Rental property expenses - what you can and can't claim

It's not uncommon for landlords to be confused about what they can and can't claim for their rental properties. What often seems to make perfect sense in the real world does not always make sense for the Australian Tax Office (ATO).

In general, deductions can only be claimed if they were incurred in the period that you rented the property or during the period the property was genuinely available for rent. This means a tenant needs to be in the property or you are actively looking for a tenant. If, for example, you keep the property vacant while you are renovating it, then you might not be able to claim the expenses during the renovation period if it was not rented or available for rent during this time (there are some exceptions to this general rule). There needs to be a relationship between the money you make and the deductions you claim. Here are a few common problem areas:

Interest on bank loans

Only the interest on repayments for investment property loans, and bank charges, are deductible - not the actual loan itself. Also, if a loan facility is used for multiple purposes then only some of the interest expenses might be deductible. For example, if some of the loan is used to acquire or renovate a rental property but further funds are drawn down to pay for a holiday then this is a mixed purpose loan and an apportionment needs to be undertaken.

Repairs or maintenance?

Deductions claimed for repairs and maintenance is an area that the ATO is looking very closely at so it's important to understand the rules. An area of major confusion is the difference between repairs and maintenance, and capital works. While repairs and maintenance can often be claimed immediately, the deduction for capital works is generally spread over a number of years.

Repairs must relate directly to the wear and tear resulting from the property being rented out. This generally involves restoring a worn out or broken part - for example, replacing damaged palings of a fence or fixing a broken toilet.

The following expenses will not qualify as deductible repairs, but are capital:

- Replacement of an entire asset (for example, a complete fence, a new hot water system, oven, etc.)
- Improvements and extensions where you are going beyond the work that is required to restore the property back to its former state

Also remember that any repairs and maintenance undertaken to fix problems that existed at the time the property was purchased are not deductible, even if you didn't find out about the problem until later.

The sharing economy

The deductions you can claim for 'sharing' a room or an entire house are similar to rental properties. You can claim tax deductions for expenses such as the interest on your home loan, professional cleaning, fees charged by the facilitator, council rates, insurance, etc. But, these deductions need to be in proportion to how much and how long you rent your home out. For example, if you rent your home for two months of the financial year, then you can only claim up to 1/6th of expenses such as interest on your home loan as a deduction. This would need to be further reduced if you only rented out a specific portion of the home.

Friends, family and holiday homes

If you have a rental property in a known holiday location, the ATO is likely to be looking closely at what you are claiming. If you rent out your holiday home, you can only claim expenses for the property based on the time the property was rented out or genuinely available for rent and only if the property was not actually being used for private purposes at that time.

If you, friends or relatives use the property for free or at a reduced rent, it is unlikely to be genuinely available for rent and as a result, this may reduce the deductions available. It's a tricky balance particularly when you are only allowing friends or relatives to use the property in the down time when renting it out is unlikely.

A property is more likely to be considered unavailable if it is not advertised widely, is located somewhere unappealing or difficult to access, and the rental conditions - price, no children clause, references for short terms stays, etc., - make it unappealing and uncompetitive.

Agostinelli Perlen Pty Ltd
Chartered Accountants
Level 1, 200 Lygon Street Carlton Victoria 3053
+61 3 9654 2022
info@agpe.com.au
www.agpe.com.au