Australian Government
Australian Taxation Office

Investments and assets

- https://www.ato.gov.au/Individuals/Investments-and-assets/
- Last modified: 29 Jun 2022
- QC 22800

When you invest, the profits or returns you make may become part of your income for tax purposes. Many expenses you incur relating to your investments are deductible – for example, interest on money you borrow to buy shares.

Australian residents for tax purposes are taxed on their worldwide income. There are tax implications you need to be aware of when you obtain, own or dispose of investments regardless of if they are in Australia or overseas.

Understanding how tax works for your investments helps ensure you don't pay more tax than you need to.

You can also find helpful factsheets in the Investors toolkit.

Residential rental properties
Find out what you need to do if you own a residential rental property.

Holiday homes
Find out about deductions and tax implications if you own a holiday home.

Vacant land and subdividing
Find out about the tax treatment of land and the proceeds from selling it.

Investing in bank accounts and income bonds
Find out about paying tax on income from bank accounts or income bonds.

Investing in shares
Find out about dividends from shares and the tax implications of obtaining, owning and disposing of shares.

Crypto asset investments
How to treat investments in crypto assets (also called crypto or cryptocurrency) for tax purposes in Australia.

Managed investment trusts
Find out about income and losses from managed investment trusts.

Keeping good investment records
Check which records you should keep and for how long for your investments.

Interest, unfranked dividends and royalties
Find out about paying tax on interest, unfranked dividends and royalties as a foreign resident and check which tax rate applies.

Residential rental properties

- https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/
- Last modified: 01 Jul 2022
- QC 23626

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.

To download a PDF guide on how to treat rental income and expenses, see our rental properties guide.

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
Find out if your rental property is genuinely available for rent so you can claim deductions and find out what shows your property isn't genuinely available to rent.

Rental property as investment or business

Work out if your rental arrangements are in the form of an investment or a business.

Rental expenses to claim
Check the deductions you can claim for your rental property.

Rental expenses you can't claim
Check the expenses you can't claim as a deduction for your rental property.

Holiday homes
Check if you can claim deductions for your holiday home expenses and any capital gains tax implications if you sell.

Selling your rental property
Find out about capital gains and losses when you sell or dispose of a rental property.

Owning and renting a property or holiday home

- https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/Owning-and-renting-a-property-or-holiday-home/
- Last modified: 01 Jul 2022
- QC 23627

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

On this page

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 a 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:

- check the Foreign Investment Review Board (FIRB) guidance notes
- submit a Residential real estate application and pay an application fee
- keep the right records
- report the correct share of the rental income.

For more information about rental investment properties, see:

- Rental properties guide
- Tax-smart tips for your investment property
- Top 10 tips to help rental property owners.

Rental property video series

- https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-

properties/Owning-and-renting-a-property-or-holiday-home/Rental-Property-video-series/
- Last modified: 05 Aug 2022
- QC 40785

Helpful videos for understanding your record-keeping obligations if you own or are investing in a rental property.

On this page

Introduction to rental property and tax

Tax tips on owning a rental property, including:

- record keeping
- what amounts to declare as income
- what expenses to claim as a deduction.

Media: Introduction to rental property and tax
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiun85io6m (Duration: 02:07)

Claiming depreciating assets

Find out about depreciating assets and when you can claim them as a deduction for a rental property.

Media: Claiming depreciating assets
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiun85ity3 (Duration: 02:20)

Claiming interest expenses

How and when you can claim a deduction for the interest on your rental property.

Media: Claiming interest expenses
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiun85itf1 (Duration: 02:20)

Co-owners of a rental property

Rental income you must declare and the expenses you can claim if you co-own a rental property.

Media: Co-owners of a rental property
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiun85ittq (Duration: 02:18)

Getting repairs and capital works right

Find out what you need to know before claiming a deduction for repairs and improvements to your property.

Media: Getting repairs and capital works right
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiun85itx8 (Duration: 02:32)

When can I claim a deduction for rental expenses

When you can and can't claim a deduction for rental property expenses.

Media: When can I claim a deduction for rental expenses
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiun85ited (Duration: 03:07)

Selling your rental property

You may have to pay tax on any capital gain make on it and report any capital losses.

Media: Selling your rental property
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiubfs6pgx (Duration: 02:46)

Selling a rental property that was your home

There are special capital gains tax rules that apply when you sell a property that was used for renting and also your home.

Media: Selling a rental property that was your home
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiubfs6pgq (Duration: 03:17)

How to include rental income and expenses in myTax

This 'how to' video assists rental property owners to correctly complete the rent section of myTax.

Media: How to include rental income and expenses in myTax
https://tv.ato.gov.au/ato-tv/media?v=bd1bdiubtjsfhw (Duration: 01:56)

How to complete myTax when you've sold a rental property

This video explains how to complete myTax when you've sold a rental property.

Media: How to complete myTax when you've sold a rental property
http://tv.ato.gov.au/ato-tv/media?v=bi9or7odtggh5r (Duration: 04:20)

Records for rental properties and holiday homes

- https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/Records-for-rental-properties-and-holiday-homes/
- Last modified: 01 Jul 2022
- QC 66379

You need to keep records for residential or holiday property you rent out, make available for rent or intend to rent out.

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.

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

On this page

How long to keep rental records

You need to keep records for five years. Depending on your situation, that is five 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.

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 six 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.

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 if you later sell or otherwise dispose of one or part of a property, you will still have records to work out your claims.

Rental income you must declare

- https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/Rental-income-you-must-declare/
- Last modified: 31 Aug 2022
- QC 23632

The income you must declare for your rental property and how to include it in your tax return.

On this page

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 (as examples, 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 for a disaster, 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 TR 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).

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

Media: How to include rental income and expenses in myTax
https://tv.ato.gov.au/ato-tv/media?v=bd1bdiubtjsfhw (Duration: 01:56)

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

Rental property genuinely available for rent

- https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/Rental-property-genuinely-available-for-rent/
- Last modified: 01 Jul 2022
- QC 66383

You must rent out or make a genuine (honest) effort to rent out your rental property or holiday home to be able to claim a deduction for expenses you incur.

On this page

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.

Rental property as investment or business

- https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/Rental-property-as-investment-or-business/
- Last modified: 01 Jul 2022
- QC 66425

If you own a rental property or holiday home, you will need to work out if your rental arrangements are in the form of an investment or a business. The outcome will help you work out what records you need to keep, income you need to declare and expenses you can claim.

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.

Rental expenses to claim

- https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/Rental-expenses-to-claim/
- Last modified: 01 Jul 2022
- QC 23633

If you rent out your property or it is genuinely available for rent, you can claim deductions for most of the expenses you incur in these periods.

You only claim deductions for the expenses that relate to the income-producing use of the property.

You can't claim a deduction for expenses for your personal use of the property.

On this page

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

Media: When can I claim a deduction for rental expenses?
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiun85ited (Duration: 3:07)

Rental expense categories

There are three 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, some expenses of a capital nature and the purchase of second-hand (or used) depreciating assets

after 9 May 2017.

There are also some expenses you can claim a deduction for prior to the property being genuinely available to 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 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 partially use your investment loan for personal purposes.

You may need to decide which of your expenses are private in nature. For example, if you only rent out part of your property you should work out your expenses on a floor-area basis, based on the area solely occupied by the tenant. You can add to that a reasonable amount based on the tenant's access to common areas. For other examples, see the Rental properties guide.

However, it may not be appropriate to work out some of your expenses on the same basis. For example, expenses such as advertising for tenants and real estate commissions that relate solely to renting out of the property are fully deductible.

Positive or negative gearing

Your rental property is 'positively geared' if your deductible expenses are less than the income you earn from the property – that is, you make a profit from renting out your property.

Your rental property is said to be 'negatively geared' if your deductible expenses are more than the income you earn from the property.

The overall tax result of a negatively geared property is a net rental loss. In this case, you may be able to claim a deduction for the full amount of rental expenses against your rental and other income – such as salary, wages or business income. If your other income is not enough to absorb the loss, you can carry forward your loss to the next income year.

Changes to expenses you can claim

Find out about changes to expenses you can claim below.

Deductions for vacant land

You can no longer claim a deduction for the cost for holding vacant land from 1 July 2019. For more information, see Deductions for vacant land.

Supplier ABN's

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.

Rental expenses and your tax return

You include rental expenses you can claim a deduction for in your tax return. Depending on your situation, you will first need to select:

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

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

Watch: How to include rental income and expenses in myTax

Media: How to include rental income and expenses in myTax
https://tv.ato.gov.au/ato-tv/media?v=bd1bdiubtjsfhw (Duration: 1:56)

Rental expenses you can claim now

- https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/Rental-expenses-to-claim/Rental-expenses-you-can-claim-now/
- Last modified: 01 Jul 2022
- QC 23635

You can claim a deduction in the income year you incur expenses for your rental property that relate to the management and maintenance of the property, including interest on loans.

If your property is negatively geared, you may be able to deduct the full amount of rental expenses against your rental and other income – such as salary and wages and business income.

On this page

Expenses you claim this year

You can claim a deduction for these expenses only if you actually incur them and they are not paid by the tenant.

Expenses you may be entitled to claim an immediate deduction for in the income year you incur them include:

- advertising for tenants
- body corporate 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.

Interest expenses

Charges on the principal amount of the loan that you take out for a rental property are known as interest expenses. The principal amount is the money you borrow from your bank or lender.

If you take out a loan to purchase a rental property, you can claim a deduction for the interest charged on the loan or a portion of the interest.

The property must be rented or genuinely available for rent in the income year you are claiming a deduction for the interest expenses.

For a summary of this information you can download or print, see Rental properties – interest expenses (PDF 247KB) .

What you can claim

You can claim the interest charges on the loan (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)
- make repairs to the rental property (for example, roof repairs due to storm damage)
- finance renovations and extensions to the rental property, which is currently rented out, or which you intend to rent out (for example, to add a deck to the rear of the rental property).

You can also claim interest expenses when:

- you have pre-paid interest expenses up to 12 months in advance
- 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 the property.

What you can't claim

You can't claim a deduction for interest expenses you incur:

- for any period you used the property for private purposes, even if it's a short period of time
- on the portion of the loan you use for private purposes (for example, money you use to purchase a new family 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
- on any portion of the loan you use for private purposes, even if you are ahead in your repayments.

Example: Claiming part of the interest incurred

Yoko takes out a loan of $400,000. Yoko 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.

Loan accounts used for private and rental expenses

If you have a loan account that has a fluctuating balance due to a variety of deposits and withdrawals and is 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 can't repay only the portion of the loan that relates to the personal purchase. Any repayments of the loan are apportioned across both purposes.

You must also separate the interest that relates to the rental property from any interest that relates to the private use of the fund.

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 an interest deduction against the $25,000 loan for their original home, as it is now rented out.

They can't claim an interest deduction against the $400,000 loan used to purchase their new home as it's not being used to produce income even though the loan is secured against their rental property.

Example: Interest incurred on fund 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 expense incurred immediately before the redraw is $9,300. The total interest on $365,000 for the year is $19,000.

Tyler can only claim the interest expense on the portion of the loan relating to the rental property using 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 × (rental property loan portion ÷ loan balance at the time of the redraw) = deductible interest
>
> $9,700 × ($355,500 ÷ $365,000) = $9,448

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

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 financial 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 in for:

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

The service period is the period during which the thing is to be done under the agreement in return for the expenditure.

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 expenditure is incurred.

A pre-paid expense that doesn't meet these criteria may have to be spread over two or more years.

You work out the part of your pre-paid expenses 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 those 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 but there is a short period where the property is unoccupied – unseasonable weather causes cancellations of bookings or advertising is unsuccessful in attracting tenants.

For a summary of this information in poster format, see Rental properties repairs, maintenance and capital expenditure (PDF 235KB) .

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

However, you can't claim expenses as repairs and maintenance which are capital or of a capital nature. For example, replacement of an entire structure such as a fence or initial repairs such as defects that existed at the date you acquired the property.

For more detail on capital expenditure and improvements, see Rental expenses you claim over several years.

Watch: This video explains what you need to know before claiming a deduction for repairs and improvements to your property.

Media: Getting repairs and capital works right
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiun85itx8 (Duration: 02:32)

What you can claim immediately

Repairs

Repairs means working to make good or 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.

Examples of repairs include:

- replacing broken windows
- replacing part of the gutter damaged in a storm
- replacing part of a fence damaged by a falling tree branch
- repairing electrical appliances or machinery.

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

- the need for repairs relates to a period where the property was income producing
- the property was income producing during the income year you incur the expenses.

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 interior walls of a rental property
- 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

Repairs and maintenance unrelated to wear and tear or damage

You can't claim the total costs of repairs and maintenance in the year you paid them if they did not relate directly to wear and tear or other damage occurring due to renting out your property. These are capital expenses you may be able to claim over a number of years as capital works deductions or deductions for decline in value.

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

Improvements

You can't claim a deduction for the total cost of improvements to your rental property in the year you incur them.

An improvement is anything that makes an aspect of the property better, more valuable, more desirable or changes the character of the item on which works are being carried out.

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

Improvement means work that:

- provides something new
- generally 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 cannot claim the cost of the new wall as a repair, but he can claim it as capital works deductions.

However, had 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 merely restored the efficient function of the wall without changing its character, even though a different material was used.

Repairs vs improvements

If you conduct a project that includes both repairs and improvements to your property, you can only claim an income tax deduction for the cost of your repairs if you can separate the cost of the repairs from the cost of the improvements.

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

Example: Apportioning expenses between repairs and improvements

Caitlin has 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 an income tax deduction for the cost of painting the internal walls as a repair. She could claim the costs for the external walls as capital works deductions.

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

Table: Determine 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 was known at the time of purchase or not)	Initial repair	Fixing floor boards that had damage when the property was bought	Capital works or Capital allowances
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	Capital	Adding a carport	Capital

the property	works		works
Installing a brand new appliance, floor or window covering	Depreciating asset	• Buying a new dishwasher • Installing new carpet	Capital allowances

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

Legal expenses

Rental property legal expenses are those 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.

What you can claim

You can claim the cost of the following as income tax deductions:

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

What you can't claim

Most legal expenses you incur for a rental property or holiday home are of a capital nature. You can't claim the cost of the following as income tax deductions:

- solicitor's fees for the purchase of the property (these are a capital expense)
- solicitor's fees for the preparation of loan documents (these can be claimed as borrowing expenses)
- legal costs associated with resisting land resumption (these are a capital expense)
- 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 – these are a capital expense).

Legal expenses which are capital in nature may form part of the cost base of your property for capital gains tax (CGT) purposes when you sell the property.

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

- Rental properties guide
- Guide to capital gains tax
- Guide to depreciating assets
- CGT when selling your rental property

Apartment building defect expenses

- https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/Rental-expenses-to-claim/Rental-expenses-you-can-claim-now/Apartment-building-defect-expenses/
- Last modified: 01 Jul 2022
- QC 63879

As the owner of 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.

On this page

Repairs and maintenance you can claim

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

- 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. 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. For example, repainting of the outside parts of the building where the paint is peeling.

You can't claim a deduction for capital expenses as 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 paragraphs 40 and 41 of *Income tax: matters relating to strata title bodies constituted under strata title legislation.*

Rental expenses you claim over several years

- https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/Rental-expenses-to-claim/Rental-expenses-you-claim-over-several-years/
- Last modified: 04 Nov 2022
- QC 23636

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

On this page

Borrowing expenses

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

You claim a deduction for all eligible borrowing expenses for 5 years or spread it over the term of the loan, whichever is shorter. However, if the total deductible borrowing expenses are $100 or less, they are fully deductible in the income year you incur them.

For a summary of this information in poster format see, Rental properties – borrowing expenses (PDF, 256KB) .

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 claim borrowing expenses

Where your total borrowing expenses are more than $100, you spread the deduction over the shorter of either:

- 5 years
- the term of the loan.

If your borrowing expenses are $100 or less, you can claim the full amount in the income year you incur the expense.

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

- repay your loan early
- repay your loan in less than 5 years.

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

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

The Hitchman's pay a total of $1,670 in establishment fees, valuation fees and stamp duty to secure a 20-year loan of $209,000 to buy:

- a rental property for $170,000
- a motor vehicle for personal use for $39,000

The Hitchman's need to spread their borrowing expenses ($1,670) either for 5 years or the term of the loan, whichever is shorter. In this case, it is 5 years.

As part of the loan ($39,000) was used for personal purposes, the Hitchman's cannot claim a deduction for its part of the borrowing expenses.

They obtained the loan on 17 July 2019. They work out their deductions for the borrowing expenses for the first year as follows:

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

Their borrowing expense deductions in the subsequent years should be worked out as follows:

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

Calculating the deductions

Calculating the deductions

Year	Calculation	Available deduction for the year
Year 1	$1,670 × (349 ÷ 1,826) × ($170,000 ÷ $209,000)	$260
Year 2 (leap year)	$1,351 × (366 ÷ 1,477) × ($170,000 ÷ $209,000)	$272
Year 3	$1,017 × (365 ÷ 1,111) × ($170,000 ÷ $209,000)	$272
Year 4	$682 × (365 ÷ 746) × ($170,000 ÷ $209,000)	$271
Year 5	$348 × (365 ÷ 381) × ($170,000 ÷ $209,000)	$271
Year 6	$15 × (16 ÷ 16) × ($170,000 ÷ $209,000)	$12

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

Capital expenditure

For your rental property, you may be able to claim capital works deductions over a period of time for capital expenses incurred on the construction of capital works. Some of these capital expenses are the costs of construction of the building as well as structural improvements and extensions to it.

Capital expenditure you may be able to claim a deduction for over time includes:

- Improvements
- Depreciating assets
- Initial repairs
- Capital allowances
- Capital works

For a summary of this information in poster format, see Rental properties – Repairs, maintenance and capital expenditure (PDF, 235KB) .

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

Improvements

An improvement is anything that makes an aspect of the property better, more valuable, more desirable or changes the character of the item on which works are being carried out.

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

Improvement 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.

Depreciating assets

Depreciable assets are those 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. These items are usually:

- separately identifiable
- not likely to be permanent
- such that replacement of the item will occur 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 these items' 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
- Depreciating assets you can claim
- 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 its 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.

For example, a washing machine is an asset that wears out over time and you can claim a deduction for the cost of the washing machine spread out over its expected effective life.

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

When you purchase a rental property, you are treated for tax purposes as having bought a building, plus various separate depreciating assets, such as air conditioners, stoves and other items.

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

An asset that is fixed to, or otherwise part of, a building or structural improvement, will generally be construction expenditure for capital works and only a deduction for capital works may be available for those assets.

A quantity surveyor will often prepare a report that creates a depreciation schedule for these claims at the time a rental property is purchased.

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 a new asset on 1 January and used it only for a taxable purpose, you can claim for the decline in value from that date.

Your deductions need to be reduced for any personal use of the asset, for example, you use your rental property for private holidays.

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

Media: Claiming depreciating assets
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiun85ity3 (Duration: 02:21)

Example: Claiming the decline in value of depreciating assets

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

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

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

For the unit, 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.

For the apartment, Kerrie is still entitled to claim deductions 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 Kerrie within 6 months of being built.

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

Depreciating assets costing $300 or less

For assets costing $300 or less, you can claim an immediate deduction (that is, a full deduction) for this cost 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, you can't claim immediate deduction if you buy 4 dining chairs each costing $250 for your rental property because you can't treat them as separate assets.

Depreciating assets you can claim

Depreciating assets you can claim a deduction for include:

- Second-hand depreciating assets decline in value deduction limit
- New assets
- Substantial renovations
- Home turned into a rental property before 1 July 2017
- Carrying on a business of letting rental properties

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 no longer 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 2021, she listed her house for sale. While it was advertised, she moved out and then 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 are all previously used. Also, he cannot claim a deduction for the decline in value for the carpets 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 it before 9 May 2017.

New assets

You can claim decline in value for new assets but not for second-hand or used assets.

This includes your purchase of a newly built or substantially renovated property, if no one was previously entitled to a deduction for the decline in value of the depreciating asset, 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.

Substantial renovations

Substantial renovations of a rental property are renovations in which 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.

We take into account renovations you make collectively to a house, such as the:

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

Example: Claiming the decline in value of renovations

Jake bought a 4 bedroom residential property in October 2020 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. In this case, Jake can't claim a deduction for the decline in value of the depreciating assets in the property.

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.

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 place of 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 cannot claim a deduction for the decline in value of any second-hand depreciating asset that he purchases for, or installs ready for use in, this property on or after 7:30 pm on 9 May 2017.

If Marty moved out in June 2017 and the property was vacant until it was available for rent after 30 June 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.

However, if Marty 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 was not previously used.

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.

Related pages

- Guide to depreciating assets
- Rental properties guide – for a list of rental property items that can be depreciated.

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 based on a wide survey and the extent of your involvement in the activities. No one indicator is decisive. They must be considered in combination and 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 decision-making 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 proportion of the remaining value, hence, you are 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, hence, you are claiming a lower but more constant proportion 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 hot water system for her rental property on 1 July 2021, 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 2021–22 is $602, 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 2022 is $900. This is the cost of the asset ($1,500) less its decline in value up to 30 June 2020 ($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 2021–22 is $301, 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 at 30 June 2022 is $1,200. This is the cost of the asset ($1,500) less its decline in value up to 30 June 2022 ($300).

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

Initial repairs

Any expenses you incur to remedy defects, damage or deterioration that already exist when you acquire the property are of a capital nature. Depending on the type of expense you incur, you may be able to claim a deduction for either capital works or capital allowances.

Capital allowances

For each of the assets where you may claim a deduction for decline in value, you can choose to use either the effective life the Commissioner has determined for such assets, or your own reasonable estimate of its effective life. Where you estimate an asset’s effective life, you must keep records to show how you worked it out.

Capital works

Capital works includes expenses incurred in building the property as well as carrying out 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.

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

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 can only claim the expenses in the periods you rent out the property or if it's genuinely available for rent.

You can't claim a deduction until construction is complete. Your capital works deductions can't exceed your construction expenses.

Repairs on a newly-acquired rental property

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 but may be claimed over a number of years as capital works deductions.

Replacing an asset

If you replace assets such as a complete fence or building, you may be able to claim the cost as capital works.

If you replace depreciating assets such as a dishwasher or carpets, you may be able to claim the cost as deductions for decline in value.

Example: Replacing assets in a residential property

Janet has owned and rented out a residential property since 12 January

1983. In 2022, 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.

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.

Work out your capital works deductions

- https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/Rental-expenses-to-claim/Rental-expenses-you-claim-over-several-years/Work-out-your-capital-works-deductions/
- Last modified: 01 Jul 2022
- QC 21620

You can claim capital works deductions for certain construction costs for a rental property. Your capital works deductions can't exceed the construction expenses.

The percentage of deduction, and the number of years you claim it for, are determined by the type of construction and the date construction commenced.

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 2022, 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 2022 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 to 30 June 2022). 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 2022, her 2021–22 claim was calculated as follows:

> $5,000 × (122 ÷ 365) = $1,671

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 deductions.

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. 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 • guest houses with at least 10 bedrooms.	21/8/1979	22/8/1979 to 21/8/1984 – 2.5% 22/8/1984 to 15/9/1987 – 4% 16/9/1987 to 26/2/1992 – 2.5% (where the construction related to certain pre-16/9/1987 contracts, the rate is 4%) 27/2/1992 onwards – 4%
Building intended to be used on completion for non-residential purposes such as a shop or office.	19/7/1982	20/7/1982 to 21/8/1984 – 2.5% 22/8/1984 to 15/9/1987 – 4% 16/9/1987 onwards – 2.5%

Any building intended to be used on completion for residential purposes or to produce income.	17/7/1985	18/7/1985 to 15/9/1987 – 4% 16/9/1987 onwards – 2.5% (where the construction related to certain pre-16/9/1987 contracts, the rate is 4%)
Structural improvements intended to be used on completion for residential purposes or to produce income.	26/2/1992	27/2/1992 onwards – 2.5%
Environment protection earthworks intended to be used on completion for residential purposes or to produce income.	18/8/1992	18/8/1992 onwards – 2.5%
Any capital works used to produce income, even if they were not intended to be used for that 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.	30/6/1997	The capital works must actually be used in a deductible way in the income year in 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 7.30pm (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 7.30pm (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 7.30pm (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 six 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 six 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.

Rental expenses you can't claim

- https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/Rental-expenses-you-can-t-claim/
- Last modified: 04 Nov 2022
- QC 59315

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

On this page

For information on residential rental property expenses you can claim, see Rental expenses to claim.

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, 167KB) .

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 five years

On 3 July 2016, 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 fees required for loan.

Peter also paid $12,000 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 more than $100, he must claim them over five years from the date he took out his loan for the property. He works out his borrowing expenses' deductions as follows:

- For the first year, 2016–17, Peter performs the following steps
  - Step 1: works out the number of days from 3 July 2016 to 30 June 2017 (363)
  - Step 2: works out the number of days in the five-year period from 3 July 2016 to 2 July 2021 (1,826)

    - Step 3: divides Step 1 result by Step 2 result (equals 0.19879)
    - Step 4: multiplies Step 3 result by the borrowing expenses of $1,600 (equals $318). He claims $318 as a deduction on his 2017 tax return.
- For each of the following years, 2017–18 to 2020–21, 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 financial year (remembering any leap years)
    - Step 3: works out the number of days remaining in the five years (this includes the number of days in the 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 2020–21 income year, Peter has claimed deductions totalling $1,598 on his respective tax returns.
- In the final year, 2021–22, 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 2021 and 2 July 2021 (equals 2)
    - Step 3: works out the number of days remaining in the 5 years, which equals 2 (1,826 minus 1,824)
    - 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, he claims a deduction of $2 on his 2022 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 and the television because they have both been 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 and stamp duty on the title transfer outside the ACT (instead, these are usually included in the property's cost base, which would reduce any capital gains tax when you sell the property)
- unlike stamp duty on the transfer of freehold title, stamp duty on the transfer of a property under the ACT's leasehold system is generally deductible (see Expenses for which you can claim an immediate deduction and Lease document expenses in the Rental properties guide)
- 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 Simple steps when preparing your return. For more information about how tax applies to rental properties, see our Rental properties guide.

Rental properties and travel expenses

- https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/Rental-expenses-you-can-t-claim/Rental-properties-and-travel-expenses/
- Last modified: 01 Jul 2022
- QC 22093

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

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 your rental property
- 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 about your current rental property).

A residential premise (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.

On this page

Deductions for travel expenses

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.

If you don't have an ownership interest in the rental property, you can't claim travel expenses, even if you travel for the purposes of maintenance or inspections.

Example: Ownership interest

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.

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.

For travel before 1 July 2017, you:

- can claim your travel expenses
- can't include your travel expenses in the cost base for calculating your capital gain or capital loss when you sell the property.

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 individual with residential investment property in 2021–22

Sarah rented out her residential rental property in 2021–22. She travelled to the property to repair damages caused by tenants during the year.

As the investment is a residential property, Sarah can't claim travel expense.

Example: An excluded entity in 2021–22

Terry's Pty Ltd, a property manager, incurred travel expenses in 2021–22 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 such as:

- 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 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. So, 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 '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, neither 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 can 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 there or returning. You can only claim local expenses incurred over there that are directly related to the property inspection such as taxi fares to and from the rental property and a proportion of 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
- nine 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 fare 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 tax fare 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 over there that are directly related to inspecting the property, such as taxi fares to and from the rental property, and 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 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.

Example: Individual with a commercial investment property

In 2021–22, 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 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.

Tax-smart tips for your investment property

- https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/Tax-smart-tips-for-your-investment-property/
- Last modified: 01 Jul 2022
- QC 18218

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 will have tax obligations and entitlements.

You can download this information in portable document format (PDF) – Tax-smart tips for your investment property journey (PDF, 152KB)

On this page

Selling an investment property or main residence

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

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

Simple steps when preparing your return

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

1. Include all the income you receive

2. [Get your expenses right]
3. [Keep records to prove it all]

1. Include all the income you receive

This includes:

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

2. Get your expenses right

- Eligibility – Claim only for expenses incurred for the period your property was rented or when you were actively trying to rent the property on commercial terms.
- Timing – Some expenses must be claimed over a number of years.
- Apportionment – Apportion your claim where your property was rented out for part of the year or only part of your property was rented out, where you used the property yourself or rented it below market rates. You must also apportion in line with your ownership interest.

3. Keep records to prove it all

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

Record keeping tips

Set up an easy-to-use record-keeping system as your first priority. This can be as simple as a spreadsheet or you can use professional software.

Keep records of every transaction over the period you own the property. This includes contracts of purchase and sale, as well as conveyancing and loan documents.

Scan copies of your receipts to make it easier to store and access them.

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

Getting record keeping right makes tax time easy

Whether you use a tax agent to prepare your tax return or do it yourself, you need to keep proper records over the period you own the property.

Keep the right records at each stage of your journey to ensure you are able to claim everything you're entitled to, such as:

- Buying
- Owning

- [Selling]

Buying

- Contract of purchase
- Conveyancing documents
- Loan documents
- Costs to buy the property
- Borrowing expenses

Owning

- Proof of earned rental income
- All your expenses
- Periods of private use by you or your friends
- Periods the property is used as your main residence
- Loan documents if you refinance your property
- Efforts to rent the property out
- Capital improvements

Selling

- Contract of sale
- Conveyancing documents
- Sale of property fees
- Calculation of capital gain or loss

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

- Guide to capital gains tax
- Guide to depreciating assets
- Watch our short Rental property video series
- Download our free Rental properties guide

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

- https://www.ato.gov.au/Individuals/Investments-and-assets/Residential-rental-properties/Top-10-tips-to-help-rental-property-owners/
- Last modified: 01 Jul 2022
- QC 53211

Whether you use a tax agent or choose to lodge your tax return yourself, avoiding these 10 common mistakes will save you time and money.

- Apportioning expenses and income for co-owned properties

- Make sure your property is genuinely available for rent
- Getting initial repairs and capital improvements right
- Claiming borrowing expenses
- Claiming purchase costs
- Claiming interest on your loan
- Getting construction costs right
- Claiming the right portion of your expenses
- Keeping the right records
- Getting your capital gains right when selling

You can download this information in portable document format (PDF) – Top 10 tips to help rental property owners avoid common tax mistakes (PDF 148KB) .

Apportioning expenses and income for co-owned properties

If you own a rental property with someone else, you must declare your 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.

Make sure your property is genuinely available for rent

Your property must be genuinely available for rent to claim a tax deduction. This means:

- you must be able to show a clear intention to rent the property
- advertising the property so that someone is likely to rent it and set the rent in line with similar properties in the area
- avoiding unreasonable rental conditions.

Getting initial repairs and capital improvements right

Ongoing repairs that relate directly to wear and tear or other damage that happened as a result of you renting out the property can be claimed in full in the same income year you incurred the expense. For example, repairing the hot water system or part of a damaged roof can be deducted immediately.

Initial repairs for damage that existed when the property was purchased, such as replacing broken light fittings and repairing damaged floorboards aren't immediately deductible but a deduction may be claimed over a number of 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.

Replacing an entire structure like a roof when only part of it is damaged or renovating a bathroom is classified as an improvement and not immediately deductible. These are building costs which you can claim at 2.5% each year for 40 years from the date of completion.

If you completely replace a damaged item that is detachable from the house and it costs more than $300 (for example, replacing the entire hot water system) the cost must be depreciated over a number of years.

Claiming borrowing expenses

If your borrowing expenses are over $100, the deduction is spread over five years. If they are $100 or less, you can claim the full amount in the same income year you incurred the expense. Borrowing expenses include loan establishment fees, title search fees and costs of preparing and filing mortgage documents.

Claiming purchase costs

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

Claiming interest on your loan

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

Getting construction costs right

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

Where your property was owned by someone else previously, 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 obtain those details from the previous owner, you can use the services of a qualified professional who can estimate previous construction costs.

Claiming the right portion of your expenses

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

Keeping the right records

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

Getting your capital gains right when selling

When you sell your rental property, you will make either a capital gain or a capital loss. Generally, this is the difference between what it cost you to buy and improve the property, and what you receive when you sell it. Your costs must not include amounts already claimed as a deduction against rental income earned from the property, including depreciation and capital works. If you make a capital gain, you will need to 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, refer to:

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

Holiday homes

- https://www.ato.gov.au/Individuals/Investments-and-assets/Holiday-homes/
- Last modified: 23 Jan 2023
- QC 45076

Find out about deductions and tax implications if you own a holiday home.

On this page

- Holiday home – not rented out
- Holiday home – rented out
- Holiday home – not genuinely available for rent
- Holiday home – part year rental

Holiday home – not rented out

If you own a holiday home and don't rent out the property, you don't include anything in your tax return until you sell it.

When you sell the property, you will need to calculate your capital gain or loss.

Keep all records from the time you purchase the property until the time you sell it to be able to work out the capital gain or loss when you sell.

Holiday home – rented out

If your holiday home is rented out, you need to include the rental income you receive as income in your tax return.

You can claim expenses for the property based on the extent that they are incurred for the purpose of producing rental income.

You will need to apportion your expenses if:

- your property is genuinely available for rent for only part of the year
- your property is used for private purposes for part of the year
- only part of your property is used to earn rent
- you charge less than market rent to family or friends to use the property.

For information on how to apportion expenses, see the examples in Holiday home – part year rental.

If you have a rental property in a commercial residential property, see Holiday apartments in commercial residential properties.

Holiday home – not genuinely available for rent

Expenses may be deductible for periods when the property is not rented out, if the property is genuinely available for rent.

Factors that may indicate 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 renting out the property, 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 give references for short holiday stays and conditions like 'no children' and 'no pets'
- you refuse to rent out the property to interested people without adequate reasons.

These factors generally indicate the owner doesn't have a genuine intention to earn rental income from the property and may have other purposes, such as using it or reserving it for private use.

Example – property advertised for rent but rent is excessive

Viraji owns a holiday home and has a real estate agent who advertises the property for rent. The market rent of comparable properties in the same location as Viraji's holiday home is $2,000 a week. Viraji arranges for her property to be advertised at $4,000 a week or $570 a night.

Viraji's property is not genuinely available for rent. Her intention is to reserve it for her own use. At no time during the year does anyone rent the property. Viraji can't claim any deductions for the property because it is not genuinely available for rent.

Viraji needs to keep records of her expenses. If she makes a capital gain when she sells the property, her property expenses (such as property insurance, interest on the funds borrowed to purchase the property, repair costs, maintenance costs and council rates) are taken into account in working out her capital gain.

Example – unreasonable rental conditions placed on property

Josh and Maria are retired and own a holiday home where they stay periodically. They have a real estate agent advertise the property for short-term holiday rental. Josh and Maria instruct the agent that they must personally approve tenants before they are permitted to stay. Prospective tenants must provide references and have no children or pets.

At no time during the year do Josh and Maria agree to rent out the property even though they receive a number of inquiries. The conditions placed on the renting of the property and Josh and Maria's refusal to rent it to prospective tenants indicate their intention isn't to earn rental income from the property, but to reserve it for their own use. Josh and Maria can't claim any deductions for the property.

Josh and Maria need to keep records of their expenses. If they make a capital gain when they sell the property, their property expenses (such as property insurance, interest on the funds borrowed to purchase the property, repair costs, maintenance costs and council rates) are taken into account in working out their capital gain.

Example – private use by owners during key periods with little or no demand for property at other times

Daniel and Kate have 2 school-aged children and own a holiday house near the beach. The house is located in an area that is popular with summer holiday-makers but is only accessible by 4-wheel drive vehicles.

During the year, Daniel and Kate advertise the property for rent through a local real estate agent. However, Daniel and Kate advise the agent that during each school holiday period, the property isn't to be rented out. They want to reserve the property for their own use.

While there is demand for the property during the summer holiday period, there is no demand outside this period because of the small number of holiday-makers, the location and the limited access to the property. The house isn't rented out at all during the income year.

In Daniel and Kate’s circumstances, they can't claim any deductions for the property. They don't have a genuine intention to earn rental income from the property. It is essentially for private use.

If in the circumstances Daniel and Kate happen to rent out the property for a period, they can claim a deduction for a proportion of their expenses based on the period the property is actually rented out. For example, if the house is rented out for 2 weeks, they can claim a deduction for their expenses for 2 weeks out of the 52 weeks in the year.

Daniel and Kate need to keep records of their expenses. If they make a capital gain when they sell the property, the proportion of expenses (interest, insurance, maintenance costs and council rates) they could not claim as a rental deduction because it relates to their own occupation of the property, are taken into account in working out their capital gain.

Holiday home – part year rental

If you rent out your holiday home and also use it for private purposes, you must apportion your expenses. You can't claim deductions for the proportion of expenses that relate to your private use or if it was not genuinely available for rent, such as when used or reserved for yourself, friends or family.

If your holiday home is rented out to family, relatives or friends below market rates, your deductions for that period are limited to the amount of rent received.

Example – investment property made genuinely available for rent, with minor private use

Gail and Craig purchase a holiday home in 2020 which they rent out at the market rate to holiday makers. They have a property manager at a local real estate agent advertise it for rent during the year and communicate regularly to ensure the property is being managed. Gail and Craig consider renting out the property on a long-term lease; however determine they can derive more profit from short-term rental.

The property is available for rent during all holiday periods, including weekends, school holidays, Easter and Christmas. Gail and Craig use the property themselves for 4 weeks during the year, in 'off-peak' periods when they are unlikely to find tenants.

During the year, Gail and Craig’s expenses for the property are $34,800. This includes interest on the funds borrowed to purchase the holiday home, property insurance, the agent's commission, maintenance costs, council rates, the decline in value of depreciating assets and deductions for capital works.

Gail and Craig receive $25,650 from renting out the property during the year. They can claim deductions for their expenses based on the proportion of the income year the property is rented out or is genuinely available for rent. They can't claim any deductions for the 4 weeks they use the property themselves.

Gail and Craig’s rental income and deductions for the year are as follows:

- rent received = $25,650
- rental expenses ((48 ÷ 52) × $34,800) = $32,123
- rental loss is $32,123 − $25,650 = $6,473.

As they are joint owners, Gail and Craig claim a rental loss of $3,237 each in their tax returns.

Gail and Craig need to keep records of their expenses. If they make a capital gain when they sell the property, the expenses (interest, insurance, maintenance costs and council rates) they couldn't claim as a rental deduction relating to their own occupation of the property are taken into account in working out their capital gain.

Example – rented out for part of the year at market rates

Akshay and Jesminda have a holiday home. They rent it out between 20 December and 17 January because they can make a significant amount of money. This helps offset the costs of owning the property for the year. They reserve the property for their own use for the rest of the peak holiday period, and a number of other weekends during the year.

Akshay and Jesminda receive $3,000 a week from renting the property out during the 4 weeks over the Christmas–New Year period. The property is not rented out any other time during the year.

Akshay and Jesminda's expenses for the holiday home for the year are $31,200. This includes interest on the funds borrowed to purchase the property, property insurance, the agent's commission, repair costs, maintenance costs and council rates.

Akshay and Jesminda can only claim deductions for the proportion of the year they rent out the property (4 weeks). They declare net rental income in their tax returns as follows:

- rent received = $12,000
- rental deductions (4 ÷ 52 weeks) × $31,200 = $2,400
- net rental income $12,000 − $2,400 = $9,600.

As they are joint owners, Akshay and Jesminda declare net rental income of $4,800 each in their tax returns.

Akshay and Jesminda need to keep records of their expenses. If they make a capital gain when they sell the property, the expenses (interest, insurance, maintenance costs and council rates) they can't claim as a rental deduction relating to their own occupation of the property are taken into account in working out their capital gain.

Example – rented out for part of the year at market rates

Marie purchases a property in a seaside holiday town so that her family can holiday there over the December to January school holidays and Easter period each year. For the remainder of the year, Marie rents the property out via an accommodation sharing platform so that she can claim some of the costs of holding the property against the rental income.

On the platform, Marie 'blocks out' the school holiday and Easter periods for her family's use. The town's busiest times for tourists are during the school holidays; particularly the December / January period when the weather is warmest.

Marie uses the property personally for 20 days per year over December to January holiday period and a total of another 20 days during school holidays and Easter. Marie rents out the property to other holiday-makers for 25 days per year at times outside school holidays and Easter.

Marie receives $3,000 from renting her property and incurs expenses of $60,000 in relation to the property.

Marie can't claim any deductions for:

- the time she uses the property herself
- the period the property is not in use.

Marie can claim deductions for the period the property is actually rented (25 days). Marie would calculate her deductions as:

- rent received = $3,000
- rental expenses (25 ÷ 365) × $60,000 = 4,109
- net rental loss = $3,000 − $4,109 = $1,109.

Marie can claim a net rental loss of $1,109 in her tax return.

Example – private use by owner and rented to relatives/friends at a discounted rate

Kelly and Dean purchase a holiday home in 2020. During holiday periods, the market rent is $840 a week. They have a real estate agent advertise it for rent during the year and communicate regularly to ensure the property is being managed.

Kelly and Dean arrange with the agent for their friend Kimarny to stay at the property for 3 weeks at a nominal rent of $200 a week. They also use the property themselves for 4 weeks during the year.

During the year, Kelly and Dean's expenses for the property are $30,000. This includes interest on the funds borrowed to purchase the holiday home, property insurance, the agent's commission, maintenance costs, council rates, the decline in value of depreciating assets and deductions for capital works.

Kelly and Dean receive $600 from renting out the property to Kimarny during the year. They can't claim any deductions for the 4 weeks they use the property themselves or the period that the property is not rented out.

Kelly and Dean can claim deductions for their expenses based on the period of the income year it is rented out to Kimarny. Because the rent they receive from Kimarny is less than market rate and their expenses are more than the rent received during that period, they can't claim all of the expenses.

Kelly and Dean can only claim deductions equal to the amount of the rent during this period – that is, $600.

Example – rented to relatives/friends at a discounted rate where expenses are less than the rent received for the period

Shahani and Marvin buy a holiday home in 2020. They advertise it for rent at a market rate of up to $1,040 a week. They have a real estate agent advertise it for rent during the year and communicate regularly to ensure the property is being managed.

Shahani and Marvin arrange with the agent for their friends, Katrina and Greg, to stay at the property for one week at a nominal rent of $600, and for a cousin, Gerard, to stay for another week for $600. They also use the property themselves for 4 weeks during the year.

During the year, Shahani and Marvin's expenses for the property are $30,940. This includes interest on the funds borrowed to purchase the holiday home, property insurance, the agent's commission, maintenance costs, council rates, the decline in value of depreciating assets and capital works deductions.

Shahani and Marvin receive $46,960 from renting out the property during the year. This includes the $1,200 they receive from Katrina, Greg and Gerard.

Shahani and Marvin can't claim a deduction for the 4 weeks they use the property themselves.

Shahani and Marvin can claim a deduction for their expenses based on the proportion of the income year the property is rented out or is genuinely available for rent at market rates:

- (46 ÷ 52 weeks) × $30,940 = $27,370.

Shahani and Marvin's deductions for the 2 weeks Katrina, Greg and Gerard rented their property are not affected because the rent received ($1,200) is more than their expenses for that period of $1,190 (2 ÷ 52 × $30,940).

Shahani and Marvin's rental income and deductions for the year are as follows:

- rent received = $46,960
- rental expenses $27,370 + $1,190 = $28,560
- net rental income $46,960 − $28,560 = $18,400.

As they are joint owners, Shahani and Marvin declare net rental income of $9,200 each in their tax returns.

Shahani and Marvin need to keep records of their expenses. If they make a capital gain when they sell the property, the expenses (interest, insurance, maintenance costs and council rates) they can't claim as a rental deduction relating to their own occupation of the property are taken into account in working out their capital gain.

For more information about renting out all of part of your house, see [Renting out part or all of your home]() and [The sharing economy and tax]().

Holiday apartments in commercial residential properties

- https://www.ato.gov.au/Individuals/Investments-and-assets/Holiday-homes/Holiday-apartments-in-commercial-residential-properties/
- Last modified: 01 Jul 2022
- QC 23638

If you have an apartment that is part of commercial residential premises, it's treated like other residential rental properties. You're not liable for GST on related income and can't claim GST credits for related purchases.

While commercial residential premises are generally subject to GST, an individual apartment doesn't, by itself, have the characteristics of commercial residential premises.

On this page

Leasing

If you lease your apartment to either a guest or a management company (to use as part of commercial residential premises), you make an input taxed supply of residential premises. This means you:

- are not liable for GST on the income
- can't claim GST credits for anything you purchase or import to lease the premises.

As with any rental property, you must declare the income you receive in your income tax return, and you can claim tax deductions for many of the associated expenses.

Example: Leasing out your apartment to a management company

Aiko owns a strata-titled apartment. When she leases her apartment to Mink Management Services (MMS) the supply is input taxed.

MMS will group Aiko's apartment with other apartments in a complex and let them out as serviced apartments.

Even though Aiko's apartment is located within commercial residential premises, her apartment doesn't, by itself, have the characteristics of commercial residential premises – it is residential.

This means Aiko:

- isn't liable for GST on the income
- can't claim GST credits for anything she purchases or imports to lease the premises.

Selling

If you sell your apartment it's considered residential premises and is input taxed, regardless of whether it's located within commercial residential premises. This means you:

- are not liable for GST on the income
- can't claim GST credits for anything you purchase or import to make the sale.

If you make a capital gain when you sell your apartment, you may need to pay capital gains tax, just as you would when selling any rental property.

Vacant land and subdividing

- https://www.ato.gov.au/Individuals/Investments-and-assets/Land---vacant-land-and-subdividing/
- Last modified: 01 Jul 2022
- QC 45084

The tax treatment of land and the proceeds from selling it generally depends on whether it's considered either:

- a capital asset
- the subject of a business or commercial transaction (such as where it's considered the trading stock of a business dealing in land).

Vacant land is usually considered a capital asset subject to capital gains tax (CGT).

You may also need to consider you obligations for GST at settlement where transactions are undertaken as part of a business activity.

Certain purchasers of potential residential land are now required to withhold an amount from the price of that land for payment to us.

Deductions for vacant land
Work out if you can claim a deduction for the costs incurred in holding vacant land on or after 1 July 2019.

Vacant land - prior years
Work out if you can claim tax deductions for costs incurred in holding the land before 1 July 2019.

Subdividing land
Find out if there are tax implications if you subdivide land.

Deductions for vacant land

- https://www.ato.gov.au/Individuals/Investments-and-assets/Land---vacant-land-and-subdividing/Deductions-for-vacant-land/
- Last modified: 01 Jul 2022
- QC 60628

There have been changes to legislation to limit deductions that can be claimed for holding vacant land. These changes apply to costs incurred to hold vacant land on or after 1 July 2019, even for land held before that date.

If due to COVID-19 restrictions the business use of your premises or land (including primary production) has been is suspended, your deductions for holding costs will not be limited if either the land or premises remain available for use during this period.

For information for lodgment and deductions prior to 1 July 2019, see Vacant land prior years.

On this page

Entities not affected by this change

Some entities and taxpayers with particular circumstances will still be able to claim deductions for costs incurred in holding vacant land. For example, where the entity holding the land is a company, the land is used in carrying on a business, or where exceptional circumstances apply.

You can continue to claim deductions for expenses incurred for holding vacant land if you are a:

- corporate tax entity
- superannuation plan (other than self-managed superannuation funds)
- managed investment trust
- public unit trust
- unit trust or partnership where all the members are entities on this list.

What is vacant land?

Land will be considered vacant during the period the entity held the land if:

- it did not contain a substantial and permanent structure
- it contains a substantial and permanent structure and the structure is a residential premises which was constructed or substantially renovated while the entity held the land and the premises are either
  - not yet lawfully able to be occupied
  - lawfully able to be occupied but not yet rented or made available for rent.

Example: Vacant land no substantial and permanent structure

Jess purchased a block of land in Brisbane in July 2018 and intends to build a rental property on it. Jess engaged an architect to develop plans and erected some temporary fencing to stop illegal dumping. As the land doesn't yet contain a substantial and permanent structure Jess can't claim deductions for the costs of holding the land.

Substantial and permanent structures

A substantial and permanent structure is a building or other structure constructed on the land that is:

- significant in size or value
- not incidental to the purpose of another structure or proposed structure on the land
- not related to, reliant on, or exist to support the use or function of another structure
- fixed and enduring (not built for a temporary purpose).

Structures that are substantial and permanent include:

- a commercial parking garage complex
- a woolshed for shearing and baling wool
- a grain silo
- a homestead on a farming property.

A structure is not substantial and permanent if it only has value as an addition to another structure.

Structures that are not substantial and permanent include:

- a residential garage or shed
- a letterbox
- pipes and powerlines
- residential landscaping.

Example: Residential premises with no permanent structure

Chelsy owns a residential block of land on which she intends to build a rental property. Although the block of land is fenced and has a retaining wall, it doesn't yet contain any substantial and permanent structures. This means the block is vacant land and Chelsy can't deduct any holding costs she may incur in relation to the land.

As the property is residential, property deductions will be limited until such time as the property contains residential premises that are both:

- lawfully able to be occupied
- rented or available for rent.

Substantial renovations

Substantial renovations of a building are renovations in which all or substantially all, of a building is removed or is replaced. The renovations may, but do not have to, include the removal or replacement of foundations, external walls, interior supporting walls, floors, roof or staircases.

The term 'substantial renovations' is defined in section 195-1 of the GST Act.

Example: Substantial renovations

Mary-Anne, a builder, acquires a dilapidated bungalow that has three bedrooms and one bathroom. Mary-Anne intends to renovate and rent the bungalow.

Mary-Anne adds an upstairs extension which creates a new bedroom and a bathroom. As part of the extension, she replaces the roof of the bungalow and all ceilings on the lower level. The renovations to the lower level include rewiring, repairing cracked walls by removing and replacing all the gyprock and cement rendering the exposed bricks in the combined family room and kitchen. The installation of stairs necessitated the removal of two walls and replacement of the floor in two of the ground floor rooms. Mary-Anne also does some cosmetic work by repainting, polishing floorboards, and replacing all the fittings in the kitchen and bathroom.

The work undertaken by Mary-Anne constitutes substantial renovations. All of the rooms in the house are affected by the work and several of the rooms have undergone structural renovation work. A substantial part of the bungalow is removed and replaced in undertaking the renovation work. The cosmetic work has not been taken into account when deciding whether substantial renovations have occurred.

Mary-Anne must disregard the bungalow in determining whether there is a substantial and permanent structure on her land, as the bungalow is being substantially renovated. Mary-Anne's land is considered vacant and she can't claim deductions for holding cost expenses incurred during the substantial renovations and until the renovated bungalow is rented or available for rent and lawfully able to be occupied.

For more information, see:

- GSTR 2003/3 Goods and services tax – *When is a sale of real property a sale of new residential premises?* (paragraphs 53 – 83)
- A New Tax System (Goods and Services Tax) Act 1999 – section 195-1

Farmland not vacant land

In most circumstances, farmland won't be considered vacant land as it contains a variety of substantial and permanent structures.

Example: Farmland not vacant – substantial structure

The AB family trust holds a single title parcel of farmland on which two family members grow grain. The land contains a number of silos used to store the grain. Expenses related to holding the land such as interest costs and council rates are not affected by this measure because the land is not vacant as there is a substantial permanent structure on that land (the silos).

Example: Farmland not vacant – family homestead

John and Mary have a large parcel of farmland. The land contains a homestead that has been on the land for more than a century and is the family home. John and Mary are not affected by this change as the land is not vacant; the land contains a substantial structure (the homestead).

John and Mary's ability to claim deductions for their holding cost expenses will depend on whether any of the land is also being used to generate assessable income.

Costs of holding vacant land

The costs involved in holding vacant land include:

- ongoing borrowing costs, including interest payments on money borrowed for the acquisition of land
- land taxes
- council rates
- maintenance costs.

Claiming deductions for vacant land

For expenses of holding land to be deductible, they must have been incurred in carrying on a business such as farming or gaining or producing assessable income. These changes operate to limit the deductions that would otherwise be deductible where the land is vacant.

Use the determination questions to help you determine if your deductions for expenses related to your vacant land are limited.

To claim deductions for vacant land the land must also meet one of the following:

- be held by a type of entity not affected by the change
- be used in a business
- be held by a primary producer and leased by other entities.

Land containing substantial and permanent buildings or other structures

Land containing a substantial and permanent structure will not be considered vacant land.

However, if the substantial and permanent structure is residential premises constructed or substantially renovated while you held the land the premises must also be lawfully able to be occupied and either:

- leased, hired or licensed
- available for lease, hire or license or
- where an exceptional circumstances exemption applies.

Example: Rental property constructed on vacant land – apportionment of expenses

In January 2019, Kylie purchased a block of land in Yass to build a property for rent. In October as construction nears completion Kylie advertised for a tenant, and on 30 November 2019 she receives the certificate of occupancy.

Kylie can't claim deductions for expenses incurred in relation to holding costs of the land before 30 November 2019. Where the expenses are for a period that applies before and after the property is ready for use, the expense can be apportioned, and a deduction claimed for the period that the property is available for use.

For example, Kylie's council rates for the year ended 30 June 2020 are $2,000. Kylie apportions the council rates according to when the property became available for use.

> Holding expense × portion of year property was available = deductible amount

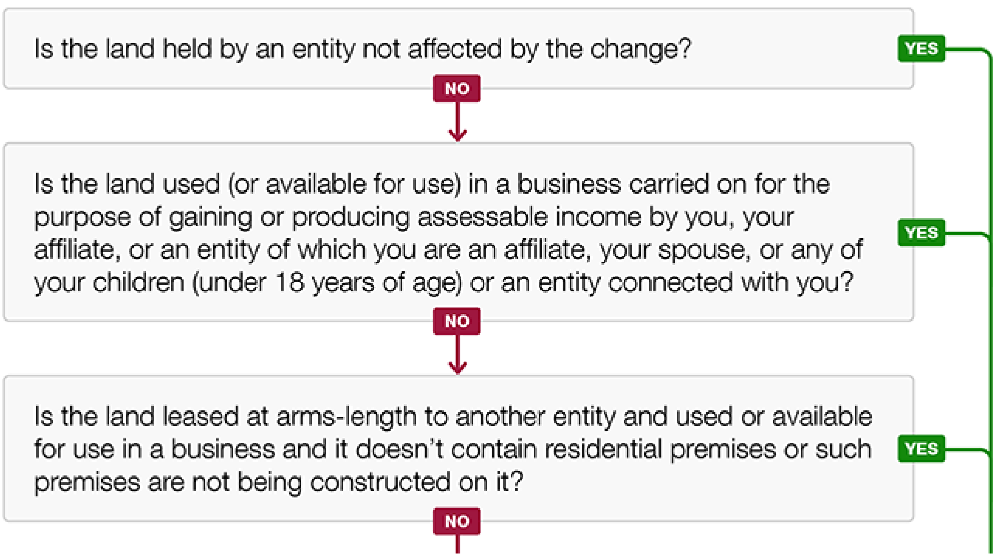
Kylie can claim a deduction against her rental income of:

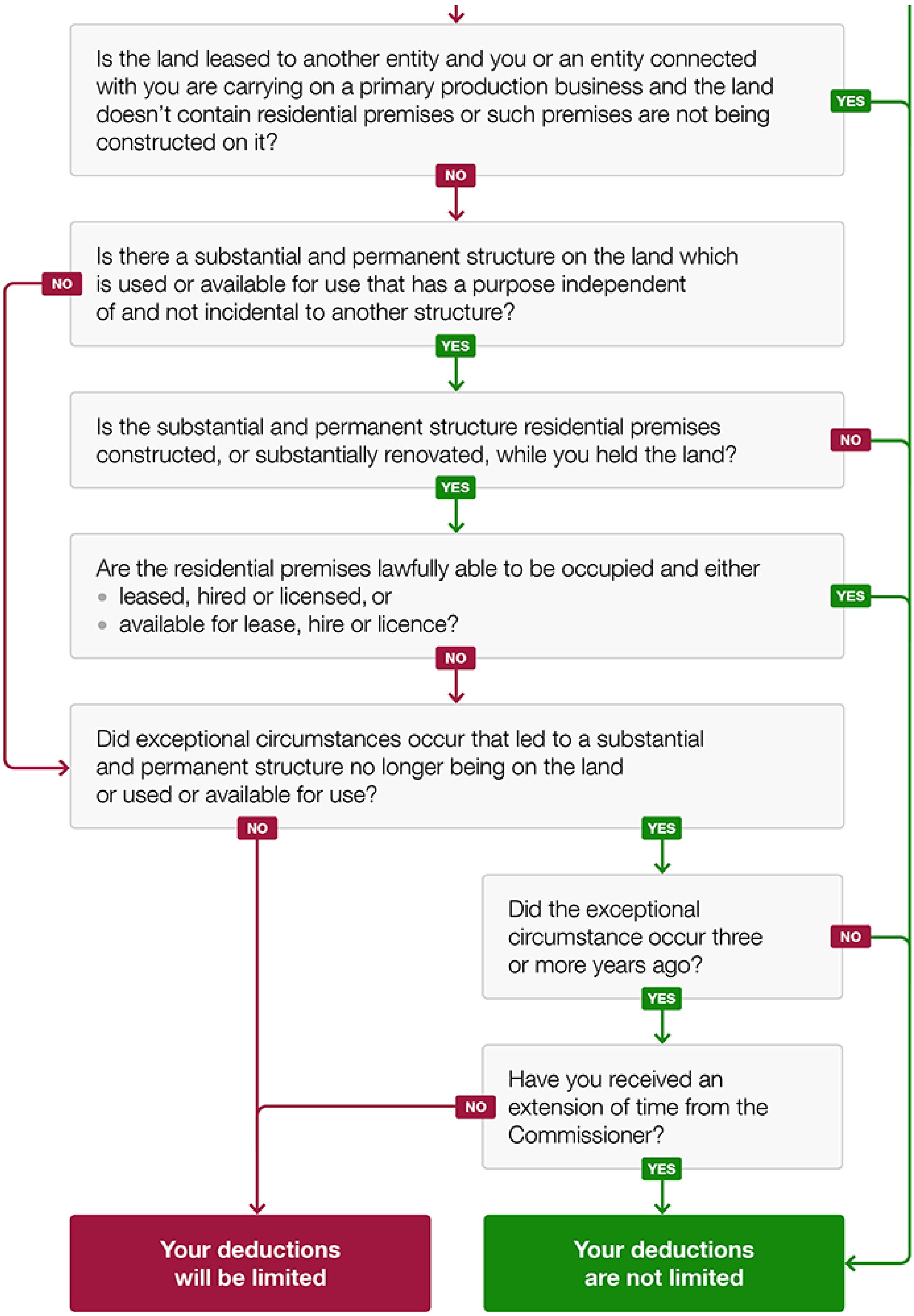
> $2000 × (214 ÷ 366) = $1169

Kylie would also be able to claim a deduction for expenses incurred for advertising for a tenant as this is not considered a cost of holding vacant land.

Determine if deductions for vacant land are limited

You can use the either the flow chart or the questions below to determine if your deductions for expenses related to your vacant land are limited.





1. Is the land held by an entity not affected by the change?
   Yes – your deductions are not limited
   No – continue to question 2
2. Is the land used (or available for use) in a business carried on for the purpose of gaining or producing assessable income by you, your affiliate, or an entity of which you are an affiliate, your spouse, or any of your children (under 18 years of age) or an entity connected with you?
   Yes – your deductions are not limited

No – continue to question 3
3. Is the land leased at arms-length to another entity and used or available for use in a business and it doesn't contain residential premises or such premises are not being constructed on it?
   Yes – your deductions are not limited
   No – continue to question 4
4. Is the land leased to another entity and you or an entity connected with you are carrying on a primary production business and the land doesn't contain residential premises or such premises are not being constructed on it?
   Yes – your deductions are not limited
   No – continue to question 5
5. Is there a substantial and permanent structure on the land which is used or available for use and has a purpose independent of, and not incidental to another structure?
   Yes – continue to question 6
   No – continue to question 8
6. Is the substantial and permanent structure residential premises constructed, or substantially renovated, while you held the land?
   Yes – continue to question 7
   No – your deductions are not limited
7. Are the residential premises lawfully able to be occupied; and either
   1. leased, hired or licensed; or
   2. available for lease, hire or licence?
      Yes – your deductions are not limited
      No – continue to question 8

8. Did exceptional circumstances occur that led to a substantial and permanent structure no longer being on the land or used or available for use?
   Yes – continue to question 9
   No – your deductions will be limited
9. Did the exceptional circumstance occur three or more years ago?
   Yes – continue to question 10
   No – your deductions are not limited
10. Have you received an extension of time from the Commissioner?
    Yes – your deductions are not limited
    No – your deductions will be limited.

Land used in business

If the vacant land is used in business, deductions for holding costs for the land are not affected by these changes if either:

- the land is used or available for use in carrying on a business to produce assessable income of:
  - you
  - your affiliates or an entity of which you are an affiliate
  - your spouse or child (under 18)
  - an entity connected with you

- the land is leased at arm's length to another entity and
  - the land is used or available for use in their business and
  - the land does not contain residential premises and no such premises are being constructed on the land.

If only part of your vacant land is used in carrying on your business (for example, because the other part of the land is used to construct residential premises), you can only deduct the costs of holding the land that is being used or made available for use in the business. You can't deduct the holding costs for that part of the land relating to the construction of residential premises. The deductions should be apportioned on a fair and reasonable basis.

Example: Land used in business – residential rental property being constructed

Howard owns one hectare of land in Queensland. He uses one third of the land for carrying on his firewood sales business. He stores all his firewood in the open and there are no structures on the land. Howard has separately fenced off the remainder of the land and has started earthworks to clear the land ready for construction of a rental property.

Howard is eligible to claim losses and outgoings relating to holding the part of the land that he uses for carrying on his firewood business.

Howard is not entitled to claim any deductions relating to the costs of holding the land ready for construction of a rental property. This is because that land is to be used for residential premises which have not yet been constructed.

Land held by primary producers

Deductions for land used by you in a business of primary production are not affected by these changes.

In addition, if you hold vacant land that is leased, hired or licensed to another entity, deductions can continue to be claimed where:

- a primary production business is carried on by:
  - you
  - your affiliates or an entity of which you are an affiliate
  - your spouse or child (under 18)
  - an entity connected with you
- residential premises are not on the land or being constructed on the land.

If residential premises are being constructed on vacant land being used to carry on a primary production business, you can only claim a deduction for the costs of holding the land that is being used for primary production and not for that part of the land relating to the construction of residential premises. The deductions should be apportioned on a fair and reasonable basis.

You need to consider various indicators before you decide if you are in a business of primary production. For a comprehensive explanation of the relevant indicators together with examples of the application of the indicators, see – Taxation Ruling TR 97/11 *Income tax: am I carrying on a business of primary production?*

Example: Primary production exception

Gina owns vacant land in New South Wales which she rents to her spouse Robin for use in his primary production business. Robin, as Gina's spouse, satisfies the related parties condition (spouses, children under 18 years old, affiliates and connected entities) that allows Gina to deduct her costs of holding the land. This is because Robin is carrying on a primary production business on the land to gain or produce assessable income.

Example: Farming land in a trust

Allan used to run a farming business on land held in the Allan Family Trust. To supplement Allan's retirement income, the Allan Family Trust rents a now vacant block of land (no structures or fencing) to a connected entity run by Allan's brother so it can be used in the connected entity's cropping business.

The Allan Family Trust will be able to claim holding costs for the land even though it is completely vacant because it is being used in carrying on the cropping business of the connected entity.

Example: Fencing on farmland a substantial and permanent structure

Paul is a sheep farmer. He has a block of land that he uses for grazing. The land does not contain any sheds or silos however, it is fully fenced and gated.

Paul can claim deductions for the holding costs of the land because the land is being used as farmland and in the context of the land fencing is considered a substantial and permanent structure with an independent purpose as it enables the land to be used for sheep grazing.

Exceptional circumstances exemption

Deductions for holding costs of vacant land can still be claimed if the exceptional circumstances exemption applies.

The exemption may apply where an exceptional circumstance outside your control occurs that results in the substantial and permanent structure no longer being on your land or the structure being disregarded.

Exceptional circumstances include:

- a natural disaster
- a major building fire
- substantial building defects (where the structure can no longer be lawfully occupied).

For the exemption to apply there must have been a substantial and permanent structure on the land prior to the time that the exceptional circumstance occurred.

If the substantial and permanent structure was residential premises, then the residence must have been lawfully able to be occupied and have been either rented or available for rent prior to the exceptional circumstance.

The exceptional circumstances exemption can apply even if the event that rendered the land vacant occurred before 1 July 2019 and the land is still vacant.

If before 1 July 2019 you were claiming deductions for vacant land, you will need to determine whether these changes now limit your deductions. If your land remains vacant (for example, because of delays in constructing a rental property due to financial hardship) you may not be able to claim deductions after 1 July 2019.

Three-year exceptional circumstances limit

There is a limit of three years from the date of the exceptional circumstance to continue to claim deductions using this exception.

Requesting an extension of time to the three year limit

You can apply to the Commissioner for an extension to the three year limit where the failure to rebuild is for reasons beyond your control.

A range of factors will be taken into account when considering an extension, including the length of time the land has been vacant and the steps taken to rebuild. Some of examples of delays beyond your control include:

- delays in council or local government approval
- your builder has ceased trading or gone into liquidation

- legal disputes.

We may refuse a request for an extension where either:

- you have not made a genuine attempt to rebuild
- the land is for sale.

To request an extension to the three-year limit you will need to apply for a private binding ruling clearly stating:

- the exceptional circumstance that resulted in the land becoming vacant
- when the exceptional circumstance occurred (for example, when the premises were destroyed)
- the steps taken to rebuild
- why the exceptional circumstances exception should be extended for a period beyond three years.

Record keeping for exceptional circumstances

If you are applying the exceptional circumstances exemption you must keep written records of the exceptional circumstance and its effect on the structure for five years after the end of the income year in which the cost was incurred.

Example: Exceptional circumstances major building fire

Isaac had a rental property in Sydney that he had been renting out since 2010. In March 2019 a fire gutted the house and the entire structure was destroyed. As a major building fire is considered an exceptional circumstance, Isaac can continue claiming deductions for holding the land, including his interest costs even though there is no substantial and permanent structure on the land.

Isaac will be able continue to claim deductions using the exemption until the property becomes available for rent, or for three years from the time the building was destroyed.

If the property is still unavailable for rent after three years he can apply to the Commissioner of Taxation for an extension. Isaac must provide the Commissioner with the reasons why his premises are not rented or available for rent, and the steps he has taken to rectify the problem.

If the Commissioner grants the extension, Isaac will be able to continue to claim deductions for his holding costs.

Isaac should keep records about why his property is unavailable for rent to substantiate his claim.

Substantial building defects

If you rented out or had an apartment available for rent in a multi-unit development that was found to have significant building faults and deemed uninhabitable you are not likely to be affected by the changes as there is still a substantial structure on the land or the exceptional circumstances exemption could apply.

Capital gains tax (CGT)

Under the existing CGT law holding costs that are not deductible may be included in the cost base of the asset to reduce the amount of the capital gain that arises when a CGT event occurs.

The types of expenses that may be included in the cost base are those that are ordinarily included in the asset's cost base, such as:

- interest expenses
- rates
- stamp duty or other similar duty.

Vacant land before 1 July 2019

- https://www.ato.gov.au/Individuals/Investments-and-assets/Land---vacant-land-and-subdividing/Vacant-land-before-1-July-2019/
- Last modified: 01 Jul 2022
- QC 23639

If you've acquired vacant land (either for private purposes or as an investment), it's usually considered a capital asset subject to capital gains tax (CGT) when you sell the land.

If you purchase land for use in a business or profit-making activity that deals in land, we treat any sale proceeds as ordinary income. You may need to register for goods and services tax (GST).

If you buy vacant land with the intent to build a rental property on it, you may be able to claim tax deductions for expenses incurred in holding the land before 1 July 2019.

Law changes limit deductions for vacant land's holding costs incurred from 1 July 2019, irrespective of when the land was acquired – that is, it doesn't matter whether the vacant land was held before, on or after 1 July 2019.

On this page

- GST treatment of land in property transactions

Land as a capital asset

Vacant land held as a capital asset is subject to the same CGT rules as other properties.

You should keep the following records:

- date and cost of obtaining the land
- your holding costs such as
  - council rates
  - loan interest.

You can't claim these expenses as an income tax deduction because the land does not generate income. You can add the cost of obtaining the land to the cost base of the land when calculating your capital gain or capital loss when you sell it. The holding costs may be added to the cost base of the land when calculating your capital gain when you sell it.

Intention to build rental property before 1 July 2019

If you bought vacant land before 1 July 2019 with the intention of building a rental property on it, you may be able to claim tax deductions for holding costs (of the vacant land) that incurred before 1 July 2019. Some of these holding costs are:

- loan interest
- council rates
- land tax.

To be entitled to these deductions before 1 July 2019, you must demonstrate that you took active and genuine steps to build the dwelling and make it available for rent as soon as it was going to be completed. We expect that you made continuing efforts within normal timeframes relevant to the industry.

We accept there are times where delays may have occurred. Where these delays were beyond your control, you may still be entitled to claim tax deductions for holding costs that incurred before 1 July 2019. However, if your intention to build a rental property changed, you should have immediately stopped claiming deductions for holding costs of your vacant land.

Ensure you keep records of your expenses, as you may add the holding costs which are not deductible to the cost base of your land for CGT purposes. This means you can potentially reduce any capital gain made when you dispose of the land in the future. The holding costs for land acquired before 21 August 1991 should not be added to the cost base.

The holding costs cannot create, or increase, a capital loss on sale of your land.

In this section

- Taking active and genuine steps
- Delays beyond your control
- Unacceptable delays

Taking active and genuine steps

Examples of taking active and genuine steps may include:

- seeking finance for the development from a financial institution or disposing of other investments to fund the development
- engaging with builders to understand the construction process and obtain building cost estimates
- engaging with architects to design a suitable house plan
- researching council development plans or possible covenants over the property
- meeting with local real estate agents to determine expected rental returns.

This is relevant only for the period before 1 July 2019.

Delays beyond your control

Examples of delays beyond your control may include:

- disputes in the approval process with local council or neighbours
- your builder going into liquidation
- the property has been affected by a natural disaster.

This is relevant only for the period before 1 July 2019.

Example: Delays beyond your control

In July 2017, Tony purchases a block of land with the intention to build a residential rental property. He immediately begins engaging with various builders and visiting display homes to obtain a suitable house plan and estimates of building costs. During this time, Tony also meets with his mortgage broker to acquire a loan to finance construction of the dwelling.

Upon finalising the house plans, Tony submits them to the local council for approval. However, after a few months, the council rejects Tony's plans as they don't meet certain regulations. This dispute takes a number of months to resolve before Tony is able to re-submit plans. Construction of the dwelling commences following council approval and the house is rented out once it is completed before 1 July 2019.

As Tony has demonstrated that he made continuing efforts within normal industry timeframes to derive rental income, he can deduct his holding costs of the vacant land such as interest on loan for purchasing land and council rates. The delays in the development were beyond his control.

However, if the land had remained vacant on 1 July 2019, Tony cannot claim deductions for the holding costs incurred from 1 July 2019.

Unacceptable delays

Examples of unacceptable delays may include:

- inability to build your desired house due to lack of affordability
- holding onto the land, due to a downturn in the real estate market, or to generate capital growth – even if you may consider developing the land in the future.

If a venture becomes dormant and the holding of the land is passive, you will not be able to claim deductions even if there is an intention to revive that venture at some point in the future. These expenses may be included in your cost base.

This is relevant only for the period before 1 July 2019.

Example: Unacceptable delays

In January 2016, Emily seeks finance from her bank to purchase a block of vacant land. She doesn’t discuss any proposed plans to build a dwelling with her broker and it is not factored into the loan application. Emily undertakes some initial enquiries with various builders and visits some display homes during this time. However, she doesn’t sign any contracts to construct a dwelling. Over the subsequent years, Emily’s employment changes which means that she is unable to commit further to the development.

Emily is seeing that land values are rising in the area and developers are buying blocks close by for development. Although it is now no longer financially viable for Emily to build the rental property, she decides that she can still afford to keep making the interest payments on the loan for her vacant land until she gets an offer to sell her land to a property developer. Emily never took active and genuine steps to construct the rental property, thus, she cannot claim interest deductions for her vacant land's loan repayments.

As Emily can’t demonstrate that she undertook active steps to develop the property, she will not be allowed to claim any deductions for the holding costs of the vacant land at any time.

If Emily then undertakes active and genuine steps to build a rental property, she may be able to claim deductions for the holding costs of the land but only from the time she progresses on her intention and only if this happened before 1 July 2019. Emily can't claim deductions for holding costs of the vacant land from 1 July 2019.

Where Emily claimed a deduction for holding costs, she will not be able to include those expenses in her cost base.

Related pages

- [Taxation Ruling TR 2004/4] *Income tax: deductions for interest incurred prior to the commencement of, or following the cessation of, relevant income earning activities*
- [Working out your capital gain or loss]

Land as trading stock

If you sell land that was trading stock, the sales proceeds are assessable income. Land may be treated as trading stock for income tax purposes if you:

- carry on a business activity that involves dealing in land
- hold the land for the purpose of resale.

Business activities that involve dealing in land include acquiring land:

- to develop, or subdivide, and sell
- for the purpose of building a dwelling or commercial property and selling the developed property.

Even a one-off transaction undertaken in a business-like or commercial manner can result in land being treated as trading stock. For example, you purchase a block of land to develop, or subdivide, and then sell. In this case, the land would be treated as a revenue asset rather than a capital asset.

We consider that the business activity begins when you start a definite and continuous cycle of operations designed to lead to the sale of the land.

For vacant land that is trading stock, the proceeds from the land are treated as ordinary income (not a capital gain) and associated costs are deductible.

Land converting from capital asset to trading stock

If you own land as a capital asset, but start to hold it as trading stock, there may be CGT implications. Under the trading stock rules, you can choose to start holding the trading stock at either its original cost or its market value. If you choose market value, CGT event K4 will happen. This means that you may make a capital gain or loss.

For more information on trading stock for your business, see [Accounting for business trading stock].

Related pages

- [Taxation Ruling TR 97/11] *Income tax: am I carrying on a business of primary production?*
- [Types of CGT events]

GST treatment of land in property transactions

If you're dealing with property, including one-off transactions, we may consider you to be carrying on a business or a commercial venture and you need to register for GST.

Once registered, you need to include the GST in the price of the goods you sell, including:

- vacant land
- commercial and commercial residential premises
- new residential premises.

You'll be able to claim credits for the GST included in the price of most of your business purchases, subject to normal GST rules. You'll also need to report these transactions by completing a business activity statement.

If you buy vacant land with the intent to build a residential rental property on it, you are not liable for GST on the rent you charge. You'll also not be able to claim credits for the GST included in anything you purchase.

For more information on property and GST, see:

- GST and property
- GST at settlement
- Property development, building and renovating.

Subdividing land

- https://www.ato.gov.au/Individuals/Investments-and-assets/Land---vacant-land-and-subdividing/Subdividing-land/
- Last modified: 01 Jul 2022
- QC 23640

If you subdivide a block of land, each resulting block is registered with a separate title. For capital gains tax (CGT) purposes, the original land parcel is divided into two or more separate assets.

The profit from selling subdivided land may be a capital gain or ordinary income, depending on the circumstances.

On this page

- [GST treatment of subdividing]

Conditions on subdivided land

If you subdivide a block of land and sell the new block, any profit is generally treated as a capital gain subject to CGT.

However, any profit you make is treated as ordinary income (not a capital gain) if both of the following apply:

- your intention or purpose in subdividing was to make a profit
- the profit was made in the course of carrying on a business, a business operation or commercial transaction.

This is true even if you aren't in business (for example, if it's a one-off transaction by an individual).

For more information, see TR 92/3*: Income tax: whether profits on isolated transactions are income*

Capital gains tax on subdivided land

When you subdivide a block of land for CGT purposes:

- the original land parcel is divided into two or more separate assets
- you make a capital gain or capital loss only when you sell the subdivided blocks.

To work out your capital gain or capital loss, the date you acquired the subdivided blocks is the date you acquired the original parcel of land. The cost base of the original land is divided between the subdivided blocks on a reasonable basis.

When your home is affected

If you sell any land separately from your home, it is subject to CGT. Only land sold with the home that is your main residence can receive the main residence exemption.

Land is adjacent to your home if it is close to, near, adjoining or neighbouring it.

GST treatment of subdividing

You may have GST obligations and entitlements if you subdivide and sell land:

- with the intention of making a profit
- in the course of carrying on a business
- as a business or commercial transaction.

If you're unsure whether your subdivision falls into the above categories, write to us and request a private ruling to determine your tax position.

Even with a one-off transaction, you may still be required to register for GST because your transaction may have the characteristics of a business deal.

Once registered for GST, you will:

- need to include GST in the price of goods you sell, including land that you've subdivided
- be able to claim credits for the GST included in the price of most of your business purchases (subject to the normal GST rules)
- be able to report these transactions by completing an activity statement.

Investing in bank accounts and income bonds

- https://www.ato.gov.au/Individuals/Investments-and-assets/Investing-in-bank-accounts-and-income-bonds/
- Last modified: 01 Jul 2022
- QC 22809

Interest from bank accounts and bonuses from income bonds are income for tax purposes, even if you are a foreign resident or the account is in a child's name.

On this page

Bank accounts

Interest from a bank or other financial institution is part of your assessable income for the year. Even if the funds earning the interest were not subject to tax, the interest is. For example, if you won some prize money and banked it, you wouldn't usually include the prize money on your tax return, but you would include the interest you earned on it.

You can also claim a tax deduction for expenses incurred in earning interest income or income from friendly society income bonds.

Banks and other investment bodies report to the ATO the interest they pay to account holders and investors. We match this information with the amounts people report in their tax returns to ensure that all income is being declared. If we find a discrepancy, we do adjust tax returns and penalties can apply.

Bank accounts held by foreign residents

Financial institutions automatically withhold tax from interest earned on accounts held by foreign residents.

If you've given the financial institution your overseas address, the tax will be withheld at the rate of 10%. Without your overseas address, tax is withheld at 47%.

You don't include this interest as income on your Australian tax return.

For more information about tax withheld from unfranked dividends and royalties you earn in Australia, see Interest, unfranked dividends and royalties.

Offshore bank accounts

Some tax authorities in other countries don't require you to report interest earned overseas, but we do. If you hold bank accounts in other countries, you must report any interest or other income earned from these accounts in your Australian income tax return. You may have to pay additional charges if you don't do this.

Example: Offshore bank account

Javed came to Australia as an overseas student. Having completed his degree, he became a permanent resident of Australia under the skilled migration program. He visits his relatives in India every year and has left his Indian bank account open for easy access to funds in India.

When preparing his first tax return as a permanent resident of Australia, Javed reads on our website that bank interest from offshore accounts is taxable in Australia. He discloses the interest that has accrued in his account in India over the year.

We receive information from the Indian Department of Revenue about interest payments as part of the Automatic Exchange of Information program. Javed’s name appears in the data. The interest amount reported is consistent across the two sources. Javed is complying with his tax obligations, so we take no follow-up action.

Income bonds

Bonuses from income bonds are part of your assessable income for the year.

Income bonds are a type of life insurance policy that only friendly societies issue. They are sometimes marketed as 'bonus bonds' or 'savings bonds'. Unlike other life insurance policies, which pay bonuses on maturity or surrender, an income bond is like a savings account and distributes regular bonuses. For tax purposes, these bonuses are treated in the same way as interests.

Tax file number (TFN) withholding tax

If your bank doesn't have your tax file number (TFN), it will withhold tax from your interest at the highest marginal tax rate. You can claim a credit for the amount of tax withheld when you lodge your tax return.

You don't need to provide your TFN if:

- you are under 16 years of age
- the account is in your name
- the account earns less than $420 interest each year.

If you are under 18 years old on 30 June of a financial year, your interest may be taxed under the special high tax rates for minors.

For more information about income on savings accounts for children under 18 years old, see Children's savings accounts.

Children's savings accounts

- https://www.ato.gov.au/Individuals/Investments-and-assets/Investing-in-bank-accounts-and-income-bonds/Children-s-savings-accounts/
- Last modified: 01 Jul 2022
- QC 16211

If your child is under 18 years old, and they earn income on their savings account, the information on this page may help.

Income from a savings account is treated differently to income from shares.

On this page

Who declares interest

Who declares the interest depends on who owns or uses the funds of that account (no matter what type of account it is or the name of the account holder).

You need to consider who:

- provides the money, such as the initial and ongoing deposits into the account
- decides how the money is spent, regardless of who it is spent on.

If you provide the money and spend it as you like, you must include the interest in your tax return.

If you hold a joint account, interest earned is divided equally among all account holders, who each declare their share of the income in their tax return.

If the amount deposited is considered excessive, you will need to examine it carefully to decide where the money came from and whose money it really is.

Quoting a TFN

A child can apply for a tax file number (TFN) – there is no minimum age. Children are not exempt from quoting a TFN.

When deciding whether to quote a TFN and whose TFN you should quote, you need to consider:

- who owns or uses the funds
- your child's age and the amount of interest they receive.

If the person who owns or uses the funds is the parent, as trustee for the child and

- no formal trust exists, quote the parent's TFN
- there is a formal trust, quote the trust's TFN.

Your child's age

If your child is less than 16 years old, special rules apply to their income from a savings account. When we work out their age, we treat them as being under 16 years old until the end of the calendar year in which they turn 16.

If your child is:

- any age and they earn less than $120 per year from savings accounts per year, their financial institution will not withhold tax
- less than 16 years old and earns between $120 and $420 from savings accounts per year and
  - provides either their date of birth or a tax file number (TFN), the financial institution will not withhold tax and they don't need to lodge a tax return
  - doesn't provide either their date of birth or TFN, the financial institution will withhold pay as you go (PAYG) tax at 47% and they need to lodge a tax return if they want a refund
- less than 16 years old and earns $420 or more from savings accounts per year and
  - provides their TFN, the financial institution will not withhold tax
  - doesn't provide their TFN, the financial institution will withhold PAYG tax at 47% and they need to lodge a tax return if they want a refund
- 16 or 17 years old, earns $120 or more from their savings account per year and
  - provides their TFN, the financial institution will not withhold tax
  - doesn't provide their TFN, the financial institution will withhold PAYG tax at 47% and they need to lodge a tax return if they want a refund.

If you have a joint account between an adult and a child aged under 16 years, the same rules apply as those for a 16 or 17 year old.

Amount of interest earned

The withholding tax is calculated on is the total interest earned – not just the amount above the threshold ($420 or $120, depending on their circumstances).

Where a deposit has a term of less than one year, or where interest is paid more than once per year, we apply a daily pro-rata calculation of the threshold ($420 or $120 depending on their circumstances).

Lodging a tax return

If your child has had PAYG tax deducted, you will need to lodge a tax return on their behalf if they wish to claim any refund owed.

If your child does not have a TFN, you will need to get one before you can lodge a tax return on their behalf.

Examples

Example – interest earned belongs to parent

Wayne opens an account for his son by depositing $5,000. Wayne is signatory to the account because Jack is four years old.

Wayne makes regular deposits and withdrawals to pay for Jack's pre-school expenses.

Interest earned from that account is considered to be Wayne's.

Example – interest earned belongs to child

Shauna is eight years old and has a savings account in her name.

Shauna's mother Jill is signatory to the account.

The funds (totalling $90) are birthday and Christmas presents from Shauna's relatives.

Interest earned from the account is considered to be Shauna's.

Investing in shares

- https://www.ato.gov.au/Individuals/Investments-and-assets/Investing-in-shares/
- Last modified: 01 Jul 2022
- QC 22810

Find out about the tax implications when obtaining, owning and disposing of shares, including receiving dividends.

Obtaining shares
Find out about obtaining shares and what deductions you can claim when obtaining shares.

Owning shares
Find out about dividends and paying tax when you own shares.

Selling or disposing of shares
Find out about disposing shares and capital gains and losses when you dispose of shares.

Obtaining shares

- https://www.ato.gov.au/Individuals/Investments-and-assets/Investing-in-shares/Obtaining-shares/
- Last modified: 20 Sep 2022
- QC 22811

Find out about obtaining shares and what deductions you can claim when obtaining shares.

On this page

How you obtain shares

You can obtain shares in several ways, most commonly by buying them. You should keep track of your share transactions so you can claim everything you're entitled to and work out your tax accurately.

You can obtain shares through:

- Buying shares
- Inherited shares
- Shares as a gift
- Employee share scheme
- Bonus shares
- Demerger
- Demutualisation of an insurance company
- dividend reinvestment plans of companies in which you hold shares
- them being transferred to you as the result of a marriage or relationship breakdown
- a conversion of notes to shares
- mergers and takeovers of companies in which you hold shares.

Even if you didn't pay anything for your shares, you should find out the market value at the time you obtain them – otherwise, you may pay more tax than necessary when you dispose of them.

In some circumstances, you may be considered the owner of shares even if they were purchased in your child's name.

Buying shares

A common way to obtain shares is to buy them. Shares are usually purchased through a stockbroker. When you buy shares, you may decide to be a share trader or share investor.

Share trader or share investor

Depending on whether you are a share trader or a share investor, you will deal with income and expenses differently. A share trader conducts business activities for the purpose of earning income from buying and selling shares. A share investor invests in shares with the intention of earning income from dividends and capital growth, but does not carry on business activities.

Inherited shares

You may inherit shares as part of a deceased estate. In this case:

- you treat inherited shares in the same way as any other capital gains tax assets
- where the deceased acquired the shares before 20 September 1985, you must use the market value on the day the person died, not the market value on the day you received the shares.

Shares as a gift

A family member may give shares to relatives, for example, a parent gives shares to their child. If you:

- give shares as a gift, you
  - treat the shares as if you disposed of them at their market value on the day you gave them as a gift
  - may have a capital gain or a capital loss – you must include any applicable capital gain or loss in your tax return for the year you gave away the shares
- receive shares as a gift, you treat shares as though you received them at their market value on the date you received them.

Employee share scheme

The tax law contains special rules for shares and rights acquired under employee share schemes, for both income tax and capital gains tax purposes.

Bonus shares

Bonus shares are extra shares you receive for shares you already hold in a company. Receiving bonus shares can alter the cost base (costs of ownership) of both your original and bonus shares.

For more information, see Guide to capital gains tax – Bonus shares.

Demerger

A demerger occurs when a company restructures by splitting its operations into two or more entities or groups. If you own shares in a company that demerges, you may:

- receive new shares or cash
- be entitled to a demerger rollover.

Make sure you:

- are entitled to a rollover before you choose to use it
- declare any capital gains or losses you made under the demerger.

In some demergers, you may be eligible to choose to rollover any capital gain or capital loss you make. This means you do not report your capital gain or capital loss the year the demerger occurs. Instead, you settle your tax obligations in the year that another CGT event happens to those shares.

Demutualisation of an insurance company

If you hold a policy in an insurance company that demutualises, you may be subject to capital gains tax either at the time of the demutualisation or when you sell your shares.

Deductions when obtaining shares

Generally, you can only declare your dividends and claim a deduction for your expenses if your name is on the share purchase order.

You can't claim a deduction for some costs related to purchasing your shares, such as brokerage fees and stamp duty. However, you can include them in the cost base (cost of ownership – which you deduct from what you receive when you dispose of the shares) to work out your capital gain or capital loss.

You need to keep proof of all your share transactions from the beginning to ensure you can claim everything you're entitled to.

Investigate before investing

There are a number of ways to check the legitimacy of an investment and its promoter:

- Check a promoter's licence at moneysmart.gov.au/investing.
- Check if the scheme has a Product ruling.
- Read the product disclosure statement (PDS) or prospectus for the investment.
- Get independent advice from an adviser who has no connection with the seller or the investment scheme.
- Check our taxpayer alerts to find out if the scheme has any of the characteristics described in the alerts.

Capital protected products and borrowings

- https://www.ato.gov.au/Individuals/Investments-and-assets/Investing-in-shares/Obtaining-shares/Capital-protected-products-and-borrowings/
- Last modified: 01 Jul 2022
- QC 17546

As an investor, you may use a capital protected product (also known as a capital protected borrowing). This typically involves an arrangement under which you use a limited recourse to fund the acquisition of shares, units in a unit trust (units) or stapled securities, either directly or indirectly.

On this page

Types of capital protected products

Common types of capital protected products include:

- capital protected loans
- instalment warrants

Capital protected products also include arrangements where:

- you use shares, units or stapled securities as security for borrowing money or obtaining credit
- those shares, units or stapled securities are protected from a fall in their value.

How investors use capital protected products

Typically, capital protected loans involve the use of a limited recourse loan to directly acquire shares, units or stapled securities. Capital protected products include:

- limited recourse loan
- put option
- instalment warrant.

Limited recourse loan

With a limited recourse loan, if, as the borrower, you default on the loan, the lender is limited in the action that it can take to recover the amount loaned. For a capital protected product, the lender's recourse is limited to the underlying shares, units or stapled securities.

This means that you can return the shares, units or stapled securities to the lender in full satisfaction of your outstanding loan obligations, either:

- directly, or
- indirectly – by going into default, leaving the lender the ability to only recover the shares, units or stapled securities.

Because of the capital protection feature in a limited recourse loan, the lender will usually charge you higher rates of interest or additional fees.

Capital protected borrowings can also include full recourse loans used to acquire shares, units and stapled securities where a fall in the market value of the shares, units or stapled securities is protected. One way of providing this protection is through the use of a put option.

Put option

Another common method for capital protection is through the use of a 'put option', which is normally used together with either a full recourse loan or a limited recourse loan facility. A put option gives you the right to 'put' or sell the underlying shares or securities back to the lender for the higher of market value or the amount outstanding under the loan.

Instalment warrant

An instalment warrant is a specific type of security that provides for the purchase of shares, units or stapled securities, through the payment of several instalments over the life of the warrant. The warrant itself is tradeable and can be listed on the

Australian Securities Exchange.

As the holder of the warrant, you are entitled to dividends or distributions paid in relation to the underlying instrument. You may also be entitled to exercise the voting rights attached to the underlying instrument.

If an instalment warrant product is also capital protected, the instalment payments (apart from the first instalment) are usually financed by a limited recourse loan. There is also generally a put option incorporated under these arrangements.

The put option (instead of the limited recourse facility) is effectively providing the capital protection to the investor if both of the following apply:

- A capital protected product features both a put option and a limited recourse facility.
- The exercise price of the put option is the amount outstanding under the loan.

Claiming a deduction

The interest incurred on loans associated with capital protected products (which did not separately identify or attach value to the loan's capital protection component) is fully deductible.

Application date

The way you calculate interest deductions for capital protected borrowings have changed:

- Before late 2002 – our view was that part of the 'interest' on the loan associated with a capital protected product was a non-deductible capital protection fee.
- Late 2002 – the Full Federal Court held that interest incurred on loans associated with capital protected products (which did not separately identify or attach value to the loan's capital protection component) was fully deductible.
- April 2003 – we introduced an interim methodology for a capital protected borrowing entered or extended at or after 9.30am, by legal time in the Australian Capital Territory, on 16 April 2003.
- July 2007 – there is a methodology for calculating interest deductions for capital protected borrowings entered into on or after 1 July 2007.
- May 2008 – the benchmark rate to be used for capital protected borrowings changed on 13 May 2008 to the Reserve Bank's standard variable housing rate.
- June 2011 – the benchmark rate was changed to the Reserve Bank's standard variable housing rate plus 100 points, with transitional provisions allowing products entered into at or before 7.30pm (AEST) on 13 May 2008 to use the previous benchmark interest rate to the earlier of
  - 30 June 2013
  - the expiration of the product.
- 15 September 2015 – the benchmark rate to be used for capital protected

borrowings is the Reserve Bank standard variable rate plus 100 points (Investor).

You could only amend your tax returns for the purposes of the capital protected borrowing products up until 29 June 2013.

For information on which treatment applies to your product, see [How to calculate deductions for a capital protected borrowing](#).

How to calculate deductions for a capital protected borrowing

- https://www.ato.gov.au/Individuals/Investments-and-assets/Investing-in-shares/Obtaining-shares/How-to-calculate-deductions-for-a-capital-protected-borrowing/
- Last modified: 01 Jul 2022
- QC 17547

The way a capital protected product or borrowing is treated for tax purposes depends on:

- whether a product ruling applies to it
- the date the arrangement was entered into or extended
- whether it provides capital protection by way of a limited recourse loan only, or another method.

In this section

Work out which treatment applies

To work out which treatment applies to your product follow the following steps.

Step 1 – Does a product ruling cover the arrangement?

- Yes – go to Covered by a product ruling
- No – go to Step 2.

Step 2 – Was the capital protected product or borrowing entered into or extended before 9.30am on 16 April 2003?

- Yes – go to Entered into before 9.30am on 16 April 2003
- No – go to Step 3.

Step 3 – Was the capital protected product or borrowing entered into or extended on or after 9.30am on 16 April 2003 but before 1 July 2007?

- Yes – go to Entered into or extended on or after 9.30am on 16 April 2003 but before 1 July 2007
- No – go to Step 4.

Step 4 – Was the capital protected product or borrowing entered into or extended on or after 1 July 2007 but before 13 May 2008?

- Yes – go to Entered into on or after 1 July 2007 but before 13 May 2008
- No – go to Step 5.

Step 5 – The capital protected product or borrowing was entered into or extended on or after 13 May 2008 – go to Entered into or extended on or after 13 May 2008

Covered by a product ruling

You can search our legal database for a product ruling on your particular capital protected product or borrowing.

The issue and withdrawal dates of the rulings affect the way they are applied to your arrangement. Some rulings have been withdrawn but are still relevant to arrangements that were entered into before they were withdrawn.

If you have invested in a product that is covered by a product ruling, refer to that ruling to determine the tax treatment that applies.

The fact that you hold a product covered by a product ruling does not conclusively determine that the ruling applies to you. Read the ruling to confirm that the:

- product you hold and the circumstances in which you hold it are in fact covered by the ruling
- date you entered into the arrangement makes the ruling relevant to your circumstances.

Read the ruling to confirm whether it is subject to, or has been subject to, amendment to give effect to changes to the benchmark interest rate applicable to your capital protected borrowing.

Example – covered by a product ruling

Product Ruling PR 2008/50 was published on 21 May 2008. It provides the Commissioner's opinion on, among other things, the amount that may be deducted for a capital protected borrowing arrangement to be entered into after 13 May 2008.

As this product ruling was published after the announcement of the new benchmark rate, the ATO took the approach that a legally binding ruling could not be given that enforced the new benchmark rate.

It was therefore the investors' choice to either self assess using the proposed benchmark interest rate, or use the existing benchmark interest rate and amend their tax returns once Royal Assent was received.

Jon, an investor, decided to use the old benchmark interest rate, as addressed in the product ruling, and paid interest on the investment at 12%, which equalled $100 for the period. At that time, the RBA's variable interest rate for personal unsecured loans was 14%, so the interest paid was entirely below the benchmark interest rate and the full $100 interest payment was deductible.

However, once the change to the benchmark interest rate received royal assent, the product ruling PR 2008/50 was amended and as Jon self assessed using the old benchmark interest rate, he was required to amend his tax returns.

For the period in question, the RBA's variable housing rate plus 100 points was 10%. Therefore, the investment interest rate of 12% was now above the benchmark interest rate. This means that 2% was no longer deductible. Jon had to amend his tax returns by 29 June 2013 to disallow approximately $14 interest.

Entered into before 9.30am on 16 April 2003

When interest is fully deductible

Based on the decision in *Firth v. Federal Commissioner of Taxation*, if you entered into your product before 9.30am on 16 April 2003, interest is fully deductible on products entered into before 9.30am on 16 April 2003 if both of the following apply:

- The capital protection is only provided by way of a limited recourse loan facility.
- The loan does not separately identify or attach value to the capital protection component.

For information on the treatment of capital protected products without a separately identifiable 'put option' entered into before 16 April 2003, see [ATO Interpretative Decision ATO ID 2003/674](#).

Other products

For products that use other methods of capital protection, the tax implications will depend on the specific terms and conditions of the capital protected product. If you need information on capital protected products acquired before 9.30am on 16 April 2003 that are not covered by a product ruling and provide capital protection other than by way of limited recourse loans, you can request a private ruling to gain certainty.

Entered into or extended on or after 9.30am on 16 April 2003 but before 1 July 2007

If you entered into or extended a product on or after 9.30am on 16 April 2003 but before 1 July 2007, part of the interest cost is attributed to the capital protection feature of the loan and is not deductible.

Products with an explicit put option

If you have a capital protected product – such as instalment warrants traded on the Australian Securities Exchange (ASX) – that contain an explicit put option that gives you the right to 'put' or sell the underlying share, unit or stapled security ('underlying security') back to the lender for the higher of the market value or the amount outstanding under the loan, in the case of a purchase in the:

- primary market (before listing on the ASX), the cost of the capital protection component is the amount that is paid for the put option
- secondary market (once listed on the ASX), if the market value of the underlying security at the time of purchase is
  - greater than the loan amount, the amount attributed to the cost of the capital protection component is the price of the instalment warrant plus the loan amount less the sum of the market value of the underlying security and the interest prepaid on the newly acquired loan
  - equal to or less than the loan amount, the amount attributed to the cost of the capital protection component is the price of the instalment warrant less the interest prepaid on the newly acquired loan.

Other capital protected products

For other capital protected products the cost of the capital protection component is the greater of the:

- difference between the total amount, ignoring amounts that are not in substance for capital protection or interest, incurred by the borrower in respect of the borrowing and the amount determined by applying the Reserve Bank of Australia's indicator rate for personal unsecured loans (fixed or variable rate, whichever is applicable to the same amount of borrowing)
- amount determined by reference to the following specified percentage amounts of the expense on a capital protected product
  - 40% for a product with a term of one year or shorter
  - 27.5% for a product with a term longer than one year but not longer than two years
  - 20% for a product with a term longer than two years but not longer than three years
  - 17.5% for a product with a term longer than three years but not longer than four years
  - 15% for a product with a term longer than four years.

Capital protected products entered into or extended before 1 July 2007 and still in existence at 13 May 2008 may continue to use the methodology outlined above until 30 June 2013 or the end of the life of the arrangement, whichever is sooner.

Entered into or extended on or after 1 July 2007 but before 13 May 2008

For capital protected products entered into on or after 1 July 2007, you calculate the amount that is reasonably attributable to capital protection using three steps.

Step 1 is to calculate the total costs incurred by the borrower under, or in respect of, the capital protected product for the income year, ignoring amounts that are not in substance for capital protection or interest.

Step 2 is to apply the RBA's indicator variable interest rate for personal unsecured loans to the same amount of borrowing. If the borrowing is at a:

- fixed rate you would apply the indicator variable interest rate at the time the first of the amounts in Step 1 was incurred
- variable rate, you would apply the average of the indicator rates – table F5 during the term of the borrowing.

Step 3 is applied if the amount under Step 1 exceeds the amount under Step 2. In this case, the excess is attributed to the capital protection for the income year. If the underlying securities you purchased under the capital protected borrowing are held on capital account, the excess would be a capital cost and would not be deductible.

Capital protected products entered into or extended after 1 July 2007 but before 13 May 2008 and still in existence at 13 May 2008 may continue to use the RBA's indicator variable interest rate for personal unsecured loans until 30 June 2013 or the end of the life of the arrangement, whichever is sooner.

Entered into or extended on or after 13 May 2008

For capital protected products entered into on or after 13 May 2008, the amount that you can reasonably attribute to capital protection is calculated using three steps.

Step 1 is to calculate the total costs incurred by the borrower under, or in respect of, the capital protected product for the income year, ignoring amounts that are not in substance for capital protection or interest.

Step 2 is to apply the benchmark rate, being the RBA's standard variable housing rate plus 100 points to the same amount of borrowing. If the borrowing is at a:

- fixed rate you would apply the indicator variable interest rate at the time the first of the amounts in Step 1 was incurred
- at a variable rate, you would apply the average of the indicator rates – table F5 during the term of the borrowing.

Step 3 applies if the amount under Step 1 exceeds the amount under Step 2. In this case, the excess is attributed to the capital protection for the income year. If the underlying securities you purchased under the capital protected borrowing are held on capital account, the excess would be a capital cost and would not deductible.

If as a result of the change to the benchmark rate you were required to amend your tax returns, you only had until 29 June 2013 to do so.

Example – Entered into or extended on or after 13 May 2008

Hailey, an investor, decided to invest in a share portfolio using a loan with a capital protection feature in July 2011. The loan itself had an interest rate of 15%. The RBA website provided a standard variable housing interest rate of 7.8%. With the additional 100 points, the benchmark interest rate became 8.8%. This means that 6.2% of the interest is treated as a put option. Therefore, at the end of the 2011–12 financial year Hailey will prepare her tax return using the following steps:

Step 1: Hailey calculates total interest expenses for the investment as $1,000.

Step 2: Applying the benchmark rate to the same amount of borrowing provides an amount of $560.

Step 3: As the amount under step 1 exceeds the amount under step 2, the excess $440 is attributed to the cost of capital protection, and – assuming the securities are held on capital account – is not deductible.

For changes to the benchmark lending rate to be used after 13 May 2008, see [Capital protected products and borrowings].

Owning shares

- https://www.ato.gov.au/Individuals/Investments-and-assets/Investing-in-shares/Owning-shares/
- Last modified: 20 Sep 2022
- QC 22812

Find out about owning shares, including dividends and deductions you can claim.

On this page

- When you own shares

- Dividends from shares
- Deductions when you own shares

When you own shares

When you own shares, there are tax implications from:

- receiving dividends
- participating in a dividend reinvestment plan
- participating in a bonus share scheme
- receiving a call payment on a bonus share scheme
- receiving non-assessable payments
- transactions the company you have invested in undertakes, such as mergers, takeovers and demergers.

If you receive a retail premium for rights or entitlements that you didn't take up, you need to declare these premiums as capital gains on your tax return for the year.

Dividends from shares

You need to declare all your dividend income on your tax return, even if you use your dividend to purchase more shares – for example, through a dividend reinvestment plan.

A dividend is assessable income in the year it was paid or credited to you. Your dividend statement shows the relevant date – often referred to as the payment date or date paid.

Reinvesting dividends

Most dividends you are paid or credited will be in the form of money, either by cheque or directly deposited into a bank account. However, the company may give you the option of reinvesting your dividends in the form of new shares in the company – this is called a dividend reinvestment scheme. If you take this option, you must pay tax on your reinvested dividends. The amount of the dividend received will form part of the cost base of the shares you receive.

Keep a record of your reinvested dividends to help you work out any capital gains or capital losses you make when you dispose of the shares.

Deductions when you own shares

When you own shares, you may be able to claim a deduction for expenses you incur, including:

- management fees
- specialist journals
- interest on money you borrowed to buy the shares.

Children's share investments

- https://www.ato.gov.au/Individuals/Investments-and-assets/Investing-in-shares/Owning-shares/Children-s-share-investments/
- Last modified: 01 Jul 2022
- QC 16210

If your child is under 18 years, and they buy shares, the information on this page may help.

Income from shares is treated differently to income from interest (for example, from Children's savings accounts).

On this page

Quoting a tax file number

When you buy shares, you have a choice whether you quote a tax file number (TFN).

If you quote a TFN, you pay taxes on the dividends when you lodge the tax return. If the shareholder is the:

- child, quote the child's TFN
- parent, as trustee for the child and
  - no formal trust exists, quote the parent's TFN
  - there is a formal trust, quote the trust's TFN.

A child can apply for a tax file number (TFN) – there is no minimum age. Children are not exempt from quoting a TFN.

If you don't quote a TFN, pay as you go (PAYG) tax will be withheld at 47% from the unfranked amount of your dividend income.

Declaring dividends

Whoever rightfully owns and controls the shares declares the dividends and any net capital loss or gain from the sale of shares. You need to consider who:

- provides the money for the shares
- makes share decisions
- spends the dividend income.

If there are large amounts of money or a regular turnover, you might need to examine the ownership of the shares further, including finding more information to work out who should declare the dividends.

Lodging a tax return

If your child owns shares and earns more than $416, you must lodge a tax return on their behalf.

If your child earns $416 or less, you may also want to:

- lodge a tax return on their behalf if too much PAYG tax was withheld, or
- claim a refund for franking credit by lodging a tax return or completing an *Application for refund of franking credit*.

For more information on the income tax rates for people under 18, see Income tax rates for people under 18.

Examples

Example 1 – declaring dividends under $416 on parents tax return

Peter withdraws $3,000 from his own bank account to buy shares in the name of his daughter Georgia. Peter quotes his TFN when he buys the shares.

He deposits the dividend of $200 into his own bank account and uses it for his own personal expenses.

Peter declares the $200 on his tax return. When he sells the shares, he will also declare any capital gain or loss.

Example 2 – declaring dividends on child's tax return

Sara buys shares for her child, Michael, with money given to him for his birthday. Sara holds the shares for the benefit of Michael with the share broker until he turns 18. No formal trust deed has been created. Sara quotes Michael's TFN when she buys the shares.

All dividends have been reinvested through a dividend reinvestment plan.

The dividends are declared on Michael's tax returns.

When Michael turns 18 years old, the shares will be transferred to him through an off-market transfer. As he remains the beneficial owner of the shares, there will be no capital gain or loss for either Sara or Michael on the transfer.

Example 3 – declaring dividends on child's tax return

Simon withdraws $5,000 from his bank account to buy shares in the name of his son Jordan. He quotes Jordan's TFN when he buys the shares.

Simon makes all the decisions about those shares as Jordan is only three years old.

All dividend income and any profit from the sale of those shares are deposited into a bank account in Jordan's name with Simon as trustee.

The dividends and capital gains are declared on Jordan's tax return.

Example 4 – declaring dividends on child's tax return

Jenny buys shares on behalf of her daughter, Talia, with money saved from Talia's part-time job, plus money received for Talia's birthday. Talia and Jenny decide not to quote Talia's TFN.

Dividends of $500 are deposited in Talia's bank account.

Talia declares the $500 on her tax return. She will need to make an adjustment in her tax return so that the proportion of the dividend that relates to her employment income is taxed at normal tax rates. The proportion that relates to the gift money is taxed at a higher rate. When those shares are sold, any capital gain or loss from the sale will belong to Talia.

Refunding excess franking credits – individuals

- https://www.ato.gov.au/Individuals/Investments-and-assets/Investing-in-shares/Owning-shares/Refunding-franking-credits---individuals/
- Last modified: 03 Jun 2022
- QC 16183

Individuals may be eligible for a refund of excess franking credits and there are different ways you can apply for a refund.

In this section

Dividends and franking credits

Dividends paid to shareholders by Australian resident companies are taxed under a system known as imputation. This is where the tax the company pays is imputed, or attributed, to the shareholders. The tax paid by the company is allocated to shareholders as franking credits attached to the dividends they receive.

If you receive franking credits on your dividends, you need to let us know your:

- franked amount
- franking credit.

If you are an Australian resident, we will use this information to:

- reduce your tax liability from all forms of income (not just dividends) and from your taxable net capital gain
- refund any excess franking to you after any income tax and Medicare levy liabilities have been met.

Eligibility for a refund

You are eligible for a refund of excess franking credits if all of the following apply:

- You receive franked dividends, on or after 1 July 2000, either directly or through a trust or partnership.
- Your basic tax liability is less than your franking credits, after taking into account any other tax offsets you are entitled to.
- You meet our anti-avoidance rules, which are designed to ensure everyone pays their fair share of tax.

If you have received a dividend from a New Zealand company that has paid Australian franking credits, you may be eligible to claim the Australian sourced franking credits.

On this page

- [Dividends received through a partnership or trust]

Keeping records

You need to retain the dividend statements from the:

- company that paid the franked dividend
- trust or partnership that made the distribution containing the franking credit.

These statements should show the:

- amount of the net dividend
- franked amount
- unfranked amount
- franking credit
- date of payment.

Anti-avoidance rules

You need to meet the anti-avoidance rules to qualify for a refund.

If your total franking credits entitlement is $5,000 or more, regardless of whether your shares are a single parcel or a portfolio made up of several parcels, you must meet the:

- [holding period rule]
- [related payments rule]

If your total franking credits entitlement for the income year is less than $5,000 you only need to meet the related payments rule.

You are entitled to a franking tax offset only for those shares that satisfy the relevant rule or rules. If you cannot claim a refund, do not include those franking credits in your assessable income.

Holding period rule

Total franking credits entitlement of $5,000 or more

The holding period rule generally applies to [shares] bought on or after 1 July 1997. To be eligible for a tax offset for the franking credit you are required to hold the shares 'at risk' for at least 45 days (90 days for preference shares and not counting the day of acquisition or disposal).

The holding period rule only needs to be satisfied once for each purchase of shares. It only applies if your total franking credit entitlement for the year of income is $5000 or more. This is roughly equivalent to receiving a fully franked dividend of:

- $11,666 (for companies that are not base rate entities, with a corporate tax rate of 30%) or
- $13,181 (for companies that are base rate entities, with a corporate tax rate of 27.5%).

If you have more than $5,000 in franking credits from a single parcel of shares, and did not satisfy the holding period rule for those franking credits, you have no entitlement to a franking tax offset for the entire franking credits. In other words, you cannot restrict your claim of franking credits to a maximum of $5,000. Because you cannot claim a franking tax offset, you do not include the affected franking credits in your assessable income.

If you are a partner in a partnership or a beneficiary of a trust, both you and the partnership or trust must satisfy this rule to be eligible for the refund of excess franking credits.

Total franking credits entitlement below $5,000

You don't need to meet this rule if your total franking credits entitlement for the income year is below $5,000.

Under the small shareholder exemption, you should ignore the holding period rule if all of your franking tax offset entitlements in a given year (whether received directly from a shareholding, or indirectly through a trust or partnership) are less than the maximum of $5,000. You still need to meet the related payments rule.

Related payments rule

A related payment is a payment that passes on the benefit of the franked dividend to someone else.

It applies to you if you make, are under an obligation to make, or are likely to make, a related payment. If the rule applies, and you do not hold the shares 'at risk' for a period of 45 days (90 days for preference shares), you are prevented from receiving a tax offset for the franking credits. The related payments test must be satisfied for each dividend payment and distribution. It applies to any amount of total franking credits entitlement for the year.

If you are a partner in a partnership or a beneficiary of a trust, both you and the partnership or trust must satisfy this rule to be eligible for the refund of excess franking credits.

Dividends received through a partnership or trust

You are eligible for a refund of franking credits attached to franked dividends paid to you if you are either a:

- resident individual
- trust or partnership, if a resident individual receives franked dividends indirectly through the trust or a partnership.

Generally, beneficiaries of a trust, who are presently entitled to a part of the trust income that is attributable to franked dividend income, and partners of a partnership, who have received franked dividend income, are entitled to a tax offset for this income.

If you are a beneficiary of a trust, the refund is:

- available only if there is some positive amount of trust income that you are presently entitled to
- the portion of the franking credit attached to the franked dividend equivalent to your share of the net trust income attributable to the franked dividend.

If you are a partner in a partnership, the tax offset is:

- available even where the partnership has sustained a loss
- the portion of the franking credit attached to the franked dividend equivalent to your interest in the partnership.

Because both the trust income and partnership income has been grossed-up to include the franking credit at the trust and partnership level, you do not need to gross up the amounts received in your own tax return.

Apply for a refund

How you apply for a refund depends on whether you have to lodge a tax return.

If you lodge a tax return

If you are required to lodge a tax return, you declare your dividend income, including unfranked amounts, franked amounts and franking credits in your *Tax return for individuals*. We then use this information to work out your refund.

You don't have to do anything else.

If you don't need to lodge a tax return

If you are not required to lodge a tax return, you can still claim a refund of your franking credits.

On this page

- Online
- Automatic refund of franking credits
- Over the phone
- By post

Online

You can apply online for a refund of your franking credits.

Lodging online allows us to complete your form using your personal details and the dividend records that have been reported to us. This will save you time and make your claim more accurate.

If you don’t already have one, you will need a myGov account linked to the ATO. A myGov account gives you access to a range of government services online, all in one place. You might already have one if you deal online with Centrelink or Medicare. Go to my.gov.au complete the simple registration process, and link to the ATO.

Once you have logged into your ATO Online account, from the menu at the top of the screen select 'Tax', then 'Lodgments' then ‘Refund of franking credits’.

Your personal details, and the dividend records that have been reported to us, will automatically download for you, making the process very streamlined. All you need to do is check the information, add any missing details and submit your form.

The majority of dividend records are usually available by late July so if you wait until then, most of the work will be done for you.

Once you have submitted your form, you will be emailed a receipt confirming that we have received your application. There's no need to send any franking credit documentation to us – just keep it with your other financial records.

We usually process online forms within two weeks.

If you want to review your online form and details at any time just login to our online services again.

Automatic refund of franking credits

During tax time 2022, to make it easier to receive your refund we will automatically refund franking credits to eligible individuals and issue them a notice of assessment. To do this we use information that is reported to us by share registries. Unless advised by us, eligible people won't need to separately apply for a refund of their franking credits.

Eligibility for an automatic refund of franking credits

You may be eligible to receive an automatic refund of franking credits if you meet all of the following:

- you are over 60 years of age at 30 June 2022
- we have your current postal address – you can check this on ATO online services
- you are not represented by a tax agent – you can check this on ATO online services
- you have held the same parcel of shares for the last two financial years
- you were a resident for tax purposes for the whole financial year
- your total franking credit refund is not more than $5,460
- you don’t have to lodge a tax return due to other income you've received (for example, rental or personal services income, losses or deferred losses from primary or non-primary production, partnership or business income)
- your total dividend income is not more than $18,200 and your basic tax liability is less than your franking credits after considering any other tax offsets you may be entitled to
- you didn’t lodge a TFN (employment) declaration during the last 2 financial years
- your Super Income Stream total taxed and untaxed amounts don’t exceed $100,000
- you don’t have any capital gains tax.

We base eligibility on your previous year's information and other information reported to us by banks, employers and others. Even if you received an automatic refund of franking credits in a prior year, you may not be eligible again if:

- your circumstances have changed
- we later receive information that means you are no longer eligible.

If this happens, we will notify you in writing that you are no longer eligible and you may need to lodge a tax return.

Who is not eligible for an automatic refund of franking credits

You are not eligible to receive an automatic refund of franking credits if you:

- have already lodged a 2021–22 income tax return
- have submitted a refund of franking credits application form
- are tax agent client.

When we are notified of a deceased person's death, we will remove them from the automatic refund of franking credits process. Any dividend income and franking credits entitlement may be included when managing the deceased person's tax affairs.

How it works

Each year, we receive information from share registries, managed funds and other third-parties in relation to dividends and investment holdings.

Once all expected information has been received for you, based on your previous share holdings, we will calculate your refund and issue you a notice of assessment. We will deposit your refund directly into your bank account.

If we don't receive any information from share registries or other third-parties, we will not be able to provide a refund or issue a notice of assessment. You will then need to lodge, before 31 October, either an:

- income tax return
- application for refund of franking credits form.

If we receive some, but not all expected information, we will refund these amounts to your bank account and issue a notice of assessment. If further information is received after this time, we will refund the subsequent amounts to your bank account and issue an amended notice of assessment.

Refunds are issued from mid-July, with most finalised by August, however the timing of your refund is dependent on when the information is reported to us. If you are one of the eligible individuals, we will send you a letter or SMS in mid-June detailing the process and indicate when you should expect your refund.

If you don't want to receive an automatic refund, call 13 28 65 (Fast Key Code 2 2) to opt out. Opting out doesn't change your eligibility to be included in a future year.

If you are not participating in the automatic program and would like to apply for a refund of your franking credits, you can do this online, over the phone or by post:

- Application for refund of franking credits over the phone
- Application for refund of franking credits by post

Over the phone

You can complete a paper copy of *Application for refund of franking credits for individuals* and then lodge your form over the phone.

- Phone us on 13 28 65 to lodge it. Have a copy of the completed form with you.
- At the prompts, enter your tax file number (TFN), and then press 2.
- After you have verified your identity you will hear a series of automated questions asking you for the information on your application. Simply provide your answers by speaking into the phone.
- At the end of the lodgment you will be given a receipt number. Write this number in the space provided on page 2 of your form.

Do not send your completed application to us – just keep it with your other financial records.

We process most forms lodged over the phone within two weeks.

Next step

- Application for refund of franking credits for individuals

By post

You can complete a paper *Application for refund of franking credits for individuals*.

You need to post your application to:

> Australian Taxation Office
> GPO Box 9845
> [insert the name and postcode of your capital city]
>
> For example:
>
> Australian Taxation Office
> GPO Box 9845
> SYDNEY NSW 2001

We take up to 50 business days to process claims received by post.

Next step

- Application for refund of franking credits for individuals

Taxing retail premiums

- https://www.ato.gov.au/Individuals/Investments-and-assets/Investing-in-shares/Owning-shares/Taxing-retail-premiums/
- Last modified: 01 Jul 2022
- QC 21832

Retail premiums you receive may be taxed in different ways. A retail premium is:

- a payment made by companies to shareholders as a result of offers of entitlements or rights to existing shareholders
- paid to shareholders who don't take up the companies offers.

The tax outcome for shareholders depends in part on the nature of the offer. There are different treatments for renounceable and non-renounceable rights offers.

On this page

Non-participating shareholder

You are a non-participating shareholder if either of the following applies:

- you choose not to take up some or all of your entitlements
- you are not eligible to take up an entitlement.

The entitlements or rights that you did not take up, could not take up or did not receive are called unexercised entitlements.

Amount of retail premium

The retail premium is paid directly to you as a net amount either by cheque or a direct credit. Generally, there are no incidental expenses. Not all offers to subscribe for additional shares involve retail premiums.

Tax and retail premiums

A retail premium payment you receive is taxed in different ways, depending on whether it is renounceable or non-renounceable.

Renounceable rights offers include situations where the shareholder:

- can choose to take up the entitlement
- let the entitlement lapse
- trades them in the market.

Alternatively, where these conditions aren't met, the rights are considered to be non-renounceable. These situations have differing tax outcomes for the shareholders that receive retail premiums.

Tax treatment for renounceable rights

Generally, where individual retail investors hold shares on capital account and a resident individual shareholder receives a retail premium, it will constitute a capital gain.

For foreign resident individual shareholders who are not holding investments which are taxable Australian property, the receipt of a retail premium amount won't be taxable.

For more information on the nature of renounceable rights and the tax outcomes for retail shareholders, see Taxation Ruling TR 2017/4.

Australian resident shareholders

A shareholder will make a capital gain if the retail premium amount exceeds the cost base of the entitlement, generally incidental costs.

A shareholder is taken to have acquired the rights when it acquired the original shares. Therefore, any capital gain may represent a discount capital gain if the eligible shareholder's original shares have been held for 12 months or more.

Retail premiums paid to shareholders are not dividends.

Ineligible shareholders

Retail premiums paid to ineligible shareholders are not dividends.

Capital gains tax

A shareholder will make a capital gain if the retail premium amount is more than the cost base of the entitlement, generally being incidental costs.

Capital gains tax will be disregarded where the shares held are not taxable Australian assets, such as where the owner has as indirect interest in Australia.

Tax treatment for non-renounceable rights

A retail premium payment you receive is an unfranked dividend. If you are a non-resident, the amount is:

- non-assessable non-exempt income
- subject to withholding tax.

Related page

- Taxation Ruling TR 2012/1 – *Income tax: retail premiums paid to shareholders where share entitlements are not taken up or are not available*

Disposing of shares

- https://www.ato.gov.au/Individuals/Investments-and-assets/Investing-in-shares/Disposing-of-shares/
- Last modified: 20 Sep 2022
- QC 22813

Find out about disposing shares and capital gains and losses when you dispose of shares.

On this page

How to dispose of shares

You can dispose of your shares in the following ways:

- selling them
- giving them away (gifting shares)
- transferring them to a spouse as the result of a breakdown in your marriage or relationship
- through share buy-backs
- through mergers, takeovers and demergers
- because the company goes into liquidation.

It's important you keep records of obtaining and disposing of shares.

Capital gains and losses when disposing of shares

You are likely to make either a capital gain or capital loss when you dispose of your shares. You must report the total current year capital gains, net capital losses carried forward to later income years and the net capital gain in the tax return for the income year you dispose of the shares.

You make a capital gain when your capital proceeds are more than your cost base (costs of ownership). Your capital proceeds are either the:

- money you receive when you sell your shares
- value of the shares when you gift your shares.

You may be able to reduce your capital gain if you either:

- owned your shares for at least 12 months
- gifted them to a deductible gift recipient, provided both
    - they are valued at less than $5,000
    - you acquired them at least 12 months earlier.

If the capital proceeds are less than the cost base, you will need to work out the reduced cost base first. Then, if the reduced cost base is:

- more than the capital proceeds, the difference is a capital loss
- less than the capital proceeds, there is neither a capital gain nor a capital loss.

You also make a capital loss on your shareholding when an administrator or liquidator makes a written declaration that a company's shares are worthless. You are entitled to reduce your capital gains by capital losses.

If you have losses on shares when you dispose of them, you may be able to claim the loss in your tax return.

To see how to enter your capital gains or losses in myTax when you've disposed of shares, watch our video How to complete myTax when you have disposed of shares.

Our investors toolkit also has information on capital gains tax on the sale or disposal of shares or units.

Shares you received as a gift

If you dispose of shares you received as a gift, you must use the shares' market value on the day that you received them as the first element of your cost base when working out your capital gain or loss.

Shares you give as a gift

If you give shares away as a gift, treat the shares as if you disposed of them at their market value on the day you gave this gift. This means a capital gains tax (CGT) event occurs and you must include any capital gain or loss in your tax return for the income year you gave away the shares.

Example – gifting shares

On 4 January 2022, Mark bought shares at a cost of $45,000, including brokerage.

On 18 June 2022, Mark gifts all of these shares to his wife. The shares have a market value of $50,000 on 18 June 2022.

Since this gift is a CGT event, Mark needs to calculate his capital gain or capital loss for the 2021–22 income year. He must use $45,000 as the cost base of the shares and $50,000 (the market value of the shares on the day he gifted them) as the capital proceeds. Therefore, Mark makes a capital gain of $5,000. Since he did not own these shares for at least 12 months, he doesn't qualify for a CGT discount of 50%. That is, Mark cannot reduce his capital gain of $5,000 by $2,500.

As he has no other CGT event, and no capital losses (in, or carried forward to, 2021–22), Mark enters the following at item 18 of the supplementary section of his 2022 tax return for individuals:

$5,000 at H (Total current year capital gains), and

$5,000 at A (Net capital gain). This means $5,000 of net capital gain gets added to his assessable income.

However, if Mark had owned the shares for at least 12 months before gifting them, he would have been allowed (to his advantage) to reduce his capital gain by 50%. Therefore, he would have entered the following at item 18 of the supplementary section of his 2022 tax return for individuals:

$5,000 at H (Total current year capital gains), and

$2,500 at A (Net capital gain). This means $2,500 of net capital gain gets added to his assessable income.

If you donate shares with a value of $5,000 or less to a deductible gift recipient (DGR), you may be able to claim a deduction.

The Personal investors guide to capital gains tax has more information and examples about gifting shares.

Bonus shares

If you dispose of bonus shares you received on or after 20 September 1985, you may:

- make a capital gain
- have to modify your existing shares' cost base and reduced cost base in the company.

Crypto asset investments

- https://www.ato.gov.au/Individuals/Investments-and-assets/Crypto-asset-investments/
- Last modified: 29 Jun 2022
- QC 69945

How to treat investments in crypto assets (also called crypto or cryptocurrency) for tax purposes in Australia.

What are crypto assets?
What crypto assets are, how they work and how tax applies to these assets.

Transactions – acquiring and disposing of crypto assets

Activities that amount to crypto asset transactions and how to treat your crypto asset investments for tax purposes.

How to work out and report CGT on crypto
How to work out and report capital gains tax (CGT) on transactions involving crypto assets.

Crypto chain splits
How to treat a new crypto asset you receive as a result of a chain split.

Crypto as a personal use asset
Work out if your crypto asset is a personal use asset and when a personal use crypto asset is exempt from CGT.

Keeping crypto records
What records you need to keep of crypto asset transactions and how long to keep them.

Crypto assets glossary
A glossary of terms common in crypto.

What are crypto assets?

- https://www.ato.gov.au/Individuals/Investments-and-assets/Crypto-asset-investments/What-are-crypto-assets-/
- Last modified: 19 Aug 2022
- QC 69946

What crypto assets are, how they work and how tax applies to these assets.

On this page

- How crypto assets work
- Tax outcomes of using and transacting with crypto assets
- Common crypto assets

How crypto assets work

Crypto assets are a digital representation of value that you can transfer, store, or trade electronically. This also includes non-fungible tokens (NFTs).

Crypto assets are a subset of digital assets that use cryptography to protect digital data and distributed ledger technology to record transactions. They may run on their own blockchain or use an existing platform such as Ethereum. A blockchain is a form of secure digital ledger used to store a record of crypto transactions.

Crypto generally operates independently of a central bank, authority, or government. However, transactions involving crypto assets are subject to the same tax rules as assets generally. There are no special tax rules for crypto assets. The tax treatment will depend on how you acquire, hold, and dispose of the asset.

For tax purposes, crypto assets are not a form of money.

For more information on the nature of crypto assets and the risks in investing in them, see ASIC's Money Smart website.

Tax outcomes of using and transacting with crypto assets

You can acquire or dispose of a crypto asset on a crypto trading platform, or directly from a digital or hardware wallet. You can exchange or swap crypto assets for other crypto assets, fiat currency or goods and services.

The way you use or transact with crypto assets will determine how you treat them for tax purposes. The most common use of crypto assets is as an investment (investors acquire and hold crypto assets to make a financial profit from holding or disposing of them).

As a general rule, for investors:

- crypto assets are taxed as CGT assets, including for self-managed super funds (SMSFs) investing in crypto assets
- rewards for staking crypto are ordinary income for tax purposes.

Businesses transacting in crypto assets may need to account for them as trading stock or ordinary income (that is, on the revenue account rather than as investment capital gains or losses). In these circumstances, the cost of acquiring crypto assets and the proceeds from disposing of them is ordinary income or a deductible expense depending on the nature of the transaction.

In some circumstances, crypto assets are not kept mainly for investment but for personal use. Where specific conditions are met, crypto assets are not subject to CGT because they are considered to be personal use assets.

Media: A series of crypto myth busting videos with Tim Loh
https://ato.vudoo.io/embed/16063894950

A transcript of this video is available.

Common crypto assets

There are many types of crypto assets, with their form and function continuing to evolve.

Common crypto assets include coins and tokens such as:

- Bitcoin, a cryptocurrency
- USDC, a stablecoin
- DAI, an investment token
- GALA, a game token
- BAYC, a non-fungible token.

You can control different types of crypto asset in the same digital or hardware wallet. However, for tax purposes you need to treat each crypto asset you hold as a separate asset.

For our view of how the income tax law treats bitcoin transactions, see these tax determinations:

- TD 2014/25 *Income tax: is bitcoin a 'foreign currency' for the purposes of Division 775 of the Income Tax Assessment Act 1997 (ITAA 1997)?*
- TD 2014/26 *Income tax: is bitcoin a CGT asset for the purposes of subsection 108-5(1) of the Income Tax Assessment Act 1997 (ITAA 1997)?*
- TD 2014/27 *Income tax: is bitcoin trading stock for the purposes of subsection 70-10(1) of the Income Tax Assessment Act 1997 (ITAA 1997)?*

Transactions – acquiring and disposing of crypto assets

- https://www.ato.gov.au/Individuals/Investments-and-assets/Crypto-asset-investments/Transactions---acquiring-and-disposing-of-crypto-assets/
- Last modified: 29 Jun 2022
- QC 69947

Activities that amount to crypto asset transactions and how to treat your crypto asset investments for tax purposes.

Crypto asset transactions
Most activities involving crypto assets amount to a transaction, which gives rise to a CGT event.

Crypto to crypto exchange or swap
How CGT applies when exchanging or swapping one crypto asset for another.

Non-fungible tokens
How tax applies to transactions involving non-fungible tokens, another type of crypto asset.

Staking rewards and airdrops
How tax applies to crypto rewards and new tokens from staking crypto assets.

Gifts or donations of crypto assets
How tax applies to transactions when you gift or donate crypto assets or receive them as a gift.

Loss or theft of crypto assets
Evidence you'll need in order to claim a capital loss if your crypto asset is lost or stolen.

Crypto asset transactions

- https://www.ato.gov.au/Individuals/Investments-and-assets/Crypto-asset-investments/Transactions---acquiring-and-disposing-of-crypto-assets/Crypto-asset-transactions/
- Last modified: 19 Aug 2022
- QC 69948

Most activities involving crypto assets amount to a transaction, which gives rise to a CGT event.

On this page

Transactions amounting to a CGT event

A CGT event happens when you dispose of your crypto asset.

If there is a CGT event, you may make either a capital gain or capital loss on the disposal of the crypto asset. If you make a capital gain, you may pay tax on it.

A transaction involving a disposal takes place when you do any of the following:

- sell a crypto asset
- gift a crypto asset
- trade, exchange or swap a crypto asset for another crypto asset
- convert a crypto asset to Australian or foreign currency (otherwise known as 'fiat currency')
- buy goods or services with a crypto asset.

Other rules may apply depending on how you're using crypto assets for business transactions.

Our crypto asset data-matching program matches what you report in your tax return with data on crypto asset transactions and accounts from designated service providers. This helps us identify the buyers and sellers of crypto assets and quantify transactions.

To make tax time easier see our summary, tax-smart tips for crypto asset investments.

Valuing crypto assets in Australian dollars

You need to know the value of your crypto asset to determine if you make a capital gain or capital loss on the CGT event happening.

To work out the value of your crypto assets when you acquire or dispose of them you will need to convert their value to Australian dollars. Use the exchange rates on a reputable digital currency exchange at the time of the transaction to work out the value of your crypto assets.

You will need to keep crypto asset transaction records. You can then work out your CGT using our online calculator and record keeping tool.

Crypto to crypto exchange or swap

- https://www.ato.gov.au/Individuals/Investments-and-assets/Crypto-asset-investments/Transactions---acquiring-and-disposing-of-crypto-assets/Crypto-to-crypto-exchange-or-swap/
- Last modified: 19 Aug 2022
- QC 69949

How CGT applies when exchanging or swapping one crypto asset for another.

On this page

Market value of new crypto asset at exchange or swap

When you exchange or swap one crypto asset for another crypto asset, you dispose of one CGT asset and acquire another. Therefore, a CGT event happens to your original crypto asset.

Because you receive property instead of money, you need to work out the market value of the crypto asset in Australian dollars.

Example: market value of new asset determines old asset's disposal proceeds

Katrina acquires 100 Coin A for $15,000 on 5 July 2021.

Katrina decides to exchange 20 Coin A for 100 Coin B through a reputable digital asset exchange on 15 November 2021.

Using the exchange rates shown on the digital asset exchange at the time of the transaction, the market value of 100 Coin B was $6,000.

Therefore, Katrina's capital proceeds are $6,000 for the disposal of 20 Coin A. Katrina uses this amount to work out her capital gain for the CGT event.

Market value of existing crypto asset at exchange or swap

If you can't determine the value of a crypto asset you receive in a crypto asset exchange or swap, use the market value of the crypto asset you're disposing of to work out the capital proceeds.

Example: market value of old crypto asset determines its disposal proceeds

Katrina acquires 100 Coin A for $15,000 on 5 July 2021.

Katrina decides to exchange 20 Coin A for a new coin, Coin D, before it is listed on a digital exchange. Katrina acquires 100 Coin D in the exchange on 15 November 2021.

At the time of the transaction, Coin D doesn't have a market value. Katrina uses the market value of Coin A on the digital asset exchange at the time of the transaction.

The market value of 20 Coin A at the time of exchange was $5,000.

Therefore, Katrina's capital proceeds are $5,000 for the disposal of Coin A. Katrina uses this amount to work out her capital gain for the CGT event.

Non-fungible tokens

- https://www.ato.gov.au/Individuals/Investments-and-assets/Crypto-asset-investments/Transactions---acquiring-and-disposing-of-crypto-assets/Non-fungible-tokens/

- Last modified: 07 Nov 2022
- QC 66097

How tax applies to transactions involving non-fungible tokens, another type of crypto asset.

On this page

What is a non-fungible token?

A non-fungible token (NFT) involves similar digital technology as other crypto assets. However, a non-fungible token is not interchangeable in the same way as crypto coins or tokens.

NFTs typically record ownership of digital pictures or artworks, video clips, memes and items used in online games.

You can use an NFT to represent an ownership interest in any tangible or intangible asset. This occurs even where you store the asset outside of a digital ledger.

Income tax and NFTs

The tax treatment of an NFT depends on:

- your circumstances
- the way you use the NFT
- your reasons for holding and transacting with the NFT.

You may pay income tax on the NFT:

- as a CGT asset under the capital gains tax (CGT) regime
- on revenue account as trading stock
- as part of a business
- as a profit-making scheme.

As with other types of crypto asset, in rare circumstances you could hold an NFT as a personal use asset.

If your crypto asset is a traditional cryptocurrency (such as Bitcoin), see Crypto as a personal use asset.

Example: personal use NFT

Kim, a professional artist, paints a portrait of a famous Australian and decides to create 10 NFTs, each of which provides the right to one, 4-hour, private viewing of the portrait in her gallery each year for up to 20 people.

Jo is a relative of the portrait's subject. She buys the NFT and uses the private viewing to celebrate the subject's birthday with close family and friends every year.

For Jo the NFT is a personal use asset.

Example: NFT as part of a business

Kim, a professional artist, paints a portrait of a famous Australian and decides to create 10 NFTs, each of which provides the right to one, 4-hour, private viewing of the portrait in her gallery each year for up to 20 people. On subsequent transfers of the NFTs to new owners, the digital contract allocates part of the proceeds to Kim as a commission.

Kim retains all other rights associated with the painting.

The proceeds of the initial sale of the NFTs is assessable as business income to Kim. While she remains in business, any commissions received would also be business income. If Kim ceased carrying on the business, the commissions would still be assessable as her ordinary income.

The treatment in the hands of the owners depends on how they make use of the NFT.

Example: NFT as a capital asset of a business

Kim, a professional artist, paints a portrait of a famous Australian and decides to create 10 NFTs, each of which provides the right to one, 4-hour, private viewing of the portrait in her gallery each year for up to 20 people.

Osman buys one of Kim's NFTs. In running a tour business, he plans to use the private viewing of the portrait as part of an annual art tour of the region.

The NFT is a capital gains tax asset of the business.

GST and NFTs

Under the GST rules, an NFT is not a form of digital currency. The GST treatment of an NFT depends on whether your transaction meets the requirements of being either a taxable or GST-free supply.

If your entity operates an NFT marketplace as an electronic distribution platform (EDP), you are responsible for GST on NFT sales that you facilitate for offshore sellers to Australian consumers. For more information, see GST on imported services and digital products.

Staking rewards and airdrops

- https://www.ato.gov.au/Individuals/Investments-and-assets/Crypto-asset-investments/Transactions---acquiring-and-disposing-of-crypto-assets/Staking-rewards-and-airdrops/
- Last modified: 07 Sep 2022
- QC 69950

How tax applies to crypto rewards and new tokens from staking crypto assets.

On this page

Staking and the role of forgers

Staking involves locking your existing crypto asset tokens to validate transactions on the blockchain and create new blocks. The users who create new blocks in this system are known as forgers.

Proof of stake is a consensus mechanism, where forgers (similar to miners) hold units of a crypto asset to validate transactions and create new blocks. When a transaction is verified on the network as valid there is a consensus.

Example: staking existing crypto assets

Anastasia holds 50,000 Coin A tokens, which she stakes to a Coin A pool as a premium staker.

Anastasia receives additional Coin A tokens when her pool participates in consensus. Anastasia also receives a small payment of Coin A tokens from the node leader for supporting their node.

The money value of the additional Coin A tokens that Anastasia receives is included in her ordinary assessable income at the time she receives the tokens.

The cost base of Anastasia's additional Coin A tokens is their market value at the time she receives them.

Staking rewards and income tax treatment

As a forger who creates a new block, you'll usually receive a reward in the form of additional tokens from holding the original tokens. The money value of additional tokens is ordinary income at the time you receive the tokens. You need to declare the income in your tax return as other income.

Other consensus mechanisms that reward existing token holders for their role in maintaining the network have the same tax outcome. This includes rewards you receive through:

- proof of authority and proof of credit mechanisms by validators
- agent nodes and guardian nodes
- premium stakers and other entities performing comparable roles.

You also receive ordinary income equal to the money value of the tokens if you receive as a reward for either:

- participating in 'proxy staking'
- voting your tokens in a consensus mechanism.

You also need to declare this income in your tax return as other income.

When you dispose of crypto assets you earn through staking, you will need to work out if you make a capital gain or loss.

Airdrops and income tax treatment

Airdrops are a marketing tool that distribute crypto assets through a group of people to build their use and popularity. Some projects 'airdrop' new tokens to existing token holders as a way of increasing the supply of tokens.

The money value of an established token you receive by airdrop is ordinary income at the time you receive it. You need to declare this in your tax return as other income.

Example: airdrop tokens and market value

Merindah has held Coin A tokens since December 2020, entitling her to receive monthly BTT airdrops from February 2021.

The money value of the Coin B tokens that Merindah receives for holding her Coin A tokens is ordinary assessable income.

The cost base of Coin B tokens that Merindah receives by airdrop is their market value at the time she receives them.

Initial allocation airdrops

A crypto project may make an initial airdrop of tokens that is the very first distribution of its tokens. These tokens are the initial allocation, if there has been no trading in the project's tokens prior to the airdrop.

If you receive tokens distributed in an initial airdrop you do not derive ordinary income or make a capital gain at the time you receive them.

Where the project issues these tokens for free (without any payment made for the tokens), they have a cost base of zero ($0). These tokens don't have a market value at the time of the initial airdrop because they have not previously been traded.

Where these tokens are not free, that is you have made a payment in return for receiving the token, the cost base of the tokens will be amount that you pay to acquire them.

A CGT event happens when you dispose of the tokens. If you hold your tokens for 12 months or more, you may be entitled to the CGT discount.

Example: capital gain and CGT discount on initial airdrop token

Cswap launched its own native protocol token, CX through a community airdrop.

Josh is an eligible account holder of the Cswap protocol and received an initial allocation of 800 CX tokens on 16 September 2021.

Josh does not derive ordinary income or make a capital gain as a result of the receipt of the 800 CX.

On 25 May 2023, Josh sold the 800 CX for $4,000. Because the cost base of the CX tokens was zero, Josh makes a total capital gain of $4,000 in the 2022–23 income year from the sale of the CX.

Josh is also eligible to reduce his total capital gain using the CGT discount, as he held his CX for more than 12 months.

Example: capital gain on an initial airdrop token that requires payment

TXP launched its own native protocol token, HXP through an initial airdrop.

TXP distributed the new HXP to participants who paid an amount for the new token.

Calista pays $1 for each token and receives an initial allocation of 1000 HXP tokens.

Calista does not derive ordinary income or make a capital gain as a result of receiving the 1000 HXP.

Calista later sells the 1000 HXP for $4,000. Because the cost base of the CX was $1,000, Calista makes a capital gain of $3,000 from the sale of the HXP.

Gifts and donations of crypto assets

- https://www.ato.gov.au/Individuals/Investments-and-assets/Crypto-asset-investments/Transactions---acquiring-and-disposing-of-crypto-assets/Gifts-and-donations-of-crypto-assets/
- Last modified: 25 Jul 2022
- QC 69687

How tax applies to transactions when you gift or donate crypto assets or receive them as a gift.

On this page

Giving a gift or donation in crypto

When you gift or donate crypto assets, you are disposing of them. Therefore, donating crypto assets is a CGT event, similar to any other disposal of an asset.

You need to know the value of your crypto assets at the time you gift them to determine whether you make a capital gain or capital loss on the CGT event.

If you donate crypto assets, you need to:

- find out if the receiving organisation or fund is set up to accept crypto assets
- transfer the crypto assets into the recipient's legal name.

To claim a tax deduction for a gift or donation of a crypto asset, it must meet:

- the gifts and donations conditions
- gift types, requirements and valuation rules.

You can only claim a tax deduction for gifts or donations to organisations that have a status as a deductible gift recipient (DGR). You can't claim tax deductions for gifts or donations made to social media or crowdfunding platforms unless the recipient of the gift or donation has DGR status. You can check the DGR status of an organisation at ABN Look-up: Deductible gift recipients.

Generally, you don't pay tax on your capital gains when donating crypto assets to DGRs, if:

- the gift is made under a will (testamentary gifts) – however, you can't claim a tax deduction
- donating under the Cultural Gifts Program
- the crypto assets are personal use crypto assets.

You will need to keep crypto asset transaction records, including the date you give or donate the crypto assets and their market value at the time. You can then work out and report the CGT on your crypto assets.

Receiving a gift or donation in crypto

If you receive crypto assets as a gift, there are no CGT implications at the time you receive them. However, if you later dispose of or transact with the crypto assets, a CGT event may happen.

As an organisation accepting donations in crypto assets you need to check your organisation has the capacity to receive crypto.

Regardless of what you do with your crypto assets, you will need to keep records. Most importantly, from when you receive the crypto assets as a gift, you should keep a record of:

- the date of receipt
- the number and type of crypto received
- the market value at the time of receipt.

You will also need to check that the ownership of the crypto assets is transferred into your legal name.

Loss or theft of crypto assets

- https://www.ato.gov.au/Individuals/Investments-and-assets/Crypto-asset-investments/Transactions---acquiring-and-disposing-of-crypto-assets/Loss-or-theft-or-crypto-assets/
- Last modified: 29 Jun 2022
- QC 69951

Evidence you'll need in order to claim a capital loss if your crypto asset is lost or stolen.

On this page

Work out if crypto asset is lost or stolen

If your crypto asset is lost or stolen, you can claim a capital loss if you can provide evidence of ownership.

You need to work out whether:

- the crypto asset is lost
- you have lost evidence of your ownership
- you have lost access to the crypto asset.

Generally, where you can recover an item it is not lost. For example, you can recover crypto assets by extracting data from a hard drive. However, you can't recover a lost private key.

If you can't replace the item, then you can claim a capital loss, which you can use to reduce any capital gains.

Lost private key

If you lose your private key, you lose access to your crypto assets. To claim a capital loss, you will need to be able to provide the following evidence to show your ownership:

- the date you acquired the private key
- the date you lost the private key
- the digital wallet address for the private key
- the cost to acquire the crypto assets in the digital wallet
- the value of the crypto assets in the digital wallet at the time the private key was lost
- that the digital wallet was in your control (for example, you can link transactions to your identity)
- that the hardware that stores the digital wallet is in your possession
- the transactions from a digital currency exchange where you have a verified

account or is linked to your identity.

How to work out and report CGT on crypto

- https://www.ato.gov.au/Individuals/Investments-and-assets/Crypto-asset-investments/How-to-work-out-and-report-CGT-on-crypto/
- Last modified: 15 Nov 2022
- QC 69952

How to work out and report capital gains tax (CGT) on transactions involving crypto assets.

On this page

When capital gains tax applies

The most common use of crypto is as an investment, in which case the crypto asset is a capital gains tax (CGT) asset.

If you acquire a crypto asset as an investment, transactions such as disposal or exchange or swap are a CGT event and you may make a:

- capital gain
- capital loss, which can reduce capital gains you make.

You can't deduct a net capital loss from your other income.

You may be able to reduce capital gains using the CGT discount if you hold your crypto asset for at least 12 months.

If you hold the crypto asset as an investment, it will not be exempt from CGT as a personal use asset.

To work out if you made a capital gain or capital loss from each CGT event, keep records for each crypto asset and your transactions.

You will make a capital gain if the proceeds from the disposal of your crypto asset is more than its cost base.

Working out the timing of the CGT event

In general, a CGT event happens when you dispose of a CGT asset. For the purposes of crypto assets, that may be when you:

- sell a crypto asset
- gift a crypto asset
- trade, exchange or swap one crypto asset for another
- convert a crypto asset to Australian or foreign currency
- buy goods or services with a crypto asset.

There are other CGT events, such as the loss or destruction of an asset, or creating contractual or other rights.

The type of CGT event that applies to your crypto asset transactions may affect:

- the time when the CGT event happens
- how you calculate your capital gain or loss.

Calculating your CGT

As with other CGT assets, if your crypto assets are held as an investment, you may pay tax on your net capital gains for the year. This is:

- your total capital gains
- less any capital losses
- less your entitlement to any CGT discount on your capital gains.

Before you calculate CGT on your crypto assets, you will need to:

- check you have records for your crypto assets and crypto transactions
- convert the value of the crypto assets into Australian dollars.

You need to keep details for each crypto asset as they are separate CGT assets.

You can work out your CGT using our online calculator and record keeping tool. You can also access the tool and save your data through ATO online services.

Report CGT on crypto assets in your tax return

If you are completing a tax return as or on behalf of an individual and lodging:

- online with myTax – refer to instructions, Capital gains or losses
- on a paper form – go to Part B – Completing the capital gains section of your tax return

If the tax return is for a company, trust or fund, go to part C of the capital gains tax guide.

Media: How to complete myTax when you have sold crypto assets
http://tv.ato.gov.au/ato-tv/media?v=bi9or7odtgj6z6 (Duration: 05:44)

Our crypto asset data-matching program matches what you report in your tax return with data on crypto asset transactions and accounts from designated service providers. This helps us identify the buyers and sellers of crypto assets and quantify transactions.

Crypto chain splits

- https://www.ato.gov.au/Individuals/Investments-and-assets/Crypto-asset-investments/Crypto-chain-splits/
- Last modified: 29 Jun 2022
- QC 69953

How to treat a new crypto asset you receive as a result of a chain split.

On this page

Blockchain

A blockchain is a record of all transactions, made up of blocks, of a particular crypto asset.

At regular intervals a new block is added to the chain. There may be a chain split of the blockchain where there are competing versions.

Chain splits

A chain split occurs when there are two or more competing versions of a blockchain. These competing versions share the same history up to the point where their core rules diverge.

As an investor, if you receive a new crypto asset as the result of a chain split (such as Bitcoin Cash being received by Bitcoin holders), the value of the new crypto asset is not treated as either:

- ordinary income
- a capital gain at the time you receive it.

However, you will need to work out your capital gain or capital loss when you dispose of the new crypto asset you receive as a result of a chain split. The cost base of a crypto asset you receive as a result of a chain split is zero ($0).

You may be entitled to the CGT discount if you hold the new crypto asset for 12 months or more before disposing of it.

If you acquire the new crypto asset in carrying on a business, it may be treated differently for tax purposes.

Example: chain split and sale of new crypto asset

Alex held 10 Bitcoin as an investment on 1 August 2021, when Bitcoin Cash split from Bitcoin.

As a result of the chain split, Alex receives 10 Bitcoin Cash, in addition to the 10 Bitcoin previously held. There are no immediate tax consequences for him.

On 25 May 2022, Alex sells the 10 Bitcoin Cash for $4,000. Because the cost base of the Bitcoin Cash is zero, he makes a total capital gain of $4,000 in the 2021–22 income year.

Alex reports the capital gain of $4,000 in his tax return for 2021–22. He will pay tax on the capital gain at his marginal income tax rate.

Work out which is the new crypto asset

When a chain split occurs, you need to work out which asset is the new crypto asset. To do this you need to examine the rights and relationships of the crypto assets you now hold.

If one crypto asset has the same rights and relationships as your original crypto asset, it is a continuation of the original asset. Therefore, the other crypto asset you hold because of the chain split will be a new asset.

Example: protocol change

Bree holds 60 Ether as an investment. On 20 July 2021 the Ether is subject to a chain split.

Following the chain split, Bree holds 60 Ether and 60 Ether Classic. The chain split occurs because of a protocol change, which makes the holding rights invalid for 12 million pre-split Ether.

Ether Classic rejects the protocol change and continues to recognise all of the holding rights before the chain split. Therefore, Ether Classic exists on the original blockchain, continuing as the original asset.

The Ether that Bree receives as a result of the chain split is her new asset. The acquisition date of Bree's post-split Ether is 20 July 2021.

No original crypto asset after split

The original crypto asset may no longer exist if none of the crypto assets you hold after the chain split have the same rights or relationships as the original.

Where this is the case a C2 CGT event happens to the original asset. Therefore, each crypto asset you hold is a new asset with an acquisition date of the date of the chain split with a cost base of zero ($0).

Example: no continuing rights or relationships

Ming held 10 Bitcoin Cash as an investment just before a chain split on 15 November 2021.

Ming had acquired the Bitcoin Cash on 6 April 2018 with a cost base of $8,300.

Following the chain split, Ming held 10 Bitcoin Cash ABC and 10 Bitcoin Cash SV. Both projects had a change to the core consensus rules of the original Bitcoin Cash protocol.

Neither project exists on the original blockchain. Miners using the pre-split software would not find blocks on either the ABC or SV chains. Neither of the post-split assets is the continuation of the original asset.

The community abandoned the original asset at the time of the chain split.

A C2 CGT event happens to Ming's original Bitcoin Cash when the chain split occurs on 15 November 2021. Ming calculates a capital loss of $8,300, which is equal to the cost base of his original asset.

Ming's new 10 Bitcoin Cash ABC and 10 Bitcoin Cash SV both have an acquisition date of 15 November 2021 and a cost base of zero.

Crypto as a personal use asset

- https://www.ato.gov.au/Individuals/Investments-and-assets/Crypto-asset-investments/Crypto-as-a-personal-use-asset/
- Last modified: 29 Jun 2022
- QC 69954

Work out if your crypto asset is a personal use asset and when a personal use crypto asset is exempt from CGT.

On this page

- What is a personal use asset?
- Using crypto to buy items for personal use or consumption
- When crypto is not a personal use asset

What is a personal use asset?

A crypto asset is a personal use asset if you keep or use it mainly for personal use. The most common situation of personal use of crypto assets is to buy items for personal use or consumption.

This page relates only to traditional cryptocurrencies (such as Bitcoin). See Non-fungible tokens for information on their use as personal use assets.

The relevant time for determining if a crypto asset is a personal use asset is when you dispose of it:

- A crypto asset you acquire and use in a short period of time to buy items for personal use or consumption is more likely to be a personal use asset.
- A crypto asset you acquire and hold for some time before you use it, or only use a small proportion of it, to buy items for personal use or consumption is less likely to be a personal use asset.

During a period of ownership, the way you keep or use a crypto asset may change. For example, you may originally acquire a crypto asset to buy items for personal use and enjoyment, but ultimately keep it as an investment or use it in carrying on a business. It is the main use, that you determine when you dispose of a crypto asset, that dictates whether a crypto asset is a personal use asset.

Using crypto to buy items for personal use or consumption

A capital gain on the disposal of a crypto asset is disregarded if both:

- it is a personal use asset
- you acquire it for less than $10,000.

A capital gain on a personal use asset is not disregarded if it cost you more than $10,000 to acquire the asset.

You disregard all capital losses you make on personal use assets, including crypto assets, for CGT purposes. That is, you don't take that loss into account when calculating a net capital gain for the income year. You also can't carry it forward as a capital loss to use in future income years.

Example: crypto asset for personal use held for short period

Michael wants to attend a concert. The concert provider offers tickets with a discount on the price for payments made in crypto.

Michael pays $270 to buy crypto assets, which he then uses to pay for the tickets on the same day.

Under these circumstances, Michael acquires and uses the crypto assets in a short period of time to buy personal items. As such, the crypto assets are personal use assets.

When crypto is not a personal use asset

Crypto assets are not personal use assets when you keep or use them:

- as an investment
- in a profit-making scheme
- in carrying on a business.

Example: crypto assets held as investment to make profit

Peter has been regularly keeping crypto assets for over 6 months with the intention of selling at a favourable exchange rate.

After 6 months, he decides to buy some goods and services directly with some of his crypto assets.

Because Peter held the crypto assets primarily as an investment, they are not personal use assets.

Except in rare situations, a crypto asset is not a personal use asset if you:

- have to exchange your crypto asset for Australian dollars (or for a different crypto asset) to buy items for personal use or consumption
- use a payment gateway or other bill payment intermediary to acquire the items on your behalf (rather than acquiring them directly with your crypto assets).

Example: using a payment gateway for personal use items

Josh pays $50 each fortnight to acquire crypto assets, all of which he uses in the same fortnight to buy computer games. He doesn't hold any other crypto assets.

In one fortnight, Josh sees a computer game for sale through an online retailer who doesn't accept crypto assets. Josh uses an online payment gateway that accepts crypto assets to buy the game.

Under the circumstances in which Josh acquires and uses the crypto assets, the crypto assets (including the amount he uses through the online payment gateway) are personal use assets. The one-off use of a payment gateway doesn't change the nature of his regular use of crypto assets.

Keeping crypto records

- https://www.ato.gov.au/Individuals/Investments-and-assets/Crypto-asset-investments/Keeping-crypto-records/
- Last modified: 14 Sep 2022
- QC 69955

Which records you need to keep for crypto assets and crypto transactions and how long to keep them.

On this page

Crypto asset records you should keep

You must keep records of each of your crypto assets and every transaction, to work out whether you have a made a capital gain or loss. For your crypto assets, you should keep:

- receipts when you buy, transfer or dispose of crypto assets
- a record of the date of each transaction
- a record of what the transaction is for and who the other party is (this can just be their crypto asset address)
- exchange records
- a record of the value of the crypto asset in Australian dollars at the time of each transaction
- records of agent, accountant and legal costs
- digital wallet records and keys
- a record of software costs that relate to managing your tax affairs.

You need to keep details for each crypto asset as they are separate CGT assets. Keeping good records is essential for meeting your tax obligations.

Tips for protecting crypto asset records

Keeping good records are important as crypto can be volatile. Our record keeping tips may help safeguard you against loss of information, which could happen at any time. Keep these records during the period you hold or transact using crypto:

- Export your transaction history regularly to protect you in case of loss of access to your account.

- Set yourself a reminder to export your transaction history at least every 3 months.
- Before closing an account, export your complete transaction history.
- Find a reputable Australian crypto tax calculator – there are free and low-cost services you can use to sync your exchange and wallet accounts.
- Use a blockchain explorer or contact the crypto exchange's customer service if you need to recreate lost records.

How long to keep records

Keep records for five years from the later of:

- when you prepare or obtain the records
- when transactions or acts are complete
- the year that the CGT event happens.

You should keep records long enough to cover your amendment period (usually 2 or 4 years) for an assessment that uses information from the record.

Your records must be in:

- English or be translatable to English
- in writing, however they can be electronic or paper.

Crypto assets glossary

- https://www.ato.gov.au/Individuals/Investments-and-assets/Crypto-asset-investments/Crypto-assets-glossary/
- Last modified: 23 Nov 2022
- QC 69956

A glossary of terms common in crypto.

On this page

A–E

Airdrop

Airdrops are a marketing tool that distribute crypto assets through a group of people to build their use and popularity.

Block

A block is a group of transaction records grouped together. At regular intervals a new block is added to the chain.

Blockchain

A blockchain is a record of all transactions, made up of blocks, of a particular crypto asset. A blockchain is a form of digital ledger.

Chain split

A chain split occurs where there are two or more competing versions of a crypto asset blockchain. The core rules of the new chain develop independently to those of the original chain.

Chain swap

A chain swap is a process that allows the movement of crypto assets from one blockchain to another.

Crypto

Crypto is shorthand for (or an abbreviation of) crypto asset.

Crypto asset

Crypto assets are a form of digital asset that include cryptocurrencies, digital or virtual currencies, virtual assets and non-fungible tokens that use cryptography to secure transactions and don't rely on a financial intermediary.

Crypto mining

Crypto mining is the process of validating transactions on the blockchain and creating new blocks. The users who create new blocks in this system are known as miners.

F–L

Digital ledger

A digital ledger is a digital system for recording the transaction of assets in which the transactions and their details are recorded in multiple places at the same time.

Digital wallet

A digital wallet is on online or software-based place to store your private keys.

Forger

A forger (similar to a miner) is someone who validates transactions and creates new blocks in a proof of stake system.

Hardware wallet

A hardware wallet is a secure physical device which stores the user's private keys.

M–S

Non-fungible token

A non-fungible token is a digital file or asset stored on a digital ledger where each token is unique and not interchangeable.

Payment gateway

A crypto payment gateway is a payment processor for digital assets.

Private key

A private key is similar to a password and allows you to transact with your crypto assets.

Smart contract

A smart contract is a computer program that facilitates, verifies, or enforces defined rules on the blockchain.

Stablecoin

A stablecoin is a cryptocurrency that pegs its value to some other asset, generally a non-digital currency or commodity.

Staking

Staking can involve locking your existing crypto assets to validate transactions on the blockchain and create new blocks.

Staking may also refer to other activities that involve pledging your crypto assets to generate a passive return (or yield).

T–Z

Token

A token is a unit of value on a blockchain that usually has some other value proposition besides just a transfer of value.

Wrapping

Wrapping is the process of creating a wrapped token. It typically involves interactions with a smart contract.

Wrapped tokens

A wrapped token is a tokenised version of another crypto asset, which mirrors the value of the original crypto asset it represents.

Managed investment trusts

- https://www.ato.gov.au/Individuals/Investments-and-assets/Managed-investment-trusts/
- Last modified: 01 Jul 2022
- QC 22815

Managed investment trusts include:

- cash management trusts
- money market trusts
- mortgage trusts
- unit trusts
- managed funds, such as a property trust, share trust, equity trust, growth trust, imputation trust or balanced trust.

On this page

Trust income and credits

You must show any income or credits you receive from any trust investment product on your tax return. Your distribution advice or statement from the trust will show the information you need to complete your tax return, including:

- income and capital gains from a trust, including a managed fund
- capital gain or loss when you dispose of your managed investment trust units
- your share of a national rental affordability scheme tax offset.

You can also claim credits for tax:

- paid on or withheld from trust income
- withheld from fund payments from a managed investment trust
- withheld from trust income subject to foreign resident withholding
- withheld from trust income subject to non-resident withholding tax, if you were in fact a resident.

For more information on how to complete your tax return if you have income from a managed fund, watch our video on How to complete myTax when you have managed funds and a carried forward loss.

Trust losses

If a trust makes an overall loss in an income year, the loss is retained in the trust – there is no amount of net income available for distribution.

However, in some cases you are required to report a loss on your tax return. This happens if you are eligible to use the averaging provisions available to primary producers and the trust has made a loss from its primary production activities but has an overall net income amount, part or all of which it distributes to you.

Your distribution advice or statement from the trust will separately identify your share of any primary production loss (which is needed for averaging purposes) and your share of other income.

For information on Trust loss provisions, see Trust loss provisions.

Trust income deductions

Tax deductions for managed investment trusts can include:

- management fees
- specialist journals
- interest on money you borrowed to invest.

If you made a prepayment of $1,000 or more in relation to your managed investment, there are special rules which may affect the amount you can deduct.

You can't claim a deduction for:

- expenses incurred in deriving exempt income or non-assessable non-exempt income – such as expenses incurred in deriving distributions on which family trust distribution tax or trustee beneficiary non-disclosure tax has been paid
- amounts the trust has already claimed or that only the trust can claim, – such as expenditure on landcare operations or water facilities.

Capital gains from a trust

Distributions from trusts can include different types of amounts. The following two are relevant for capital gains tax (CGT) purposes:

- capital gains
- non-assessable payments.

Non-assessable payments mostly affect the cost base of units in a unit trust (including managed funds) but can in some cases create a capital gain.

The trustee should advise you whether the CGT discount, the small business 50% active asset reduction, or both, have been taken into account in working out the trust's net capital gain.

Keeping good investment records

- https://www.ato.gov.au/Individuals/Investments-and-assets/Keeping-good-investment-records/
- Last modified: 01 Jul 2022
- QC 22806

Good records allow you to report your investment income accurately and claim all the deductions to which you are entitled. You should keep records if you prepare your own tax return or use a tax agent.

Generally for investments you will need to keep your records for five years after we've processed your return.

On this page

What records to keep

You need to keep records relating to your investments showing:

- how much you paid for them
- what you received if you disposed of them
- what income you received from them
- the expenses you incurred in owning them and maintaining them.

Examples of records include:

- your acquisition and disposal statements (your 'buy' and 'sell' contracts) – keep these records for five years from the date you dispose of your shares
- bank statements and passbooks
- dividend or managed investment distribution statements
- purchase and sale details, including any contracts
- expenditure records
- details of capital losses made in previous years – you may be able to offset these losses against future capital gains.

You will receive most of the records you need to keep from:

- the company that issued the shares
- your stockbroker or online share trading provider
- your financial institution, if you took out a loan to buy the shares.

For more information on record keeping, see Record keeping for CGT and Records you need to keep.

Asset registers

You can set up an asset register as an easy way to keep your records. Once you have entered your information into the register, you may be able to throw out records (after five years) you would otherwise have to keep for a long time.

Interest, unfranked dividends and royalties

- https://www.ato.gov.au/Individuals/Investments-and-assets/Interest,-unfranked-dividends-and-royalties/
- Last modified: 01 Jul 2022
- QC 33221

If you are a foreign resident, tax is generally withheld in Australia from interest, unfranked dividends and royalties you earn in Australia.

On this page

Tax rates for foreign residents

You advise the Australian financial institution – your payer – that you are a foreign resident and they withhold tax in Australia at the time of payment. You won't need to declare this income in an Australian tax return. Your payer should withhold tax at the following rates:

Tax rates for foreign residents

Tax rate for	Treaty countries	Non-treaty countries %
Interest	Some agreements provide an exemption from withholding tax in certain circumstances.	10
Unfranked dividends	Most agreements reduce the rate to 15%.	30
Royalties	Most agreements reduce the rate to 15%.	30

The full list of our tax treaties is maintained by Treasury and can be found at Australian tax treaties.

Tell your Australian payer your current overseas address so they can withhold the right rate of tax. If you don't, they may withhold tax at the higher rate of 47% (from 1 July 2017).

Certificates of payment

If you need proof of payment of withholding tax to comply with the tax requirements of your own country, you can ask your payer to ask us for a certificate of payment.

For more information on investment income and withholdings paid to foreign residents, see:

- Investment income and royalties paid to foreign residents
- Withholding from dividends paid to foreign residents
- Withholding from royalties paid to foreign residents

Notice of assessment (NOA)

If you require a notice of assessment, see Requesting a copy of your Notice of assessment.