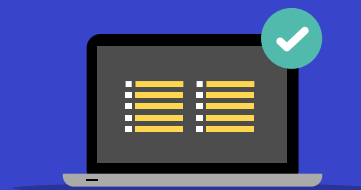




Australian Government  
Australian Taxation Office

# Top 10 tips for rental property owners



Whether you use a tax agent or lodge your tax return yourself, avoiding these common mistakes will save you time.

## Getting initial repairs right

Initial repairs are any works needed to repair damage that existed at the time you bought your property. Examples may include painting scuffed walls or repairing damaged floorboards. These are capital expenses. **You can't claim** these expenses right away.

**You may be able to claim** a deduction for capital works over several years. These costs, as well as any unclaimed initial repairs, can be used to work out your capital gain or capital loss when you later sell the property.

**i** For more information, see [ato.gov.au/rentalrepairsfactsheet](https://ato.gov.au/rentalrepairsfactsheet)

## Getting purchase costs right

**You can't claim** deductions for the costs of buying your property. This includes conveyancing fees and stamp duty (for properties outside the ACT).

Instead, add these costs to your cost base and use them to work out if you need to pay capital gains tax (CGT) when you sell.

## Claiming interest on your loan

**You can claim** deductions for interest paid on:

- the principal amount borrowed on your rental property loan
- additional loans relating to your rental property – for example, for repairs, maintenance and capital expenses.

**You can't claim** interest on any part of your loan used to:

- buy a holiday home that isn't used, or held for use, mainly to produce assessable income
- pay for personal expenses – for example, for school fees or to go on a holiday.

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

**i** For more information, see [ato.gov.au/rentalinterestexpenses](https://ato.gov.au/rentalinterestexpenses)

## Claiming borrowing expenses

If your borrowing expenses are \$100 or less, **you can claim** the full amount as a deduction in the income year you incur the expense.

If your borrowing expenses are over \$100, your deduction will need to be spread over 5 years, or the term of the loan – whichever is less.

Borrowing expenses include loan establishment fees, title search fees, stamp duty on the mortgage, and the costs for filing mortgage documents. They don't include stamp duty charged by your state or territory government on the property title.

You can't claim borrowing expenses for a holiday home unless it is used, or held for use, mainly to produce assessable income.

Remember, you'll need to apportion your borrowing expenses in the first year based on the number of days you own the property.

**i** For more information and examples, see [ato.gov.au/rentalborrowingexpenses](https://ato.gov.au/rentalborrowingexpenses)

## Getting improvements and construction costs right

**You can claim** certain building costs, including extensions, alterations and structural improvements, as capital works deductions from the date construction was completed.

Generally, **you can claim** a capital works deduction at 2.5% of the construction cost for 40 years.

Unclaimed capital works expenses can be used to work out your capital gain or loss when you later sell the property.

**i** For more information, see [ato.gov.au/rentalrepairsfactsheet](https://ato.gov.au/rentalrepairsfactsheet)

## Claiming body corporate fees

Body corporate fees can consist of amounts that are treated differently, for example, expense amounts and capital amounts.

**You can claim** the amount you pay to your body corporate administration fund for your rental property in full in the year you incur it.

**You can't claim** an immediate deduction when your body corporate raises funds applied to a special purposes fund, for example, to pay for major capital improvements or repairs of a capital nature.

You also **can't claim** body corporate fees for a holiday home unless it is used, or held for use, mainly to produce assessable income.

If the funds went to the special purpose fund to pay for a capital improvement, **you may be able to claim** a capital works deduction for your share of the expense once the work is complete. The cost must be charged to either the:

- special purpose fund
- general purpose sinking fund, if a special contribution has been levied.

**i** For more information, see [ato.gov.au/rentalbodycorporate](https://ato.gov.au/rentalbodycorporate)

## Apportioning correctly

You need to apportion your expenses for any private use. This includes renting your property to family or friends below market rates, or keeping it vacant for your own private use.

If you only use part of your property to earn rent (for example, renting out a room in your home), **apportion your expenses based on area basis**. If the property is your home, you also need to **apportion your expenses based on the number of days the room was rented**.

If you rent out your entire property for part of the year, **apportion your expenses based on number of days it was rented and days held to produce rental income**.

If you co-own a property with another person, you need to **apportion your expenses according to your ownership percentage of the property**. If you're joint tenants, your legal interest will be an equal split. If you're tenants in common, you may have different ownership interests.

## Keeping the right records

You must have evidence of your rental property income and expenses to claim a deduction.

You need to consider capital gains tax (CGT) when you sell your rental property. Be sure to keep all records for the entire period you own it, and for at least 5 years after the date you sell it.

**i** For more information, see [ato.gov.au/rentalrecordschecklist](https://ato.gov.au/rentalrecordschecklist)

## Selling your property

Foreign resident capital gains withholding (FRCGW) must be withheld at 15% of the sale price (or market value if not sold at arm's length) on **all** Australian property disposals and sales, unless the vendor is:

- an Australian resident for tax purposes with a clearance certificate
- a foreign resident with a variation notice specifying a reduced rate of FRCGW.

This includes residential property (including your home), vacant land, buildings, and commercial property.

**i** For more information, see [ato.gov.au/FRCGW](https://ato.gov.au/FRCGW)

## Getting your capital gains right when selling

When you sell your rental property, you may make a capital gain or a capital loss. Generally, this is the difference between what it cost you to buy and improve the property, and what you receive when you sell it.

When working out your capital gain or loss, you don't include the amounts you've already claimed as a deduction. This includes decline in value (depreciation) and capital works.

If you make a capital gain or loss, you need to include this in your tax return in the year you sign your sale contract – not the year in which the settlement date occurs.

Capital losses can be carried forward to reduce other capital gains in the future.

**i** For more information, see [ato.gov.au/CGTpropertysale](https://ato.gov.au/CGTpropertysale)

**i** **This is a general summary only.**

For more information:

- see [ato.gov.au/rental](https://ato.gov.au/rental)
- watch our short videos at [ato.gov.au/rentalvideos](https://ato.gov.au/rentalvideos)
- download our Rental properties guide at [ato.gov.au/RPguide](https://ato.gov.au/RPguide)
- read our Capital gains tax guide at [ato.gov.au/CGTguide](https://ato.gov.au/CGTguide)

