

Some people want it to happen,
some wish it would happen,
others make it happen.

----- Michael Jordan

Rental property deductions

You can claim expenses relating to your rental property but only for the period your property was rented or available for rent – for example, advertised for rent.

Expenses could include:

- advertising for tenants
- bank charges
- body corporate fees
- borrowing expenses
- council rates
- decline in value of depreciating assets
- gardening and lawn mowing
- insurance
- land tax
- pest control
- property agent fees or commissions
- repairs and maintenance
- stationery
- telephone
- water charges, and
- travel undertaken to inspect the property or to collect the rent.

If part of your property is used to earn rent, you can claim expenses relating to that part only. You will need to work out a reasonable basis to apportion the claim.

Prepaid expenses

If you prepaid a rental property expense, such as insurance or interest on money borrowed, that covers a period of 12 months or less **and** the period ends on or before the year end, you can claim an immediate deduction. Otherwise, your deduction may have to be spread

over two or more years under the prepayment rules if the expense is \$1,000 or more.

Deductions for decline in value of depreciating assets

You can claim a deduction for the decline in value of certain items, known as depreciating assets, that you acquired as part of the purchase of your property or that you subsequently purchased for your property.

Capital works deductions

You may be able to claim a deduction for the construction costs of your property over a 25-year or 40-year period – called a capital works deduction.

A deduction may also be available for structural improvements made to parts of the property other than the building if work began after 26 February 1992. Examples include sealed driveways, fences and retaining walls.

The deduction does not apply until completion of the construction. The deduction is at the rate of 2.5% or 4% (adjusted for part-year claims) depending on the date the capital works began. You might consult a professional quantity surveyor for more details.

Common mistakes

According to the ATO some of the common mistakes it encounters when looking at the returns lodged by rental property owners include :

- Claiming deductions for rental properties not genuinely available for rent;

- Incorrectly claiming deductions for properties only available for rent for part of the year (for example a holiday home);
- Incorrectly claiming the cost of structural improvements as repairs when they capital works deductions (such as remodeling a bathroom or building a pergola; and
- Overstating deduction claims for the interest on loans taken out to purchase, renovate or maintain a rental property.

A loan can be taken out for both income producing and private purposes (for example, to buy a house and go on an overseas holiday). The interest on the private portion of the loan is not tax deductible.

Taxpayers cannot claim costs associated with acquiring or disposing of a property, but they form part of the cost base of the property for CGT purposes.

Another 'trap' to watch out for is travel expenses to inspect a rental property. If a taxpayer travels to inspect or maintain their property or collect rent they may be able to claim the costs of traveling as a deduction. They are allowed a full deduction where the sole purpose of the trip relates to the rental property. However, in other circumstances they may not be able to claim deduction or they may be entitled to only a partial deduction. If the travel was for private purpose, they will not be able to claim any deductions. If the travel is partly for private purpose, only partial deduction is allowed.