THE INCOME TAX PROFESSIONALS

Rental property owners: maximise your tax return with these deductions

Own a rental property that generates income? Maybe you're tossing up your investment strategies and buying a rental is on your list. While there are some great deductions that will boost your tax return, the Australian Tax Office (ATO) has recently tightened the rules on rental property expenses. It really pays to know what you can and can't claim at tax time. Read on for our quick tax guide for investment property owners.

Deductions you can claim

You can claim a variety of expenses relating to owning and operating your rental property. These include:

- Advertising for tenants in the paper or on websites such as domain.com.au or realestate.com.au
- Bank fees for generating your rental income
- Body corporate or strata fees (if you own a unit or townhouse)
- Capital works to improve your property (you need to claim these through depreciation)
- Cleaning your property at the end of the rental or lease period
- Council rates to cover rubbish collection and street maintenance
- Gardening and lawn mowing expenses you cover
- In-house audio/video service charges
- Insurance such as building, landlords and contents
- Interest on your mortgage (but not the principle you pay)
- Land tax if you're required to pay it
- Lease costs such as preparation and registration
- Legal expenses for maintaining your rental property or managing issues with a tenant
- Pest control costs if you have mice, ants, termites or other pests in your property
- Property agent's fees and commissions for renting out your property
- Quantity surveyor's fees for estimating the value of any construction costs
- Repairs, maintenance and servicing costs to ensure the property is in good working order for tenants
- Stationery and postage costs to interact with your property manager or tenants
- Tax-related expenses for managing your tax affairs
- Telephone calls relating to your rental property or line rental for the property's phone
- Utilities such as water, electricity and gas bills you cover.

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Deductions you can't claim

You can't claim these expenses for your rental property:

- Household bills your tenant pays.
- The cost of borrowing against the equity in the rental property for private use.
- Those relating to personal use of the rental property.
- Costs of buying or selling the property such as advertising, conveyancing, building inspection reports, travel to view the property and stamp duty. These costs may form part of the cost base for Capital Gains Tax purposes. Speak to your accountant for expert advice.
- Travel costs to inspect or maintain the property are no longer allowed as of 2017.
- Depreciation of plant and equipment in second-hand properties is not permitted for properties bought from 7:30 pm on 9 March 2017. This includes floor coverings, air-conditioning, appliances and other assets in the property at the time of purchase. Deductions for fixed and structural items are still allowed.

Beware of these special conditions

- You can only claim expenses relating to your rental property for the period it's rented out or available for rent. The ATO has been cracking down on investment property owners claiming tax deductions on properties they use as holiday homes.
- If you only rent out part of your property, you can only claim expenses for that portion of your property.
- You must keep proof of purchase for each expense in the form of bank statements, invoices or receipts. You also need to show your property was available for rent or rented during that financial year. If you're claiming depreciation on assets or have undertaken capital works, keep the relevant schedule to show the ATO. Speak to your accountant for more information.

Need more expert tax advice for your rental property?

ITP's team of professional and friendly tax agents can make tax time hassle-free while ensuring you get back your fair share of tax. Contact us today to learn more.