DID YOU KNOW...

TAX DEDUCTIONS
RENTAL PROPERTIES

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TOP 10 TIPS TO HELP RENTAL PROPERTY OWNERS

1. KEEP THE RIGHT RECORDS

You must have evidence of your income and expenses so you can claim everything you are entitled to. Capital gains tax may apply when you sell your rental property, so you need to ensure you keep records over the period you own the property and for five years from the date you sell the property.

2. ENSURE YOUR PROPERTY IS GENUINELY AVAILABLE FOR RENT

Your property must be genuinely available for rent to be able to claim a tax deduction. This means that you must be able to show clear intention to rent the property. So advertise the property so that someone is likely to rent it and set the rent in line with similar properties in the area.

3. GET INITIAL REPAIRS AND CAPITAL IMPROVEMENTS RIGHT

You can't claim initial repairs or improvements as an immediate deduction in the same income year you incurred the expense.

- Repairs must relate directly to wear and tear or other damage that happened as a result of you renting out the property. Initial repairs for damage that existed when the property was purchased, such as replacing broken light fittings and repairing damaged floor boards are not immediately deductible. These costs are instead used to work out your cost base when you sell the property.
- Ongoing repairs that related directly to wear and tear or other damage that happened as a result of you renting out the property such as repairing the hot water system or part of a damaged roof are classed as a repair and can be claimed in full in the same income year that you incurred the expense.
- Replacing an entire structure, like a roof, when only part of it is damaged, or renovating a bathroom, is classified as an improvement and not immediately deductible. These are building costs that you can claim at 2.5% each year for 40 years from the date of completion.
- If you completely replace a damaged item that is detachable from the house, and it costs more than $300.00, the cost must be depreciated over a number of years.

4. CLAIMING BORROWING EXPENSES

If your borrowing expenses are over $100.00, the deduction is spread over five years. If they are $100.00 or less you can claim the full amount in the same income year that the expense was incurred. Borrowing expenses include such things as loan establishment fees, title search fees and costs of preparing and filing mortgage documents.

5. CLAIMING PURCHASE COSTS

You can't claim any deductions for the cost of buying your property. These costs include things such as conveyancing fees and stamp duty (for properties outside the ACT). If you sell your property these costs are then used when working out whether you need to pay capital gains tax.

6. CLAIMING INTEREST ON YOUR LOAN

You can claim interest as a deduction if you take out a loan for your rental property. If you use some of the loan money for personal use, such as going on a holiday, you can't claim the interest on that part of the loan. You can only claim the part of the interest that relates to the rental property.

7. GET CONSTRUCTION COSTS RIGHT

You can claim certain building costs, including extensions, alterations and structural improvements as a capital works deduction. As a general rule you can claim a capital works deduction at 2.5% of the construction cost for 40 years from the date the construction was completed. If the previous owner claimed a capital works deduction they are required to give you the information they used to calculate the costs, so it always pays to ask them for this. If they didn't use the property to produce assessable income you can obtain an estimate from a qualified professional and ensure they use a reasonable basis for their valuation and exclude the cost of the land when working out the construction costs.

8. CLAIMING THE RIGHT PORTION OF YOUR EXPENSES

If your rental property is rented out to family or friends below market rate, you can only claim a deduction for that period up to the amount of rent you received. You can't claim deductions when your family or friends stay free of charge or for periods of personal use.

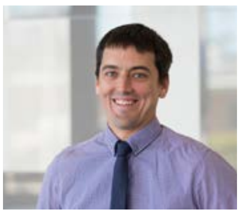
9. CO-OWNING A PROPERTY

If you co-own a rental property you must declare rental income and claim expenses according to your legal ownership of the property. As joint tenants your legal interest will be an equal split, and as tenants in common you may have different ownership interests.

10. GET YOUR CAPITAL GAINS RIGHT WHEN SELLING

Wen you sell your rental property you will make either a capital gain or capital loss. This is the difference between what it cost you to buy and improve the property, and what you receive when you sell it. If you make a capital gain you will need to include the gain in your tax return for that financial year. If you make a capital loss, you can carry that loss forward and deduct it from capital gains in future years

FOR MORE INFORMATION CONTACT



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