

Topics

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For further explanation of any of the items listed, please do not hesitate to contact our firm for an appointment.

Office Hours:

8:30am
To
5:00pm

Monday
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We have provided the following information for your consideration to ensure you are claiming all allowable deductions and meeting all ATO compliance requirements in relation to your rental property:

- Repairs and Maintenance Vs. Capital Improvements
- Expenses that can be claimed as an immediate tax deduction
- Travel expenses.
- Record keeping - what you need and retention periods.

Repairs and Maintenance vs. Capital Improvements

It is important to understand the difference between repairs and maintenance or capital improvements.

Repairs and Maintenance

Partially replacing an item such as panels on a damaged fence would be classified as a repair. Maintenance is simply work completed to prevent or fix existing deterioration. e.g. servicing a heater.

Both of these types of expenses can be claimed in the financial year that they occurred as a tax deduction.

Capital Improvements

Improvements generally are when an item is completely replaced or added to the property. They also extend the functional life of an item and change its original character. If you replaced the fence mentioned above rather than just the damaged panels this would be considered a capital improvement.

These types of improvements must be depreciated over a number of years. Capital improvements are classified as Capital Works deductions or Plant and Equipment items.

Capital Improvements vs. Plant and Equipment

Capital Improvements could include upgrading the bathroom tiles or upgrading the kitchen cupboards. These types of improvements generally cannot be removed without damaging them and will typically be depreciated at 2.5% over 40 years.

Plant and Equipment items include both removable and mechanical items, such as curtains, carpets and hot water systems. These items depreciate over varying years.

So when determining whether money spent on maintaining property is classified as Repairs and Maintenance or Capital Improvements, the following questions must be asked:

1. Has the property or the item been altered to extend its functional life?
2. Has the character of the original item changed or does it now provide a different function?

If the answer is yes to both questions, then the improvement needs to be considered as a capital improvement and must be depreciated over time and not claimed as an immediate deduction.

Alternatively, when determining whether an item is classified as Repairs and Maintenance, you may ask the following questions:

1. Has the property or the item been altered to maintain its functional life?
2. Has the character of the original item been maintained and does it provide the same function?

All capital improvements completed on the investment property should be added to the Depreciation Schedule and depreciated according to the ATO Guidelines.

What Expenses You Can Claim

Decline in value of depreciating assets

You can deduct an amount equal to the decline in value for an income year of a depreciating asset that you held for any time during the year. Please note new changes effective from 9 May 2017 limit depreciation to only be claimed on depreciable assets which are actually paid for by the owner and not those which have been acquired as part of a property purchase. Nb. Properties owned before this date and rented before 30 June 2017 can still continue to depreciate the assets already acquired as in previous years.

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What Expenses You Can Claim (continued)

Capital Works

Is a decline in value of the properties main structure and can also include any fixed assets that belong to the property.

There are certain dates that need to be considered when assessing capital works deductions. To calculate the capital works deductions, the building structure or the fixed asset needs to be assessed by a recognised construction professional (Quantity Surveyor).

Repairs and maintenance

The investor can claim these costs as a 100% deduction in the financial year that they occurred. Please refer to the previous article 'Repairs and Maintenance or Capital Improvements' page 1.

Borrowing expenses

The types of borrowing expenses listed below can be claimed as income tax deductions for taking out a loan to purchase a rental property. The borrowing expenses are deductible over the life of the loan or 5 years (whichever is less).

- Stamp duty charged on the mortgage
- Loan establishment fees
- Title search fees charged by your lender
- Costs (including solicitors' fees) for preparing and filing mortgage documents
- Mortgage broker fees
- Fees for a valuation required for loan approval
- Lender's mortgage insurance.

Interest expenses

You can claim the interest charged on the loan for income tax deductions in the year that it occurred if the interest charged was used for:

- Purchase of a rental property
- Purchase of an asset for the rental property (e.g. to buy hot water system)
- To make repairs to the rental property (e.g. repair a front fence)
- To finance property renovations on the rental property, which is currently rented out, or which you intend to rent out (e.g. to add a pergola)
- Purchase land on which to build a rental property.

You may also be eligible to claim pre-paid interest for a period up to 12 months in advance.

Note that the interest can only be claimed as an expense whilst the property is available for rent. Any interest that accrues before the property is available for rent or during renovations whilst it is untenanted are capital and add to the cost of the property.

Legal expenses

You can claim legal expenses as an income tax deduction if the expense was incurred for the purpose of:

- Evicting a non-paying tenant
- Taking court action for loss of rental income
- Defending a damages claim in respect of injuries suffered by a third party on your rental property
- Renewing a lease.

Note. Legal fees paid during the course of purchasing or selling a property are capital and are added to the cost of the property rather than claimed as an expense.

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Other Common Expenses that you can Claim

- Advertising for tenants
- Bank Charges
- Body Corporate Fees
- Council Rates
- Gardening & Lawn mowing
- Insurance
- Land tax
- Pest Control
- Telephone
- Property Agent Fees
- Stationery Costs
- Quantity Surveyors Costs
- Water Charges

What Are Capital Expenses?

Expenses you incur when purchasing/acquiring or selling/disposing of your rental property are capital expenses, these include:

- Conveyancing costs paid to a conveyancer or solicitor
- Title search fees
- Valuation fees (when it is a private valuation conducted by your solicitor)
- Stamp duty on the transfer of the property.
- Commission paid to real estate agent upon selling
- Initial Repairs
- Holding costs (e.g. council rates, loan interest, body corporate fees) which occurred prior to being available for rent or periods when not available to rent such as during a renovation.

You may be able to include capital expenses when calculating the 'cost base' of your property. The cost base of a capital gains tax (CGT) asset is generally the cost of the asset when you bought it.

However, it also includes certain other costs associated with purchasing/acquiring, holding and selling/disposing of the asset.

This can help you reduce the amount of CGT you pay when you sell your property.

If you require more information regarding cost base, please speak to us.

Travel Expenses

We note that from 1 July 2017, travel expenses relating to an investment property are no longer deductible regardless of the purpose of the travel. You can however, have your local agent inspect the property and the cost of such is deductible.

What Records to Keep

You need to keep proper records in order to make a claim

- The rental income you receive and the deductible expenses you pay - keep these records for five years.
- Your ownership of the property and all the costs of purchasing/acquiring and selling/disposing of it - keep these records for five years from the date you sell/dispose of your rental property, it is always a good idea not to dispose of this information.