



Get your rental right this tax time

The ATO is reminding rental property owners and their tax agents to take care when lodging their tax return.

Last updated 4 September 2023

The Australian Taxation Office (ATO) is reminding rental property owners and their tax agents to take care when lodging their tax return this tax time.

ATO Assistant Commissioner Tim Loh explained that the ATO's review of income tax returns show 9 in 10 rental property owners are getting their return wrong.

'Landlords and their registered tax agents need to take extra care when lodging this year. We often see rental income being left out, or mistakes being made with property related deductions – like overclaiming expenses or claiming for improvements to private properties.'

'When you are overclaiming expenses or claiming for improvements to private properties, you are taking money from the Australian community. Money that could have been otherwise used to further increase funding for things like women's sports, schools and hospitals.'

'We have a range of resources available on [our website](#) to help you get your rental right this tax time, including our **top 10 tips** to avoid mistakes,' Mr Loh said.

Rental income

When preparing your tax return, make sure all rental income is included, including income from short-term rental arrangements, renting part of a home, and other rental-related income like insurance payouts and rental bond money retained.

‘Income and deductions must be in line with a rental property owner’s ownership interest, which should generally mirror the legal documents.’ Mr Loh said.

Rental income must be reported:

- in the year the tenant pays - not when your agent transfers it to you
- as the gross amount received (before property manager fees and other expenses your property manager pays on your behalf are taken out).

Mr Loh is reminding rental property owners not to double dip their deductions.

‘Make sure you are declaring your gross income. We have seen some clients declaring their net rental income after the property manager has paid their expenses and then they have claimed deductions like rates and repairs all over again.’

For more information on rental expenses, visit ato.gov.au/rentalincome.

Rental expenses

There are 3 categories of rental expenses:

- **Expenses where you cannot claim deductions** – for example, personal expenses, including expenses arising from your personal use of the property and expenses of a capital nature, such as secondhand depreciating assets.
- **Expenses where you can claim an immediate deduction 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.
- **Expenses where you can claim deductions over a number of income years** – for example, capital works, borrowing expenses and the decline in value of depreciating assets (if specific criteria are met).

For more information on rental expenses, visit ato.gov.au/rentalexperiences.

Interest expenses

The ATO is particularly focused on interest expenses and ensuring rental property owners understand how to correctly apportion loan interest expenses where part of the loan was used for private purposes (or the loan was re-financed with some private purpose).

‘Around 80% of taxpayers with rental income claimed a deduction for interest on their loan, and this is where we’re seeing the biggest mistakes.’

‘You can only claim interest on a loan used to purchase a rental property to earn rental income. If you’ve used any part of your original or refinanced investment property loan to cover private expenses, like buying a new car or renovating the home you live in, you can only claim an interest deduction for the portion relating to producing your rental income,’ Mr Loh said.

Repairs, maintenance, and improvements

‘When you first acquire a rental property and it needs work done to get tenants in – for example, you need to fix a hole in the wall or some damaged floorboards – these are initial repairs.’ Mr Loh explained.

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 but may be claimed over a number of years as capital works deductions.

If you have owned your rental property for a number of years and perform general repairs and maintenance, these repairs are immediately deductible.

‘You can claim an immediate deduction for general repairs like replacing a broken light globe or window. But if you rip out an old bathroom and put in a new and improved one, this is a capital improvement and is deductible over time as capital works.’

Our factsheet has examples to help you. Visit ato.gov.au/Rentalrepairsfactsheet .

Short term rentals including holiday homes

‘We know that many people who own a short-term rental property, like a holiday home, rent it out for most of the year and use it occasionally themselves.’ Mr Loh said.

You will need to apportion your deduction for rental expenses when the property (or part of it) is not being used to produce rental income, such as when you:

- use it personally or reserve it for friends or family
- when you place unreasonable conditions that restrict the likelihood of the property being rented (for example, excessive rates, requiring prospective tenants to give references for short holiday stays, or conditions like 'no children' in a family friendly destination).

'You need to make sure you have the records to demonstrate you incurred expenses for your rental property and the extent they relate to producing rental income.'

'If you've charged a mates rate, you can only claim for expenses up to the amount of income you've received.'

'This is an area that we are paying close attention to this year. If you've made genuine mistakes, we encourage you or your registered tax agent to fix any errors or omissions in your tax return as soon as you can. If you are deliberately overclaiming, it is un-Australian and penalties will apply,' Mr Loh said.

For more information on holiday homes, visit ato.gov.au/holidayhomes.

Data matching

The ATO has sophisticated data matching capabilities which include rental property-related data and has recently implemented new residential investment property loans (RIPL) and landlord insurance (LI) data matching programs.

'This new data provides us with crucial intelligence to paint a picture of what's true and accurate in tax returns, and we continue to expand our data-matching capability to ensure income and deductions are correctly reported,' Mr Loh said.

The RIPL and LI programs are part of a broader suite of data-matching programs that includes property management, rental bond and property transaction data, allowing us to address several taxation risks in the investment property market.

Around 87% of taxpayers who own rental properties use a registered tax agent to lodge their return. It is important taxpayers provide their registered tax agent with the right information to prepare their return

correctly and for registered tax agents to ask the right questions of taxpayers. Taxpayers are responsible for what they include in their tax return, even when using a registered tax agent.

For more information on rental properties, visit ato.gov.au/rental.

Notes to journalists

- ATO file footage is available for use in news bulletins from our media centre.
- A headshot of ATO Assistant Commissioner Tim Loh is available for download from our media centre.
- ATO Assistant Commissioner Tim Loh is available for interviews on request to the Media Unit.

QC 73202

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.

Copyright notice

© Australian Taxation Office for the Commonwealth of Australia

You are free to copy, adapt, modify, transmit and distribute this material as you wish (but not in any way that suggests the ATO or the Commonwealth endorses you or any of your services or products).