Australian Government
Australian Taxation Office

Top 10 tips for rental property owners

If you use a tax agent or choose to lodge your tax return yourself, avoiding these common mistakes will save you time.

1. Getting initial repairs right

Initial repairs include any maintenance or improvements prior to getting tenants in. They include existing damage or work required when you bought the property, even if you don't fix the issues immediately. For example, replacing a broken window pane and repairing damaged floorboards.

You may be able to claim a deduction over several years as a capital works deduction. These costs and any unclaimed initial repair costs can be used to work out your capital gain or capital loss when you sell the property.

For more information, see ato.gov.au/rentaltop10tips

2. Getting purchase costs right

You can't claim deductions for the costs of buying your property. These include conveyancing fees and stamp duty (for properties outside the ACT).

These costs are added to the cost base and are used when working out if you need to pay capital gains tax when you sell.

3. Claiming interest on your loan

You can claim deductions for interest paid on:

- the principal amount borrowed on your rental property loan
- loans for things like repairs, maintenance and capital expenses relating to your rental property.

You can't claim interest on any part of the loan used to buy personal items, such as school fees or going on a holiday.

You must separate interest paid for your rental property, so you don't claim interest relating to private use.

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

4. Claiming borrowing expenses

If your borrowing expenses are over $100, the deduction is spread over 5 years or the term of the loan, whichever is shorter. If they are $100 or less, you can claim the full amount in the income year you incur the expense.

Borrowing expenses:

- include loan establishment fees, title search fees and costs of preparing, stamp duty on the mortgage and filing mortgage documents.
- **don't** include stamp duty charged by your state or territory government on the property title (this stamp duty is included in the property's cost for CGT purposes).

Remember to apportion your borrowing expenses in the first year based on the number of days you own the property.

For more information and examples, see ato.gov.au/Rentalborrowingexpenses

5. Getting improvements and construction costs right

You can claim certain building costs, including extensions, alterations and structural improvements as **capital works** deductions from the date construction was completed.

Generally, you can claim a capital works deduction at 2.5% of the construction cost for 40 years.

Unclaimed capital works expenses can be included when working out your capital gain or loss when you sell or dispose of the property.

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

6. Claiming body corporate fees

Body corporate fees can consist of amounts that are treated differently, such as expense amounts and capital amounts. The amount you pay to your body corporate **administration fund** for your rental property is deductible in full in the year you incur it.

You can't claim an immediate deduction when your body corporate raises funds applied to a **special purposes fund** to pay for major capital improvements or repairs of a capital nature.

If the funds went to the special purpose fund to pay for a capital improvement, you may be able to claim a capital works deduction for your share of the expense once the work is complete. The cost must be charged to either the special purpose fund or the general purpose sinking fund, if a special contribution has been levied.

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

7. Apportion correctly

You need to apportion expenses for any private use, such as, renting to family or friends below market rates or keeping it vacant for your private use. If you:

- use part of your property to earn rent, apportion based on area
- rent it out for part of the year, apportion based on days.

You need to apportion your income and expenses according to your ownership percentage of the property:

- as joint tenants your legal interest will be an equal split
- as tenants in common you may have different ownership interests.

8. Keeping the right records

You must have evidence of your rental property income and expenses to claim a deduction.

You need to consider capital gains tax (CGT) when you sell your rental property, so keep all records for the entire period you own it, and for 5 years from the date you sell it.

Records you need to keep for ato.gov.au/rentalrecords

9. Selling your property

Foreign resident capital gains withholding (FRCGW) must be withheld on all real property (property) disposals and sales unless the vendor is:

- an Australian resident for tax purposes with a clearance certificate
- a foreign resident with a variation notice specifying a reduced rate of FRCGW.

Without a clearance certificate or variation notice, the purchaser must withhold up to 15% of the sale (or market value if not sold at arm's length).

Examples of types of property are vacant land, buildings, residential (including your home) and commercial property.

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

10. Getting your capital gains right when selling

When you sell your rental property, you may make a capital gain or a capital loss. Generally, this is the difference between:

- what it cost you to buy and improve the property
- what you receive when you sell it.

Don't include amounts already claimed as a deduction against rental income earned from the property, including decline in value (depreciation) and capital works.

Include your capital gain or loss in your tax return in the year you sign the sale contract. Capital losses can be carried forward to reduce capital gains in later years.

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

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

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