RENTAL PROPERTY TAX DEDUCTIONS CHECKLIST

DEDUCTIBLE EXPENSES

- Accountants fees, bookkeeping fees and fees for accounting software
- Costs of advertising the property for rent
- Agents fees and commissions for all property management costs
- Bank charges – for the accounts used for collecting rent and paying outgoings
- Body corporate fees and Special Purpose Levies (Note: deductibility of Special Purpose Levies depends on what they were spent on)
- Bank loan application fees – e.g. search fees, valuation fees, survey and registration fees, stamp duty, broker's commissions, mortgage insurance. (These borrowing expenses are deductible but not all at once)
- Cleaning – internal and external, gardening, lawn maintenance and pest control
- In-house audio and video service charge (e.g. Foxtel) not paid for by the tenant
- Insurance Premiums– building, contents, public liability and landlord insurance
- Interest expenses on the loan
- Rental lease preparation, registration, stamping
- Legal costs for recovering unpaid rent, seeking damages for breach of agency agreement, reviewing tenant credit worthiness
- Mortgage discharge expenses and penalty interest on early loan repayment
- Mortgage insurance – this is treated as a borrowing expense
- Postage, stationery and telephone calls - when related to dealing with real estate agents, tenants, services and other matters related to the rental property
- Expense prepayments – You can generally claim an immediate deduction in the income year you make the prepayment for if the cost is less than $1,000. You can also claim an immediate deduction if the expense is $1,000 or more AND the service period finishes before the end of next financial year (such as payment of an annual insurance premium part way through an income year).
- Rates (council and water) that are not paid for by the tenant
- Repairs and maintenance during the tenancy (note that any initial repairs will be considered capital improvements and written down over time)
- Security monitoring costs
- Cost of Quantity Surveyor report - for claiming Capital Allowances and Depreciation

Ten tips to help rental property owners avoid common tax mistakes

1. Keeping the right records

You must keep written evidence of your income and expenses. This is so you can claim everything you are entitled to.

2. Make sure your property is genuinely available for rent

You must be able to show a clear intention to genuinely rent the property in order to claim a tax deduction. Eg it must be advertised properly and can't be available only at odd times. This also means that you need to pro-rata your deductions to allow for any private use.

3. Claiming the right portion of your expenses

If your property is rented to family or friends for below market rate rent then you can only claim deductions up to the amount of the rent you received ie you cannot make a loss for tax purposes. The excess deductions get added to the cost base for CGT purposes on sale.

4. Getting initial repairs and capital improvements right

You can't claim initial repairs or improvements if you knew they needed doing when you bought the property. Ie they are not deductible if they are incurred in getting the property ready to rent out (rather than tenant wear & tear).

5. Getting construction costs right

You can claim a Capital Works deduction over time for certain building/construction costs, including extensions, renovations and structural improvements.

6. Claiming interest on your loan

You can only claim interest on money borrowed to buy or maintain/improve your rental property. If you redraw money from your rental property loan for private purposes you will need to pro-rata the interest for tax purposes.

7. Claiming borrowing expenses

If your financing/borrowing expenses are over $100, the deduction is spread over five years. If they are $100 or less, you can claim the full amount in the same income year you incurred the expense.

8. Co-owning a property

You must declare rental income and claim expenses according to your legal ownership of the property.

9. Claiming purchase costs

You can't claim any deductions for the costs of buying your property like stamp duty and legal fees (unless the property is in the ACT). When you sell your property, these costs form part of the cost base of the property for CGT calculation purposes upon sale.

10. Getting your capital gains right when selling

It is the date of Exchange of Contracts (not Settlement) that determines which financial year the capital gain gets declared in. If you make a capital gain when you sell, the gain gets included in your tax return for that financial year. If you make a capital loss, the loss gets carried forward to be offset against any future capital gains.

At DFK Everalls we want to empower you with information to achieve the best results you can. This checklist is intended to be used as a guide only. We recommend all investors seek advice from a qualified accountant.

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