Rental expenses

Check the expenses you can claim as a deduction for your rental property.

How to claim rental expenses

How and when to claim your rental expenses, expenses you can't claim and how to include deductions in your tax return.

Common property expenses

Check the common rental expenses you can claim a deduction for.

Depreciating assets in rental properties

How to claim a deduction for depreciating assets and work out decline in value.

Repair and maintenance expenses

Find out how and when to claim your repair and maintenance expenses.

Capital expenses

What to do with your capital expenses, including capital works

Borrowing expenses

Find out which borrowing expenses you can claim, and how to claim them.

Interest expenses

Find out which interest expenses you can claim and what to do if your loan account is used for private purposes.

Rental properties and travel expenses

If you have a residential rental property, you may not be able to claim a deduction for related travel expenses.

Work out the category of your rental expense

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

Asbestos-affected properties

If you own an asbestos-affected investment property, check the deductions you can claim. CGT may apply if you sell it.

Apartment building defect expenses

If you own an apartment in a building complex, you may be able to claim deductions for shared expenses to fix defects.

QC 103903

How to claim rental expenses

How and when to claim your rental expenses, expenses you can't claim and how to include deductions in your tax return.

Last updated 23 June 2025

On this page

Watch: When can I claim a deduction for rental expenses?

Media:Deductions for vacant land
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiun85ited

Rental expense categories

There are 3 rental expense categories, those for which you:

- can claim a deduction now (in the income year you incur the expense) – for example, interest on loans, council rates, repairs and maintenance and depreciating assets costing $300 or less

- can claim a deduction over several years – for example, capital works, borrowing expenses and the decline in value of depreciating assets
- can't claim a deduction – for example, personal expenses, including expenses arising from your personal use of the property, some expenses of a capital nature and the purchase of second-hand (or used) depreciating assets after 9 May 2017.

There may be some expenses you can claim a deduction for prior to the property being genuinely available for rent – such as interest on loans. You must incur these expenses with the intent to rent out the property. For example, renovating a property you intend to rent.

However, if your intention changes you can't claim your expenses. If your land is considered vacant under the vacant land provisions, you generally can't claim deductions for expenses incurred in holding land before the property can be occupied and is available for rent.

It is important to claim each expense under the correct expense type to make sure you treat it correctly for tax purposes.

Claim the right amount of expenses

You will need to work out the amount of the expense that relates to your income-producing activities, if any of the following apply:

- your property is only genuinely available for rent for part of the year
- your property is treated as vacant land for part of the year
- you use your property for private or personal purposes for part of the year
- you only use part of your property to earn rent
- you rent your property at non-commercial rates (less than market rates)
- you use your investment loan for personal purposes.

If you co-own your rental property with someone, rental income and expenses must be attributed to each co-owner according to your legal interest in the property.

If you rent out part of your property you need to work out your expenses on a floor-area basis.

You don't need to apportion expenses that relate solely to renting out the property, such as advertising for tenants and real estate commissions. These are fully deductible in the year they are incurred.

Positive or negative gearing

Your rental property is:

- **Positively geared** if your deductible expenses are less than the income you earn from the property – you make a profit from renting out your property.
- **Negatively geared** if your deductible expenses are more than the income you earn from the property. You can claim deductions for rental expenses against your rental and other income – such as salary, wages or business income. If your other income isn't enough to absorb the loss, you can carry forward your loss to the next income year.

Expenses you can't claim

You can't claim a deduction for:

- expenses not actually paid by you, such as water or electricity charges paid by your tenants
- acquisition and disposal costs, including the purchase cost, conveyancing and advertising costs (instead, these are usually included in the property's cost base, which would reduce any capital gains tax when you sell the property)
- GST credits for anything you purchase to lease the premises – GST doesn't apply to residential rental properties, however, when claiming the expense as a deduction, you claim the total amount you've paid (inclusive of GST, if applicable).

Find out about other expenses you can't claim below.

Deductions for vacant land

In most cases, you can't claim a deduction for the cost of holding vacant land. For more information, see Deductions for vacant land.

Supplier ABNs

When you hire a contractor for services and repairs connected with your rental property, you will need to check they have an Australian business number (ABN). If they do not provide you with their ABN, you may have to withhold 47% from the payment you make to them and transfer that withheld amount to us.

You may not be able to claim deductions for these expenses if you don't withhold when you were required to.

How to include rental expenses in your tax return

If you lodge your own tax return using myTax, you need to select:

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

Once you have completed the rental property details and the related income fields, you can add your expenses in the 'Rental expenses' fields.

Watch: How to include rental income and expenses in myTax

Media:Supplier ABNs
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiubtjsfhw

QC 23633

Common property expenses

Check the common rental expenses you can claim a deduction for.

Last updated 23 July 2025

On this page

Expenses you can claim

You can claim an immediate deduction for some expenses in the income year you incur them provided your property is rented or genuinely available for rent. To claim a deduction you must:

- actually incur the cost – you can't claim a deduction where the cost is paid by the tenant or someone else
- keep adequate records to prove your deductions if we ask for evidence.

There are some rental expenses you must claim over several years – for example, capital works and borrowing expenses.

Expenses you can claim an immediate deduction for include:

- advertising for tenants
- body corporate administrative fund fees and charges
- council rates, water charges, land tax

- cleaning, gardening and lawn mowing
- pest control
- insurance (building, contents, public liability, loss of rent)
- interest expenses
- pre-paid expenses
- property agent's fees and commission
- repairs and maintenance
- legal expenses.

For more information, see Rental properties guide.

Body corporate administrative fund fees and charges

You may be able to claim a deduction for body corporate fees and charges you pay. Not all body corporate fees are deductible in full in the income year you incur them.

Body corporate fees are a cost you pay to the body corporate or strata to manage the property and maintain common areas. Strata title body corporates are constituted under the strata title legislation of the various states and territories.

These fees and charges may go towards payments to:

- cover the cost of day-to-day expenses to maintain and manage the building – for example, insurance premiums, maintenance of gardens and management of the body corporate itself
- a special purpose fund, for a specific expense – for example, roof repairs and building insurance.

Regular payments you make to body corporate administration funds or general purpose sinking funds for ongoing administration and general maintenance are considered to be payments for the provision of services by the body corporate. You can claim an immediate deduction for these regular payments at the time you incur them.

You can’t claim a deduction for a special levy you are required by the body corporate to pay to fund a particular capital improvement. You may be able to claim a capital works deduction for the cost of capital improvements or repairs of a capital nature once the work is completed. The cost must also be charged to either the special purpose fund or the general purpose sinking fund, if a special contribution has been levied.

For a summary fact sheet of what you can and can't claim, go to the ATO Publication Ordering Service to download Rental property body corporate fees and charges.

Pre-paid expenses

A pre-paid expense is a cost you incur under an agreement for services to be done (in whole or in part) in a later income year. For example, payment of an insurance premium on 1 January that provides cover for the entire calendar year or pre-paid interest on money you borrow.

You can generally claim an immediate deduction in the income year you make the prepayment for:

- expenses of less than $1,000
- expenses of $1,000 or more where the eligible service period is 12 months or less and ends in the next income year (such as payment of an annual insurance premium part way through an income year).

The eligible service period is the time taken for doing a thing to be done under an agreement in return for payment.

The eligible service period begins on the later of either:

- the day the thing under the agreement begins to be done
- the day the expense is incurred.

The eligible service period continues until the earlier of:

- the end of the last day the thing under the agreement stops being done
- 10 years.

A pre-paid expense for your rental property of more than $1,000, where the eligible service period is greater than 12 months, or ends later than the following income year, will have to be spread over the shorter of either:

- the eligible service period
- 10 years.

For more information, see Deductions for prepaid expenses.

Legal expenses

Rental property legal expenses are costs you incur to prepare, register, protect and manage your rental property.

You can claim a deduction for some of the legal expenses you incur to produce your rental income. You can claim these expenses in the income year you incur them.

You can claim the cost of the following as deductions:

- evicting a non-paying tenant
- expenses for taking court action for loss of rental income
- defending a claim for damages from injuries suffered by a third party on your rental property.

You can also claim a deduction for solicitor's fees for the preparation of loan documents as borrowing expenses. If the total of your borrowing expenses is more than $100, your deduction is spread over the life of the loan or 5 years, whichever is less.

Most other legal expenses you incur relating to your rental property are capital and can't be claimed as a deduction. The following legal expenses may be included in the cost base when you sell the property:

- solicitor's fees for the purchase or sale of the property
- legal costs associated with resisting land resumption
- legal costs associated with defending your title to the property (for example, defending an action by the mortgagee to take possession of the property where you have defaulted under the loan).

Land tax expenses

If you earn rental income from a property, you can claim a deduction for land tax. Include the deduction in the income year the liability relates to, not the year you pay it.

State authorities sometimes issue land tax assessments for different periods of time, including amounts from earlier years (arrears). If you pay an amount in arrears, you must amend your tax return for the relevant year so the deduction is claimed correctly.

You can claim a land tax deduction for:

- the current year as a deduction in your tax return
- prior years by lodging an amendment for the year the liability relates to.

Land tax deductions don't need to be apportioned in the income year you:

- start to use the property as your main residence
- sell the property.

You need to declare any land tax adjustments as rental income when you sell the property.

For more information, see Rental properties guide – land tax.

QC 103905

Depreciating assets in rental properties

How to claim a deduction for depreciating assets and work out decline in value.

Last updated 23 June 2025

On this page

Depreciating assets

Depreciating assets are items that can be described as plant, that don't form part of rental property premises. Premises refers to the actual structure of the rental property's building.

Under the uniform capital allowance rules, you can claim a deduction for the decline in value of depreciating assets used for income-producing purposes, for example a dishwasher in rental property which is rented or genuinely available for rent.

Some assets don't decline in value, such as land, trading stock and some intangible assets (for example, goodwill).

We recommend you keep a spreadsheet (as a minimum) for your depreciating assets as part of your record keeping. A quantity surveyor can prepare a report at the time a rental property is purchased.

Depreciating assets are usually:

- separately identifiable
- unlikely to be permanent
- replaced within a relatively short period
- not part of the structure of the building.

None of these factors alone can determine if an item is part of the premises. They must all be considered together.

For a list of common rental property items and their treatment as depreciating assets or capital works, see Residential rental property items.

You can claim a deduction for the item's decline in value. You can choose to use either:

- the effective life the Commissioner determines for these assets
- your own reasonable estimate of the effective life.

You must keep records to show how you work out the decline in value.

Decline in value of depreciating assets

Depreciating assets have an effective useful life and are reasonably expected to decline in value over time.

For depreciating assets costing more than $300, you can claim deductions for the decline in value over its effective useful life. Examples of such assets in your rental property or holiday home include:

- floating timber flooring
- carpets
- curtains
- appliances like a washing machine or fridge
- furniture.

When you purchase a rental property, either new or second-hand, you have bought a building plus separate depreciating assets, such as air conditioners, stoves and other items.

There are limitations that apply to decline in value of second-hand depreciating assets.

The decline in value of a depreciating asset starts when you first use it or install it ready for use – it doesn't matter whether it's for a private purpose or to earn assessable income. For example, if you purchased and installed a new asset on 1 January and used it for private purposes for the first 2 weeks, you calculate the decline in value from that date. However, your deduction must be reduced for any private use of the asset.

Special rules apply to some assets that may allow you to claim deductions for their decline in value (depreciation) more quickly.

Watch: This video explains depreciating assets and when you can claim them as a deduction for a rental property.

Media:Example: calculating deductions for decline in value
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiun85ity3

Depreciating assets costing $300 or less

Assets costing $300 or less can be claimed as an immediate deduction (a full deduction) in the income year you used the asset for a taxable purpose.

You can't claim an immediate deduction if the asset is part of a set of assets that together cost more than $300. For example, if you buy 4 dining chairs each costing $250 for your rental property you can't treat them as separate assets.

New assets

You can claim the decline in value of new depreciating assets.

This includes depreciating assets purchased with a newly built or substantially renovated property, if no one was previously entitled to a deduction for the decline in value, and either:

- no one resided at the property before you acquired it
- the asset was installed for use, or used at the property, and you acquired the property within 6 months of it being newly built or substantially renovated.

Example: claiming the decline in value of depreciating assets

Kerrie purchased a unit off-the-plan from a developer as an investment (it was new and no one lived in it prior to that time).

The property included depreciating assets such as curtains and furniture installed before settlement and the transfer of title to Kerrie.

Kerrie engages a qualified quantity surveyor to get a full list of all depreciating assets that she can claim each year until the end of their effective lives.

Kerrie is entitled to claim deductions for decline in value of the depreciating assets because no one has lived in it before she purchased it.

Example: claiming the decline in value of depreciating assets

Kate purchased a residential investment apartment from a developer 4 months after completion. It was already tenanted when Kate purchased it. The developer wasn't entitled to claim a deduction for the decline in value of the depreciating assets at the property because they were his trading stock.

The property included depreciating assets such as curtains and furniture installed before settlement and the transfer of title to Kate.

Kate engages a qualified quantity surveyor to get a full list of all depreciating assets that she can claim each year until the end of their effective lives.

Kate is entitled to claim a deduction for decline in value of the depreciating assets (although they have been used by the tenants) because both of the following apply:

- no one could claim any deductions for decline in value of the depreciating assets
- the property was supplied to Kate within 6 months of being built.

If Kate had entered into the contract to buy this apartment after 6 months of it being newly built, she wouldn't have been entitled to claim a deduction for the decline in value of any of the depreciating assets that were already in it at that time.

Calculating deductions for decline in value

To work out your deduction for decline in value, use either the:

- diminishing value method – the decline in value each year is a constant portion of the remaining value – claiming higher deductions in the early years of its effective life
- prime cost method – the decline in value each year is a uniform amount of the original value over its effective life – claiming a lower but more constant portion each year.

Depreciating assets valued at less than $1,000 can be grouped in a low-value asset pool and depreciated together.

Example: calculating deductions for decline in value

Laura purchased a new outdoor table for her rental property on 1 July 2024, for $1,500. It has an effective life of 5 years. She can choose to use either the diminishing value or prime cost method.

Diminishing value method

The formula for the annual decline in value using the diminishing value method is:

> Asset's cost × (days held ÷ 365) × (200% ÷ asset's effective life)

The decline in value for 2024–25 is $600, worked out as follows:

> 1,500 × (365 ÷ 365) × (200% ÷ 5)

Laura is entitled to a deduction for decline in value of $600.

The adjustable value of the asset on 30 June 2025 is $900. This is the cost of the asset ($1,500) less its decline in value up to 30 June 2025 ($600).

Prime cost method

The formula for the annual decline in value using the prime cost method is:

> Asset's cost × (days held ÷ 365) × (100% ÷ asset's effective life)

The decline in value for 2024–25 is $300, worked out as follows:

> $1,500 × (365 ÷ 365) × (100% ÷ 5)

Laura is entitled to a deduction for decline in value of $300.

The adjustable value of the asset on 30 June 2025 is $1,200. This is the cost of the asset ($1,500) less its decline in value up to 30 June 2025 ($300).

For help to help work out the deduction you can claim from a depreciating asset, see Depreciation and capital allowances tool.

Second-hand depreciating assets

In most cases you can't claim a deduction for second-hand depreciating assets after 1 July 2017.

QC 103906

Second-hand depreciating assets

In most cases you can't claim a deduction for second-hand depreciating assets after 1 July 2017.

Last updated 23 June 2025

On this page

> Home turned into a rental property before 1 July 2017

Second-hand depreciating assets you can't claim

Second-hand depreciating assets are depreciating assets that were already installed ready for use or used:

- by another entity (except as trading stock)
- in your private residence
- for a non-taxable purpose, unless that use was occasional (for example, staying at the property for one evening while carrying out maintenance activities would be occasional use).

Second-hand depreciating assets for residential rental properties are generally things that were in a property when you purchased it, or your private residence that you later rent out.

You can’t claim a deduction for certain second-hand depreciating assets unless you are either:

- using the property in carrying on a business (including a business of letting rental properties)
- one of the following
  - corporate tax entity
  - superannuation plan that is not a self-managed super fund
  - public unit trust
  - managed investment trust
  - unit trust or a partnership, where all of the members are entities of a type listed above.

Otherwise, you can only claim deductions for second-hand or used depreciating assets in residential rental properties if both of the following apply:

- you purchased the asset before 7:30 pm on 9 May 2017
- you installed it into your rental property before 1 July 2017.

Example: Tim's rental property

Sue purchased her house in 2009. In October 2024, she listed her house for sale. While it was advertised, she moved out and replaced the carpet. No one lived in the house while it was advertised. The house was then sold to Tim. After purchasing the property, Tim rented it out immediately.

Tim can't claim a deduction for the decline in value of the depreciating assets in the property because they were all previously used. He also can't claim a deduction for the decline in value for the carpet because he didn't own the asset when it was first installed ready for use.

Example: asset used privately

Eliza purchased a dishwasher in April 2017 and used it for private purposes at home (her main residence). In July 2019, she installed this dishwasher in her residential rental property. Eliza can't claim deductions for the dishwasher's decline in value because:

- she had previously used it privately, and
- she installed it in her rental property after 30 June 2017.

Home turned into a residential rental property

If you turn your home into a residential rental property on or after 1 July 2017, you can't claim a deduction for the decline in value for depreciating assets that were in your home. You can only claim a deduction for the decline in value for any new depreciating assets that you purchase for your residential rental property.

Example: changing main residence as a residential property

At the start of 2016, Kendrick purchased a home as his main residence. In August 2017, Kendrick moved out and rented out the property fully furnished, which included the furniture and fittings he had been using while living there.

As Kendrick's home was made available for rent on or after 1 July 2017, he is not able to claim a deduction for the decline in value for any remaining effective life of the used depreciating assets in it.

Kendrick can claim a deduction for the decline in value of the new depreciating assets that he purchases for his rental property.

Exceptions – when you can claim

You can claim a deduction for the decline in value of second-hand depreciating assets if any of the following apply:

- You are carrying on a business of letting rental properties.
- You purchased your residential rental property or a second-hand depreciating asset for your residential rental property before 7:30 pm (AEST) on 9 May 2017.
- You used a depreciating asset that you acquired before 7:30 pm (AEST) on 9 May 2017 and then, before 1 July 2017, you installed it at your residential rental property.
- Your rental property is not used to provide residential accommodation; for example, it is let out for commercial purposes (such as a doctor's surgery).
- The entity that owns the residential rental property is an excluded entity.
- The income generating activities at your rental property are unrelated to providing residential accommodation (for example, solar panels used in generating income from the sale of electricity).

Example: claiming the decline in value of second-hand assets

Sharon has been renting out her residential property since September 2015. In March 2017, she purchased a second-hand fridge to replace the fridge that had broken down.

Because Sharon purchased the second-hand fridge for her rental property before 7:30 pm on 9 May 2017, she can claim a deduction for the decline in value for any remaining effective life of the asset.

Example: second-hand depreciating asset

Don purchased a second-hand clothes dryer and installed it in his residential rental property on 8 May 2017.

Assuming the dryer had 5 years of remaining effective life, Don can claim deductions for its decline in value for 5 years because he had purchased and installed the dryer before 9 May 2017.

Home turned into a rental property before 1 July 2017

If you turned your home into a residential rental property, you can only claim a deduction for the decline in value of assets in it if both of the following apply:

- You purchased your home before 7:30 pm on 9 May 2017.
- You turned your home into a residential rental property before 1 July 2017.

Example: assets bought after 9 May 2017

At the start of 2016, Marty purchased a home as his main residence.

In June 2017, Marty moved out and rented out the property fully furnished, which included the furniture and fittings he had been using while living there.

As Marty rented out his home before 1 July 2017, and he purchased it before 7:30 pm on 9 May 2017, he can claim a deduction for the decline in value for any remaining effective life of the used depreciating assets in it.

However, from the 2017–18 income year, Marty can't claim a deduction for the decline in value of any second-hand depreciating asset that he purchases and installs after 7:30 pm on 9 May 2017.

If Marty:

- Moved out in June 2017 and the property was vacant until he made it available for rent in July 2017, he couldn't claim a deduction for the decline in value for any remaining effective life of the used depreciating assets in it.
- Purchased a new asset for the rental property after he moved out, he can claim a deduction for its decline in value, as the asset wasn't previously used.

For more information on depreciation, including a list of rental property items that can be depreciated, see the Rental properties guide or the Guide to depreciating assets.

QC 103908

Repair and maintenance expenses

Find out how and when to claim your repair and maintenance expenses.

Published 6 March 2025

On this page

> [Maintenance](#)
>
> [Initial repairs](#)

What you can claim

Repair and maintenance expenses are costs you incur to:

- keep your property in a tenantable condition
- fix wear and tear or damage that occurs while renting out your property.

To be a deductible expense, the property must either:

- continue to be rented on an ongoing basis
- remain genuinely available for rent, even if there is a short period where the property is unoccupied – for example, unseasonable weather causes cancellations of bookings or all reasonable efforts to attract tenants were unsuccessful.

Some repairs are considered capital in nature and must be claimed over several years. This may include:

- initial repairs for defects that existed at the date you acquired the property
- improvements, which are capital works
- replacement of entire units of property, including depreciating assets.

Example: replacement of an entirety

Robin has owned his rental property for 10 years when a toilet is damaged. The entire toilet needs to be replaced.

The toilet is a fixture but also an entirety because:

- it is identifiable as a separate item of capital equipment
- it provides a useful function independent of the rest of the premises.

Replacing an entirety is not a repair. The cost of installing the new toilet is claimed as a capital works deduction.

Watch: Getting repairs and capital works right

Repairs

Repairs are done to remedy defects in, damage to or deterioration of the property. Repairs must relate directly to wear and tear or other damage that occurred while you were renting out the property.

Any repairs for remedying damage that existed when you acquired the property are initial repairs and are capital in nature.

Examples of repairs you can claim immediately include:

- replacing a cracked pane of glass in a window
- replacing part of the gutter
- replacing part of a fence
- repairing electrical appliances or machinery.

If you no longer rent the property, you may still be able to claim repair expenses where both:

- the need for repairs related to a period when the property was income producing

- the property was income producing during the income year you incurred the expenses.

Repairs versus improvements

If you make repairs and improvements to your property simultaneously, you can only claim a deduction for the cost of repairs if you can separate the cost of the repairs from the cost of the improvements.

An improvement is anything that makes part of the property better, more valuable, more desirable or changes the character of the item that is being worked on (for example, a renovation).

If you hire a builder or other professionals to carry out these works, we recommend you ask for an itemised invoice to help work out your claim.

Example: apportioning expenses between repairs and improvements

Caitlin modernised her rental property by hiring tradespeople to render and paint the external walls.

She also asked the painter to paint the internal walls, which had deteriorated during the time she rented out the property.

As Caitlin requested an itemised invoice from the painter, she could separate the cost of the internal and external painting, and rendering. Due to this, she could claim a deduction for the cost:

- of painting the internal walls as a repair
- of rendering and painting the external walls as a capital works deduction.

Maintenance

Maintenance means work to prevent deterioration or fix existing deterioration. Maintenance generally involves keeping your property in a tenantable condition.

Examples of maintenance include:

- repainting faded or damaged walls
- oiling, brushing or cleaning something that is otherwise in good working condition – for example, oiling a deck or cleaning a swimming pool
- maintaining plumbing.

You can claim a deduction for maintenance expenses in the income year you incur them.

Initial repairs

Initial repairs to rectify damage, defects or deterioration that existed at the time of purchasing a property can't be claimed as an immediate deduction. It doesn’t matter if you were unaware of the need to make repairs to the property at the time you purchased it.

Initial repairs to property such as a fence or building can generally be claimed as a capital works deduction over 40 years. Initial repairs to depreciating assets can't be claimed as a deduction, however the decline in value of new replacement assets is generally deductible as capital allowances.

The cost of initial repairs forms part of the capital gains tax (CGT) cost base when you sell the property. You must reduce the CGT cost base by amounts claimed (or that you were entitled to claim) as capital works for the initial repairs.

Example: initial repairs not deductible (existing damage)

Lisa buys a property with the intention of renting it out. At the time of purchase Lisa knew that she would need to repair the roof (replace all roof tiles) and part of the ceiling as they were in a poor condition.

When carrying out the works, Lisa discovered there was extra structural damage that required her immediate attention. The repair to the ceiling cost her $2,000, the replacement of roof tiles cost her $9,000 and the structural work cost her a total of $15,000.

The 'initial' repair of the ceiling of $2,000 isn't deductible, but as with the replacement of the entire roof and the structural work, it can be claimed as a capital works deduction.

When the property is sold, Lisa can include the $26,000 for the work to rectify the existing damage in her CGT cost base, reduced by the amount of the capital works deductions she has already claimed (or was entitled to claim).

For more information about how CGT applies to rental properties, see our Guide to capital gains tax.

QC 103907

Capital expenses

What to do with your capital expenses, including capital works, improvements, and substantial renovations.

Last updated 23 June 2025

On this page

What are capital expenses

Capital expenses are expenses that provide long-term benefits to your property. These costs typically improve the property's value or extend its useful life. For example, installing a new roof, upgrading appliances, or adding a deck are capital expenses. They differ from regular operating expenses, like repairs and maintenance, which are typically short-term and recurring.

Capital expenses includes capital works and depreciating assets. These expenses are claimed over several years, rather than being deducted in the year they are incurred.

For a summary of the difference between repairs, maintenance and capital expenses, go to the ATO Publication Ordering Service to download Rental repairs, maintenance and capital expenditure.

Capital works

Capital works includes expenses for building the property as well as structural improvements, alterations and extensions to the property. The rate of deduction for these capital works is generally 2.5% or 4% per year, spread over a period of 40 or 25 years respectively.

You can only claim a deduction for the capital works on rental properties if the property:

- was built after 17 July 1985
- is rented or genuinely available for rent.

An asset that is fixed to, or otherwise part of, a building or structural improvement, will generally be a construction expense and can only be claimed as capital works.

Preliminary expenses such as architect fees, engineering fees, surveying fees, foundation excavation expenses and costs of building permits also form part of construction expenses.

Examples of capital works expenses include:

- building and construction costs
- alterations to a building
- major renovations to a room
- substantial renovations to a property
- adding a fence
- building extensions such as garages and patios
- adding structural improvements such as a driveway or retaining wall.

You must wait until construction is complete to claim a deduction. Capital works deductions can't exceed your construction expenses.

Example: replacing assets in a residential property

Janet has owned and rented out a residential property since 12 January 1983. In 2024, she replaced the old kitchen fixtures, including the cupboards and appliances. The old cupboards had deteriorated through water damage and wear and tear.

The kitchen cupboards are separately identifiable capital items with their own function. This means the cost of completely replacing them is a capital cost. Because of this, Janet can claim:

- capital works deductions for the construction cost of this work
- deductions for the decline in value of the new kitchen appliances (none of these appliances were previously used).

This is the case regardless of whether:

- new fittings are of a similar size, design and quality as the originals
- new cupboards are made from a modern equivalent of the material used in the originals
- layout and design of the new kitchen may be substantially the same as the original.

Improvements

An improvement is anything that makes part of the property better, more valuable, more desirable or changes the character of the item that is being worked on.

Capital improvements (such as remodelling a bathroom or adding a pergola) should be claimed as capital works deductions.

Improvements include work that:

- provides something new
- furthers the income-producing ability or expected life of the property
- goes beyond just restoring the efficient functioning of the property.

Improvements can be either capital works where it is a structural improvement or capital allowances where the item is a depreciating asset.

Example: property improvements

Tim replaced a fibre cement sheeting wall inside his property because it was damaged by tenants. He replaced the old wall with a brick feature wall.

The new wall is an improvement because Tim did more than just restore the efficient function of the wall. This means Tim can't claim the cost of the new wall as a repair, but he can claim it as capital works deductions.

If Tim replaced the fibro with a current equivalent, such as plasterboard, he could have claimed his costs as a repair. This is because it would have restored the efficient function of the wall without changing its character, even though a different material was used.

Substantial renovations

Substantial renovations of a rental property are where all or substantially all, of a building is removed or is replaced. This could include the removal or replacement of foundations, external walls, interior supporting walls, floors, roof or staircases.

For renovations to be substantial, they must directly affect most rooms in a building.

Renovations you make to a house are considered collectively, such as the:

- removal and replacement of the exterior walls
- removal of some internal walls
- replacement of the flooring
- replacement of the kitchen.

If the renovations are substantial, the property is treated as new residential premises.

Apart from the cost of replacing [depreciating assets], the cost of all renovations are deductible as capital works.

The cost of replacing depreciating assets as part of substantial renovations, can be claimed as a decline in value deduction, provided the asset has been acquired as a [new asset] for the purpose of gaining income from rental income.

Example: claiming the cost of renovations

Jake bought a 4 bedroom residential property in October 2024 with the intent of it being a rental property. Three months before selling, the previous owners removed a wall between 2 bedrooms and turned the space into a large bedroom with an ensuite. They also repainted and recarpeted the room.

Even though Jake acquired the property within 6 months of the renovations being completed, the renovations only affected a part of the house, and aren't classified as being substantial renovations.

The previous owners provide Jake with the renovation construction costs.

The cost of the renovations, excluding the new carpet and any other depreciating assets replaced, can be claimed as a capital works deduction by Jake.

As the new carpet and other depreciating assets are not acquired as new assets by Jake, he can't claim a deduction for their decline in value.

However, if Jake buys any brand-new depreciating assets for the property, he will be able to claim a deduction for their decline in value.

Work out your capital works deductions

You can claim capital works deductions for certain construction costs for your rental property.

QC 103909

Work out your capital works deductions

You can claim capital works deductions for certain construction costs for your rental property.

Last updated 23 June 2025

On this page

Limits to claiming capital works deductions

You can only claim a deduction for those periods during the year you used your rental property for income-producing purposes. You can't claim for the period you use the property for personal purposes.

Example: how to work out capital works deductions from the date construction starts

On 1 March 2025, Meg purchased a rental property for $700,000 and immediately rented it out. Meg obtained a report from a quantity surveyor stating:

Construction of the property commenced in February 2004.

The property is a residential townhouse.

Construction was completed in November 2004.

The townhouse was built by a developer.

The estimated cost of constructing the townhouse was $500,000.

Meg claims a capital works deduction in her 2025 tax return for her rental property based on the estimate of the construction costs she gets from the quantity surveyor. However, she only claims a deduction for that part of the year her property was used for an income producing purpose (1 March 2025 to 30 June 2025). The rate of deduction she claims was 2.5% as construction of her residential property started after 15 September 1987.

Her annual capital works deduction was calculated as follows:

$500,000 × 2.5% (see note) = $12,500

Note: See the date construction commenced for different rates of reduction.

As the property was only used for income producing purposes for 122 days in 2025, her 2024–25 claim was calculated as follows:

$12,500 × (122 ÷ 365) = $4,178

What you need to know to work out your claim

As a general rule, you can claim a capital works deduction for the cost of construction for 40 years from the date the construction was completed. However, to make sure that you are eligible, you must have all of the following:

- details of the type of construction
- the date construction commenced
- the date construction was completed
- the construction cost (not the purchase price)
- details of who carried out the construction work
- details of the period during the year that the property was used for income producing purposes.

Capital works expenses you incur form part of the cost base of your property for capital gains tax purposes. If you claim a capital works deduction, you will need to take this into account when you work out your capital gain or loss.

If it isn't possible to determine the actual construction costs, you can obtain an estimate from a quantity surveyor or other independent qualified person. You can claim a deduction for the fees you pay to obtain this estimate.

For information about how capital works deductions affect the CGT cost base, see Cost base adjustments for capital works.

Types of construction and the date construction commenced

To be eligible to claim a capital works deduction, construction work must commence after the date relevant to that type of construction in the table below.

The amount you can claim for construction expenses depends on the type of construction and the date you start construction. Your capital works deductions can't exceed the construction expenses. This table shows the rate of deduction and the period over which you can claim the deduction depending on the type of construction.

Table: Capital works deductions for buildings and structural improvements

Type of construction	Construction commenced after	Applicable years and deduction rate per year
You intend to use the building on completion to provide short-term accommodation to travellers in: • apartment buildings in which you own or lease at least 10 apartments	21 August 1979	22 August 1979 to 21 August 1984 – 2.5% 22 August 1984 to 15 September 1987 – 4% 16 September 1987 to 26 February 1992 – 2.5% (where the construction

- units or flats - hotels - motels - guest houses with at least 10 bedrooms.		related to certain pre-16 September 1987 contracts, the rate is 4%) 27 February 1992 onwards – 4%
Building intended to be used on completion for non-residential purposes such as a shop or office.	19 July 1982	20 July 1982 to 21 August 1984 – 2.5% 22 August 1984 to 15 September 1987 – 4% 16 September 1987 onwards – 2.5%
Any building intended to be used on completion for residential purposes or to produce income.	17 July 1985	18 July 1985 to 15 September 1987 – 4% 16 September 1987 onwards – 2.5% (where the construction related to certain pre-16 September 1987 contracts, the rate is 4%)
Structural improvements intended to be used on completion for residential purposes or to produce income.	26 February 1992	27 February 1992 onwards – 2.5%
Environment protection earthworks intended to be used on completion for residential purposes or to produce income.	18 August 1992	18 August 1992 onwards – 2.5%

Any capital works used to produce income, even if they were not intended to be used for that purpose. For pre-1 July 1997 works only, the capital works must have been intended for use for specified purposes at the time of completion.	30 June 1997	The capital works must actually be used in a deductible way in the income year in which the deduction is claimed (see above onwards rates details for each type of construction).

2.5% means that you can claim deductions for 40 years and 4% means for 25 years.

You can start claiming capital works deductions only when construction of the relevant capital works is completed.

Although you may be able to claim capital works deductions for your building costs, you may not be able to claim these deductions for certain costs such as for landscaping.

Construction cost

You must provide evidence of the construction costs by either of the following:

- precise documents that show the construction costs such as receipts
- a report written by an appropriately qualified person.

The following items can't be used as the construction cost:

- the purchase price of the building and land
- the insured cost
- the replacement cost.

If you were the owner builder

If you carried out the construction as an owner builder, the value of your contribution to the works does not form part of the construction cost. This includes:

- your labour and expertise
- any notional profit element – that is, an amount you might consider as a profit margin on the construction cost.

Obtaining the construction information

You should make sure you keep records that detail the construction costs whether:

- you carry out the construction
- you contract a builder to carry out the construction.

If you don't have a record of the construction costs (for example, where the vendor did not provide them) you will need to obtain this information from either the previous owner or an appropriately qualified person. This could be a:

- quantity surveyor
- clerk of works, such as a project organiser for major building projects
- supervising architect who approves payments at project stages
- builder with experience estimating construction costs of similar building projects.

You can claim a deduction for your costs of obtaining this information from an appropriately qualified person in the income year you pay it.

Quantity surveyor reports can also include a schedule of depreciable assets (capital allowances). You can claim a separate deduction for the decline in value of depreciating assets in a rental property:

- if you bought the rental property before 7:30 pm (AEST) on 9 May 2017 – it doesn't matter whether the property was brand new or not
- if the depreciating asset is brand new – purchased at or after 7:30 pm (AEST) on 9 May 2017
  - as part of your brand-new property
  - that you subsequently bought for your existing (non-new) property
- if you bought the property on or after 7:30 pm (AEST) on 9 May 2017 to provide residential accommodation, the property has to be

brand new or substantially renovated if no one previously claimed any depreciation deductions on the asset, and

  - either no one lived in the property when you acquired it, or
  - if anyone lived in the property after it was built or renovated, you acquired it within 6 months of the property being built or renovated

- the property does not provide residential accommodation, or
- the asset is used in carrying on a business, or
- the entity claiming depreciation is a
  - corporate tax entity
  - superannuation plan other than a self-managed superannuation fund
  - public unit trust
  - managed investment trust
  - unit trust or partnership whose members are any of the entities in this list.

You should provide the buyer with a capital works notice containing information to allow them to work out their capital works deduction if you both:

- are a vendor disposing of capital works begun after 26 February 1992
- were able to claim a deduction for those capital works.

The notice should be provided within 6 months following the income year that you dispose of the property or a further period allowed by us.

Where you don't use the property to gain rental income, the vendor disposing of the property doesn't need to provide the purchaser with a notice. In this situation, the purchaser can obtain an estimate, usually from an appropriately qualified person.

Remember to obtain your construction costs report as soon as possible, as these reports can take a long time to prepare. If you obtain a report after you lodge your tax return, you can amend your tax return by a certain later date. There is a time limit on amending tax returns for which we have already issued a notice of assessment.

QC 21620

Borrowing expenses

Find out which borrowing expenses you can claim, and how to claim them.

Last updated 23 June 2025

On this page

About borrowing expenses

Borrowing expenses are the expenses you incur to take out a loan to buy property.

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.

If you have refinanced or redrawn on your loan, see Interest expenses.

For a summary of this information in poster format, go to the ATO Publication Ordering Service to download Rental borrowing expenses.

Borrowing expenses you can claim

You can claim a deduction for the following as borrowing expenses:

- 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
- stamp duty you pay on the mortgage.

Borrowing expenses you can't claim

You can't claim any of the following as borrowing expenses:

- the amount you borrow for the property
- loan balances for the property
- interest expenses (as these are claimed separately)
- repayments of principal against the loan balance
- stamp duty charged by your state or territory government on the transfer (purchase) of the property title (as this is a capital expense)
- legal expenses including solicitors' and conveyancers' fees for the purchase of the property (as this is a capital expense)
- stamp duty you incur to acquire a leasehold interest in property such as an Australian Capital Territory 99-year crown lease (but you may be able to claim this as a lease document expense)
- insurance premiums where, under the policy, your loan will be paid out in the event that you die, become disabled or unemployed (as this is a private expense)
- borrowing expenses on any portion of the loan you use for private purposes (for example, money you use to buy a car).

You may be able to include capital expenses 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. Expenses you incur when purchasing and selling your rental property are capital expenses.

Example: calculating borrowing expenses over 5 years

On 3 July 2019, Peter took out a 25-year loan of $300,000 to purchase a rental property. Peter's deductible borrowing expenses were:

- $800 stamp duty on the mortgage
- $500 loan establishment fees
- $300 valuation fee required by the bank for the loan.

Peter also paid $12,000 in stamp duty on the transfer of the property title. He can't claim a deduction for this expense but it will form part of the cost base of the property for CGT purposes when he sells the property.

As Peter's borrowing expenses are $1,600, which is more than $100, he must claim them over 5 years from the date he took out his loan for the property. He works out his borrowing expense deduction as follows:

- For the first year, 2019–20, Peter performs the following steps
  - Step 1: work out the number of days from 3 July 2019 to 30 June 2020 (364)
  - Step 2: work out the number of days in the 5-year period from 3 July 2019 to 2 July 2024 (1,827)
  - Step 3: divide the number of days in Step 1 by the number of days in Step 2 (364 ÷ 1,827 = 0.19923)
  - Step 4: multiply Step 3 result by the total borrowing expenses of $1,600 (0.19923 × $1,600 = $319). He claims $319 as a deduction in his 2020 tax return.
- For the 2020–21 to 2023–24 income years, Peter performs the following steps
  - Step 1: works out the remaining borrowing expenses, by reducing the original borrowing expenses of $1,600 by deductions already claimed in previous years
  - Step 2: works out the number of days in the income year (remembering any leap years)

  - Step 3: works out the number of days remaining in the 5 years (this includes the number of days in the income year for which he is preparing the tax return)
  - Step 4: divides Step 2 result by Step 3 result
  - Step 5: multiplies Step 4 result by Step 1 result (equals the amount he claims as a deduction in his tax return).
- By the end of the 2023–24 income year, Peter has claimed deductions totalling $1,598 on his respective tax returns.
- In the final year, 2024–25, Peter performs the following steps
  - Step 1: works out the remaining borrowing expenses, which equals $2 ($1,600 minus $1,598)
  - Step 2: works out the number of days between 1 July 2024 and 2 July 2024 (equals 2)
  - Step 3: works out the number of days remaining in the 5 years (1,827 − 1,825 = 2)
  - Step 4: divides Step 2 result by Step 3 result (equals one)
  - Step 5: multiplies Step 4 result by Step 1 result (equals $2). Thus, Peter claims a deduction of $2 in his 2024–25 tax return.

How to calculate borrowing expenses

Generally, borrowing expenses are claimed over the first 5 years of owning your rental property.

If you got the loan part way through the income year, you need to adjust your claim according to the number of days in the year you had the loan.

You can claim a deduction for the balance of the borrowing expenses in the final year of repayment if you either:

- repay sooner than the term of the loan
- repay your loan in less than 5 years.

You can use our Deductible borrowing expenses calculator (xlsx, 154KB) to work out your claim.

Example: work out borrowing expenses for the maximum 5-year period

Fiona and Max (as joint tenants each with 50% interest) secure a 20-year loan of $209,000 to buy:

- a rental property for $170,000
- a car for private use for $39,000.

They pay for establishment fees, valuation fees and stamp duty on the mortgage. Their borrowing expenses on the loan total $1,670.

As their borrowing expenses are more than $100, they must apportion their deduction over 5 years because it's less than the period of the loan (20 years).

As they use part of the loan ($39,000) for a private purpose, they can't claim a deduction for borrowing expenses on this portion of the loan.

Fiona and Max secure the loan on 17 July. They work out the borrowing expense deduction for the first year as follows:

> Borrowing expenses × (number of relevant days in income year ÷ number of days in the 5-year period) × (amount of rental property loan ÷ total amount borrowed) = deduction for the year.

As joint tenants, they need to report their share (50%) in each of their tax returns.

They work out their borrowing expenses deduction for each income year as shown in the table below. Year 4 is a leap year.

Borrowing expense calculation

Year	Calculation	Available deduction for the year
1	$1,670.00 × (349 ÷ 1,826) = $319.18 $319.18 × ($170,000 ÷ $209,000)	$259.62

2	$1,350.82 × (365 ÷ 1,477) = $333.82 $333.82 × ($170,000 ÷ $209,000)	$271.53
3	$1,017.00 × (365 ÷ 1,112) = $333.82 $333.82 × ($170,000 ÷ $209,000)	$271.53
4 (leap year)	$683.18 × (366 ÷ 747) = $334.73 $334.73 × ($170,000 ÷ $209,000)	$272.27
5	$348.45 × (365 ÷ 381) = 333.82 $333.82 × ($170,000 ÷ $209,000)	$271.53
6	$14.63 × (16 ÷ 16) = $14.63 $14.63 × ($170,000 ÷ $209,000)	$11.90

QC 103910

Interest expenses

Find out which interest expenses you can claim and what to do if your loan account is used for private purposes.

Last updated 23 June 2025

On this page

> [Thin capitalisation]

About interest expenses

When you take out a loan for a rental property, you need to pay interest on the amount you borrow from your bank or lender. We refer to these as interest expenses. The principal amount is the money you borrow from your bank or lender.

If you use the principal amount to buy a rental property and it is rented or genuinely available for rent for the entire income year, you can claim a deduction for the interest charged on the loan.

You can only claim a portion of your interest expenses as a deduction if you either:

- use a portion of the principal amount to buy your rental property
- the property is rented or genuinely available for rent for part of the income year.

You can't claim a deduction for additional payments made to reduce the principal amount of the loan.

Watch: Claiming interest expenses

For a summary fact sheet of what you can and can't claim, go to the ATO Publication Ordering Service to download Rental interest expenses.

Interest expenses you can claim

You can claim the interest expenses on the loan principal (mortgage) you use to:

- buy a rental property
- buy a depreciating asset for the rental property – for example, an air conditioner for the rental property
- pay for deductible expenses – for example, to make repairs to the property that arise as a result of you renting it out
- finance renovations and extensions to the rental property.

You can also claim interest expenses when:

- you have pre-paid interest expenses up to 12 months in advance
- during the period you're repairing damage to your rental property, making it uninhabitable while the repairs are taking place.

Example: joint borrowers, joint owners – claiming share of interest incurred

Kosta and Jenny take out an investment loan for $350,000 to purchase an apartment they hold as joint tenants.

They rent out the property for the whole year from 1 July. They incur interest of $30,000 for the year.

Kosta and Jenny can each make an interest claim of $15,000 in their respective tax returns for the first year of owning the property.

Example: joint borrowers, sole owner – claiming all interest incurred

Simone decides to purchase a rental property. When she approaches her bank for a loan, they require her husband Jarrod to be a co-borrower, even though the rental property will be solely in Simone's name.

When Simone and Jarrod enter into the loan agreement with the bank, they also enter into a separate legally enforceable written agreement with each other. The agreement is witnessed by a justice of the peace and states that Simone, as the sole owner of the rental property, is 100% liable for the loan repayments and interest.

As the sole owner of the property, Simone must declare 100% of the rental income in her tax return.

Simone can also claim a deduction for 100% of the interest expenses. Simone's agreement with Jarrod shows her intention to be liable for all of the loan repayments and interest charged on the joint loan. Simone's bank statements also support her intention as they show that she paid all the repayments and interest expenses from her own bank account.

Interest expenses you can't claim

You can't claim a deduction for interest expenses:

- for any period the property is used for private purposes, even if it's a short period of time
- on the portion of the loan used for private purposes (for example, to purchase a car), either when
  - you took out the loan
  - you refinance the loan
- on a loan you used to buy a new home if you don't use the new home to produce income, even if you use your rental property as security for the loan.

Example: claiming part of the interest incurred

Yoko takes out a loan of $400,000 and uses the loan to:

- buy a rental property for $380,000
- buy a new car for $20,000 for private use.

Yoko rents her property for the whole year from 1 July. Her total interest expense on the $400,000 loan is $35,000.

Yoko works out how much interest she can claim as a deduction, using the following calculation:

> Total interest expenses × (rental property loan ÷ total borrowings) = deductible interest
>
> $35,000 × ($380,000 ÷ $400,000) = $33,250

Yoko can claim an interest expense deduction of $33,250.

The ratio between the deductible and private components of the loan is 95/5. Yoko must continue to apportion interest in accordance with this ratio for the life of the loan. Similarly, any repayments of principal are applied in the same ratio.

Loan accounts used for private and rental expenses

If you have a loan account used for both private purposes and rental property expenses, you must keep accurate records to enable you to calculate the interest that applies to the rental property portion of the loan.

You must separate the interest relating to the rental property from any interest on funds used for private purposes.

You can't only repay the portion of the loan for your private purchases. All loan repayments must be apportioned across both rental and private portions of the loan for the length of the loan.

For apportionment calculations in these situations, see paragraphs 19 and 20 of TR 2000/2 *Income tax: deductibility of interest on moneys drawn down under line of credit facilities and redraw facilities*.

Example: interest incurred on a mortgage for a new home

Zac and Lucy take out a $400,000 loan secured against their existing home to purchase a new home.

Rather than sell their existing home, they decide to rent it out.

They have a mortgage of $25,000 remaining on their existing home which is added to the $400,000 loan under a loan facility with sub-accounts – that is, the two loans are managed separately but are secured by the one property.

Zac and Lucy can claim a deduction for the interest charged on the $25,000 loan for their original home, as it is now rented out.

They can't claim a deduction for the interest charged on the $400,000 loan used to purchase their new home. Even though the loan is secured against their rental property, the property isn’t being used to produce income.

Example: interest incurred on funds redrawn from the loan halfway through the year

Tyler has an investment loan for his rental property with a redraw facility. He is ahead on his repayments by $9,500 which he can redraw. Halfway through the year, Tyler redraws the available amount of $9,500 and buys himself a new TV and a lounge suite.

The outstanding balance of the loan after the redraw increases to $365,000 and total interest expenses incurred immediately before the redraw are $9,300. The total interest on $365,000 for the year is $19,000.

Tyler can only claim the interest expenses on the portion of the loan relating to the rental property. He uses the following calculations:

> Total loan balance – redraw amount = rental property loan portion
>
> $365,000 – $9,500 = $355,500

To work out how much interest he can claim, he does the following calculation in respect of the period following the redraw:

> Total interest expenses after the redraw × (rental property loan portion ÷ loan balance at the time of the redraw) = deductible interest
>
> ($19,000 − $9,300) × ($355,500 ÷ $365,000) = $9,448

Tyler can claim interest of $18,748, being $9,300 plus $9,448.

The ratio between the deductible and private components of the loan is 97.4:2.6. Tyler must continue to apportion interest and repayments of principal in accordance with this ratio for the life of the loan.

Example: interest incurred on deposit

Pauline has an existing home which is her main residence and is not rented. She wants to purchase a rental property for $700,000. She receives pre-approval from the lender for an investment loan amount of $630,000. Pauline redraws $140,000 from her personal home loan to pay a deposit of $140,000 to buy the property.

When the property settles, the lender advances $630,000 to her. She uses $560,000 to settle the purchase of the property. The remaining $70,000 of the $630,000 is paid to reduce the amount redrawn from her personal home loan. This amount was used to pay the deposit, reducing the redrawn amount from $140,000 to $70,000. She immediately begins renting the property.

Pauline can claim a deduction for the interest charged on the entire $630,000 loan:

- She can claim a deduction for the interest on the $560,000 component of the loan used to settle the property, as that is being used to purchase the rental property from which she will earn assessable income.
- She can claim a deduction for the interest on the $70,000 component of the investment loan that was used to partially repay the drawdown. This is because the funds used to refinance the drawdown takes on the same character as the

drawdown. Since interest on the original drawdown would be deductible, because it was used to pay the deposit for the rental property, interest on the $70,000 amount used to repay the drawdown would also be deductible.

She can also claim a deduction for interest expenses charged on the other $70,000 of the drawdown that was used to finance the deposit on the rental property.

Example: interest incurred on personal funds

Barbara wants to purchase a rental property for $700,000. She obtains pre-approval for an investment loan of $630,000. She pays a deposit of $140,000 to purchase the property which is funded from a gift by her parents.

When the property settles, the lender advances $630,000 to Barbara. She uses $560,000 to settle the purchase of the property. The remaining $70,000 is left in a savings account where it will be used for private purposes.

Barbara can't claim a deduction for the whole interest expense charged on the total loan amount of $630,000:

- She can claim a deduction for the interest charged on the $560,000 component of the total loan amount which was used to settle the property, as that is being used to purchase the rental property from which she will earn assessable income.
- She can’t claim a deduction for the interest charged on the remaining $70,000 amount that is now in her savings account to be used for private purposes. The funds are not being used to refinance a loan used to pay the deposit as the amount provided by her parents was not a loan. The $70,000 in her savings account is being used for private purposes and is not being used to earn assessable income.

Thin capitalisation

Thin capitalisation rules may affect you if the combined debt deductions (for example, interest) of you and your associated entities are more than $2 million in any income year and you are:

- an Australian resident and you (or any associated entities) have
  - certain international dealings
  - overseas interests
- a foreign resident (or associated entity) with certain investments in Australia.

You must consider the thin capitalisation rules each year.

QC 103911

Rental properties and travel expenses

If you have a residential rental property, you may not be able to claim a deduction for related travel expenses.

Last updated 23 June 2025

On this page

Deductions for travel expenses

Travel expenses include the costs you incur on car expenses, airfare, taxi, hire car, public transport, accommodation and meals to:

- inspect, maintain or collect rent for a rental property you own or have an ownership interest in
- travel to any other place as long as it is associated with earning rental income from your existing rental property (for example, visiting your real estate agent to discuss your current rental property).

Prior to 1 July 2017:

- you could claim your travel expenses relating to your residential rental property, and
- you didn't include the travel expenses in the cost base or reduced cost base when calculating any capital gain or capital loss when you sold the property.

From 1 July 2017 you can't claim any deductions for the cost of travel you incur relating to your residential rental property unless you are either:

- in the business of letting rental properties
- an excluded entity.

A residential premises (property) is land or a building that is:

- occupied as a residence or for residential accommodation
- intended to be occupied, and is capable of being occupied, as a residence or for residential accommodation.

To be residential premises, the premises must be fit for human habitation.

For example, a house or a unit used as residential accommodation to produce rental income is residential rental property.

A caravan or a houseboat is generally not residential rental property.

Example: individual with residential rental property

Sarah owned and rented out her residential rental property in the 2024–25 income year. She travelled to the property to repair damages caused by tenants during the year.

As the investment is a residential property and Sarah is not in the business of letting rental properties or an excluded entity, she can't claim a deduction for her travel expenses.

Commercial rental properties, for example factories or office blocks, are not residential rental properties. If you own or have an ownership interest in a commercial rental property, you can claim a deduction for travel expenses incurred in earning your rental income from the property.

Example: ownership interest in commercial property

Kei is the sole owner of a commercial rental property. Her husband, Bert, occasionally drives to the rental property in his own car to undertake maintenance. As he has no ownership interest in the property, Bert can't claim travel expenses. Similarly, since Kei didn't travel to the property to undertake the maintenance, she can't claim a deduction.

As the property is a commercial rental property rather than a residential rental property, if Kei and Bert co-owned the property, Bert could share his travel expenses with Kei in line with their legal interest in the property.

Example: individual with a commercial investment property

In the 2024–25 income year, Greg purchased a shopfront and leased the property to Paul. Paul used the shopfront to operate a bakery and paid rent to Greg under a 12-month lease contract.

Greg travelled to the shopfront to inspect the property at the end of the tenancy agreement. As the property was used for commercial purposes, Greg can claim the travel expenses.

In the business of letting rental properties

You can claim your travel expenses if you are in the business of letting rental properties. Generally, owning one or several rental properties will not be considered being in the business of letting rental properties.

If you are an individual and you receive income from letting property to a tenant, or multiple tenants, you are not typically carrying on a business of letting rental properties. Generally, we consider your activities are a form of investment rather than a business, so you can't claim deductions for travel expenses.

Entities that can claim travel expenses

You can claim travel expenses, if you're a:

- corporate tax entity
- superannuation plan that is not a self-managed superannuation fund
- public unit trust
- managed investment trust
- unit trust or a partnership, where all of the members are entities of a type listed above.

Example: an excluded entity in 2024–25

Terry's Pty Ltd, a property manager, incurred travel expenses in 2024–25 to inspect a tenanted residential investment property. Since Terry's Pty Ltd is a corporate tax entity (a company), it can claim a deduction for travel expenses.

Travel expenses you can't claim

Even if you are eligible to claim travel expenses, you still can't claim for expenses related to:

- your personal use of the property or for purely private purposes
- carrying out general maintenance of the property while it's not genuinely available for rent
- undertaking repairs, where those repairs are not because of damage or wear and tear incurred while you rented out the

property.

For example, if you travel to undertake initial repairs before you rent the property for the first time, these are capital expenses and may be included as part of the cost base for capital gains tax calculation when the property is being sold later.

If your travel expenses are partly for private purposes and partly related to the rental property, you can only claim the amount relating to the rental property.

Travel expenses before you purchase

You can't claim for travel expenses to inspect a property before you buy it.

You also can't claim for travel expenses to (or other costs for) rental seminars about helping you find a rental property to invest in.

Seminars are only tax deductible if they relate to earning rental income from your existing rental property. When a seminar teaches you how to locate a suitable rental property to buy, you can't claim a deduction against rental income for the cost of the seminar because the costs incurred are 'too soon' before the commencement of the income producing activity.

Some promoters have incorrectly told taxpayers that they can claim the cost of their travel to and from a property they may purchase. You can't claim these costs for properties within Australia nor overseas.

Travel expenses you can claim

If you are in the business of letting rental properties or an excluded entity, and eligible to claim travel expenses, the types of expenses you can claim include:

- preparing the property for new tenants (except for the first tenants)
- inspecting the property during or at the end of tenancy
- undertaking repairs, where those repairs are because of damage or wear and tear incurred while you rented out the property
- maintaining the property, such as cleaning and gardening, while it is rented or genuinely available for rent
- collecting the rent

- visiting your agent to discuss your rental property.

For more information, see Rental expenses.

Car travel

If you use your own car to travel to inspect your rental property or to collect rent, you must use the same method to calculate your deductions as work-related car expenses.

Overnight travel

You can claim a deduction for travel expenses for travelling to your rental property if:

- you own a rental property that is far away from where you live
- it would be unreasonable to expect you not to stay near the rental property overnight when making an inspection
- your main purpose in travelling was to inspect and maintain the rental property.

Where you stay overnight, you can claim meals and accommodation.

Where your trip is mainly for private purposes (for example, having a holiday) and inspecting the property is incidental to that main purpose, you can't claim the costs of getting to your destination or returning home. You can only claim local expenses incurred after you arrive at your destination that are directly related to the property inspection such as taxi fares to and from the rental property. You may also be able to claim a proportion of your accommodation expenses.

Example: apportionment of travel expenses

Bill and Marli King are joint owners of a residential rental property in a resort town on the north coast of Queensland. In 2016–17, they spent $1,800 on airfares and $1,500 on accommodation when they travelled from their home in Melbourne, mainly for the purpose of holidaying in the resort town, but also to inspect the property. They also spent $100 on taxi fares from the hotel to the rental property and back. The Kings spent:

- one day (10% of their total time in Queensland) on matters relating to the rental property

- 9 days (90% of their total time in Queensland) swimming and sightseeing.

They can't claim a deduction for any part of the $1,800 airfares because the main purpose of the trip is a holiday and the property inspection is incidental.

Since the travel expenses were incurred in the 2016–17 year, they can claim deductions for the $100 taxi fares and $150 as a reasonable apportionment of the accommodation expenses (that is, 10% of $1,500).

The total expenses the Kings can claim are therefore $250 (that is, $100 taxi fares plus $150 accommodation). Since they jointly own the rental property, they can claim a deduction of $125 each.

Example: apportioning accommodation expenses

Jabari is the sole owner of a rental property on the Gold Coast. In 2016–17, he travels from Sydney to the Gold Coast to undertake deductible repairs on his rental property but takes his spouse, Kym, with him for company and to share the driving. Jabari and Kym stay in a hotel where the cost of a:

- single room is $55
- double room is $70

A reasonable basis for apportionment of accommodation expenses in this instance is to claim the single room rate of $55 (rather than half the double room rate), as Jabari would have stayed in the single room if Kym had not travelled with him.

Overseas travel

If you are an Australian resident and own a rental property overseas, you may travel overseas on holiday and inspect your rental property at the same time.

If the main purpose of the trip is a holiday, you can't claim the cost of getting there. You can only claim local expenses incurred after you arrive at your destination that are directly related to inspecting the property, such as taxi fares to and from the rental property. You may also be able to claim a deduction for part of your accommodation expenses.

You must be able to show your reason for visiting the rental property.

The records you keep, such as invoices for your accommodation or airline tickets, will help you do this.

Record keeping for travel expenses

If you can claim your travel expenses and you travel over a considerable distance to inspect a rental property (for example, interstate), you need written records to show that you travelled and what expenses you incurred.

Written records can include:

- a travel diary
- receipts for
  - airline tickets
  - fuel
  - accommodation
  - other purchases while travelling
  - items you used for repairs and maintenance that you purchased when you travelled to, or stayed near, the rental property.

If you spend 6 or more nights away from where you live, you must keep a travel diary or similar document that shows the nature of the activities, dates, places, times and duration of your activities and travel.

QC 22093

Work out the category of your rental expense

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

Published 6 March 2025

It's important to correctly categorise each expense to ensure it's treated correctly for tax purposes. Our quick reference guide in the table below will help you to work out which category your expense relates to.

Table: working out the category of your rental property expense

Situation	Category	Example	Claim at
Replacing something that is worn out, damaged or broken while renting out the property	Repair	Replacing part of a fence damaged in a storm Hiring a plumber to fix a leaking tap	Repairs and maintenance
Preventing or fixing deterioration of an item that occurred while renting out the property	Maintenance	Repainting faded interior walls Re-oiling a deck	Repairs and maintenance
Repairing damage that existed when the property was bought (whether it was known at the time of purchase or not)	Initial repair	Fixing floorboards or repairing deteriorated window frames where the damage existed when the	Capital works This is an initial repair and the construction expenditure is written off at 2.5% over 40 years.

		property was bought	This does not include initial repairs to depreciating assets in the property, for which no deduction can be claimed.
Replacing an entire structure	Capital works	Replacing an entire fence	Capital works
Renovating or adding a new structure to the property	Capital works	Adding a carport	Capital works
Installing a brand-new appliance or window covering	Depreciating asset	Buying a new dishwasher Installing new blinds	Capital allowances

QC 103912

Asbestos-affected properties

If you own an asbestos-affected investment property, check the deductions you can claim. CGT may apply if you sell it.

Last updated 23 June 2025

On this page

Claiming expenses

Asbestos contamination may mean a property can no longer be rented out or must be vacated for a time. In that case some deductions may still apply, including for:

- interest on loans against the property (these are deductible for the whole year, if the property is later rented out after remediation)
- expenses such as council rates, water and land tax
- repairs and maintenance – for example, ensuring living areas are sealed from contaminated areas, such as ceiling, internal cavities and subfloor
- decline in value of written-off and replacement assets, such as carpet
- capital works for replacement buildings, fences and similar.

Expenses for capital works are claimed over a period of 40 or 25 years. The decline in value of depreciating assets is also generally claimed over several years.

For more information on expenses you can claim, see TR 2004/4 *Income tax: deductions for interest incurred prior to the commencement of, or following the cessation of, relevant income earning activities*.

Environmental protection costs

If your asbestos-related remediation expenses aren't covered by the above deductions, costs to remove asbestos from a rental property can be classified as an environmental protection activity under section 40-755 of the *Income Tax Assessment Act 1997*.

For more information, see TR 2020/2 *Income tax: deductions for expenditure on environmental protection activities*.

Government buy-back program

If you participate in a buy-back program, the CGT implications will vary depending on your situation.

If the property was solely used as your main residence for the entire period of ownership, there are no CGT implications on the disposal of your property.

If you used the property to produce income, there are CGT implications. These will depend on your circumstances, including whether it was ever your main residence and how long you've owned it.

QC 43708

Apartment building defect expenses

If you own an apartment in a building complex, you may be able to claim deductions for shared expenses to fix defects.

Last updated 23 June 2025

On this page

Apartment building defects

If you own an apartment in a building complex, you may have a shared responsibility to fix building defects. You may need to make:

- a contribution to a special body corporate levy (this is most common)

- changes as required by a state government building authority.

This is usually in respect of common property. Common property is generally all areas of the land and external structures of the main building.

If the apartment is a rental property, you can claim deductions for repairs, environmental protection activities and capital works on the same basis as if you:

- directly own the building
- were directly paying the expense.

Repairs and maintenance you can claim

You can claim a deduction for the expenses you incur when you contribute to the repair or maintenance of either:

- an apartment you use to earn rental income
- part of the building complex that you hold or use as part of earning rental income.

These expenses must meet the requirements for deduction as a repair or maintenance. That is, they must relate directly to wear and tear or damage as a result of renting out the property. Repairs generally involve a replacement or renewal of a worn out or broken part. Maintenance is work done to prevent deterioration, defects or damage. For example, repainting of the outside parts of the building where the paint is peeling is a repair as well as maintenance.

You can't claim a deduction for capital repairs or maintenance. For example, expenses which are capital or of a capital nature include:

- replacement of an entire structure or unit of property
- improvement in the function of the replacement item.

Combustible cladding replacements you can claim

You can claim a deduction for costs you incur to replace or contribute to the replacement of combustible cladding to meet government requirements.

To be able to claim a deduction, you must replace the combustible cladding with fire resistant cladding. You treat the replacement of the cladding as capital works. This is because we treat the replacement of cladding as:

- an entire functional structure (being the outer covering of the building)
- an improvement in the function of the outer covering of the building.

This means the building is no longer a fire hazard and becomes fire resistant as an improved functional operation of the cladding.

You can claim a deduction for the amount you contribute over a period of either 25 or 40 years. That is, 4% or 2.5% of the cost of the improvement being allowed in each year. See Table 1 – types of rental property construction that qualify for deduction.

The replacement of combustible cladding doesn't meet the requirements to be deductible as a repair or environmental protection activity.

Environmental protection activities you can claim

You can claim a deduction for costs you incur to carry out environmental protection activities.

Environmental protection activities are those you carry out because your earning activities will result or likely result in the need for you to:

- prevent, fight or remedy pollution
- treat, clean up, remove or store waste.

You can't claim a deduction as environmental protection activities where you incur the costs to either:

- replace building products that don't conform to statutory legal requirements
- remove building products that don't conform to statutory legal requirements.

For more information on deductions and strata titles, see:

- TR 97/23 *Income tax: deductions for repairs*

- TR 2020/2 *Income tax: deductions for expenditure on environmental protection activities*
- TR 2015/3 *Income tax: matters relating to strata title bodies constituted under strata title legislation* paragraphs 40 and 41.

QC 63879

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.