Example

You own a holiday home jointly with your partner and rent it out for eight weeks over December and January each year. For all remaining months of the year, the property is exclusively used by you and your partner.

Your total rental property income for the eight week period is $24,000 and total expenses for the year are $32,000, which includes $1,500 in agent's commissions and advertising costs associated with finding tenants. The remainder is composed of interest paid, insurance, council rates and repairs and maintenance.

You are eligible to claim, in full, the $1,500 as a deduction. However, the remaining expenditure needs to be apportioned over the period that the property was rented out. Accordingly, $4,692 may be deducted in relation to the property ($32,000 - $1,500 ÷ 52 x 8 = $4,692).

The total net rental income would be $19,308 ($24,000 - $4,692). In your individual income taxation returns, you and your partner would each need to declare net rental income of $9,654 ($19,308 ÷ 2).

Useful ATO resources

- For more information about rental property taxation obligations, please visit ato.gov.au/rental
- For more detailed information about rental property deductions, please visit ato.gov.au/rentalpropertyguide

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Curtin Tax Clinic Guide:

Rental properties

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When can I claim?

Generally, when renting a property, you can claim some expenses incurred for the period the property is rented or is otherwise genuinely available for rent.

A property is genuinely available for rent where it is advertised in a manner that gives it broad exposure to potential tenants, and having regard to all the circumstances, tenants are reasonably likely to rent the property.

Expenses of a private or capital nature are generally not deductible, unless they fall into an exception under the depreciation or Capital Gains Tax regime.

Capital Gains Tax (CGT)

It is important to note that the property may be subject to CGT upon sale. Accordingly, you should keep documents relating to the property's initial purchase, and any capital improvements made during the period of ownership. You should also consider the need to obtain advice regarding any CGT discounts or exemptions you might be entitled to when the property is sold.

What can I claim?

You can claim a deduction for certain expenses that you, rather than the tenant, incurred and paid, such as:

- Expenses associated with finding tenants including advertising, property agent fees or commissions and lease document expenses
- Administrative expenses including printing, stationery, telephone calls and postage
- Fees, charges and taxes including bank charges, council rates, land tax, interest on loan
- Maintenance and upkeep expenses including gardening, lawn mowing, cleaning, pest control, repairs and maintenance or servicing costs
- Borrowing expenses including brokerage fees, stamp duty and loan establishment fees
- Utilities including electricity, gas and water

In limited circumstances, you can also claim a deduction for:

- Depreciation equal to the decline in value of a depreciating asset (e.g. stove, air conditioner) used in the rental property over the income year
- Capital works including the building itself, an extension or alteration (e.g. adding a room, removing internal walls) and structural improvements (e.g. adding a gazebo, carport or fence)

You cannot claim a deduction for any expenses that the tenant has paid.

How much can I claim?

Rental expenses are deductible to the extent that they are incurred for the purpose of producing rental income. In some instances, you may need to apportion the expense(s) where:

- the property was privately used, or only genuinely available to rent, for part of the year
- only part of the property is used to earn rent
- the property is rented at non-commercial rates
- your investment loan is partially used for private purposes

Note, however, that borrowing expenses exceeding $100 must be deducted over the loan period or 5 years, whichever is lower. Furthermore, capital works deductions are usually claimed over either 25 or 40 years.

What records do I need to keep?

You must keep written records that are in English (or readily translated to English) for any income and expenses associated with renting out your property.The records should be kept for at least 5 years from the later of either your income tax return lodgment date or 31 October of the relevant financial year that the expense was incurred.

The written records should include details concerning the:

- name of the supplier and their Australian Business Number
- amount of the expense
- nature of the goods or services
- date the expense was incurred as well as the date of the document