must declare

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

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## On this page

## What you must declare

You must declare all the income you receive for your rental property (including from overseas properties) in your tax return. These include:

- short-term rentals (for example, a holiday home)
- renting your property through a sharing platform (for example, AirBNB, HomeAway or Flipkey)
- renting part or all of your home (for example, renting out a room)
- formal and domestic arrangements where you rent out to family and friends at less than commercial (or market) 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. These are 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 (such as 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 IT 2167 *Income tax: rental properties – non-economic rental, holiday home, share of residence, etc. cases, family trust cases*.

## Rental income and completing your tax return

You must declare rent and payments relating to your rental property in your tax return:

- in the year your tenant pays rent (if your tenant pays your agent or property manager, you must declare rental income in the year your tenant pays them and not when the rental income is transferred to you)
- 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: rental income and completing you tax return

Stephanie and Patrick own a unit as tenants in common in equal shares, 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 2024, but the income is not paid into Stephanie and Patrick's account until 4 July 2024.

When Stephanie and Patrick are preparing their tax return, they need to ensure they do all of the following:

- report the gross rent they earn, before it has been reduced by property management fees or any expenses paid by the property manager on their behalf
- include the final month's rent in the 2023–24 financial year, as it was received by their property manager in that financial year
- report their income and expenses 50:50 based on their legal ownership.

## Where to report

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 your rental income 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.

**Watch:** How to include rental income and expenses in myTax

Our top 10 tips will help rental property owners avoid common tax mistakes.

QC 23632

# Rental property genuinely available for rent

Your rental property must be rented out or genuinely available to rent to claim a deduction for expenses you incur.

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## Things that show your rental property is available

Your property is available for rent where you either have:

- a tenant renting the property
- made genuine effort to
  - advertise the property in ways that give it broad exposure to possible tenants
  - have conditions that are not so restrictive that tenants are likely to rent the property.

Where you rent out property or it is genuinely available for rent, you can claim for expenses you incur. There are also some rental expenses you can't claim.

## Things that show your rental property is not available

Things that may show a property isn't genuinely available for rent include:

- it's 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
  - outside annual holiday periods when the likelihood of it being rented out is very low
- the location, condition of the property, or accessibility of the property mean that it's unlikely tenants will seek to rent it
- you place unreasonable or stringent conditions on renting out the property that restrict the likelihood of the property being rented out, such as
  - setting the rent above the rate of comparable properties in the area
  - placing a combination of restrictions on renting out the property – for example, requiring prospective tenants to provide references for short holiday stays and having conditions like 'no children' and 'no pets'
- you refuse to rent out the property to interested people without adequate reasons.

These things 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.

Check our examples of factors that generally indicate the [property is not genuinely available to rent].

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.

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## 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).

## Rental investors

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

- have minimal involvement in rental activities (such as, interviewing potential tenants or inspecting the property)
- still rely on income from their job.

## Carrying on a business of letting rental properties

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 eight indicators to determine whether a business is being carried on. These are listed in paragraph 13 of TR 97/11. Although the ruling refers to primary production, these are equally relevant to non-primary production activities.

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

## Domestic arrangements

Where you receive payment from family members in the form of 'board and lodging', your arrangement is of a domestic nature. This means you don't declare the rent as income and you can't claim expenses.

However, where you rent out your property to relatives or friends, the essential question to work out is whether the arrangements are:

- consistent with normal commercial practices in this area
- less than commercial rent.

If the arrangement is consistent with normal commercial practices, we treat you the same as any other owner in a comparable arms-length situation. If the property is rented out at less than commercial rent, other considerations arise and your claim for expenses may only be allowed up to the amount of rent you received.

For more information, see IT 2167 *Income tax: rental properties – non-economic rental, holiday home, share of residence, etc. cases, family trust cases*.

To find out more about your rental property being genuinely available for rent, see Rental property genuinely available for rent.

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.

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### On this page



## 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.

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.

You can use the myDeductions tool in the ATO app to keep track of your records digitally. When you are ready to complete your tax return, you can:

- email your data to yourself or to your tax agent
- upload your data to pre-fill your tax return.

## Types of rental records to keep

You should keep a record of the following 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 payments you receive, such as:

- 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, such as:

- 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
  - 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 work expenses, such as structural improvements
- before and after photos for any capital works
- travel expense documents, if you are eligible to claim travel and car expenses such as
  - travel diary or similar that shows nature of the activities, dates, places, times and duration of your activities and travel (you must have this if you travel away from home for 6 nights or more)

- receipts for flights, fuel, accommodation, meals and other expenses while travelling
- receipts for items you use for repairs and maintenance that you bought when you travel to, or stayed near, the rental property.

## When you buy a rental property

Records when you buy (invest) in rental property, such as:

- 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, such as:

- documents that show periods of personal use by you or your friends
- document 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 rental expenses.

## When you sell your rental property

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

- 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

## Our commitment to you

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.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.