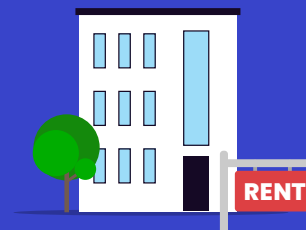




Australian Government
Australian Taxation Office

Rental property body corporate fees and charges



Information you need if your rental property is part of a body corporate.

About body corporates

Strata title body corporates are constituted under the strata title legislation of the various states and territories.

The body corporate maintains, manages and controls the common property on behalf of owners. It decides the amounts (body corporate fees) to be paid by the owners to make sure the body corporate can operate.

What you can claim

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.

Deductions depend on if you incur these fees to cover the cost of day-to-day administration and maintenance or for a special purpose.

If the funds are used for a capital expense the expense must be claimed over several years.

Administrative funds

These are payments you make to your body corporate administration fund.

These funds are used by the body corporate to cover day-to-day expenses to maintain and manage common property of the body corporate. Examples include insurance premiums, maintenance of gardens and management of the body corporate itself.

You can claim an immediate deduction in the year you incur these fees.

General purpose sinking fund

The payments you make to a general-purpose sinking or reserve fund generally covers non-routine but anticipated expenses in the year the levy is raised, such as roof repairs or the painting of common property.

You can claim the sinking fund contribution in your tax return. However, you can't also claim a separate deduction for the items the funds were used for, like gardening, deductible repairs or building insurance costs.

What you can't claim

Certain body corporate fees may **not** be deductible in the income year you incur them, for example payments to a:

- special purpose fund, which is established to cover a specified, generally significant expense that isn't covered by ongoing contributions to a general-purpose sinking fund
- special purpose fund to pay for a one-off unexpected major capital expense
- special contribution to pay for major capital expenses out of the general-purpose sinking fund.

These payments cover the cost of capital improvements or repairs of a capital nature and are not immediately deductible.

You may be able to claim a capital works deduction for your share of the expense once the work is completed and the cost has been charged to the fund.

You can't claim the body corporate expenses for a holiday home unless it was used, or held for use, mainly to produce assessable rental income.

Example: immediate deduction body corporate fees

Charlie owns a strata title interest, which is a unit in an apartment block. Charlie rents out the unit to Karl.

The strata entitlement includes a right to use or have access to strata title body common property. This consists of:

- the garden area
- the lifts, stairwells and passageways
- depreciating assets, such as public couches in the foyer.

Charlie pays a body corporate fee of \$2,500 annually for the general up-keep of the building's common areas.

Charlie is entitled to claim \$2,500 for body corporate fees in his tax return.

Example: non-deductible capital works costs

Sophia rents her unit to Steve and has been paying a body corporate fee of \$3,000 annually for the last 2 years.

Her body corporate contacted each unit owner and advised of a new charge to pay an additional \$1,000 per year to a special purpose fund for future works to upgrade the building lifts.

Sophia can claim an immediate deduction for the \$3,000 body corporate fee but can't claim a deduction for the additional \$1,000. This levy is for future capital expenses and can be claimed once the work to upgrade the lifts has been completed and charged to the body corporate.

If Sophia pays \$1,000 each year over the period of 5 years to upgrade the lifts, she can claim a percentage of the \$5,000 each year based on the effective life of the depreciating asset from the date the works were completed.

Example: non-deductible capital works costs

Joe rents his unit to Meredith and pays a body corporate fee of \$2,500 annually for the last 2 years.

Unexpectedly, the council notified the body corporate that the common veranda needed to be completely replaced because it hadn't been maintained to compliance standards.

As a result, the body corporate issued an enforcement notice to each unit owner to pay the amount of \$10,000 into a special purpose fund to cover this emergency cost.

Joe can claim an immediate deduction for the \$2,500 body corporate fee.

He can't claim a deduction for the \$10,000. This expense is for future capital works and can be claimed at 2.5% for 40 years once the work is completed.

** 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

