RENTAL PROPERTY FACT SHEET

Buying/Acquiring a Property

- Generally, the names you put on the purchase contract determine who must declare any income and can claim the expenses
- If you wish to buy a property jointly but not own a 50% share (there may be tax advantages for a higher earning spouse to own a 99% share and a low income earning spouse to own a 1% share) you should speak to your solicitor as soon as possible after signing the contract for purchase to arrange this and to explain the legal implications. If you have already settled on the property, it is too late.
- The date you sign the contract, not the settlement date, is your date of purchase or sale for capital gains tax purposes.

Rental Income

The following items must be included in your assessable income:

- Rental bond money (if you are entitled to retain it)
- Insurance payouts (e.g. for the purposes of lost rent)
- Letting Fees
- Reimbursements or recoupment for deductible expenses
- Any other amounts received, or are entitled to, as part of the normal, repetitive and recurrent activities through which you generate profit from the use of your rental property

The following items can be claimed as a tax deduction immediately (only if actually incurred):

- Advertising for tenants
- Bank charges
- Body corporate fees and charges (excluding fees to pay for capital expenditure)
- Cleaning
- Council rates and water charges
- Electricity and gas
- Gardening and lawn mowing
- In-house audio/video service charges
- Insurance – including building, contents and public liability insurance
- Interest on loans. Interest on a rental property that was previously your principle residence is deductible from the date the property is available for rent.
- Land tax

- Legal expenses (such as the cost of evicting a non-paying tenant, and excluding acquisition & borrowing costs, costs incurred in resisting land resumption and defending your title to the property)
- Mortgage discharge expenses
- Pest control
- Property agent's fees and commission
- Quantity surveyor's fees
- Repairs and maintenance (only those directly related to the wear and tear or other damage that occurred as a result of your renting out the property and excluding repairs of capital nature). See the fact sheet "When is a repair not a repair?" for more information on www.oneills.com.au.
- Secretarial and bookkeeping fees
- Security patrol fees
- Stationery and postage
- Telephone calls & rental
- Tax-related expenses
- Travel & car expenses – including those related to rent collection, inspection and maintenance of the property

Deductions are also available for the following and are claimed over a number of income years:

- Borrowing expenses – where directly incurred in taking out a loan (including loan establishment fees, title search fees and costs for preparing & filing mortgage documents, mortgage broker fees & stamp duty charged on the mortgage)
- Amounts for decline in value of depreciating assets
- Capital works deductions – including extensions (e.g. adding a room, garage or patio), alterations (e.g. removing or adding an internal wall), and structural improvements (e.g. adding a gazebo, carport or sealed driveway).
- Where assets were purchased prior to your ownership, you will need to obtain a Quantity Surveyor prepared tax depreciation schedule to be able to claim depreciation or capital works deductions on these items. Please seek further advice from your accountant on whether this is appropriate for you.

You can't claim deductions for:

- Acquisition and disposal costs
- Expenses not actually incurred by you (such as water/electricity charges borne by tenants)
- Expenses not related to the rental of a property (such as expenses connected to your own use of a holiday home that you rent out for part of the year)

Selling your property

- When you sell your property, you could be liable for capital gains tax.
- Your capital gain is the difference between your 'cost base' (costs of ownership) and your 'capital proceeds' (what you receive when you sell it).
- If you have owned your property for more than 12 months, you may be able to reduce your capital gain by the 50% discount.
- Simply transferring the property into someone else's name may mean you have to pay capital gains tax.

Records to be kept

- All receipts and other documentation relating, either directly or indirectly to your rental property. These may include repair bills, solicitor's invoices, and property appraisal documents.
- If expenses are paid out of a joint bank account, make sure they are clearly marked on the bank statement
- If a holiday home is frequently used as a rental property, make sure expenses relating to the rental period are clearly marked
- If a loan account is also used for personal use, make sure personal payments etc are clearly marked on the loan statement.
- Receipts relating to assets, contracts, solicitors invoices and mortgage documents should be kept for 5 year after the assessment of your tax return in the year the property is sold.
- Other receipts should be kept for 5 years after the assessment of the tax return in which you claimed the deduction.

Further Information

Please note that this is only meant to be a brief outline of what you may need to know when considering buying or selling your rental property. For more information, please visit www.ato.gov.au, or contact this office.