Australian Government
Australian Taxation Office

Rental property expenses

What you can claim

You can claim expenses relating to your rental property but only for the period your property was rented or available for rent – for example, advertised for rent.

Expenses could include:

- advertising for tenants
- bank charges
- body corporate fees
- borrowing expenses
- capital works
- council rates
- decline in value of depreciating assets
- gardening and lawn mowing
- insurance
- interest expenses
- land tax
- legal expenses
- pest control
- phone
- property agent fees or commissions
- repairs and maintenance
- stationery
- travel undertaken to inspect the property or to collect the rent
- water charges.

If part of your property is used to earn rent, you can claim expenses relating to only that part of the property. You will need to work out a reasonable basis to apportion the claim.

Example

> Gerard's private residence includes a second storey which he rented out. The second storey represents 30% of the total floor area of the house. Gerard also shared the laundry with his tenant. The laundry takes up 10% of the total floor area of the house. If half is a reasonable figure for use of the laundry by the tenant, Gerard can claim 35% of the expenses for the property – that is:
>
> 30% + (1/2 x 10%) = 35%.

Taxation ruling IT 2167 – Income tax: rental properties – non-economic rental, holiday home, share of residence, etc. cases, family trust cases will give you more details about apportionment.

Prepaid expenses

If you prepaid a rental property expense, such as insurance or interest on money borrowed, that covers a period of 12 months or less **and** the period ends on or before 30 June 2011, you can claim an immediate deduction. Otherwise, your deduction may have to be spread over two or more years under the prepayment rules if the expense is $1,000 or more. See the publication Deductions for prepaid expenses.

Deduction for decline in value of depreciating assets

You can claim a deduction for the decline in value of certain items, known as depreciating assets, that you acquired as part of the purchase of your property or that you subsequently purchased for your property.

What is a depreciating asset?

A **depreciating asset** is an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used. Examples of depreciating assets are freestanding furniture, stoves, washing machines and television sets.

Rental properties has a comprehensive list of depreciating assets found in residential rental properties.

The publications Guide to depreciating assets and Rental properties will help you understand the rules for working out your deduction for decline in value and other aspects of rental property ownership. Guide to depreciating assets also contains details of the immediate deductions for assets whose cost (when added to the cost of other substantially identical assets or assets that make up a set) does not exceed $300. It explains the low-value pool, to which you can allocate depreciating assets:

- costing less than $1,000 (low-cost assets)
- written down to less than $1,000 under the diminishing value method (low-value assets).

If you choose the low-value pool method to calculate the decline in value of low-cost and low-value assets, read Low-value pool deductions.

Capital works deductions

You may be able to claim a deduction for the construction costs of your property over a 25-year or 40-year period – called a capital works deduction.

You can claim a deduction if construction began after:

- 17 July 1985 and the property is used for residential accommodation or to produce income
- 19 July 1982 and the property is not used for residential accommodation (for example, a shop), or
- 21 August 1979, the property is used to provide short-term accommodation for travellers and it meets certain other criteria.

A deduction may also be available for structural improvements made to parts of the property other than the building if work began after 26 February 1992. Examples include sealed driveways, fences and retaining walls.

The deduction does not apply until completion of the construction. The deduction is at the rate of 2.5% or 4% (adjusted for part-year claims) depending on the date the capital works began. Rental properties will help you determine if you qualify and the appropriate rate.

For more information, see Rental properties – claiming capital works deductions.

Thin capitalisation

If you were an Australian resident and you (or any associate entities) had certain overseas interests, or you are a foreign resident, the thin capitalisation rules may apply if your debt deductions, such as interest (combined with those of your associate entities) for 2009–10 were more than $250,000.

For more information read Guide A: Guide to thin capitalisation.

What to read/do next

For more information, read:

- Rental properties
- Guide to depreciating assets
- Guide to capital gains tax
- Deductions for prepaid expenses
- Guide A: Guide to thin capitalisation.

For more information on claiming specific expenses, see:

- Rental properties – claiming borrowing expenses
- Rental properties – claiming repairs and maintenance expenses
- Rental properties – claiming legal expenses
- Rental properties – claiming interest expenses
- Rental properties – claiming capital works deductions.

The following rulings provide guidance on particular situations:

- Taxation Ruling IT 2167— Income tax: rental properties – non-economic rental, holiday home, share of residence, etc. cases, family trust cases
- Taxation Ruling TR 95/25 – Income tax: deductions for interest under subsection 51(1) of the Income Tax

Assessment Act 1936 following FC of T v. Roberts, FC of T v. Smith
- Taxation Ruling TR 98/22 – Income tax: the taxation consequences for taxpayers entering into certain linked or split loan facilities
- Taxation Ruling TR 93/7 – Income tax: whether penalty interest payments are deductible
- Taxation Determination TD 1999/42 – Income tax: do the principles set out in TR 98/22 apply to line of credit facilities?
- Taxation Ruling TR 2000/2 – Income tax: deductibility of interest on moneys drawn down under line of credit facilities and redraw facilities
- Taxation Ruling TR 97/23 – Income tax: deductions for repairs
- Taxation Ruling TR 2003/D8 – Income tax: deductions for interest incurred prior to the commencement of, or following the cessation of, relevant income earning activities.

If you need assistance applying this information to your own situation, phone us on 13 28 61 or send us an email.

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