

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.

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 can still continue to depreciate the assets already acquired as in previous years.

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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

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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 a rental
- 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.

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.

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 | |

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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

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

For the year ending 30 June 2017, you can claim travel expenses as an income tax deduction if the purpose of the travel is for the following reasons:

- Preparing the property for new tenants (except for the initial tenancy)
- Inspecting the property during or at the end of tenancy
- Undertaking repairs, where those repairs are because of damage or wear and tear incurred while you rented the property out
- Maintaining the property, such as cleaning and gardening, while it is rented or available for rent
- Collecting the rent
- Visiting your agent to discuss your rental property.
- If you are required to stay overnight, you can claim meals and accommodation.
- If you use your own car to travel to inspect or maintain your rental property or to collect rent, you can claim a travel expense deduction.

However, you cannot claim travel for the following reasons:

- For your personal use of the property - if the travel is for private purposes only, no part of the expense is deductible
- To carry out general maintenance of the property while it is not genuinely available for rent
- To undertake repairs, where those repairs are not because of damage or wear and tear incurred while you rented out the property (e.g. initial repairs before you rent the property for the first time).
- You cannot claim motor vehicle expenses for travel that is incidental to the main purpose of the trip. For example, if you drive past the property to 'keep an eye on things' on your way to or from work.
- If the rental property is some distance from where you live and the main purpose for travelling there is to inspect and maintain the property, this expense can be claimed as a travel expense.
- Where your trip is mainly for private purposes (e.g. having a holiday) and inspecting the property is incidental to that main purpose, you cannot claim the costs of getting there or the return trip. You can only claim local expenses directly related to the property inspection such as taxi fares to the rental property and a proportion of accommodation expenses.

Please Note from 1 July 2017, travel expenses relating to an investment property is no longer deductible regardless of the purpose of the travel. You can however, have your local agent inspect the property which the cost of such is deductible.

RENTAL PROPERTY INVESTMENT FACT SHEET



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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.

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Tax Depreciation Schedules

Have a Quantity Surveyor prepare a Capital Allowance/Depreciation schedule for your rental property. This will allow you to claim all available deductions in relation to the assets of your property.

The schedule will assess three components of the investment property:

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- The building
- The property improvements
- The plant (note that this is no longer available for assets acquired from a property purchase post 9 May 2017 unless the item of plant is actually paid for by the taxpayer).

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From these valuations, your tax depreciation schedule will then depreciate each of the identified items as per ATO guidelines.

The principal behind tax depreciation is to compensate the property investor for the loss of value in items that are being used to produce income.

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The fee to complete this service can also be claimed back as a tax deductible expense.

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

Prepaid Expenses

A prepaid expense is expenditure you incur for things to be completed in a later income year.

These expenses are things such as insurance or interest on money borrowed. If you incur prepaid expenditure for something that you will receive in full within 12-months or less, you are entitled to deduct that expenditure in the income year it was incurred.

This is particularly handy if you wish to prepay your insurance premiums for the next financial year on 30th June, allowing you to claim it as an expense on your current financial tax return.

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