Australian Government
Australian Taxation Office

Rental properties

Repairs, maintenance and capital expenditure

Quick reference guide

If you replace a part of something that is worn out, damaged or broken because of renting out the property.	This is likely to be a **repair**.	For example, replacing part of a fence damaged in a storm or getting in a plumber to fix a leaking tap.	This should be claimed at **Repair and Maintenance**.
If you do work to prevent deterioration or fix existing deterioration to keep the property in a tenantable condition.	This is likely to be **maintenance**.	For example, getting faded interior walls repainted or having a deck re-oiled.	This should be claimed at **Repair and Maintenance**.
If you repair damage that existed when the property was bought (whether it was known about at the time of purchase or not).	This is likely to be an **initial repair**.	For example, fixing floorboards or repairing deteriorated window frames and the damage existed when the property was bought.	Unless the work involves you replacing a damaged depreciating asset – such as replacing an oven, initial repairs are construction expenditure and written off at 2.5% over 40 years. This should be claimed at **Capital Works**.
If you repair damage to a separate depreciating asset that existed when the property was bought (whether it was known about at the time of purchase or not).	This is likely to be an **initial repair**.	For example, fixing a broken dishwasher.	This cost isn't deductible as a repair, but it's part of the cost of the depreciating asset. You can't claim a deduction for the decline in value of a second hand depreciating asset used in a residential rental property. When the asset is disposed of, the cost of the repair will form part of its cost base for CGT purposes.
If you replace an entire structure that's partly damaged, renovate or add a new structure to improve the property.	This is likely to be **capital works**.	For example, replacing all the fencing, not just the damaged portion, or adding a carport.	This should be claimed at **Capital Works**.
If you install a new appliance or floor or window covering.	This is likely to be a **depreciating asset**.	For example, buying a brand new dishwasher or installing new carpet.	This should be claimed at **Capital Allowance**.

Detailed guide

Find out more about repairs, maintenance, improvements and capital expenditure.

Repairs and maintenance

The cost of repairs and maintenance may be deductible in full in the year you incur them if both:

- the expense directly relates to wear and tear or other damage that occurred while renting out the property
- the property either
  - continues to be rented on an ongoing basis
  - remains available for rent, but there's a short time when the property is unoccupied (for example, where unseasonable weather causes cancellations of bookings or all reasonable efforts to attract tenants were unsuccessful).

Repairs

Generally, repairs must relate directly to wear and tear or other damage that occurred while renting out the property and can be claimed in full in the same year you incurred the expense.

Examples of repairs include:

- replacing broken windows
- repairing electrical appliances or machinery
- replacing part of the guttering damaged in a storm
- replacing part of a fence damaged by a falling tree branch.

Maintenance

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

Examples of maintenance include:

- repainting faded or damaged interior 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.

Capital expenditure that may be claimable over time

Capital allowances

Depreciating assets are items that can be described as plant, which don't form part of the premises. These items are usually:

- separately identifiable
- not likely to be permanent and expected to be replaced within a relatively short period
- not part of the structure.

When claiming a deduction for decline in value for each asset, you can choose to use either:

- the effective life the Commissioner has determined for these types of assets
- your own reasonable estimate of its effective life.

Where you estimate an asset's effective life, you must keep records to show how you worked it out.

Examples of assets decline in value include:

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

Capital works

Capital works describes certain kinds of construction expenditure used to produce income.

The rate of deduction for these expenses is generally 2.5% per year for 40 years following construction.

Capital works include:

- building construction costs
- the cost of altering a building
- major renovations to a room
- adding a fence
- building extensions such as garages or patios
- adding structural improvements like a driveway or retaining wall.

Improvements

An improvement can be anything that makes the property better, more valuable or more desirable, or changes the character of the item that works are being carried out on.

Improvements include work that:

- provides something new – for example, adding a gazebo or carport
- improves the income-producing ability or expected life of the property
- goes beyond restoring the efficient functioning of the property.

Improvements can be either:

- capital works – a structural improvement (for example, such as remodelling a bathroom or adding a pergola)
- capital allowances – the item is a depreciating asset (for example, carpet or a dishwasher).

It's important to correctly categorise each expense incurred to ensure it's treated correctly for tax purposes.

Initial repairs

Costs you incur to remedy defects, damage or deterioration that existed at the time you acquired the property to make it suitable to rent out are capital in nature and not immediately deductible.

To claim a deduction for the cost of repairs incurred to restore the property to its original condition, the necessity for repairs must:

- occur after your new property was rented or made available for rent, and
- have been caused by the rental activity of the person making the claim (not from a previous owner), or
- caused by special circumstances beyond your control, such as a natural disaster or deliberate damage by tenants.

The cost of remedying initial repairs that existed at the time of purchase form part of the capital gains tax cost base when you sell the property (but not to the extent that capital works or capital allowance deductions have been or can be claimed for them).

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 costs 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 the replacement of the entire roof and the structural work can be claimed as capital works expenses.

Example: repair cost (special circumstances beyond your control)

Dimitri buys a property with the intention to rent. Unexpectedly, 10 weeks after the property was rented, a heavy storm damaged the entire roof and minor parts of the ceiling.

As the property was rented before the storm, and the repairs were done to restore the property to its original condition, Dimitri will be able to claim the cost of repairs to the ceiling and a capital works deduction for replacing the roof with a more storm-resistant material.

This is a general summary only.
For more information go to ato.gov.au/rental
Watch our short videos at ato.gov.au/rentalvideos
Download our free Rental properties guide at ato.gov.au/rentalpropertyguide
Read our Guide to capital gains tax at ato.gov.au/cgtguide

NAT 75208-05.2023 DE-54788