

2024 Tax Tips for Rental Property Owners



New rules commence from 1/7/19 regarding holding expenses for rental properties. If your property has not been producing rental income or is not advertised for rent (whilst being repaired or similar), then you can no longer claim “holding expenses” on the property. You can only claim once the property is earning rental income.

1. Keep good records

You should keep records for every transaction and event affecting your investment property for the entire period of ownership of your property and for at least five years since the date of lodgement of your tax return for the year in which you dispose of it. The records you need to keep, depending on your circumstances, may include:

Acquiring the property:

- Settlement statement
- Invoices for legal fees and other expenses paid on purchase
- Property loan documents, including any loan set up costs

Property ownership:

- Bank statements for the property loans
- Rates, strata levies and Land Tax paid on the property
- Property insurance costs
- Records of any other costs or receipts (e.g. costs of legal disputes, insurance payouts)

Renovating and repairing your property:

- Invoices for remedial repairs and maintenance works
- Invoices for major renovation, construction and improvements costs
- Invoices for landscaping and earthwork
- Invoices for garden maintenance
- Invoices for any items purchased for your property

Make sure the invoices contain detailed description of the work performed. Ask your supplier to itemise the invoice where possible.

Renting out your property:

The date the property first started earning assessable income

- Starting and ending dates of the periods the property was rented out, used as your main residence or used for any other purpose
- Depreciation and capital works deductions claimed against rental income
- If you are managing your property – we highly recommend you have a management agreement in place with your tenants as well.

Selling your property:

- Sale contract and settlement statement
- Invoices for legal fees, marketing costs and agent sale commission
- Invoices for renovation, styling and other expenses paid to sell the property.
- Final bank statements of the loan which may show break costs and interest to date

2. Get a Depreciation Report from a Quantity Surveyor

A Quantity Surveyor is a specialist who can estimate value of construction works and depreciable items to produce report outlining the amounts of capital allowances you can claim in each year for those items if you rent your property.

You can generally benefit from claiming deduction on capital works (building) if the residential property was built after 15 September 1987. The costs of building are claimed over 40 years from the date the construction was complete at 2.5% per year (for example, if the initial costs of building are \$350,000, you can claim 8750 per year). If you acquire a newly built property, you are also eligible to claim deduction on depreciable items, also known as plant and equipment. These are items that have limited effective life and can be easily removed from the property, such as appliances, hot water systems, security systems, air conditioning assets, etc. The amount of claim depends on effective life of these assets.

3. Keep your investment property loans “clean”

The amount of interest you can deduct against your rental income (or capitalise as a part of the cost base) is limited to the extent the money borrowed were used for the purpose of acquiring, renovating and maintaining the property. If part of the loan was used for other purposes, the portion of interest relating to that part may not be deductible.

While mixed-purpose loans may be a commercial reality, they may restrict your ability to manage the loan balances relating to each of the purposes. Generally speaking, repayments you make on such loans will be allocated proportionally. You cannot choose which particular balance you want to repay first.

Making frequent drawdowns on property loans for unrelated purposes may add up to the tax compliance costs as your accountant will have to spend time to calculate the apportionment on monthly basis.

When building an investment property, try and have one loan for the land (holding – interest not claimable) and one loan for your construction build (build – interest is deductible).

5. Obtain Market Valuation of your property if necessary

If you start renting out the property that was used as your main residence since the acquisition, you are deemed to acquire it on the day it first started to produce assessable income at Market Value on that day (if occurred after 20 August 1996). When this happens, you may need to obtain Market Valuation to establish the cost base of your property.

Other situations where you may need to obtain market valuation include:

- You acquired your property for no consideration (e.g. as a gift)
- You inherited your property and the property was acquired by the deceased before 20 September 1985. (pre CGT)
- The property was acquired from or sold to a related party (e.g. family or friends)
- You change your intention to hold the property as an investment asset for generating rental income and decide to undertake development and/or subdivision for sale
- You were a non-resident or a temporary resident owning an investment property in Australia for a period of time before 8 May 2012

For Capital Gains tax purposes, you should use a professional qualified valuer. Property sale indicators or other informal valuations may not be accepted by the ATO as proper evidence. Market valuations can be done retrospectively.

REAL PROPERTY WORKSHEET

THE FOLLOWING WORKSHEET WILL ASSIST YOU IN CALCULATING YOUR INVESTMENT PROPERTY'S NET RENTAL INCOME OR LOSS. WE TRUST YOU WILL FIND THIS WORKSHEET A BENEFICIAL TOOL IN ASSESSING THE NET RENTAL INCOME OR LOSS OF YOUR RENTAL PROPERTY.

Income	
Other rental income	
Rental income	
Gross Income	
Expenses	
Advertising for Tenants	
Body corporate fees and charges	
Borrowing expenses	
Capital works deductions	
Cleaning	
Council rates	
Deductions for decline in value	
Gardening / lawn mowing	
Insurance	
Interest on loan(s)	
Land tax	
Legal expenses	
Pest control	
Property agent fees / commission	
Repairs and maintenance	
Stationery, telephone and postage	
Emergency Services Levy	
Water charges	
Total Expenses	
Total	
Net rental loss	

Please collate your expenses into categories, ready for your tax appointment:

- Interest charged on the loan for the year (not loan repayments – loan interest) **
- Purchases of plant and equipment – dates/details and costs

Self Assessment: Please note that Australian Taxpayers are subject to a self-assessment regime. This basically means that **you** are responsible for declaring all of your assessable income, and only claiming deductions and/or rebates to which you are entitled. The ATO is able to review your claims and increase or decrease the amount of tax payable for up to 2-4 years, and longer where tax avoidance is involved, after you lodge your tax return.

Disclaimer: All the information provided is of general nature and does not constitute tax, legal or financial advice. It does not take into account your personal circumstances and is not intended to replace consultation with a qualified professional.

AUSTRALIAN TAX OFFICE – RENTAL PROPERTY TIPS

Getting record keeping right makes tax time easy

You need to keep records for the period you own the property to make sure you don't pay more tax than you need to in case you later sell or rent out all or part of the property.

If you sell a property you use to earn income, you need the following records to work out if you are subject to capital gains tax.

Buying

- contract of purchase
- conveyancing documents
- loan documents
- costs to buy the property
- borrowing expenses

Owning

- proof of earned rental income
- all your expenses
- periods of private use by you or your friends
- periods the property is used as your main residence
- loan documents if you refinance your property
- efforts to rent the property out
- capital improvements

Selling

- contract of sale
- conveyancing documents
- sale of property fees
- calculation of capital gain or loss

Record keeping tips:

- Set up an easy-to-use record-keeping system as a priority. This can be a digital record, like a spreadsheet or you can use professional software.
- Keep records of every transaction over the period you own the property. This includes contracts of purchase and sale, as well as conveyancing and loan documents.
- Scan copies of your receipts to make it easier to store and access them.

Remember, keeping proof of all your income, expenses and effort to rent out your property means you can claim everything you are entitled to.

Preparing your return

Rental property owners should remember 3 simple steps when preparing their return:

1. Include all the income when you receive it

This includes income from short term rental arrangements (for example, a holiday home), sharing part of your home or other rental-related income such as insurance payouts and rental bond money you keep.

Report income when it's paid. If rent is paid to a real estate agent or property manager, who takes out their fees before forwarding on to you – the full amount (before taking fees out) must be reported at the time your tenants pay rent to the agent.

2. Get your expenses right

Eligibility – only claim expenses for the periods you can directly connect to gaining assessable income

Timing – some expenses must be claimed over several years.

Apportionment – apportion your claim where:

- your property was not used as a rental property for part of the year
- only part of your property was rented out
- you used the property or kept it vacant for yourself
- you rented it at below market rates.

Report your income and expenses in line with your share of the investment.

3. Keep records to prove it all

You should keep records of all income and expenses relating to your rental property, as well as purchase and sale records.

Selling your property

If you sell an investment property or your main residence that you rented out, remember:

- You may have to pay capital gains tax, even if you transfer the property into someone else's name.
- A capital gain is the difference between your cost base (cost of ownership) and your capital proceeds (what you receive when you sell the property or the market value when you transfer the property).
- If your costs of ownership are greater than your capital proceeds, a capital loss should be included in your return. Reporting capital losses, mean they are available to reduce future capital gains.
- If you claim a deduction for capital works or depreciation in any income year, you can't use these in your cost base.
- If you own the property for more than 12 months, and you are an Australian resident, you may be entitled to a 50% discount of the capital gains tax.