

RENTAL PROPERTY DEDUCTIONS

CHECKLIST OF DEDUCTIONS FOR OWNERS OF RENTAL PROPERTIES

	Deduct	Non-Deduct
1. Accountant's fees – preparing returns, tax advice and tax return lodgement costs.	Yes	
Secretarial and bookkeeping fees	Yes	
2. Adjustment for rates / land tax (in favour of vendor) – related to purchase of property	Yes	
3. Advertising expenses	Yes	
4. Agent fees / commission – for managing the property and collecting rent	Yes	
5. Bank charges – related to accounts used to deposit rent receipts and to meet deductible outgoings (including Interest)	Yes	
6. Boarders costs – where the tenant is a boarder in the domestic residence of the taxpayer, a proportion of rates, gas/electricity, food costs, etc. may be deductible. Generally, floor area is used as the basis of apportionment.	Yes	
7. Body corporate fees: - for general maintenance, repairs etc. - for improvements, initial repairs, etc.	Yes	No
8. Borrowing expenses - search fees, valuation fees, survey and registration fees etc.	Yes	
9. Building and structural improvements a write-off could be available for the cost of constructing capital works. Construction must generally commence after: • 17/07/1985 – for residential buildings or • 26/02/1992 – for structural improvements	Yes	
10. Cleaning	Yes	
11. Deposit bond fee		No
12. Depreciation – assets in the rental property (e.g., carpets, blinds, hot water service etc.)	Yes	
13. Electricity and Gas	Yes	
14. Gardening and lawn mowing	Yes	
15. In – house audit / video surveillance	Yes	
16. Initial repairs		No
17. Insurance premiums – sickness/accident, building, fire, burglary, public liability, loss of rent, contents, Landlords – Life and trauma	Yes	No

18. Interest on money borrowed to purchase rental property	Yes	
19. Land tax	Yes	
20. Lease preparation, registration, stamping	Yes	
21. Lease incentive payment	Yes	
22. Lease surrender payment		No
23. Legal costs: – recovering unpaid rent, seeking damages for breach of agency agreement, reviewing credit worthiness of proposed tenant – to buy or sell the property, to defend title to the property, to oppose a neighbour's building application	Yes	No
24. Mortgage discharge expenses	Yes	
25. Mortgage insurance	Yes	
26. Penalty interest on early loan repayment	Yes	
27. Pest control	Yes	
28. Security Patrol Fees	Yes	
29. Servicing cost	Yes	
30. Stationery and postage	Yes	
31. Property agent's fees and commission	Yes	
32. Quantity surveyor report	Yes	
33. Rates (council and water)	Yes	
34. Repairs and maintenance	Yes	
35. Tax Related expenses	Yes	
36. Telephone calls and rental – related to dealing with real estate agents, tenants, plumbers, and other rental property matters	Yes	
37. Travel: - to prepare property for incoming tenants - to collect rent - to inspect the property during, or at the conclusion of, a tenancy - to maintain / undertake repairs to property - to inspect property prior to purchase - to purchase property - to undertake improvements to property	Yes Yes Yes Yes	No No No

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Expenses for repairs carried out on an income earning property will normally be deductible at the time it is incurred. Initial repairs carried out when the property is purchased cannot be claimed as a deduction. Initial repairs form part of the capital costs of the rental property and as such form part of the cost base for the calculation of a Capital Gain or Loss.

Where repair work goes beyond repair and constitutes an improvement to the property, the expense is not deductible. Where repair work constitutes an improvement to the property, depreciation is normally claimable on the improvement.

Many of the ordinary maintenance activities associated with ownership of buildings will be generally accepted as repairs rather than capital improvements. This includes such activities as, painting, maintaining gutters, maintaining plumbing, repairing electrical appliances, replacing broken parts of fences and windows.

However, the replacement of a timber fence with a galvanized iron fence or replacing wooden framed windows with aluminium window frames would constitute an improvement.

Interest will be deductible if the use to which the funds are put has a nexus with assessable income. It is the use of the funds not the source that determines deductibility. Therefore if you borrow against the equity in your principal place of residence to purchase a rental property, the interest charged is deductible.

Costs incurred in borrowing money used to acquire a rental property will be deductible over the term of the loan or 5 years, whichever is less.

Borrowing costs typically include:

- a) Bank fees
- b) Registration of mortgage
- c) Legal costs
- d) Stamp duty
- e) Mortgage insurance