

Below is a summary of the information and records typically required by accountants to prepare a landlord's Rental Property Schedule in the Income Tax Return:

- Rental Property Statement from the Property Manager for the tax year (1 July to 30 June);
- The number of weeks the property was available for rent to the general public in that tax year;
- The number of weeks the property was used for private use in that tax year;
- Details of new assets (i.e. Furniture and Fittings) purchased for the investment property during the year (i.e. Date, Cost and Description);
- Details of any investment property assets scrapped or sold during the year;
- Details of any significant repairs to the rental property, including supporting invoices;
- Copies of surveyors reports you have obtained to claim a capital works deduction.
- Copies of the loan statements for the full tax year 1 July to 30 June.
- Details of any inspection costs incurred.
- Details of any expenses paid for privately and not recorded by your property manager (i.e. Rates, Insurance, Body Corporate etc.)
- Copies of the purchase and/or sale contracts for the investment property.

By providing the above information, you will allow your accountant to prepare the income tax returns efficiently and cost effectively.

Further information on the deductions a landlord may be entitled to is provided below, including some common misconceptions.

RENTAL EXPENSES - GENERAL INFORMATION

Expenses for which you can claim an immediate deduction

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

- advertising for tenants
- body corporate fees and charges
- cleaning
- council rates
- electricity and gas
- gardening and lawn mowing
- in-house audio/video service charges
- insurance
- interest on loans (see more information following)
- land tax
- pest control
- property agent's fees and commission
- quantity surveyor's fees
- repairs and maintenance
- secretarial and bookkeeping fees
- security patrol fees
- servicing costs – for example, servicing a water heater
- stationery and postage
- telephone calls and rental
- travel and car expenses (see more information following)
- water charges

Expenses deductible over a number of income years

There are three main types of expenses which are claimable over a number of income years:

- Borrowing expenses - These are your loan application fees, stamp duty on the loan and so-on. These are normally claimable over 5 years.
- Depreciation or amounts for decline in value of depreciating assets. The upfront cost of an asset, such as furniture, is not a tax deduction. However, a proportion of the purchase price is claimable each year as a deduction. This is referred to as depreciation.
- Capital works / Building Write Off deductions (See below). Similar to depreciation, but relates to the structural component of a property.

Expenses which are not deductible

Expenses you may incur on your rental property that are not deductible include:

- Stamp Duty on the purchase of the property;
- Legal fees on purchase or sale;
- Agents commission on sale of the property;
- Any other acquisition or sale costs; and
- Expenses related to the property when you are using the property privately.

These costs are considered capital, and instead, are added to the overall cost of the property for capital gains tax purposes.

COMMON MISCONCEPTIONS & ISSUES

Provided below are a few misconceptions in relation to investment properties and your entitlement to deductions. Should you have any concerns contact your accountant to discuss your particular circumstances.

Private Use

Expenses incurred on your investment property will only be claimable to the extent it is used in deriving assessable income. Accordingly, where you use the property for personal use, the expenses incurred will not be deductible. The costs (including interest, rates, insurance, laundry so-on) will be apportioned based on the time the property was available for rent to the general public and the time it was used by you personally.

Interest

Interest on a loan used to acquire the property can be claimed as a deduction against the rental income. However, it is only the interest component of your repayments that is deductible, not the principal component of the loan repayment.

In addition, the interest is claimable based on the ownership percentage of the property, not the persons on the loan statement. For example, take a situation where an investment loan is in one spouse's name, but the property is owned by both the husband and wife. The interest deduction in this case will be split 50/50 based on the ownership percentage, regardless of the persons listed on the loan.

For the interest to be deductible, the loan must be for the investment property only. Where a loan is used for partially private purposes (i.e. Line of Credit), only the proportion related to the property is claimable. This includes redraw amounts used for private purposes.

