



Australian Government
Australian Taxation Office

Damaged or destroyed rental properties



What to do in the event your rental property is damaged or destroyed.

Types of income

Rental income can be payments you receive in cash or in the form of goods and services. You need to work out the monetary value of any payments you receive in the form of goods and services.

Insurance payouts

Insurance payouts for loss of rental income and repairs need to be included in your income.

Disaster assistance payments

Many one-off assistance payments you receive from the government, charities or community groups are tax-free. You need to check the types of payments and how they affect your tax.

Replacing depreciating assets

If the insurance payout you receive for your depreciating asset is more than its written down value, you need to include the balance as income. If the payout is less, you can claim a deduction for the difference.

Expenses

If you use an assistance payment or money from a relief fund to buy items for your rental property, the normal conditions for deductibility apply. This means you can claim a deduction if you satisfy the [deductibility rules](#).

Capital works

If you replace an entire structure that was fully or partially damaged or destroyed, it's likely to be classed as **capital works**. An example includes

replacing **all** the fence, not just the damaged portion. This may result in a capital gain or loss, see [Involuntary disposal of a CGT asset](#). New capital works are generally deductible at 2.5% over 40 years.

Repairs

If you fix something that's damaged or broken, it's a **repair**. Examples include fixing a leaking tap or **part** of the fence damaged in the storm. Amounts for **repairs and maintenance** are claimed fully in the year the expense is paid.

If your rental property is also your holiday home, repairs and maintenance expenses will be an ownership and use expense. You can only claim ownership and use expenses if you used your property, or held it for use, mainly to produce assessable rental income. For more information on when these types of expenses can and can't be claimed, see ato.gov.au/holidayhomes.

Depreciating asset

If you install a brand new appliance, carpet, or window coverings, these are **depreciating assets**. Examples include buying a new dishwasher or installing new carpet. You claim a deduction over the effective life of the replacement asset (decline in value).

If you claimed a **capital allowance** for the original asset, you can claim a deduction for the remaining balance less any compensation received for the total loss of the asset.

For more information, see ato.gov.au/rentalrepairsfactsheet

Rental property can't be lived in

If your property is unable to be lived in and is no longer earning rental income, you can claim a deduction for costs incurred while doing repairs or renovations. Examples include council rates or interest charged on your mortgage. **You can't claim a deduction for your own labour.**

To be entitled to claim expenses while making repairs or renovations, the:

- work needs to be completed in a reasonable timeframe
- property must have been rented or made available for rent immediately before it was damaged or destroyed.

If the property is demolished and you're holding vacant land because of the damage, you can claim a deduction for holding costs (for example, land taxes and council rates) if the [exceptional circumstances exemption](#) applies.

There is a limit of 3 years from the date of the exceptional circumstances to continue to claim deductions using this exemption.

Capital gains tax (CGT) implications for damaged or destroyed assets

If you receive an insurance payout, it needs to be considered when calculating your capital gain or loss. A capital gain arises if the insurance payout is more than the asset's cost base. If the insurance payout is less than the reduced cost base you have a capital loss.

The [cost base](#) of a CGT asset is generally the cost of acquiring, holding and disposing of the asset. The reduced cost base is similar, but doesn't include the costs of holding the asset.

You choose to rebuild or replace your rental property

You may be entitled to roll over any capital gain you make and delay paying the gain until later. To defer the gain, you must incur expenditure within one year after the end of the income year the property was damaged or destroyed. For more information, see [Involuntary disposal of a CGT asset](#).

You choose not to rebuild your rental property

You need to calculate your capital gain or loss.

Any insurance payout you receive must be counted as capital proceeds when calculating your gain or loss.

If you don't receive an insurance payout there are no capital gains tax consequences until the property is sold.

Main residence exemption

If the damaged or destroyed property was previously your [main residence](#), you can treat it as your main residence for up to 6 years after you move out. Your main residence is exempt from CGT.

You only have one main residence at a time and can't treat any other property as your main residence for the same period. The exception to this rule is when you [move from one main residence to another](#).

Important things to remember

Important things to remember for damaged or destroyed rental property.

Timing of a CGT event

If your CGT asset is lost or destroyed, a CGT event happens on the date you receive compensation for the loss or destruction.

If you don't receive any compensation, the CGT event happens when the destruction occurred or loss is discovered.

Get record keeping right

Keep records of every transaction, including insurance payout documents and receipts for any new purchases or repairs. If you borrow money, keep all loan documents and statements.

Before and after photos of destroyed assets may be helpful but they aren't sufficient records on their own.

Example: deduction for repairs while property was unoccupied

Ben's rental property was tenanted when it was severely damaged by a cyclone. Due to the damage, the tenants had to move out. Ben carried out repairs in a reasonable time and then advertised the property for rent.

Even though the property wasn't available for rent while being repaired, he is able to claim for the repairs because it was rented immediately before the damage occurred.

Example: no capital works deduction

Zahli owns a rental property that was damaged in a severe hailstorm. Because of this, her insurance company replaced the entire roof.

Zahli can't claim a capital works deduction for the new roof that was replaced by the insurer.

Example: deduction for replacement of depreciable items

Josh's rental property was covered in smoke and ash from bushfires. He had the home thoroughly cleaned and had to replace all carpets and curtains. Josh can claim a deduction for the:

- cleaning
- remaining value of the pre-existing carpet and curtains
- decline in value of the new carpet and curtains.

If Josh decided to repair the damaged carpet and curtains instead of replacing them, he would claim the immediate deduction as a repair.

This is a general summary only.

For more information:

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

