Residential rental properties

If you own a residential rental property, find out about keeping records, declaring income and claiming expenses.

Owning and renting a property or holiday home

Find out about owning and renting a property and holiday home and check what records you should keep.

Records for rental properties and holiday homes

Find out about what records to keep and for how long for rental properties and holiday homes.

Rental income you must declare

Check which rental income you must declare and where you should declare it in your tax return.

Rental property genuinely available for rent

Your rental property must be rented out or genuinely available to rent to claim a deduction for expenses you incur.

Rental property as investment or business

If you own a rental property or holiday home, work out if your rental arrangements are for investment or business.

Rental expenses to claim

Check the expenses you can claim as a deduction for your rental property.

Rental expenses you can't claim

You may not be able to claim a deduction for some residential rental property expenses.

Tax-smart tips for your investment property

If you use your property to earn income at any time, you will have tax obligations and entitlements.

Top 10 tips to help rental property owners

If you lodge your tax return yourself or with a tax agent, avoid these top 10 common mistakes to save time and money.

Rental affordability schemes

Find out about the national rental affordability scheme and investing in affordable rental housing.

QC 23626

Owning and renting a property or holiday home

Find out about owning and renting a property and holiday home and check what records you should keep.

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Renting out your property or holiday home

If you rent out property, you need to:

- keep records right from the start
- work out what expenses you can claim as deductions
- work out if you need to pay tax instalments throughout the year
- declare all rental-related income in your tax return
- consider the capital gains tax implications if you sell.

If you have an investment property that isn't rented or available for rent, such as a holiday home, then you generally can't claim deductions because it doesn't generate rental income.

If you invest in (buy) a rental property or holiday home, you will need the date of purchase and costs of buying the property as part of your records. The date you enter into the contract is the purchase date (not the settlement date) for capital gains tax purposes.

Co-owning rental property

If you co-own the property you will need to know your ownership interest, to make sure you:

- keep the right records
- report the correct share of the rental income
- claim the correct amount for expenses you incur.

For more information, go to the rental properties guide – Co-ownership of rental property.

Buying a home

If you buy a home (your main residence), you should also keep records. You will need these records to make sure you don't pay more tax than you need to, if you later decide to:

- make your residential property available for rent
- rent out all or part of your home through the sharing economy
- use all or part of your home to produce income.

For more information, see IT 2167 *Income tax: rental properties – non-economic rental, holiday home, share of residence, etc. cases, family trust cases*.

Investment or business

Most rental activities are in the form of an investment. See, Rental property as investment or business, to work out if your activities amount to:

- carrying on a business
- a domestic arrangement
- sharing part of your home
- normal commercial practices.

If you are investing in property you intend to rent out as affordable housing, there are registration requirements and criteria you need to meet. See, Investing in affordable rental housing.

Foreign resident investors

If you are a foreign resident or a temporary resident and you plan to invest in residential rental property, you will first need to:

- apply for approval, pay the application fee and wait to be approved before you make a purchase
- keep the right records
- report the correct share of the rental income.

Rental property video series

Watch our videos to learn about your tax obligations when investing in a rental property.

For more information about rental and investment properties, see:

- Rental properties guide
- Tax time toolkit for investors.

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Records for rental properties and holiday homes

Find out about what records to keep and for how long for rental properties and holiday homes.

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How long to keep rental records

You need to keep records for **5** years. Depending on your situation, that is 5 years from the date:

- you lodge your tax return
- of your last claim for the decline in value of an asset
- it is certain that no capital gains tax event can occur after you acquire, sell or otherwise dispose of property
- you resolve any disputes you have with us.

You will need these records to work out how much:

- rental income you need to declare
- you can claim as a deduction for your expenses
- capital gain or loss you make when you dispose of your rental property.

In some circumstances, you may need to provide these records as proof that you were the one to incur the expense.

Format of your rental records

Rental records must be in English or be readily translatable into English.

You can keep your records in either paper or digital format. If you make copies, they must be a true and clear copy of the original.

We recommend you keep a back-up of all your digital records.

You can use the myDeductions tool in the ATO app to keep track of your records digitally. When you are ready to complete your tax return, you can:

- email your data to yourself or to your tax agent
- upload your data to pre-fill your tax return.

Types of rental records to keep

You should keep a record of the following for your rental property or holiday home:

- Rental income
- Rental expenses
- When you buy a rental
- While you own a rental
- When you sell a rental

Rental income

Records of the payments you receive, such as:

- a statement from your property or managing agent
- a rent book or bank statements that shows the rental payments going into your account
- documents that show a record of any bond money you retain in place of rent.

For more information on rental income, see Rental income you must declare.

Rental expenses

Records for expenses you incur, such as:

- bank statements showing the interest charged on money you borrowed for the rental property

- loan documents
- land tax assessments
- documents or receipts that show amounts you pay for
  - advertising (including efforts to rent out the property)
  - bank charges
  - council rates
  - gardening
  - property agent fees
  - repairs or maintenance
- documents showing details of expenses related to
  - the decline in value of depreciating assets
  - any capital work expenses, such as structural improvements
- before and after photos for any capital works
- travel expense documents, if you are eligible to claim travel and car expenses such as
  - travel diary or similar that shows nature of the activities, dates, places, times and duration of your activities and travel (you must have this if you travel away from home for 6 nights or more)
  - receipts for flights, fuel, accommodation, meals and other expenses while travelling
  - receipts for items you use for repairs and maintenance that you bought when you travel to, or stayed near, the rental property.

When you buy a rental property

Records when you buy (invest) in rental property, such as:

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

While you own a rental property

Records for while you own a rental property, such as:

- documents that show periods of personal use by you or your friends
- document that show periods the property is used as your main residence
- loan documents if you refinance your property
- documents, receipts and before and after photos for capital improvements
- tenant leases
- documents for rental expenses.

When you sell your rental property

Records for when you sell or otherwise dispose of your rental property, such as:

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

Records for multiple properties

Keep separate records for each property, if you have:

- more than one property (including a block of apartments or similar)
- a duplex
- property that has been sub-divided.

This will ensure that you declare the correct rental income and claim the correct rental expenses for each property. It will also ensure that if you later sell or otherwise dispose of one or part of a property, you will have records to work out your capital gain or loss.

Rental income you must declare

Check which rental income you must declare and where you should declare it in your tax return.

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What you must declare

You must declare all the income you receive for your rental property (including from overseas properties) in your tax return. These include:

- short-term rentals (for example, a holiday home)
- renting your property through a sharing platform (for example, AirBNB, HomeAway or Flipkey)
- renting part or all of your home (for example, renting out a room)
- formal and domestic arrangements where you rent out to family and friends at less than commercial (or market) rates.

Types of rental income

Rental income can be payments you receive in cash or in the form of goods and services. You need to work out the monetary value of any payments you receive in the form of goods and services.

Rental income is payment for rent from your tenant. These are paid to either you, your agent or a property manager.

Payments relating to your rental income may include:

- bond money you retain in place of rent or keep because of damage to the property

- letting and booking fees you retain when renters or holiday makers cancel a booking
- insurance payouts, such as
  - damage from a natural disaster (such as a bushfire, flood or cyclone)
  - damage from an unexpected event (such as a burst sewage pipe)
  - for the loss of rent
- money you receive from a relief fund in a disaster
- payments for deductible expenses, such as
  - payments from a tenant to cover the cost of repairing property damage
  - government rebates for buying a depreciating asset (for example, a solar hot water system)
- lump sum payments of rental income
- any assessable amounts relating to limited recourse debt arrangements involving your rental property.

For more information, see IT 2167 *Income tax: rental properties – non-economic rental, holiday home, share of residence, etc. cases, family trust cases*.

Rental income and completing your tax return

You must declare rent and payments relating to your rental property in your tax return:

- in the year your tenant pays rent (if your tenant pays your agent or property manager, you must declare rental income in the year your tenant pays them and not when the rental income is transferred to you)
- based on your legal ownership of the property (for example, if you own 50% of a property you must declare 50% of the rental income in your tax return).

Example: rental income and completing you tax return

Stephanie and Patrick own a unit as tenants in common in equal shares, they have rented the property for the full year, via a property manager. The property manager takes care of routine maintenance and deducts the expenses and property management fees from the rental income the tenant pays. The balance is then paid into Stephanie and Patrick's bank account.

The tenant gives notice that they will be moving out and directs the property manager to use their bond to pay the final month's rent. The bond is released to the property manager on 30 June 2024, but the income is not paid into Stephanie and Patrick's account until 4 July 2024.

When Stephanie and Patrick are preparing their tax return, they need to ensure they do all of the following:

- report the gross rent they earn, before it has been reduced by property management fees or any expenses paid by the property manager on their behalf
- include the final month's rent in the 2023–24 financial year, as it was received by their property manager in that financial year
- report their income and expenses 50:50 based on their legal ownership.

Where to report

Include amounts that you earn:

- in Australia at 'You had Australian interest, or other Australian income or losses from investments or property'
- from overseas property at 'Other foreign income'.

You can claim a foreign income tax offset for the tax you pay on your rental income in another country.

There are also special rules that apply to the deductibility of rental expenses that you can claim against your foreign rental income.

Watch: How to include rental income and expenses in myTax

Our top 10 tips will help rental property owners avoid common tax mistakes.

QC 23632

Rental property genuinely available for rent

Your rental property must be rented out or genuinely available to rent to claim a deduction for expenses you incur.

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Things that show your rental property is available

Your property is available for rent where you either have:

- a tenant renting the property
- made genuine effort to
  - advertise the property in ways that give it broad exposure to possible tenants
  - have conditions that are not so restrictive that tenants are likely to rent the property.

Where you rent out property or it is genuinely available for rent, you can claim for expenses you incur. There are also some rental expenses you can't claim.

Things that show your rental property is not available

Things that may show a property isn't genuinely available for rent include:

- it's advertised in ways that limit its exposure to potential tenants – for example, the property is only advertised
  - at your workplace
  - by word of mouth
  - on restricted social media groups
  - outside annual holiday periods when the likelihood of it being rented out is very low
- the location, condition of the property, or accessibility of the property mean that it's unlikely tenants will seek to rent it
- you place unreasonable or stringent conditions on renting out the property that restrict the likelihood of the property being rented out, such as
  - setting the rent above the rate of comparable properties in the area

  - placing a combination of restrictions on renting out the property – for example, requiring prospective tenants to provide references for short holiday stays and having conditions like 'no children' and 'no pets'
- you refuse to rent out the property to interested people without adequate reasons.

These things generally show you:

- don't have a genuine intention to earn rental income from the property
- may have other purposes, such as using it or reserving it for personal use.

Check our examples of factors that generally indicate the property is not genuinely available to rent.

QC 66383

Rental property as investment or business

If you own a rental property or holiday home, work out if your rental arrangements are for investment or business.

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On this page

Common rental arrangements

Common rental arrangements include where you:

- rent part of the property (rent out a room)
- rent the property for part of the year
- have a domestic arrangement with family members (meaning, you receive payment for board and lodging)
- rent the property to your family or friends
- rent your property consistent with normal commercial practices (arms-length arrangements).

Rental investors

Most owners are investors who are not in the business of letting rental properties, even where there is more than one investment property. This is because they:

- have minimal involvement in rental activities (such as, interviewing potential tenants or inspecting the property)
- still rely on income from their job.

Carrying on a business of letting rental properties

As the owner of rental properties, some of the factors that show you are carrying on a business of letting rental properties are the:

- significant size and scale of the rental property activities
- significant number of hours spent on the activities
- extensive personal involvement in the activities
- business-like manner in which the activities are planned, organised and carried on.

There are eight indicators to determine whether a business is being carried on. These are listed in paragraph 13 of TR 97/11. Although the ruling refers to primary production, these are equally relevant to non-primary production activities.

For more information, see Property used in running a business.

Domestic arrangements

Where you receive payment from family members in the form of 'board and lodging', your arrangement is of a domestic nature. This means you don't declare the rent as income and you can't claim expenses.

However, where you rent out your property to relatives or friends, the essential question to work out is whether the arrangements are:

- consistent with normal commercial practices in this area
- less than commercial rent.

If the arrangement is consistent with normal commercial practices, we treat you the same as any other owner in a comparable arms-length situation. If the property is rented out at less than commercial rent, other considerations arise and your claim for expenses may only be allowed up to the amount of rent you received.

For more information, see IT 2167 *Income tax: rental properties – non-economic rental, holiday home, share of residence, etc. cases, family trust cases*.

To find out more about your rental property being genuinely available for rent, see Rental property genuinely available for rent.

QC 66425

Rental expenses to claim

Check the expenses you can claim as a deduction for your rental property.

Last updated 17 June 2024

On this page

> Expenses you can’t claim
>
> How to include rental expenses in your tax return

Watch: When can I claim a deduction for rental expenses?

Rental expense categories

There are 3 rental expense categories, those for which you:

- can claim a deduction now (in the income year you incur the expense) – for example, interest on loans, council rates, repairs and maintenance and depreciating assets costing $300 or less
- can claim a deduction over several years – for example, capital works, borrowing expenses and the decline in value of depreciating assets
- can't claim a deduction – for example, personal expenses, including expenses arising from your personal use of the property, some expenses of a capital nature and the purchase of second-hand (or used) depreciating assets after 9 May 2017.

There may be some expenses you can claim a deduction for prior to the property being genuinely available for rent – such as interest on loans. You must incur these expenses with the intent to rent out the property. For example, renovating a property you intend to rent. If your intention changes you can't claim your expenses.

It is important to claim each expense under the correct expense type to make sure you treat it correctly for tax purposes.

Claim the right amount of expenses

You will need to work out the amount of the expense that relates to your income-producing activities, if any of the following apply:

- your property is only genuinely available for rent for part of the year
- you use your property for private or personal purposes for part of the year
- you only use part of your property to earn rent
- you rent your property at non-commercial rates (less than market rates)
- you use your investment loan for personal purposes.

If you co-own your rental property with someone, rental income and expenses must be attributed to each co-owner according to your legal interest in the property.

If you rent out part of your property you need to work out your expenses on a floor-area basis.

You don't need to apportion expenses that relate solely to renting out the property, such as advertising for tenants and real estate commissions. These are fully deductible in the year they are incurred.

Positive or negative gearing

Your rental property is:

- **Positively geared** if your deductible expenses are less than the income you earn from the property – you make a profit from renting out your property.
- **Negatively geared** if your deductible expenses are more than the income you earn from the property. You can claim deductions for rental expenses against your rental and other income – such as salary, wages or business income. If your other income isn't enough to absorb the loss, you can carry forward your loss to the next income year.

Expenses you can’t claim

Find out about expenses you can’t claim below.

Deductions for vacant land

In most cases, you can’t claim a deduction for the cost of holding vacant land. For more information, see Deductions for vacant land.

Supplier ABNs

When you hire a contractor for services and repairs connected with your rental property, you will need to check they have an Australian business number (ABN). If they do not provide you with their ABN, you may have to withhold 47% from the payment you make to them and transfer that withheld amount to us.

You may not be able to claim deductions for these expenses if you don't withhold when you were required to.

How to include rental expenses in your tax return

If you lodge your own tax return using myTax, you need to select:

- 'You had Australian interest, or other Australian income or losses from investments or property'
- 'Other foreign income' for overseas property.

Once you have completed the rental property details and the related income fields, you can add your expenses in the 'Rental expenses' fields.

Watch: How to include rental income and expenses in myTax

Rental expenses you can claim now

Check the deductions you can claim in the income year you incur the expense for your rental property.

Rental expenses you claim over several years

You can generally claim a deduction over several years for borrowing expenses, asset decline in value and capital works.

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Rental expenses you can claim now

Check the deductions you can claim in the income year you incur the expense for your rental property.

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Expenses you claim this year

You can claim an immediate deduction for some expenses in the income year you incur them provided your property is rented or genuinely available for rent. To claim a deduction you must:

- actually incur the cost – you can't claim a deduction where the cost is paid by the tenant or someone else
- keep adequate records to prove your deductions if we ask for evidence.

There are some rental expenses you must claim over several years – for example, capital works and borrowing expenses.

Expenses you can claim an immediate deduction for include:

- advertising for tenants
- body corporate administrative fund fees and charges
- council rates, water charges, land tax
- cleaning, gardening and lawn mowing
- pest control
- insurance (building, contents, public liability, loss of rent)
- interest expenses
- pre-paid expenses
- property agent's fees and commission
- repairs and maintenance
- legal expenses.

For more information, see Rental properties guide.

Body corporate administrative fund fees and charges

You may be able to claim a deduction for body corporate fees and charges you pay. Not all body corporate fees are deductible in full in the income year you incur them.

Body corporate fees are a cost you pay to the body corporate or strata to manage the property and maintain common areas. Strata title body corporates are constituted under the strata title legislation of the various states and territories.

These fees and charges may go towards payments to:

- cover the cost of day-to-day expenses to maintain and manage the building – for example, insurance premiums, maintenance of gardens and management of the body corporate itself
- a special purpose fund, for a specific expense – for example, roof repairs and building insurance.

Regular payments you make to body corporate administration funds or general purpose sinking funds for ongoing administration and general maintenance are considered to be payments for the provision of services by the body corporate. You can claim an immediate deduction for these regular payments at the time you incur them.

You can't claim a deduction for a special levy you are required by the body corporate to pay to fund a particular capital improvement. You may be able to claim a capital works deduction for the cost of capital improvements or repairs of a capital nature once the work is completed. The cost must also be charged to either the special purpose fund or the general purpose sinking fund, if a special contribution has been levied.

For a summary fact sheet of what you can and can't claim download our PDF see, Rental properties – body corporate fees and charges.

Interest expenses

When you take out a loan for a rental property, you need to pay interest on the amount you borrow from your bank or lender. We refer to these as interest expenses. The principal amount is the money you borrow from your bank or lender.

If you use the principal amount to buy a rental property and it is rented or genuinely available for rent for the entire income year, you can claim a deduction for the interest charged on the loan.

You can only claim a portion of your interest expenses as a deduction if you either:

- use a portion of the principal amount to buy your rental property
- the property is rented or genuinely available for rent for part of the income year.

You can't claim a deduction for additional payments made to reduce the principal amount of the loan.

Watch: Claiming interest expenses

For a summary fact sheet of what you can and can't claim, download our PDF see, Rental properties – interest expenses.

Interest expenses you can claim

You can claim the interest expenses on the loan principal (mortgage) you use to:

- buy a rental property
- buy a depreciating asset for the rental property – for example, an air conditioner for the rental property
- pay for deductible expenses – for example, to make repairs to the property that arise as a result of you renting it out

- finance renovations and extensions to the rental property.

You can also claim interest expenses when:

- you have pre-paid interest expenses up to 12 months in advance
- during the period you're repairing damage to your rental property, making it uninhabitable while the repairs are taking place.

Example: claiming all interest incurred

Kosta and Jenny take out an investment loan for $350,000 to purchase an apartment they hold as joint tenants.

They rent out the property for the whole of the year from 1 July. They incur interest of $30,000 for the year.

Kosta and Jenny can each make an interest claim of $15,000 on their respective tax returns for the first year of owning the property.

Interest expenses you can't claim

You can't claim a deduction for interest expenses:

- for any period the property is used for private purposes, even if it's a short period of time
- on the portion of the loan used for private purposes (for example, to purchase a car), either when
  - you took out the loan
  - you refinance the loan
- on a loan you used to buy a new home if you don't use the new home to produce income, even if you use your rental property as security for the loan.

Example: claiming part of the interest incurred

Yoko takes out a loan of $400,000 and uses the loan to:

- buy a rental property for $380,000
- buy a new car for $20,000 for private use.

Yoko rents her property for the whole year from 1 July. Her total interest expense on the $400,000 loan is $35,000.

Yoko works out how much interest she can claim as a deduction, using the following calculation:

> Total interest expenses × (rental property loan ÷ total borrowings) = deductible interest
>
> $35,000 × ($380,000 ÷ $400,000) = $33,250

Yoko can claim an interest expense deduction of $33,250.

The ratio between the deductible and private components of the loan is 95/5. Yoko must continue to apportion interest in accordance with this ratio for the life of the loan. Similarly, any repayments of principal are applied in the same ratio.

Loan accounts used for private and rental expenses

If you have a loan account used for both private purposes and rental property expenses, you must keep accurate records to enable you to calculate the interest that applies to the rental property portion of the loan.

You must separate the interest relating to the rental property from any interest on funds used for private purposes.

You can't only repay the portion of the loan for your private purchases. All loan repayments must be apportioned across both rental and private portions of the loan for the length of the loan.

For apportionment calculations in these situations, see paragraphs 19 and 20 of TR 2000/2 *Income tax: deductibility of interest on moneys drawn down under line of credit facilities and redraw facilities*.

Example: interest incurred on a mortgage for a new home

Zac and Lucy take out a $400,000 loan secured against their existing home to purchase a new home.

Rather than sell their existing home, they decide to rent it out.

They have a mortgage of $25,000 remaining on their existing home which is added to the $400,000 loan under a loan facility with sub-accounts – that is, the two loans are managed separately but are secured by the one property.

Zac and Lucy can claim a deduction for the interest charged on the $25,000 loan for their original home, as it is now rented out.

They can't claim a deduction for the interest charged on the $400,000 loan used to purchase their new home. Even though the loan is secured against their rental property, the property isn’t being used to produce income.

Example: interest incurred on funds redrawn from the loan halfway through the year

Tyler has an investment loan for his rental property with a redraw facility. He is ahead on his repayments by $9,500 which he can redraw. Halfway through the year, Tyler redraws the available amount of $9,500 and buys himself a new TV and a lounge suite.

The outstanding balance of the loan after the redraw increases to $365,000 and total interest expenses incurred immediately before the redraw are $9,300. The total interest on $365,000 for the year is $19,000.

Tyler can only claim the interest expenses on the portion of the loan relating to the rental property. He uses the following calculations:

> Total loan balance – redraw amount = rental property loan portion
>
> $365,000 – $9,500 = $355,500

To work out how much interest he can claim, he does the following calculation in respect of the period following the redraw:

> Total interest expenses after the redraw × (rental property loan portion ÷ loan balance at the time of the redraw) = deductible interest
>
> ($19,000 - $9,300)× ($355,500 ÷ $365,000) = $9,448

Tyler can claim interest of $18,748, being $9,300 plus $9,448.

The ratio between the deductible and private components of the loan is 97.4/2.6. Tyler must continue to apportion interest and repayments of principal in accordance with this ratio for the life of the loan.

Thin capitalisation

Thin capitalisation rules may affect you if the combined debt deductions (for example, interest) of you and your associated entities are more than $2 million in any income year and you are:

- an Australian resident and you (or any associated entities) have
  - certain international dealings
  - overseas interests
- a foreign resident (or associated entity) with certain investments in Australia.

You must consider the thin capitalisation rules each year.

Pre-paid expenses

A pre-paid expense is a cost you incur under an agreement for services to be done (in whole or in part) in a later income year. For example, payment of an insurance premium on 1 January that provides cover for the entire calendar year or interest on money you borrow.

You can generally claim an immediate deduction in the income year you make the prepayment for:

- expenses of less than $1,000
- expenses of $1,000 or more where the eligible service period is 12 months or less (such as payment of an annual insurance premium part way through an income year).

The eligible service period is the time taken for doing a thing to be done under an agreement in return for payment.

The eligible service period begins on the later of either:

- the day the thing under the agreement begins to be done
- on the day the expense is incurred.

The eligible service period continues until the earlier of:

- the end of the last day the thing under the agreement stops being done
- 10 years.

A pre-paid expense for your rental property of more than $1,000, where the eligible service period is greater than 12 months, will have to be spread over the shorter of either:

- the eligible service period
- 10 years.

For more information, see Deductions for prepaid expenses.

Repairs and maintenance

Repair and maintenance expenses are costs you incur to:

- keep your property in a tenantable condition
- fix wear and tear or damage that occurs as a result of renting out your property.

To be a deductible expense, the property must either:

- continue to be rented on an ongoing basis
- remain genuinely available for rent, even if there is a short period where the property is unoccupied – for example, unseasonable weather causes cancellations of bookings or all reasonable efforts to attract tenants were unsuccessful.

You can claim a deduction for repair and maintenance expenses in the income year you incur them.

You can't claim an immediate deduction for expenses that are capital or of a capital nature as repairs and maintenance. This includes initial repairs for defects that existed at the date you acquired the property, improvements to the property or for example, the replacement of an entire structure such as a fence. You may be able to claim these capital expenses over several years.

Watch: Getting repairs and capital works right

What you can claim immediately

You can claim a deduction for repair and maintenance expenses in the income year you incur them.

Repairs

Repairs are done to remedy defects in, damage to or deterioration of the property. Generally, repairs must relate directly to wear and tear or other damage that occurred as a result of renting out the property.

Any repairs for remedying damage that existed when you acquired the property are initial repairs and are capital in nature.

Examples of repairs you can claim immediately include:

- replacing a cracked pane of glass in a window
- replacing part of the gutter
- replacing part of a fence
- repairing electrical appliances or machinery.

If you no longer rent the property, you may still be able to claim repair expenses where both:

- the need for repairs related to a period when the property was income producing
- the property was income producing during the income year you incurred the expenses.

Repairs versus improvements

If you make both repairs and improvements to your property, you can only claim a deduction for the cost of repairs if you can separate the cost of the repairs from the cost of the improvements.

An improvement is anything that makes part of the property better, more valuable, more desirable or changes the character of the item that is being worked on (for example, a renovation).

If you hire a builder or other professionals to carry out these works, we recommend you ask for an itemised invoice to help work out your claim.

Example: apportioning expenses between repairs and improvements

Caitlin modernised her rental property by hiring tradespeople to render and paint the external walls.

She also asked the painter to paint the internal walls, which had deteriorated during the time she rented out the property.

As Caitlin requested an itemised invoice from the painter, she could separate the cost of the internal and external painting, and rendering. Due to this, she could claim a deduction for the cost:

- of painting the internal walls as a repair
- for the external walls as a capital works deduction.

Maintenance

Maintenance means work to prevent deterioration or fix existing deterioration. Maintenance generally involves keeping your property in a tenantable condition.

Examples of maintenance include:

- repainting faded or damaged walls
- oiling, brushing or cleaning something that is otherwise in good working condition – for example, oiling a deck or cleaning a swimming pool
- maintaining plumbing.

What you can claim over several years

You can claim a deduction for certain capital repair expenses over several years. This may include:

- initial repairs, which are capital works
- improvements, which are capital works
- replacement of depreciating assets.

For more information see Rental expenses you can claim over several years.

Legal expenses

Rental property legal expenses are costs you incur to prepare, register, protect and manage your rental property.

You can claim a deduction for some of the legal expenses you incur to produce your rental income. You can claim these expenses in the income year you incur them.

You can claim the cost of the following as deductions:

- evicting a non-paying tenant
- expenses for taking court action for loss of rental income
- defending a claim for damages from injuries suffered by a third party on your rental property.

You can also claim a deduction for solicitor's fees for the preparation of loan documents as borrowing expenses. If the total of your borrowing expenses is more than $100, your deduction is spread over the life of the loan or 5 years, whichever is less.

Most other legal expenses you incur relating to your rental property are capital and can't be claimed as a deduction. The following legal expenses may be included in the cost base when you sell the property:

- solicitor's fees for the purchase or sale of the property
- legal costs associated with resisting land resumption
- legal costs associated with defending your title to the property (for example, defending an action by the mortgagee to take possession of the property where you have defaulted under the loan).

For more information about how tax applies to rental properties, see:

- Capital gains tax guide
- Depreciating assets guide.

Work out the category of your rental expenses

It is important to correctly categorise each expense to ensure it is treated correctly for tax purposes. Our quick reference guide in the table below will help you to work out which category your expense relates to.

Table: working out the category of your rental property expense

Situation	Category	Example	Claim at
Replacing something that is worn out, damaged or broken as a result of renting out the property	Repair	Replacing part of a fence damaged in a storm Hiring a plumber to fix a leaking tap	Repair and maintenance
Preventing or fixing deterioration of an item that occurred while renting out the property	Maintenance	Repainting faded interior walls Re-oiling a deck	Repair and maintenance
Repairing damage that existed when the property was bought (whether it	Initial repair	Fixing floorboard or repairing deteriorated window frames and	Capital works Unless the work involves

was known at the time of purchase or not)		the damage existed when the property was bought	replacing a damaged depreciating asset – such as an oven. This is an initial repair and the construction expenditure is written off at 2.5% over 40 years.
Replacing an entire structure that is only partly damaged	Capital works	Replacing all the fencing, not just the damaged portion	Capital works
Renovating or adding a new structure to the property	Capital works	Adding a carport	Capital works
Installing a brand new appliance or window covering	Depreciating asset	Buying a new dishwasher Installing new blinds	Capital allowances

For more information, see [Rental expenses you claim over several years].

Asbestos-affected properties

If you own an asbestos-affected investment property, check the

Apartment building defect expenses

If you own an apartment in a building complex, you may be able to claim deductions for shared expenses to fix defects.

QC 23635

Asbestos-affected properties

If you own an asbestos-affected investment property, check the deductions you can claim. CGT may apply if you sell it.

Last updated 17 June 2024

On this page

Claiming expenses

Asbestos contamination may mean a property can no longer be rented out or must be vacated for a time. In that case some deductions may still apply, including for:

- interest on loans against the property (these are deductible for the whole year, if the property is later rented out after remediation)
- expenses such as council rates, water and land tax
- repairs and maintenance – for example, ensuring living areas are sealed from contaminated areas, such as ceiling, internal cavities and subfloor
- decline in value of written-off and replacement assets, such as carpet

- capital works for replacement buildings, fences and similar.

Expenses for capital works are claimed over several years. The decline in value of depreciating assets is also generally claimed over several years.

For more information on expenses you can claim, see TR 2004/4 *Income tax: deductions for interest incurred prior to the commencement of, or following the cessation of, relevant income earning activities*.

Environmental protection costs

If your asbestos-related remediation expenses are not covered by the above deductions, costs to remove asbestos from a rental property can be classified as an environmental protection activity under section 40-755 of the *Income Tax Assessment Act 1997*.

For more information, see TR 2020/2 *Income tax: deductions for expenditure on environmental protection activities*.

Government buy-back program

If you participate in a buy-back program, the CGT implications will vary depending on your situation.

If the property was solely used as your main residence for the entire period of ownership, there are no CGT implications on the disposal of your property.

If you used the property to produce income, there are CGT implications. These will depend on your circumstances, including whether it was ever your main residence and how long you've owned it.

We can help answer any questions you have about the tax implications of a government buy-back program. For advice from a subject matter expert, complete the form Early engagement for advice.

Apartment building defect expenses

If you own an apartment in a building complex, you may be able to claim deductions for shared expenses to fix defects.

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Apartment building defects

If you own an apartment in a building complex, you may have a shared responsibility to fix building defects. You may need to make:

- a contribution to a special body corporate levy (this is most common)
- changes as required by a state government building authority.

This is usually in respect of common property. Common property is generally all areas of the land and external structures of the main building.

If the apartment is a rental property, you can claim deductions for repairs, environmental protection activities and capital works on the same basis as if you:

- directly own the building
- were directly paying the expense.

Repairs and maintenance you can claim

You can claim a deduction for the expenses you incur when you contribute to the repair or maintenance of either:

- an apartment you use to earn rental income
- part of the building complex that you hold or use as part of earning rental income.

These expenses must meet the requirements for deduction as a repair or maintenance. That is, they must relate directly to wear and tear or damage as a result of renting out the property. Repairs generally involve a replacement or renewal of a worn out or broken part. Maintenance is work done to prevent deterioration, defects or damage. For example, repainting of the outside parts of the building where the paint is peeling is a repair as well as maintenance.

You can't claim a deduction for capital repairs or maintenance. For example, expenses which are capital or of a capital nature include:

- replacement of an entire structure or unit of property
- improvement in the function of the replacement item.

Combustible cladding replacements you can claim

You can claim a deduction for costs you incur to replace or contribute to the replacement of combustible cladding to meet government requirements.

To be able to claim a deduction, you must replace the combustible cladding with fire resistant cladding. You treat the replacement of the cladding as capital works. This is because we treat the replacement of cladding as:

- an entire functional structure (being the outer covering of the building)
- an improvement in the function of the outer covering of the building.

This means the building is no longer a fire hazard and becomes fire resistant as an improved functional operation of the cladding.

You can claim a deduction for the amount you contribute over a period of either 25 or 40 years. That is, 4% or 2.5% of the cost of the improvement being allowed in each year. See Table 1 – types of rental property construction that qualify for deduction.

The replacement of combustible cladding doesn't meet the requirements to be deductible as a repair or environmental protection activity.

Environmental protection activities you can claim

You can claim a deduction for costs you incur to carry out environmental protection activities.

Environmental protection activities are those you carry out because your earning activities will result or likely result in the need for you to:

- prevent, fight or remedy pollution
- treat, clean up, remove or store waste.

You can't claim a deduction as environmental protection activities where you incur the costs to either:

- replace building products that don't conform to statutory legal requirements
- remove building products that don't conform to statutory legal requirements.

For more information on deductions and strata titles, see:

- TR 97/23 *Income tax: deductions for repairs*
- TR 2020/2 *Income tax: deductions for expenditure on environmental protection activities*
- TR 2015/3 *Income tax: matters relating to strata title bodies constituted under strata title legislation* paragraphs 40 and 41.

QC 63879

Rental expenses you claim over several years

You can generally claim a deduction over several years for borrowing expenses, asset decline in value and capital works.

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On this page

Borrowing expenses

Borrowing expenses are the expenses you incur to take out a loan to buy property.

You must claim a deduction for all eligible borrowing expenses for 5 years or spread it over the term of the loan, whichever is shorter.

If the total deductible borrowing expenses are $100 or less, they are fully deductible in the income year you incur them.

If you have refinanced or redrawn on your loan, see Interest expenses.

For a summary of this information in poster format see, Rental properties – borrowing expenses (PDF, 218KB).

For more information on borrowing expenses you can't claim see, Rental expenses you can't claim.

Borrowing expenses you can claim

You can claim a deduction for the following as borrowing expenses:

- loan establishment fees
- lender's mortgage insurance (insurance taken out by the lender and billed to you)
- title search fees charged by your lender

- costs for preparing and filing mortgage documents (including solicitors' fees)
- mortgage broker fees
- fees for a valuation required for loan approval
- stamp duty charged on the mortgage.

How to work out borrowing expenses

Generally, borrowing expenses are claimed over the first 5 years of owning your rental property.

If you got the loan part way through the income year, you need to adjust your claim according to the number of days in the year you had the loan.

You can claim a deduction for the balance of the borrowing expenses in the final year of repayment if you either:

- repay sooner than the term of the loan
- repay your loan in less than 5 years.

You can use our Deductible borrowing expenses calculator (xlsx, 154KB) to work out your claim.

Example: work out borrowing expenses for the maximum 5-year period

The Hitchman's (as joint tenants each with 50% interest) secure a 20-year loan of $209,000 to buy:

- a rental property for $170,000
- a car for private use for $39,000.

They pay for establishment fees, valuation fees and stamp duty on the mortgage. Their borrowing expenses on the loan total $1,670.

As their borrowing expenses are more than $100, they must apportion their deduction over 5 years because it's less than the period of the loan (20 years).

As they use part of the loan ($39,000) for a private purpose, they can't claim a deduction for borrowing expenses on this portion of the loan.

They secure the loan on 17 July 2023. They work out the borrowing expense deduction for the first year as follows:

> Borrowing expenses × (number of relevant days in income year ÷ number of days in the 5-year period) × (amount of rental property loan ÷ total amount borrowed) = deduction for the year.

As joint tenants, they need to report their share (50%) in each of their tax returns.

They work out their borrowing expenses deduction as shown in the table below.
Borrowing expense calculation

Borrowing expense calculation

Year	Calculation	Available deduction for the year
1 (leap year)	$1,670.00 × (350 ÷ 1,827) = $319.90 $319.90 × ($170,000 ÷ $209,000)	$260.20
2	$1,350.10 × (365 ÷ 1,477) = $333.64 $333.64 × ($170,000 ÷ $209,000)	$271.38
3	$1,016.46 × (365 ÷ 1,112) = $333.64 $333.64 × ($170,000 ÷ $209,000)	$271.38
4	$682.82 × (365 ÷ 747) = $333.64 $333.64 × ($170,000 ÷ $209,000)	$271.38
5 (leap year)	$349.18 × (366 ÷ 382) = 334.55 $334.55 × ($170,000 ÷ $209,000)	$272.12
6	$14.63 × (16 ÷ 16) = $14.63 $14.63 × ($170,000 ÷ $209,000)	$11.90

Tax-smart tips for your investment property has more information on investing in property.

Capital expenses

Some capital expenses for your rental property can be claimed over a number of years. This includes:

- Capital works
- Improvements
- Substantial renovations
- Capital allowances

In some circumstances, initial repairs can also be claimed over a number of years as either capital works or capital allowances.

For a summary, you can download our fact sheet on Rental properties – Repairs, maintenance and capital expenditure (PDF, 231KB).

For more detail on repairs and maintenance expenses, see Repairs and maintenance.

Capital works

Capital works includes expenses for building the property as well as structural improvements, alterations and extensions to the property. The rate of deduction for these capital works is generally 2.5% or 4% per year, spread over a period of 40 or 25 years respectively.

You can only claim a deduction for the capital works on rental properties if the property:

- was built after 17 July 1985
- is rented or genuinely available for rent.

An asset that is fixed to, or otherwise part of, a building or structural improvement, will generally be a construction expense and can only be claimed as capital works.

Preliminary expenses such as architect fees, engineering fees, surveying fees, foundation excavation expenses and costs of building permits also form part of construction expenses.

Examples of capital works expenses include:

- building and construction costs
- alterations to a building
- major renovations to a room
- substantial renovations to a property
- adding a fence
- building extensions such as garages and patios
- adding structural improvements such as a driveway or retaining wall.

You must wait until construction is complete to claim a deduction. Capital works deductions can't exceed your construction expenses.

Example: replacing assets in a residential property

Janet has owned and rented out a residential property since 12 January 1983. In 2023, she replaced the old kitchen fixtures, including the cupboards and appliances. The old cupboards had deteriorated through water damage and wear and tear.

The kitchen cupboards are separately identifiable capital items with their own function. This means the cost of completely replacing them is a capital cost. Because of this, Janet can claim:

- capital works deductions for the construction cost of this work
- deductions for the decline in value of the new kitchen appliances (none of these appliances were previously used).

This is the case regardless of whether:

- new fittings are of a similar size, design and quality as the originals
- new cupboards are made from a modern equivalent of the material used in the originals
- layout and design of the new kitchen may be substantially the same as the original.

Initial repairs

Initial repairs to rectify damage, defects or deterioration that existed at the time of purchasing a property can't be claimed as an immediate deduction. It doesn't matter if you were unaware of the need to make repairs to the property at the time you purchased it.

Depending on the type of expense you incur, it may be either:

- capital works, for example if you replace assets such as a complete fence or building
- capital allowances, for example if you replace depreciating assets such as installing a new dishwasher or new carpets. You may be able to claim its decline in value.

The cost of remedying initial repairs that existed at the time of purchase form part of the CGT cost base when you sell the property. You must reduce the CGT cost base by amounts claimed (or that you were entitled to claim) as capital works for the initial repairs.

Example: initial repairs not deductible (existing damage)

Lisa buys a property with the intention of renting it out. At the time of purchase Lisa knew that she would need to repair the roof (replace all roof tiles) and part of the ceiling as they were in a poor condition.

When carrying out the works, Lisa discovered there was extra structural damage that required her immediate attention. The repair to the ceiling cost her $2,000, the replacement of roof tiles cost her $9,000 and the structural work cost her a total of $15,000.

The 'initial' repair of the ceiling of $2,000 isn't deductible, but as with the replacement of the entire roof and the structural work, they can be claimed as capital works expenses.

When the property is sold, Lisa can include the $26,000 for the work to rectify the existing damage in her CGT cost base. Lisa will also need to reduce that amount by the capital works deduction she has already claimed.

To find out about the expenses you can claim now for a rental property, see Rental expenses you can claim now.

For more information about how capital gains tax (CGT) applies to rental properties, see our Guide to capital gains tax.

Improvements

An improvement is anything that makes part of the property better, more valuable, more desirable or changes the character of the item that is being worked on.

Capital improvements (such as remodelling a bathroom or adding a pergola) should be claimed as capital works deductions.

Improvements include work that:

- provides something new
- furthers the income-producing ability or expected life of the property
- goes beyond just restoring the efficient functioning of the property.

Improvements can be either capital works where it is a structural improvement or capital allowances where the item is a depreciating asset.

Example: property improvements

Tim replaced a fibre cement sheeting wall inside his property because it was damaged by tenants. He replaced the old wall with a brick feature wall.

The new wall is an improvement because Tim did more than just restore the efficient function of the wall. This means Tim can't claim the cost of the new wall as a repair, but he can claim it as capital works deductions.

If Tim replaced the fibro with a current equivalent, such as plasterboard, he could have claimed his costs as a repair. This is because it would have restored the efficient function of the wall without changing its character, even though a different material was used.

Substantial renovations

Substantial renovations of a rental property are where all or substantially all, of a building is removed or is replaced. This could include the removal or replacement of foundations, external walls, interior supporting walls, floors, roof or staircases.

For renovations to be substantial, they must directly affect most rooms in a building.

Renovations you make to a house are considered collectively, such as the:

- removal and replacement of the exterior walls
- removal of some internal walls
- replacement of the flooring
- replacement of the kitchen.

If the renovations are substantial, the property is treated as new residential premises.

Apart from the cost of replacing depreciating assets, the cost of all renovations are deductible as capital works.

The cost of replacing depreciating assets as part of substantial renovations, can be claimed as a decline in value deduction, provided the asset has been acquired as a new asset for the purpose of gaining income from rental income.

Example: claiming the cost of renovations

Jake bought a 4 bedroom residential property in October 2023 with the intent of it being a rental property. Three months before selling, the previous owners removed a wall between 2 bedrooms and turned the space into a large bedroom with an ensuite. They also repainted and recarpeted the room.

Even though Jake acquired the property within 6 months of the renovations being completed, the renovations only affected a part of the house, and aren't classified as being substantial renovations.

The previous owners provide Jake with the renovation construction costs.

> The cost of the renovations, excluding the new carpet and any other depreciating assets replaced, can be claimed as a capital works deduction by Jake.
>
> As the new carpet and other depreciating assets are not acquired as new assets by Jake, he can't claim a deduction for their decline in value.
>
> However, if Jake buys any brand-new depreciating assets for the property, he will be able to claim a deduction for their decline in value.

Capital allowances

Under the uniform capital allowance rules, you can claim a deduction for the decline in value of depreciating assets used for income-producing purposes, for example a dishwasher in rental property which is rented or genuinely available for rent.

Depreciating assets

Depreciating assets are items that can be described as plant, that don't form part of rental property premises. Premises refers to the actual structure of the rental property's building.

Some assets don't decline in value, such as land, trading stock and some intangible assets (for example, goodwill).

We recommend you keep a spreadsheet (as a minimum) for your depreciating assets as part of your record keeping. A quantity surveyor can prepare a report at the time a rental property is purchased.

Depreciating assets are usually:

- separately identifiable
- unlikely to be permanent
- replaced within a relatively short period
- not part of the structure of the building.

None of these factors alone can determine if an item is part of the premises. They must all be considered together.

You can claim a deduction for the item's decline in value. You can choose to use either:

- the effective life the Commissioner determines for these assets
- your own reasonable estimate of the effective life.

You must keep records to show how you work out the decline in value.

How you deal with depreciating assets:

- Decline in value of depreciating assets
- Depreciating assets costing $300 or less
- New assets
- Second-hand depreciating assets decline in value deduction limit
- Calculating deductions for decline in value

Decline in value of depreciating assets

Depreciating assets have an effective useful life and are reasonably expected to decline in value over time.

For depreciating assets costing more than $300, you can claim deductions for the decline in value over its effective useful life. Examples of such assets in your rental property or holiday home include:

- floating timber flooring
- carpets
- curtains
- appliances like a washing machine or fridge
- furniture.

When you purchase a rental property, either new or second-hand, you have bought a building plus separate depreciating assets, such as air conditioners, stoves and other items.

There are limitations that apply to decline in value of second-hand depreciating assets.

The decline in value of a depreciating asset starts when you first use it or install it ready for use – it doesn't matter whether it is for a private purpose or to earn assessable income. For example, if you purchased and installed a new asset on 1 January and used it for private purposes for the first 2 weeks, you calculate the decline in value from that date. However your deduction must be reduced for any private use of the asset.

Special rules apply to some assets that may allow you to claim deductions for their decline in value (depreciation) more quickly.

Watch: This video explains depreciating assets and when you can claim them as a deduction for a rental property.

Depreciating assets costing $300 or less

Assets costing $300 or less can be claimed as an immediate deduction (a full deduction) in the income year you used the asset for a taxable purpose.

You can't claim an immediate deduction if the asset is part of a set of assets that together cost more than $300. For example, if you buy 4 dining chairs each costing $250 for your rental property you can't treat them as separate assets.

New assets

You can claim the decline in value of new depreciating assets.

This includes depreciating assets purchased with a newly built or substantially renovated property, if no one was previously entitled to a deduction for the decline in value, and either:

- no one resided at the property before you acquired it

- the asset was installed for use, or used at this property, and you acquired the property within 6 months of it being newly built or substantially renovated.

Example: claiming the decline in value of depreciating assets

Kerrie purchased a unit off-the-plan from a developer as an investment (it was new and no one lived in it prior to that time).

The property included depreciating assets such as curtains and furniture installed before settlement and the transfer of title to Kerrie.

Kerrie engages a qualified quantity surveyor to get a full list of all depreciating assets that she can claim each year until the end of their effective lives.

Kerrie is entitled to claim deductions for decline in value of the depreciating assets because no one has lived in it before she purchased it.

Example: claiming the decline in value of depreciating assets

Kate purchased a residential investment apartment from a developer 4 months after completion. It was already tenanted when Kate purchased it. The developer wasn't entitled to claim a deduction for the decline in value of the depreciating assets at the property because they were his trading stock.

The property included depreciating assets such as curtains and furniture installed before settlement and the transfer of title to Kate.

Kate engages a qualified quantity surveyor to get a full list of all depreciating assets that she can claim each year until the end of their effective lives.

Kate is entitled to claim a deduction for decline in value of the depreciating assets (although they have been used by the tenants) because both of the following apply:

- no one could claim any deductions for decline in value of the depreciating assets

- the property was supplied to Kate within 6 months of being built.

If Kate had entered into the contract to buy this apartment after 6 months of it being newly built, she wouldn't have been entitled to claim a deduction for the decline in value of any of the depreciating assets that were already in it at that time.

Second-hand depreciating assets decline in value deduction limit

Second-hand depreciating assets are depreciating assets that were already installed ready for use or used:

- by another entity (except as trading stock)
- in your private residence
- for a non-taxable purpose, unless that use was occasional (for example, staying at the property for one evening while carrying out maintenance activities would be occasional use).

You can't claim a deduction for certain second-hand depreciating assets unless you are either:

- using the property in carrying on a business (including a business of letting rental properties)
- one of the following
  - corporate tax entity
  - superannuation plan that is not a self-managed super fund
  - public unit trust
  - managed investment trust
  - unit trust or a partnership, where all of the members are entities of a type listed above.

Otherwise, you can only claim deductions for second-hand or used depreciating assets in residential rental properties if both of the following apply:

- you purchased the asset before 7:30 pm on 9 May 2017
- you installed it into your rental property before 1 July 2017.

Example: claiming the decline in value of second-hand assets

Sharon has been renting out her residential property since September 2015. In March 2017, she purchased a second-hand fridge to replace the fridge that had broken down.

Because Sharon purchased the second-hand fridge for her rental property before 7:30 pm on 9 May 2017, she can claim a deduction for the decline in value for any remaining effective life of the asset.

Example: Tim's rental property

Sue purchased her house in 2009. In October 2023, she listed her house for sale. While it was advertised, she moved out and replaced the carpet. No one lived in the house while it was advertised. The house was then sold to Tim. After purchasing the property, Tim rented it out immediately.

Tim can't claim a deduction for the decline in value of the depreciating assets in the property because they were all previously used. He also can't claim a deduction for the decline in value for the carpet because he didn't own the asset when it was first installed ready for use.

Example: deductions for the decline in value over the effective life of a second-hand depreciating asset

Don purchased a second-hand clothes dryer and installed it in his residential rental property on 8 May 2017.

Assuming the dryer had 5 years of remaining effective life, Don can claim deductions for its decline in value for 5 years because he had purchased and installed the dryer before 9 May 2017.

Example: deductions for decline in value – asset used privately

Eliza purchased a dishwasher in April 2017 and used it for private purposes at home (her main residence). In July 2019, she installed this dishwasher in her residential rental property. Eliza can't claim deductions for the dishwasher's decline in value because:

- she had previously used it privately, and

- she installed it in her rental property after 30 June 2017.

Home turned into a rental property before 1 July 2017

If you turned your home into a residential rental property, you can only claim a deduction for the decline in value of assets in it if both of the following apply:

- You purchased your home before 7:30 pm on 9 May 2017.
- You turned your home into a residential rental property before 1 July 2017.

Example: deductions for decline in value over the effective life – assets bought after 9 May 2017

At the start of 2016, Marty purchased a home as his main residence.

In June 2017, Marty moved out and rented out the property fully furnished, which included the furniture and fittings he had been using while living there.

As Marty rented out his home before 1 July 2017, and he purchased it before 7:30 pm on 9 May 2017, he can claim a deduction for the decline in value for any remaining effective life of the used depreciating assets in it.

However, from the 2017–18 income year, Marty can't claim a deduction for the decline in value of any second-hand depreciating asset that he purchases and installs after 7:30 pm on 9 May 2017.

If Marty:

- Moved out in June 2017 and the property was vacant until he made it available for rent in July 2017, he couldn't claim a deduction for the decline in value for any remaining effective life of the used depreciating assets in it.
- Purchased a new asset for the rental property after he moved out, he can claim a deduction for its decline in value, as the asset wasn't previously used.

For more information on depreciation, including a list of rental property items that can be depreciated, see the Rental properties guide or the Guide to depreciating assets.

Carrying on a business of letting rental properties

Your income from the letting of property to a tenant, or multiple tenants, will not typically amount to the carrying on of a business, as such activities are generally considered a form of investment rather than a business.

Whether a business is carried on must be answered by considering a number of factors. No one factor is decisive. All of the factors must be considered as a whole. Some of the factors considered in determining whether you carry on a business of letting rental properties are:

- the total number of residential properties that are rented out
- the average number of hours per week you spend actively engaged in managing the rental properties
- the skill and expertise exercised in undertaking these activities
- whether professional records are kept and maintained in a businesslike manner.

Example: not carrying on a business of property investing

Saania owns 16 rental properties, 14 of which are managed by real estate agents. Saania frequently attends personally to rental property matters, such as collecting rent and arranging for repairs to be done. She also undertakes regular analysis to measure the financial performance of her rental properties.

Saania is not carrying on a business of property investing because the activities are no more than letting properties.

Example: carrying on a rental property business

Mr and Mrs Smith own a number of rental properties either as joint tenants or equal tenants in common. They own 8 houses and 3 apartment blocks. Each block comprises 6 residential units. So, they own a total of 26 rental properties. The Smiths actively manage all of the properties. They devote a significant amount of time to these activities – an average of 25 hours per week each. They undertake all financial planning and decisionmaking in relation to the properties. They interview all prospective tenants and conduct all of the rent collections. They carry out regular property inspections and attend to all of the everyday maintenance and repairs themselves or organise for them to be done.

The Smiths are carrying on a rental property business. This is indicated by the following factors:

- the significant size and scale of the rental property activities
- the number of hours they spend on the activities
- their extensive personal involvement in the activities
- the business-like manner in which the activities are planned, organised and carried on.

Calculating deductions for decline in value

To work out your deduction for decline in value, use either the:

- diminishing value method – the decline in value each year is a constant portion of the remaining value – claiming higher deductions in the early years of its effective life
- prime cost method – the decline in value each year is a uniform amount of the original value over its effective life – claiming a lower but more constant portion each year.

Depreciating assets valued at less than $1,000 can be grouped in a low-value asset pool and depreciated together.

Example: calculating deductions for decline in value

Laura purchased a new outdoor table for her rental property on 1 July 2022, for $1,500. It has an effective life of 5 years. She can choose to use either the diminishing value or prime cost method.

Diminishing value method

The formula for the annual decline in value using the diminishing value method is:

> Asset's cost × (days held ÷ 365) × (200% ÷ asset's effective life)

The decline in value for 2022–23 is $600, worked out as follows:

> 1,500 × (365 ÷ 365) × (200% ÷ 5)

Laura is entitled to a deduction for decline in value of $600.

The adjustable value of the asset on 30 June 2023 is $900. This is the cost of the asset ($1,500) less its decline in value up to 30 June 2023 ($600).

Prime cost method

The formula for the annual decline in value using the prime cost method is:

> Asset's cost × (days held ÷ 365) × (100% ÷ asset's effective life)

The decline in value for 2022–23 is $300, worked out as follows:

> $1,500 × (365 ÷ 365) × (100% ÷ 5)

Laura is entitled to a deduction for decline in value of $300.

The adjustable value of the asset on 30 June 2023 is $1,200. This is the cost of the asset ($1,500) less its decline in value up to 30 June 2023 ($300).

For help to help work out the deduction you can claim from a depreciating asset, see Depreciation and capital allowances tool.

Work out your capital works deductions

You can claim capital works deductions for certain construction costs for your rental property.

QC 23636

Work out your capital works deductions

You can claim capital works deductions for certain construction costs for your rental property.

Last updated 17 July 2024

On this page

Limits to claiming capital works deductions

You can only claim a deduction for those periods during the year you used your rental property for income-producing purposes. You can't claim for the period you use the property for personal purposes.

Example: how to work out capital works deductions from the date construction starts

On 1 March 2024, Meg purchased a rental property for $300,000 and immediately rented it out. Meg obtained a report from a quantity surveyor stating:

Construction of the property commenced in February 2003.

The property is a residential townhouse.

Construction was completed in November 2003.

The townhouse was built by a developer.

The estimated cost of constructing the townhouse was $200,000.

Meg claims a capital works deduction in her 2024 tax return for her rental property based on the estimate of the construction costs she gets from the quantity surveyor. However, she only claims a deduction for that part of the year her property was used for an income producing purpose (1 March 2024 to 30 June 2024). The rate of deduction she claims was 2.5% as construction of her residential property started after 15 September 1987.

Her annual capital works deduction was calculated as follows:

> $200,000 × 2.5% (see note) = $5,000

Note: See the date construction commenced for different rates of reduction.

As the property was only used for income producing purposes for 122 days in 2024, her 2023–24 claim was calculated as follows:

> $5,000 × (122 ÷ 366) = $1,666

What you need to know to work out your claim

As a general rule, you can claim a capital works deduction for the cost of construction for 40 years from the date the construction was completed. However, to make sure that you are eligible, you must have all of the following:

- details of the type of construction
- the date construction commenced
- the date construction was completed
- the construction cost (not the purchase price)
- details of who carried out the construction work
- details of the period during the year that the property was used for income producing purposes.

Capital works expenses you incur form part of the cost base of your property for capital gains tax purposes. If you claim a capital works deduction, you will need to take this into account when you work out your capital gain or loss.

If it isn't possible to determine the actual construction costs, you can obtain an estimate from a quantity surveyor or other independent qualified person. You can claim a deduction for the fees you pay to obtain this estimate.

For information about how capital works deductions affect the CGT cost base, see Cost base adjustments for capital works.

Types of construction and the date construction commenced

To be eligible to claim a capital works deduction, construction work must commence after the date relevant to that type of construction in the table below.

The amount you can claim for construction expenses depends on the type of construction and the date you start construction. Your capital works deductions can't exceed the construction expenses. This table shows the rate of deduction and the period over which you can claim the deduction depending on the type of construction.

Table: Capital works deductions for buildings and structural improvements

Type of construction	Construction commenced after	Applicable years and deduction rate per year
You intend to use the building on completion to provide short-term accommodation to travellers in: • apartment buildings in which you own or lease at least 10 apartments • units or flats • hotels • motels	21 August 1979	22 August 1979 to 21 August 1984 – 2.5% 22 August 1984 to 15 September 1987 – 4% 16 September 1987 to 26 February 1992 – 2.5% (where the construction related to certain pre-16 September 1987 contracts, the rate is 4%)

• guest houses with at least 10 bedrooms.		27 February 1992 onwards – 4%
Building intended to be used on completion for non-residential purposes such as a shop or office.	19 July 1982	20 July 1982 to 21 August 1984 – 2.5% 22 August 1984 to 15 September 1987 – 4% 16 September 1987 onwards – 2.5%
Any building intended to be used on completion for residential purposes or to produce income.	17 July 1985	18 July 1985 to 15 September 1987 – 4% 16 September 1987 onwards – 2.5% (where the construction related to certain pre-16 September 1987 contracts, the rate is 4%)
Structural improvements intended to be used on completion for residential purposes or to produce income.	26 February 1992	27 February 1992 onwards – 2.5%
Environment protection earthworks intended to be used on completion for residential purposes or to produce income.	18 August 1992	18 August 1992 onwards – 2.5%
Any capital works used to produce income, even if they were not intended to be used for that	30 June 1997	The capital works must actually be used in a deductible way in the income year in

purpose. For pre-1 July 1997 works only, the capital works must have been intended for use for specified purposes at the time of completion.		which the deduction is claimed (see above onwards rates details for each type of construction).

2.5% means that you can claim deductions for 40 years and 4% means for 25 years.

You can start claiming capital works deductions only when construction of the relevant capital works is completed.

Although you may be able to claim capital works deductions for your building costs, you may not be able to claim these deductions for certain costs such as for landscaping.

Construction cost

You must provide evidence of the construction costs by either of the following:

- precise documents that show the construction costs such as receipts
- a report written by an appropriately qualified person.

The following items can't be used as the construction cost:

- the purchase price of the building and land
- the insured cost
- the replacement cost.

If you were the owner builder

If you carried out the construction as an owner builder, the value of your contribution to the works does not form part of the construction cost. This includes:

- your labour and expertise
- any notional profit element – that is, an amount you might consider as a profit margin on the construction cost.

Obtaining the construction information

You should make sure you keep records that detail the construction costs whether:

- you carry out the construction
- you contract a builder to carry out the construction.

If you don't have a record of the construction costs (for example, where the vendor did not provide them) you will need to obtain this information from either the previous owner or an appropriately qualified person. This could be a:

- quantity surveyor
- clerk of works, such as a project organiser for major building projects
- supervising architect who approves payments at project stages
- builder with experience estimating construction costs of similar building projects.

You can claim a deduction for your costs of obtaining this information from an appropriately qualified person in the income year you pay it.

Quantity surveyor reports can also include a schedule of depreciable assets (capital allowances). You can claim a separate deduction for the decline in value of depreciating assets in a rental property:

- if you bought the rental property before 7:30 pm (AEST) on 9 May 2017 – it doesn't matter whether the property was brand new or not
- if the depreciating asset is brand new – purchased at or after 7:30 pm (AEST) on 9 May 2017
  - as part of your brand-new property
  - that you subsequently bought for your existing (non-new) property
- if you bought the property on or after 7:30 pm (AEST) on 9 May 2017 to provide residential accommodation, the property has to be brand new or substantially renovated if no one previously claimed any depreciation deductions on the asset, and
  - either no one lived in the property when you acquired it, or

  - if anyone lived in the property after it was built or renovated, you acquired it within 6 months of the property being built or renovated
- the property does not provide residential accommodation, or
- the asset is used in carrying on a business, or
- the entity claiming depreciation is a
  - corporate tax entity
  - superannuation plan other than a self-managed superannuation fund
  - public unit trust
  - managed investment trust
  - unit trust or partnership whose members are any of the entities in this list.

You should provide the buyer with a capital works notice containing information to allow them to work out their capital works deduction if you both:

- are a vendor disposing of capital works begun after 26 February 1992
- were able to claim a deduction for those capital works.

The notice should be provided within 6 months following the income year that you dispose of the property or a further period allowed by us.

Where you don't use the property to gain rental income, the vendor disposing of the property doesn't need to provide the purchaser with a notice. In this situation, the purchaser can obtain an estimate, usually from an appropriately qualified person.

Remember to obtain your construction costs report as soon as possible, as these reports can take a long time to prepare. If you obtain a report after you lodge your tax return, you can amend your tax return by a certain later date. There is a time limit on amending tax returns for which we have already issued a notice of assessment.

QC 21620

Rental expenses you can't claim

You may not be able to claim a deduction for some residential rental property expenses.

Last updated 17 June 2024

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Borrowing expenses you can't claim

Borrowing expenses are expenses you directly incur in taking out a loan for the purchase of your rental property.

For a summary of borrowing expenses you can and can't claim in poster format see, Rental properties – Borrowing expenses (PDF, 218KB).

For more detail on borrowing expenses you can claim see, Rental expenses you claim over several years.

You can't claim any of the following as borrowing expenses:

- the amount you borrow for the property
- loan balances for the property
- interest expenses (as these are claimed separately)
- repayments of principal against the loan balance
- stamp duty charged by your state or territory government on the transfer (purchase) of the property title (as this is a capital expense)

- legal expenses including solicitors' and conveyancers' fees for the purchase of the property (as this is a capital expense)
- stamp duty you incur when you acquire a leasehold interest in property such as an Australian Capital Territory 99-year crown lease (but you may be able to claim this as a lease document expense)
- insurance premiums where, under the policy, your loan will be paid out in the event that you die, become disabled or unemployed (as this is a private expense)
- borrowing expenses on any portion of the loan you use for private purposes (for example, money you use to buy a car).

You may be able to include capital expenses in the 'cost base' of your property. This can help you reduce the amount of capital gains tax (CGT) you pay when you sell your property. Expenses you incur when purchasing and selling your rental property are capital expenses.

Example: calculating borrowing expenses over 5 years

On 3 July 2018, Peter took out a 25-year loan of $300,000 to purchase a rental property. Peter's deductible borrowing expenses were:

- $800 stamp duty on the mortgage
- $500 loan establishment fees
- $300 valuation fee required by the bank for the loan.

Peter also paid $12,000 in stamp duty on the transfer of the property title. He cannot claim a tax deduction for this expense but it will form part of the cost base of the property for CGT purposes when he sells the property.

As Peter's borrowing expenses are $1,600, which is more than $100, he must claim them over 5 years from the date he took out his loan for the property. He works out his borrowing expense deduction as follows:

- For the first year, 2018–19, Peter performs the following steps

  - Step 1: work out the number of days from 3 July 2018 to 30 June 2019 (363)
  - Step 2: work out the number of days in the 5-year period from 3 July 2018 to 2 July 2023 (1,826)
  - Step 3: divide the number of days in Step 1 by the number of days in Step 2 (363 ÷ 1,826 = 0.19879)
  - Step 4: multiply Step 3 result by the total borrowing expenses of $1,600 (0.19879 × $1,600 = $318). He claims $318 as a deduction on his 2019 tax return.
- For the 2019–20 to 2022–23 income years, Peter performs the following steps
  - Step 1: works out the remaining borrowing expenses, by reducing the original borrowing expenses of $1,600 by deductions already claimed in previous years
  - Step 2: works out the number of days in the income year (remembering any leap years)
  - Step 3: works out the number of days remaining in the 5 years (this includes the number of days in the income year for which he is preparing the tax return)
  - Step 4: divides Step 2 result by Step 3 result
  - Step 5: multiplies Step 4 result by Step 1 result (equals the amount he claims as a deduction on his tax return).
- By the end of the 2022–23 income year, Peter has claimed deductions totalling $1,598 on his respective tax returns.
- In the final year, 2023–24, Peter performs the following steps
  - Step 1: works out the remaining borrowing expenses, which equals $2 ($1,600 minus $1,598)
  - Step 2: works out the number of days between 1 July 2023 and 2 July 2023 (equals 2)
  - Step 3: works out the number of days remaining in the 5 years (1,826 – 1,824 = 2)
  - Step 4: divides Step 2 result by Step 3 result (equals one)

- Step 5: multiplies Step 4 result by Step 1 result (equals $2). Thus, Peter claims a deduction of $2 on his 2023–24 tax return.

Second-hand depreciating assets you can't claim

Second-hand depreciating assets for residential rental properties are depreciating items previously used or installed ready for use by you or another entity. In most cases, they are things that were existing in either:

- a property when you purchased it
- your private residence that you later rent out.

Existing residential rental property purchase

You can't claim a deduction for the decline in value for assets in an existing residential rental property if you entered into a contract to purchase that property on or after 7:30 pm (AEST) on 9 May 2017.

Example: assets previously used

In August 2017, Donna purchased a 2-year old apartment and immediately rented it out. A year before Donna purchased the apartment, the previous owner installed new carpet and, upon purchasing the property, Donna installed a second-hand television.

Donna can't claim deductions for the decline in value of the carpet or the television because they were both previously used.

Home turned into a residential rental property

If you turn your home into a residential rental property on or after 1 July 2017, you can't claim a deduction for the decline in value for depreciating assets that were in your home. You can only claim a deduction for the decline in value for any new depreciating assets that you purchase for your residential rental property.

Example: changing main residence as a residential property

At the start of 2016, Kendrick purchased a home as his main place of residence. In August 2017, Kendrick moved out and rented out the property fully furnished, which included the furniture and fittings he had been using while living there.

As Kendrick's home was made available for rent on or after 1 July 2017, he is not able to claim a deduction for the decline in value for any remaining effective life of the used depreciating assets in it.

Kendrick can claim a deduction for the decline in value of the new depreciating assets that he purchases for his rental property.

Exceptions – when you can claim

You can claim a deduction for the decline in value of second-hand depreciating assets if any of the following apply:

- You are carrying on a business of letting rental properties.
- You purchased your residential rental property or a second-hand depreciating asset for your residential rental property before 7:30 pm (AEST) on 9 May 2017.
- You used a depreciating asset that you acquired before 7:30 pm (AEST) on 9 May 2017 and then, before 1 July 2017, you installed it at your residential rental property.
- Your rental property is not used to provide residential accommodation; for example, it is let out for commercial purposes (such as a doctor's surgery).
- The entity that owns the residential rental property is an excluded entity.
- The income generating activities at your rental property are unrelated to providing residential accommodation (for example, solar panels used in generating income from the sale of electricity).

Other expenses you can't claim

You can't claim a deduction for:

- expenses not actually paid by you, such as water or electricity charges paid by your tenants
- acquisition and disposal costs, including the purchase cost, conveyancing and advertising costs (instead, these are usually included in the property's cost base, which would reduce any capital gains tax when you sell the property)
- GST credits for anything you purchase to lease the premises – GST doesn't apply to residential rental properties, however, when claiming the expense as a deduction, you claim the total amount you've paid (inclusive of GST, if applicable).

For more information on preparing your tax return, see Preparing your return. For more information about how tax applies to rental properties, see our Rental properties guide.

Rental properties and travel expenses

If you have a residential rental property, you may not be able to claim a deduction for related travel expenses.

QC 59315

Rental properties and travel expenses

If you have a residential rental property, you may not be able to claim a deduction for related travel expenses.

Last updated 17 June 2024

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> Travel expenses you can't claim
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> Travel expenses you can claim
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> Record keeping for travel expenses

Deductions for travel expenses

Travel expenses include the costs you incur on car expenses, airfare, taxi, hire car, public transport, accommodation and meals to:

- inspect, maintain or collect rent for a rental property you own or have an ownership interest in
- travel to any other place as long as it is associated with earning rental income from your existing rental property (for example, visiting your real estate agent to discuss your current rental property).

Prior to 1 July 2017:

- you could claim your travel expenses relating to your residential rental property, and
- you didn’t include the travel expenses in the cost base or reduced cost base when calculating any capital gain or capital loss when you sold the property.

From 1 July 2017 you can't claim any deductions for the cost of travel you incur relating to your residential rental property unless you are either:

- in the business of letting rental properties
- an excluded entity.

A residential premises (property) is land or a building that is:

- occupied as a residence or for residential accommodation
- intended to be occupied, and is capable of being occupied, as a residence or for residential accommodation.

To be residential premises, the premises must be fit for human habitation.

For example, a house or a unit used as residential accommodation to produce rental income is residential rental property.

A caravan or a houseboat is generally not residential rental property.

Example: individual with residential rental property

Sarah owned and rented out her residential rental property in the 2023–24 income year. She travelled to the property to repair damages caused by tenants during the year.

As the investment is a residential property and Sarah is not in the business of letting rental properties or an excluded entity, she can't claim a deduction for her travel expenses.

Commercial rental properties, for example factories or office blocks, are not residential rental properties. If you own or have an ownership interest in a commercial rental property, you can claim a deduction for travel expenses incurred in earning your rental income from the property.

Example: ownership interest in commercial property

Kei is the sole owner of a commercial rental property. Her husband, Bert, occasionally drives to the rental property in his own car to undertake maintenance. As he has no ownership interest in the property, Bert can't claim travel expenses. Similarly, since Kei didn't travel to the property to undertake the maintenance, she can't claim a deduction.

As the property is a commercial rental property rather than a residential rental property, if Kei and Bert co-owned the property, Bert could share his travel expenses with Kei in line with their legal interest in the property.

Example: individual with a commercial investment property

In the 2023–24 income year, Greg purchased a shopfront and leased the property to Paul. Paul used the shopfront to operate a bakery and paid rent to Greg under a 12-month lease contract.

Greg travelled to the shopfront to inspect the property at the end of the tenancy agreement. As the property was used for commercial purposes, Greg can claim the travel expenses.

In the business of letting rental properties

You can claim your travel expenses if you are in the business of letting rental properties. Generally, owning one or several rental properties will not be considered being in the business of letting rental properties.

If you are an individual and you receive income from letting property to a tenant, or multiple tenants, you are not typically carrying on a business of letting rental properties. Generally, we consider your activities are a form of investment rather than a business, so you can't claim deductions for travel expenses.

Entities that can claim travel expenses

You can claim travel expenses, if you're a:

- corporate tax entity
- superannuation plan that is not a self-managed superannuation fund
- public unit trust
- managed investment trust
- unit trust or a partnership, where all of the members are entities of a type listed above.

Example: an excluded entity in 2023–24

Terry's Pty Ltd, a property manager, incurred travel expenses in 2023–24 to inspect a tenanted residential investment property. Since Terry's Pty Ltd is a corporate tax entity (a company), it can claim a deduction for travel expenses.

Travel expenses you can't claim

Even if you are eligible to claim travel expenses, you still can't claim for expenses related to:

- your personal use of the property or for purely private purposes
- carrying out general maintenance of the property while it's not genuinely available for rent
- undertaking repairs, where those repairs are not because of damage or wear and tear incurred while you rented out the property.

For example, if you travel to undertake initial repairs before you rent the property for the first time, these are capital expenses and may be included as part of the cost base for capital gains tax calculation when the property is being sold later.

If your travel expenses are partly for private purposes and partly related to the rental property, you can only claim the amount relating to the rental property.

Travel expenses before you purchase

You can't claim for travel expenses to inspect a property before you buy it.

You also can't claim for travel expenses to (or other costs for) rental seminars about helping you find a rental property to invest in.

Seminars are only tax deductible if they relate to earning rental income from your existing rental property. When a seminar teaches you how to locate a suitable rental property to buy, you can't claim a deduction against rental income for the cost of the seminar because the costs incurred are 'too soon' before the commencement of the income producing activity.

Some promoters have incorrectly told taxpayers that they can claim the cost of their travel to and from a property they may purchase. You can't claim these costs for properties within Australia nor overseas.

Travel expenses you can claim

If you are in the business of letting rental properties or an excluded entity, and eligible to claim travel expenses, the types of expenses you can claim include:

- preparing the property for new tenants (except for the first tenants)
- inspecting the property during or at the end of tenancy
- undertaking repairs, where those repairs are because of damage or wear and tear incurred while you rented out the property
- maintaining the property, such as cleaning and gardening, while it is rented or genuinely available for rent
- collecting the rent
- visiting your agent to discuss your rental property.

For more information, see Rental expenses to claim.

Car travel

If you use your own car to travel to inspect your rental property or to collect rent, you must use the same method to calculate your deductions as work-related car expenses.

Overnight travel

You can claim a deduction for travel expenses for travelling to your rental property if:

- you own a rental property that is far away from where you live
- it would be unreasonable to expect you not to stay near the rental property overnight when making an inspection
- your main purpose in travelling was to inspect and maintain the rental property.

Where you stay overnight, you can claim meals and accommodation.

Where your trip is mainly for private purposes (for example, having a holiday) and inspecting the property is incidental to that main purpose, you can't claim the costs of getting to your destination or returning home. You can only claim local expenses incurred after you arrive at your destination that are directly related to the property inspection such as taxi fares to and from the rental property. You may also be able to claim a proportion of your accommodation expenses.

Example: apportionment of travel expenses

Bill and Marli King are joint owners of a residential rental property in a resort town on the north coast of Queensland. In 2016–17, they spent $1,800 on airfares and $1,500 on accommodation when they travelled from their home in Melbourne, mainly for the purpose of holidaying in the resort town, but also to inspect the property. They also spent $100 on taxi fares from the hotel to the rental property and back. The Kings spent:

- one day (10% of their total time in Queensland) on matters relating to the rental property
- 9 days (90% of their total time in Queensland) swimming and sightseeing.

They can't claim a deduction for any part of the $1,800 airfares because the main purpose of the trip is a holiday and the property inspection is incidental.

Since the travel expenses were incurred in the 2016–17 year, they can claim deductions for the $100 taxi fares and $150 as a reasonable apportionment of the accommodation expenses (that is, 10% of $1,500).

The total expenses the Kings can claim are therefore $250 (that is, $100 taxi fares plus $150 accommodation). Since they jointly own the rental property, they can claim a deduction of $125 each.

Example: apportioning accommodation expenses

Jabari is the sole owner of a rental property on the Gold Coast. In 2016–17, he travels from Sydney to the Gold Coast to undertake deductible repairs on his rental property but takes his spouse, Kym, with him for company and to share the driving. Jabari and Kym stay in a hotel where the cost of a:

- single room is $55
- double room is $70

A reasonable basis for apportionment of accommodation expenses in this instance is to claim the single room rate of $55 (rather than half the double room rate), as Jabari would have stayed in the single room if Kym had not travelled with him.

Overseas travel

If you are an Australian resident and own a rental property overseas, you may travel overseas on holiday and inspect your rental property at the same time.

If the main purpose of the trip is a holiday, you can't claim the cost of getting there. You can only claim local expenses incurred after you arrive at your destination that are directly related to inspecting the property, such as taxi fares to and from the rental property. You may also be able to claim a deduction for part of your accommodation expenses.

You must be able to show your reason for visiting the rental property.

The records you keep, such as invoices for your accommodation or airline tickets, will help you do this.

Record keeping for travel expenses

If you can claim your travel expenses and you travel over a considerable distance to inspect a rental property (for example, interstate), you need written records to show that you travelled and what expenses you incurred.

Written records can include:

- a travel diary
- receipts for
  - airline tickets
  - fuel
  - accommodation
  - other purchases while travelling
  - items you used for repairs and maintenance that you purchased when you travelled to, or stayed near, the rental property.

If you spend 6 or more nights away from where you live, you must keep a travel diary or similar document that shows the nature of the activities, dates, places, times and duration of your activities and travel.

QC 22093

Tax-smart tips for your investment property

If you use your property to earn income at any time, you will have tax obligations and entitlements.

Last updated 17 June 2024

On this page

Tax-smart tips

To access or download a copy of this fact sheet in portable document format (PDF), see Tax-smart tips for your investment property (PDF, 213KB).

Being tax-smart when investing in property means more than making the right property choices. If you use your property to earn income at any time, you need to:

- keep records right from the start
- work out what expenses you can claim as deductions
- work out if you need to pay tax instalments throughout the year

- declare all rental-related income in your tax return
- consider capital gains tax (CGT) when you sell.

Record keeping makes tax time easier

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

Records to keep when you buy include:

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

Owning

Records to keep during ownership include:

- 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
- depreciating assets.

Selling

Records you need when you sell include:

- contract of sale
- conveyancing documents
- sale of property fees
- how you calculated your capital gain or loss.

Record keeping tips

Set up an easy-to-use record-keeping system as a priority. For example, use a spreadsheet or professional software.

Keep records of every transaction while 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 these 3 simple steps when preparing their return:

1. Include all the income when you receive it

Report rental income in the income year the tenants pay it.

If tenants pay the rent to a real estate agent or property manager who takes their fees out before forwarding on to you – report the gross amount (the amount before fees or expenses) in your tax return.

Rental income includes:

- short-term rental arrangements (for example, a holiday home)
- sharing part of your main residence (home)
- insurance payouts

- rental bond money you keep.

2. Get your expenses right

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

Timing – some expenses must be claimed over several years.

Apportionment – apportion your claim where:

- your property was not used as a rental 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

When you sell or dispose of an investment property or your main residence that you rented out, remember:

- You may have to pay capital gains tax (CGT), even if you transfer the property into someone else's name.
- If you sell, transfer or gift property for less than market value, CGT is based on the market value of the property and you need to get a market valuation.

'Capital proceeds' is the amount you receive, or are deemed to receive, for example market value, when you sell the property.

If your purchase and ownership costs are greater than your capital proceeds, include your capital loss in your tax return in the income year it occurs. Reporting capital losses, means the losses are available to reduce any capital gains you make in the future.

- You need to work out the cost base for a capital gain, you can't include in this amount any deductions you claim for improvements, capital works or decline in value in any income year.
- If you live in the property before renting it out, you need to consider your entitlement to a full or partial main residence exemption, or if the 'home first used to produce income rule' may apply.
- If you own the property for more than 12 months and you're an Australian resident, you may be entitled to a 50% discount of the capital gains tax.

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).

For more information about how tax applies to property investing, see:

- Residential rental properties
- Rental property video series
- Rental properties guide
- Capital gains tax guide

QC 18218

Top 10 tips to help rental property owners avoid common tax mistakes

If you lodge your tax return yourself or with a tax agent, avoid these top 10 common mistakes to save time and money.

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On this page

Top 10 tips fact sheet

To access or download a copy of this fact sheet in portable document format (PDF), see Top 10 tips to help rental property owners avoid common tax mistakes (PDF, 215KB)

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

1. Getting initial repairs and capital improvements right

You can't claim an immediate deduction for:

- Initial repairs on damage existing when you bought the property. 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 are also used to work out your capital gain or capital loss when you sell the property.
- Improvements you make to the property. For example, you replace an entire structure like a roof when only part of it is damaged or

renovating a bathroom. These are building costs that you can claim at 2.5% each year for 40 years from the date of completion.

- Damaged items that are detached from the house and cost more than $300. For example, replacing the entire hot water system – the cost must be claimed as a decline in value deduction over several years.

2. Claiming interest on your loan

You can claim interest incurred on the amount borrowed as a deduction if you take out a loan for your rental property.

You can only claim the part of the interest that relates to the rental property. If you use some of the loan for personal use, such as buying a boat or going on a holiday, you can’t claim the interest on that part of the loan. If you do this, your interest must be apportioned for the duration of the loan or any refinanced loans, regardless of whether you repay the cost of your boat, holiday or other personal expense. It's important to take this into consideration when using your investment loan for private purposes.

3. Claiming borrowing expenses

If your borrowing expenses are over $100, the deduction is spread over 5 years. If they are $100 or less, you can claim the full amount in the same income year you incurred the expense.

Borrowing expenses:

- include loan establishment fees, title search fees and costs of preparing and filing mortgage documents.
- don't include stamp duty charged by your state or territory government on the property title.

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

4. Claiming purchase costs

You can’t claim deductions for the costs of buying your property. These include conveyancing fees and stamp duty (for properties outside the ACT). If you sell your property, these costs are used when working out if you need to pay capital gains tax.

5. Getting construction costs right

You can claim certain building costs, including extensions, alterations and structural improvements as **capital works** deductions. Generally, you can claim a capital works deduction at 2.5% of the construction cost for 40 years from the date construction was completed.

Where your property was previously owned by someone else and they claimed capital works deductions, ask them to provide you with the details so you can correctly calculate the deduction you're entitled to claim. If you can't get the details from the previous owner, you can use the services of a qualified professional who can estimate previous construction costs often based on a visit to your property.

6. Claiming body corporate fees and charges

Payments you make to your body corporate administration fund are deductible in full in the year you incur them.

If your body corporate raises funds applied to a **special purposes fund** to pay for major capital improvements or repairs of a capital nature, you can't claim an immediate deduction for these amounts. You may be able to claim a capital works deduction for your share of the expense once the work is complete. The cost must also be charged to either the special purpose fund or the general purpose sinking fund, if a special contribution has been levied.

7. Apportioning expenses and income for co-owned properties

If you own a rental property with someone else, 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.

8. Apportioning deductions for private use of your property

You must limit the deductions you claim to the periods you can directly connect to earning assessable income. If you use only part of your property to earn rent or you rent it out for part of the year, you must apportion your expenses to reflect the area and days it was rented. Your private use of the property includes any use by you and if you:

- rent to family or friends below market rates
- keep it vacant.

To claim a tax deduction for periods the property has been kept vacant, you must be able to show a clear intention to rent your property. This includes:

- advertising the property so that someone is likely to rent it by setting the rent in line with similar properties in the area
- avoiding unreasonable rental conditions.

9. Keeping the right records

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

Capital gains tax may apply when you sell your rental property, so keep all records for the period you own the property and for 5 years from the date you sell it.

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, own and improve the property (cost base)
- what you receive when you sell it.

Don't include amounts in your cost base which you have already claimed as a deduction against rental income earned from the property, including decline in value and capital works. You must also reduce your cost base by the amount of deductions claimed for capital works expenditure incurred after 7:30 pm on 13 May 1997.

If you make a capital gain, include the gain in your tax return for that income year.

If you make a capital loss, you can carry the loss forward and deduct it from capital gains in later years.

For more information about how tax applies to property investing, see:

- Residential rental properties
- Rental properties guide
- Guide to capital gains tax
- Guide to depreciating assets
- Watch our Rental property video series.

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If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.