2020 Tax Time Toolkit

Rental property owners

Australian Government
Australian Taxation Office

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The 2020 Tax Time Toolkit

We encourage you to share this information with your staff, clients, members and networks.

The 2020 Tax Time Toolkit for Rental property owners

Welcome to the rental property owners toolkit for 2020. This tax time will be unlike any other we have experienced, and it promises to be one of the most challenging yet. The 2019–20 financial year has seen our country, our people, our wildlife and our land affected by unprecedented events. From drought and water shortages, to severe bushfires and the COVID-19 pandemic – every Australian has been affected in some way.

We recognise the challenges faced by many in our community and are working hard to deliver the government's economic stimulus measures and assistance to all Australians. The ATO is focused on providing the best possible support to all of our clients, if you need information about how we can help, visit **ato.gov.au/disaster**.

Whilst things will look different this year, what hasn't changed is our commitment to provide support and help so rental property owners lodge their returns accurately the first time and ensure they keep the records they need to prepare their returns now and in the future when they sell their properties. Getting your return right avoids costly follow up, and rework down the track.

Nine in 10 individuals make errors when reporting rental income and deductions, and this toolkit has been designed to address some of the common areas where people make mistakes, including:

- loan interest
- record keeping
- borrowing expenses
- repairs and improvements.

This year we have also added a new page about what to do if your property is damaged or destroyed, for those of you who may have experienced this unfortunate event.

While we provide help and support, we also focus on ensuring the integrity of the system and take actions which contribute to a level playing field for all taxpayers. This means we will continue to identify incorrect returns and deal with those who choose to do the wrong thing, which may include application of penalties and prosecution.

Whilst this year has been hard, your tax return doesn't need to be. This toolkit has been designed to help rental property owners and their agents understand their obligations and avoid costly mistakes in their returns. I encourage all rental property owners and their agents to refer to this toolkit as they complete their returns. You can access other products we have available to assist, such as videos and our rental property guide at **ato.gov.au/property**.

Adam O'Grady
Assistant Commissioner
Individuals and Intermediaries
Australian Taxation Office

A helpful directory for tax time

The ATO has a range of information, tools and services available to help Australians prepare and lodge their tax return every year:

- ato.gov.au/taxessentials – an overview of the essential information individuals need to know for their tax return this year
- ato.gov.au/disaster – specific advice for those affected by natural disasters
- ato.gov.au/coronavirus – specific advice for those affected by COVID-19
- ato.gov.au/whatsnew – changes to be aware of before you complete your tax return
- ato.gov.au/doineedtolodge – an easy tool to find out if you need to lodge a tax return this year
- ato.gov.au/lodgemyreturn – lodge using myTax or a registered tax agent. If you are going to lodge your own return, myTax is the quickest and easiest way to lodge
- ato.gov.au/RentalpropertyCOVID19 – specific advice for rental property owners affected by COVID-19
- ato.gov.au/rental – find out what you need to declare and what you can claim for your investment property
- ato.gov.au/deductions – it pays to know what you can claim at tax time
- ato.gov.au/occupations – guides from specific industries and occupations to help you correctly claim the work-related expenses you are entitled to
- ato.gov.au/mydeductions – a useful way to keep track of records throughout the year to make tax time easier
- ato.gov.au/incomeyoumustdeclare – find out what income you must declare in your tax return
- ato.gov.au/calculators – a range of popular calculators and tools to help you work out the answers to questions unique to your tax and super circumstances
- ato.gov.au/whereismyrefund – track the progress of your return
- ato.gov.au/onlineservices – access a range of tax and super services in one place, including lodging your tax return, tracking the progress of your return and making a payment or entering a payment arrangement
- ato.gov.au/community – ask your tax and super related questions over on the ATO's online community forum
- ato.gov.au/findus – keep up to date with the latest tax and super information on the go! Follow the ATO to get tax tips and updates in seconds, share information and stay informed.

Information for rental property owners including deductions you can claim

The following pages contain fact sheets for rental property owners.

- Top 10 tips to help rental property owners avoid common tax mistakes
- Tax-smart tips for your investment property
- Rental properties – interest expenses
- Rental properties – borrowing expenses
- Rental properties – damaged or destroyed property
- Rental properties – repairs, maintenance and capital expenditure
- Renting out a room

Top 10 tips
to help rental property owners avoid common tax mistakes

Whether you use a tax agent or choose to lodge your tax return yourself, avoiding these common mistakes will save you time and money.

1. Apportioning expenses and income for co-owned properties

If you own a rental property with someone else, you must declare rental income and claim expenses according to your legal ownership of the property. As joint tenants your legal interest will be an equal split, and as tenants in common you may have different ownership interests.

2. Make sure your property is genuinely available for rent

Your property must be genuinely available for rent to claim a tax deduction. This means:

- you must be able to show a clear intention to rent the property
- advertising the property so that someone is likely to rent it and set the rent in line with similar properties in the area
- avoiding unreasonable rental conditions.

3. Getting initial repairs and capital improvements right

Ongoing repairs that relate directly to wear and tear or other damage that happened as a result of you renting out the property can be claimed in full in the same year you incurred the expense. For example, repairing the hot water system or part of a damaged roof can be deducted immediately.

Initial repairs for damage that existed when the property was purchased, such as replacing broken light fittings and repairing damaged floor boards are not immediately deductible but a deduction may be claimed over a number of years as a capital works deduction. These costs are also used to work out your capital gain or capital loss when you sell the property.

Replacing an entire structure like a roof when only part of it is damaged or renovating a bathroom is classified as an improvement and not immediately deductible. These are building costs which you can claim at 2.5% each year for 40 years from the date of completion.

If you completely replace a damaged item that is detachable from the house and it costs more than $300 (eg replacing the entire hot water system) the cost must be depreciated over a number of years.

4. Claiming borrowing expenses

If your borrowing expenses are over $100, the deduction is spread over five years. If they are $100 or less, you can claim the full amount in the same income year you incurred the expense. Borrowing expenses include loan establishment fees, title search fees and costs of preparing and filing mortgage documents.

5. Claiming purchase costs

You can't claim any deductions for the costs of buying your property. These include conveyancing fees and stamp duty (for properties outside the ACT). If you sell your property, these costs are then used when working out whether you need to pay capital gains tax.

6. Claiming interest on your loan

You can claim interest as a deduction if you take out a loan for your rental property. If you use some of the loan money for personal use such as buying a boat or going on a holiday, you can't claim the interest on that part of the loan. You can only claim the part of the interest that relates to the rental property.

7. Getting construction costs right

You can claim certain building costs, including extensions, alterations and structural improvements as capital works deductions. As a general rule, you can claim a capital works deduction at 2.5% of the construction cost for 40 years from the date the construction was completed.

Where your property was owned by someone else previously, and they claimed capital works deductions, ask them to provide you with the details so you can correctly calculate the deduction you're entitled to claim. If you can't obtain those details from the previous owner, you can use the services of a qualified professional who can estimate previous construction costs.

8. Claiming the right portion of your expenses

If your rental property is rented out to family or friends below market rate, you can only claim a deduction for that period up to the amount of rent you received. You can't claim deductions when your family or friends stay free of charge, or for periods of personal use.

9. Keeping the right records

You must have evidence of your income and expenses so you can claim everything you are entitled to. Capital gains tax may apply when you sell your rental property. So keep records over the period you own the property and for five years from the date you sell the property.

10. Getting your capital gains right when selling

When you sell your rental property, you may make either a capital gain or a capital loss. Generally, this is the difference between what it cost you to buy and improve the property, and what you receive when you sell it. Your costs must not include amounts already claimed as a deduction against rental income earned from the property, including depreciation and capital works. If you make a capital gain, you will need to include the gain in your tax return for that income year. If you make a capital loss, you can carry the loss forward and deduct it from capital gains in later years.

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Tax-smart tips for your investment property

Being tax-smart when investing in property means more than making the right property choices. If you use your property to earn income at any time, you will have tax obligations and entitlements.

Getting record keeping right makes tax time easy

Whether you use a tax agent to prepare your tax return or do it yourself, you need to keep proper records over the period you own the property.

Keep the right records for each stage of your journey to ensure you're able to claim everything you're entitled to.

Buying

- contract of purchase
- conveyancing documents
- loan documents
- costs to buy the property
- borrowing expenses

Owning

- proof of earned rental income
- all your expenses
- periods of private use by you or your friends
- periods the property is used as your main residence
- loan documents if you refinance your property
- efforts to rent the property out
- capital improvements

Selling

- contract of sale
- conveyancing documents
- sale of property fees
- calculation of capital gain or loss

Here are some record keeping tips:

- Set up an easy-to-use record-keeping system as your first priority. This can be as simple as a spreadsheet or you can use professional software.
- Keep records of every transaction over the period you own the property. This includes contracts of purchase and sale, as well as conveyancing and loan documentation.
- Scan copies of your receipts to make it easier to store and access them.

Remember: Keeping proof of all your income, expenses and efforts to rent out your property means you can claim everything you are entitled to.

Rental property owners should remember three simple steps when preparing their return:

1. **Include all the income you receive**
   This includes income from short term rental arrangements (eg a holiday home), sharing part of your home, and other rental-related income such as insurance payouts and rental bond money you retain.

2. **Get your expenses right**
   - Eligibility – Claim only for expenses incurred for the period your property was rented or when you were actively trying to rent the property on commercial terms.
   - Timing – Some expenses must be claimed over a number of years.
   - Apportionment – Apportion your claim where your property was rented out for part of the year or only part of your property was rented out, where you used the property yourself or rented it below market rates. You must also apportion in line with your ownership interest.

3. **Keep records to prove it all**
   You should keep records of both income and expenses relating to your rental property, as well as purchase and sale records.

If you sell an investment property or your main residence that you have rented out, remember:

- You may have to pay capital gains tax, even if you transfer the property into someone else's name.
- A capital gain is the difference between your cost base (cost of ownership) and your capital proceeds (what you receive when you sell the property or the market value when you transfer the property).
- If your costs of ownership are greater than your capital proceeds, a capital loss should be included in your return and this amount may reduce future capital gains.
- If you have claimed a deduction for capital works or depreciation in any income year, your cost base should not include these amounts.
- If you own the property for more than 12 months, and you are an Australian resident, you may be entitled to a 50% discount on tax on the capital gain.

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Rental properties

Interest expenses

If you take out a loan to purchase a rental property, you can claim the interest charged on that loan, or a portion of the interest, as a deduction. However, the property must be rented, or genuinely available for rent, in the income year for which you claim a deduction.

What can you claim?

You can claim the interest charged on the loan you used to:

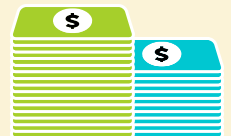
- purchase a rental property
- purchase a depreciating asset for the rental property (for example to purchase a new air conditioner for the rental property)
- make repairs to the rental property (for example roof repairs due to storm damage)
- finance renovations on the rental property
- you can also claim interest you have pre-paid for up to 12 months in advance.

What you can't claim?

You cannot claim interest:

- for the period you used the property for private purposes, even if it's for a short period of time
- on the portion of the loan you use for private purposes when you originally took out the loan, or if you refinanced
- on a loan you used to buy a new home if you do not use the new home to produce income, even if you use your rental property as security for the loan
- on the portion of the loan you redraw for private purposes, even if you are ahead in your repayments.

If you have a loan you used to purchase a rental property and also for another purpose, such as to buy a car, you cannot repay only the portion of the loan related to the personal purchase. Any repayments of the loan are apportioned across both purposes.



Rental property owners should remember three simple steps when preparing their return:

1. Include all the income you receive

This includes income from short term rental arrangements (eg a holiday home), sharing part of your home, and other rental-related income such as insurance payouts and rental bond money you retain.

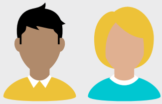
2. Get your expenses right

- Eligibility – Claim only for expenses incurred for the period your property was rented or when you were actively trying to rent the property on commercial terms.
- Timing – Some expenses must be claimed over a number of years.
- Apportionment – Apportion your claim where your property was rented out for part of the year or only part of your property was rented out, where you used the property yourself or rented it below market rates. You must also apportion in line with your ownership interest.

3. Keep records to prove it all

You should keep records of both income and expenses relating to your rental property, as well as purchase and sale records.

Example:



Claiming all interest incurred

Kosta and Jenny take out an investment loan for $350,000 to purchase an apartment they hold as joint tenants.

They rent out the property for the whole year from 1 July. They incur interest of $30,000 for the year.

Kosta and Jenny can each make an interest claim of $15,000 on their respective tax returns for the first year of the property.

Example:

Claiming part of the interest incurred

Yoko takes out a loan of $400,000 from which $380,000 is to be used to buy a rental property and $20,000 is to be used to buy a new car. Yoko's property is rented for the whole year from 1 July. Her total interest expense on the $400,000 loan is $35,000.

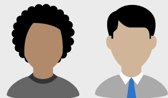
To work out how much interest she can claim as a tax deduction, Yoko must do the following calculation:

Total interest expenses × (rental property loan ÷ total borrowing) = deductible interest

That is:
$35,000 × ($380,000 ÷ $400,000) = $33,250

Yoko works out she can claim $33,250 as an allowable deduction.

Example:



Interest incurred on a mortgage for a new home

Zac and Lucy take out a $400,000 loan secured against their existing home to purchase a new home.

Rather than sell their existing home they decide to rent it out.

They have a mortgage of $25,000 remaining on their existing home which is added to the $400,000 loan under a loan facility with sub-accounts, that is, the two loans are managed separately but are secured by the one property.

Zac and Lucy can claim an interest deduction against the $25,000 loan for their original home, as it is now rented out.

They cannot claim an interest deduction against the $400,000 loan used to purchase their new home as it is not being used to produce income even though the loan is secured against their rental property.

Example:

Interest incurred on funds redrawn from the loan halfway through the year

Tyler has an investment loan for his rental property with a redraw facility. He is ahead on his repayments by $9,500 which he can redraw.

Halfway through the year, Tyler decides to redraw the available amount of $9,500 and buys himself a new TV and a lounge suite.

The outstanding balance of the loan at that time is $365,000 and total interest expense incurred until then is $9,300.

The total interest for the year is $19,000.

Tyler can only claim the interest expense on the portion of the loan relating to the rental property using the following calculation:

Total loan balance – redraw amount = rental property loan portion

That is:
$365,000 – $9,500 = $355,500

To work out how much interest he can claim, he does the following calculation in respect of the period following the redraw:

Total interest expenses x (rental property loan portion ÷ loan balance at the time of the redraw) = deductible interest

That is:
$9,700 x ($355,500 ÷ $365,000) = $9,448

Tyler can claim interest of $18,748 being $9,300 plus $9,448.

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Rental properties

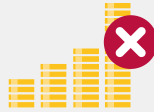
Borrowing expenses

What are borrowing expenses?

These are expenses directly incurred in taking out a loan for the purchase of your rental property.

They include:

- loan establishment fees
- lender's mortgage insurance (insurance taken out by the lender and billed to you)
- stamp duty charged on the mortgage
- title search fees charged by your lender
- costs for preparing and filing mortgage documents (including solicitors' fees)
- mortgage broker fees
- fees for a valuation required for a loan approval.



What is not included in borrowing expenses?

Borrowing expenses don't include:

- the amount you borrow for the property
- loan balances for the property
- interest expenses (these are claimed separately)
- repayments of principal against the loan balance
- stamp duty charged by your state/territory government on the transfer (purchase) of the property title (this is a capital expense)
- legal expenses, including solicitors' and conveyancers' fees for the purchase of the property (this is a capital expense)
- stamp duty you incur when you acquire a leasehold interest in a property, such as an Australian Capital Territory 99-year crown lease (you may be able to claim this as a lease document expense)
- insurance premiums where, under the policy, your loan will be paid out in the event that you die, become disabled or unemployed (this is a private expense)
- borrowing expenses on any portion of the loan you use for private purposes (for example, money you use to buy a car).

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3. **Keep records to prove it all**
   You should keep records of both income and expenses relating to your rental property, as well as purchase and sale records.

Claiming borrowing expenses

- If your total borrowing expenses are more than $100, the deduction is spread over five years or the term of the loan, whichever is less.
- If the total borrowing expenses are $100 or less, you can claim a full deduction in the income year they are incurred.

If you repay the loan early and in less than five years from the time you took it out, you can claim a deduction for the balance of the borrowing expenses in the final year of repayment.

If you obtained the loan part way through the income year, the deduction for the first year will be apportioned according to the number of days in the year you had the loan.

Example:

Apportionment of borrowing expenses

To secure a 20-year loan of $209,000 to purchase a rental property for $170,000 and a private motor vehicle for $39,000, the Hitchmans paid a total of $1,670 in establishment fees, valuation fees and stamp duty on the loan. As the Hitchmans' borrowing expenses are more than $100, they must be apportioned over five years, or the period of the loan, whichever is the lesser.

Also, because the loan was for both income-producing and personal purposes, only the income-producing portion of the borrowing expenses is deductible. As they obtained the loan on 17 July 2017, they would work out the borrowing expense deduction for the first year as follows:

	Borrowing expenses	×	number of relevant days in year / number of days in the 5-year period	=	maximum amount for the income year	×	rental property loan / total borrowings	=	deduction for year
Year 1	$1,670	×	349 days / 1,826 days	=	$319	×	$170,000 / $209,000	=	$260

Their borrowing expense deductions for subsequent years should be worked out as follows:

	Borrowing expenses remaining	×	number of relevant days in year / remaining number of days in the 5-year period	=	maximum amount for the income year	×	rental property loan / total borrowings	=	deduction for year
Year 2	$1,351	×	365 days / 1,477 days	=	$334	×	$170,000 / $209,000	=	$272
Year 3 (leap year)	$1,017	×	366 days / 1,112 days	=	$335	×	$170,000 / $209,000	=	$272
Year 4	$682	×	365 days / 746 days	=	$334	×	$170,000 / $209,000	=	$271
Year 5	$348	×	365 days / 381 days	=	$333	×	$170,000 / $209,000	=	$271
Year 6	$15	×	16 days / 16 days	=	$15	×	$170,000 / $209,000	=	$12

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Rental properties

Damaged or destroyed property

Types of income

Insurance payouts

Insurance payouts for loss of rental income and repairs need to be included in your income.

Disaster assistance payments

Most one-off assistance payments you receive from the government, charities or community groups are tax-free. To understand the types of payments and how they affect your tax, check with us at: **ato.gov.au/Assistance**

Replacing depreciable assets

If the insurance payout you received for your depreciating asset is more than its written down value you need to include the balance as income. Where the payout is less you can claim a deduction for the difference.

Expenses

If you use an assistance payment or money from a relief fund to purchase items for your rental property, the normal conditions for deductibility apply.

Event	Classification	Example	Claim: old asset (destroyed)	Calculation for expenditure
Replacing an entire structure that was fully or partially damaged or destroyed	Likely to be **CAPITAL WORKS**	Replacing **ALL** the fence, not just the damaged portion or replacing all kitchen cupboards	This may result in a capital gain or loss. See **ato.gov.au/Involuntary-disposal**	New asset generally deductible at 2.5% over 40 years
Fixing something that is damaged or broken	Likely to be a **REPAIR**	Fixing a leaking tap, or **PART** of the fence damaged in the storm	Not applicable	Amounts for **REPAIRS AND MAINTENANCE** are claimed fully in the year the expense is paid
Installing a brand new appliance or floor or window coverings	Likely to be a **DEPRECIATING ASSET**	Buying a brand new dishwasher or installing new carpet	If claiming the original item as **CAPITAL ALLOWANCES**, claim a deduction for the remaining balance (adjustable value) less any compensation received	Claim a deduction over the effective life of the asset (Decline in value)

Go to **rental properties repairs, maintenance and capital expenditure** for more information.

What happens if my rental property can't be lived in?

If your property is unable to be lived in, and no longer earning rental income, you can claim a deduction for some costs you incur while doing repairs or renovations. For example, council rates or interest charged on your mortgage. **You cannot claim a deduction for your own labour**.

However, the repairs or renovations need to be completed in a reasonable timeframe, and the property must have been rented or available for rent immediately before it was damaged or destroyed.

If the property is demolished and you're holding vacant land as a result of the damage, you can claim a deduction for holding costs (for example, land taxes and council rates) if the exceptional circumstances exemption applies.

There is a limit of three years from the date of the exceptional circumstances to continue to claim deductions using this exemption. See **ato.gov.au/Exceptions-vacantland**

Capital gains tax (CGT) implications for damaged or destroyed assets

If you receive an insurance payout, it may need to be taken into account when calculating your capital gain or loss. A capital gain will arise if the insurance payout is more than the asset's cost base, if the insurance payout is less than the reduced cost base you will have a capital loss.

You choose to rebuild or replace your rental property

You may be entitled to roll over any capital gain you make and delay paying the gain until a later point in time.

To defer the gain you must incur expenditure within one year after the end of the income year the property/asset was destroyed. For more information on involuntary disposal of a CGT asset, see **ato.gov.au/Involuntary-disposal**

You choose not to rebuild your rental property

You will need to calculate your capital gain or loss.

Any insurance payout you receive will be counted as capital proceeds when calculating your gain or loss.

If you don't receive an insurance payout there are no capital gains tax consequences until the property is sold. The CGT event will occur when the property is sold at a future date.

Main residence exemption

If the property was previously your main residence you can treat it as your main residence for up to six years after you move out, even if the property is destroyed. Your main residence is exempt from CGT, however you can't treat any other property as your main residence for the same period.

Important things to remember

Timing of a CGT event

If your CGT asset is lost or destroyed, a CGT event happens on the date you receive compensation for the loss or destruction.

If you don't receive any compensation, the CGT event happens when the loss is discovered or the destruction occurred.

Get record keeping right

Keep records of every transaction including insurance payout documents, receipts for any new purchases, or repairs. If you borrow for these amounts retain all loan documents and statements.

Note: Before and after photos of destroyed assets may be helpful but they aren't substantiation on their own.

Examples

Deduction for repairs while property was unoccupied

Ben's rental property was tenanted when it was severely damaged by a cyclone. Due to the damage, the tenants had to move out. Ben carried out repairs within a reasonable time and then advertised the property for rent. Even though the property was not available for rent while being repaired, he is able to claim for the repairs because it was rented immediately before the damage occurred.

Deduction for replacement of depreciable items

Josh's rental property was covered in smoke and ash from recent bushfires. He had the home thoroughly cleaned and needed to replace all of the carpets and curtains. Josh can claim a deduction for the:

- cleaning
- remaining value of the pre-existing carpet and curtains
- decline in value of the new carpet and curtains.

If Josh had decided to repair the damaged carpet and curtains instead of replacing them, he would claim the immediate deduction as a repair.

Determining the date of your CGT event

Laurie owned a rental property that was destroyed by a cyclone in February 2019. He received a payment under an insurance policy in April 2019. The CGT event happened in April 2019 when he received the insurance payment.

Christine owned a rental property that was damaged by a flood in January 2019. Her local council deemed the property uninhabitable in May 2019. The property was demolished in October 2019 and Christine didn't receive any compensation. The CGT event occurred in January 2019 when the damage happened.

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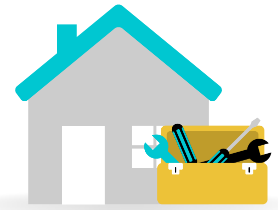
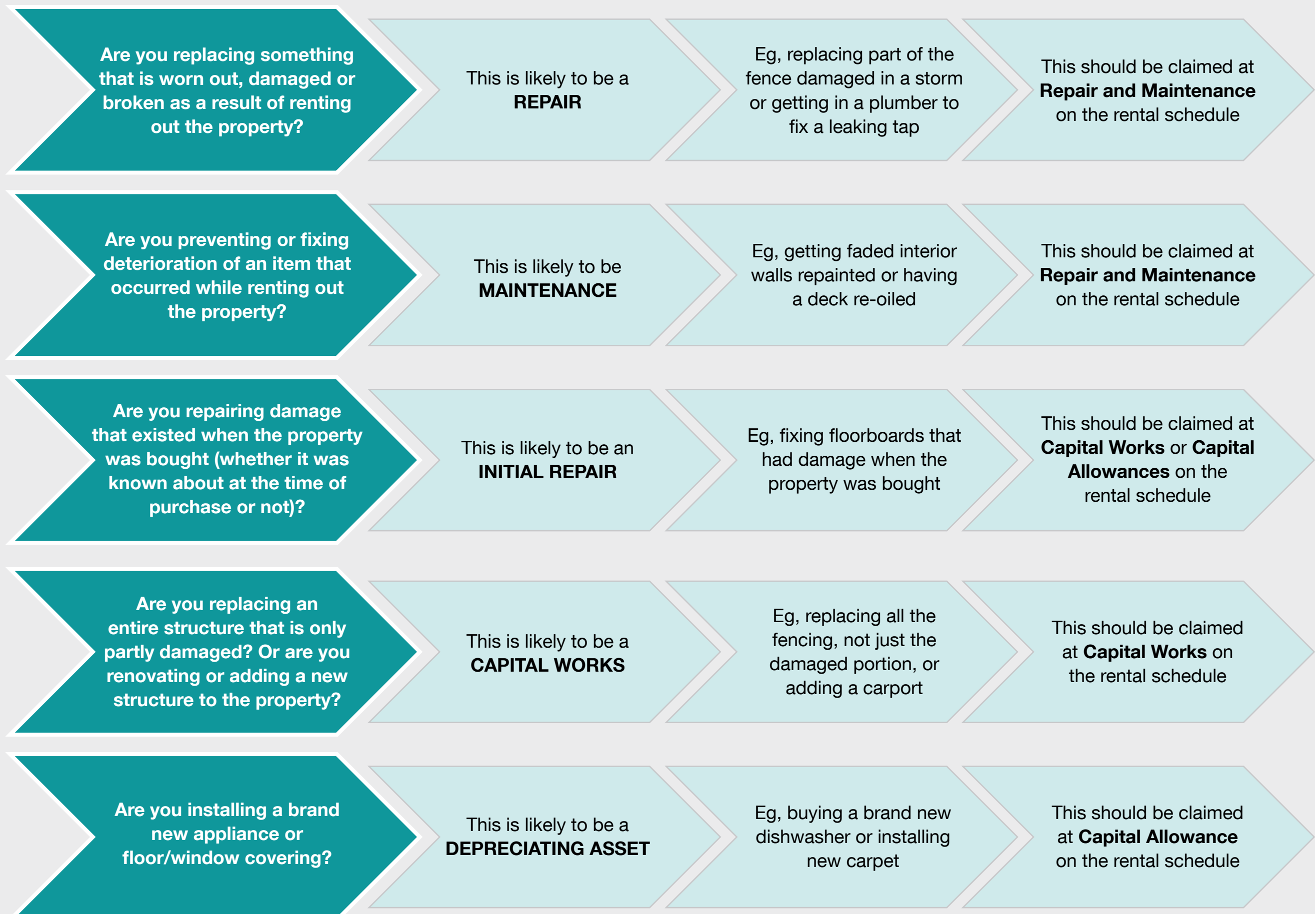
Rental properties

Repairs, maintenance and capital expenditure



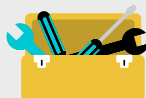
Quick reference chart



The cost of repairs and maintenance may be deductible in full in the year you incur them if:

- the expense directly relates to wear and tear or other damage that occurred as a result of renting out your property, and
- the property:
  - continues to be rented on an ongoing basis, or
  - remains available for rent but there is a short period when the property is unoccupied, for example, where unseasonable weather causes cancellations of bookings or advertising is unsuccessful in attracting tenants.

Repairs



Generally repairs must relate directly to wear and tear or other damage that occurred as a result of your renting out the property.

Examples of repairs include:

- replacing broken windows
- repairing electrical appliances or machinery
- replacing part of the guttering damaged in a storm
- replacing part of a fence damaged by a falling tree branch.

Maintenance

Maintenance generally involves keeping your property in a tenantable condition. It includes work to prevent deterioration or fix existing deterioration.

Examples of maintenance include:

- repainting faded or damaged interior walls
- oiling, brushing or cleaning something that is otherwise in good working condition. For example, oiling a deck or cleaning a swimming pool.
- maintaining plumbing.

Capital expenditure which may be claimable over time

Capital Works

The rate of deduction for these expenses is generally 2.5% per year for 40 years following construction.

Capital Allowances

For each of the assets where you may claim a deduction for decline in value, you can choose to use either the effective life the Commissioner has determined for such assets, or your own reasonable estimate of its effective life. Where you estimate an asset's effective life, you must keep records to show how you worked it out.

Initial repairs

Costs you incur to remedy defects, damage or deterioration that existed at the time you acquired the property are considered to be capital in nature. These may be classified as capital works or capital allowances, dependant on what the expenditure was for.

Depreciating assets

Depreciable assets are those items that can be described as plant, which do not form part of the premises. These items are usually:

- separately identifiable
- not likely to be permanent, and expected to be replaced within a relatively short period
- not part of the structure.

Examples of assets that deductions for decline in value can be applied to include:

- timber flooring
- carpets
- curtains
- appliances like a washing machine or fridge
- furniture.

Capital works

Capital works is used to describe certain kinds of construction expenditure used to produce income.

Examples of capital works include:

- building construction costs
- the cost of altering a building
- major renovations to a room
- adding a fence
- building extensions such as garages or patios
- adding structural improvements like a driveway or retaining wall.

Improvements

An improvement is considered anything that makes an aspect of the property better, more valuable or more desirable, or changes the character of the item on which works are being carried out.

Improvements include work that:

- provides something new
- generally furthers the income-producing ability or expected life of the property
- goes beyond just restoring the efficient functioning of the property.

Improvements can be either capital works where it is a structural improvement or capital allowances where the item is a depreciable asset.

It is important to correctly categorise each expense you incur to ensure it is treated correctly for tax purposes.

Rental property owners should remember three simple steps when preparing their return:

1. Include all the income you receive

This includes income from short term rental arrangements (eg a holiday home), sharing part of your home, and other rental-related income such as insurance payouts and rental bond money you retain.

2. Get your expenses right

- Eligibility – Claim only for expenses incurred for the period your property was rented or when you were actively trying to rent the property on commercial terms.
- Timing – Some expenses must be claimed over a number of years.
- Apportionment – Apportion your claim where your property was rented out for part of the year or only part of your property was rented out, where you used the property yourself or rented it below market rates. You must also apportion in line with your ownership interest.

3. Keep records to prove it all

You should keep records of both income and expenses relating to your rental property, as well as purchase and sale records.

This is a general summary only

For more information go to **ato.gov.au/rental** · Watch our short videos at **ato.gov.au/rentalvideos**
Download our free Rental properties guide at **ato.gov.au/rentalpropertyguide**
Read our Guide to capital gains at **ato.gov.au/cgtguide**

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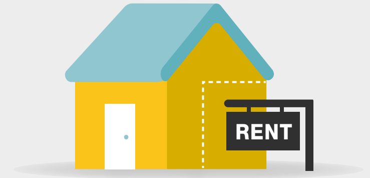
Australian Government
Australian Taxation Office

Renting out a room?

How to work out the expenses you can claim

If you rent out all or part of your home through the sharing economy, for tax purposes you need to:

- keep records of all rental income earned and declare it in your tax return
- keep records of expenses you can claim as deductions
- calculate your capital gain or loss when you sell the property



Income you need to declare

- all income before fees and commissions
- insurance payouts, eg compensation for damage caused by renting
- bonds or security deposits you become entitled to retain
- letting and booking fees you charge, including cancellation fees.

Expenses you may be able to claim include:

- council rates
- interest on a loan for the property
- electricity and gas
- property insurance
- cleaning and maintenance costs
- fees or commission charged by the platform
- other expenses that directly relate to the earning of your rental income.

How much of the expense you can claim will depend on:

- the number of days you rent out the room or whole property during the year
- the portion of the property you have rented out (eg a room or the whole property).

Working out the deductions you can claim

- How big is the property?
- How big is the rented room?
- How big are the shared/common areas?
- How many days was the room rented out?

How to work it out

Rented room (claim 100% for days rented):

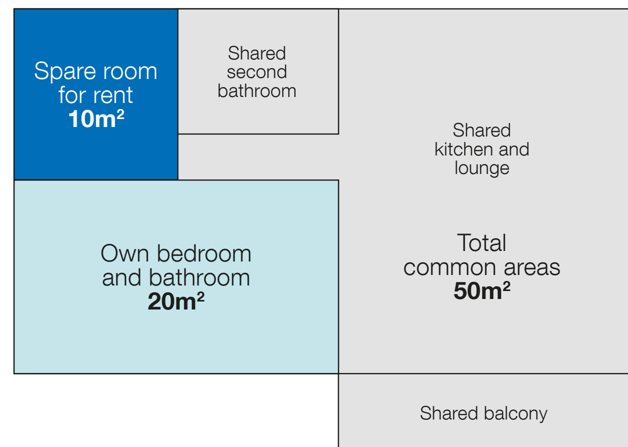
$$\frac{\text{rented room size}}{\text{total size of house/unit}} \times \frac{\text{number of days rented}}{\text{total days in the year}} \times 100 = \text{\% of expenses claimable}$$

Common areas (claim 50% for days rented):

$$\frac{\text{total common areas}}{\text{total size of house/unit}} \times \frac{\text{number of days rented}}{\text{total days in the year}} \times 50\% \times 100 = \text{\% of expenses claimable}$$

Example

(80m² unit, 10m² room rented for 150 days)



Rented room: $\frac{10}{80} \times \frac{150}{365} \times 100 = 5.13\%$

Common areas: $\frac{50}{80} \times \frac{150}{365} \times 50\% \times 100 = 12.84\%$

Total percentage of expenses you can claim = **17.97%**

Capital Gains Tax

When selling the property, you may have to pay capital gains tax (CGT).

This is a general summary only

For more information, speak with your tax agent or visit **ato.gov.au/sharingeconomy**

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