

Buying – Owning a Rental Property

Langton

A C C O U N T A N T S

ABN 39 572 394 212

"Gow House", 15 Brabyn Street, Windsor NSW 2756

Tel: 02 4587 9100 Fax 02 4587 9155

greg@langton-accountants.com.au

Buying/Acquiring a Property

- Generally, the names you put on the purchase contract determine who must declare any income and can claim the expenses.
- If you wish to buy a property jointly but not own a 50% share (there may be tax advantages for a higher earning spouse to own a 99% share and a low income earning spouse to own a 1% share) you should speak to your solicitor as soon as possible after signing the contract for purchase to arrange this and to explain the legal implications. If you have already settled on the property, it is too late.
- The date you sign the contract, not the settlement date, is your date of purchase or sale for capital gains tax purposes.

Rental Income

- The income received is taxable to the owners of the property in the same proportion as the ownership interest as shown on the title.
- The rent received must be at normal market rates to be able to claim all the expense in full.
- The rent must be declared in the year it is received.

The following items must be included in your assessable income:

- Rental bond money (if you are entitled to retain it)
- Insurance payouts (e.g. for the purposes of lost rent)
- Letting Fees
- Reimbursements or recoupment for deductible expenses
- Any other amounts received, or are entitled to, as part of the normal, repetitive and recurrent activities through which you generate profit from the use of your rental property.

Rental Expenses

The following items can be claimed as a tax deduction immediately (only if actually incurred):

- Advertising for tenants
- Bank charges
- Body corporate fees and charges (excluding fees to pay for capital expenditure)
- Cleaning
- Council rates and water charges
- Electricity and gas
- Gardening and lawn mowing
- In-house audio/video service charges
- Insurance – including building, contents and public liability insurance
- Land tax
- Lease costs
- Legal expenses (such as the cost of evicting a non-paying tenant)

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- Mortgage discharge expenses
- Pest control
- Property agent's fees and commission
- Quantity surveyor's fees
- Secretarial and bookkeeping fees
- Security patrol fees
- Stationery and postage
- Telephone calls & rental
- Tax-related expenses

NOTE: From 1 July 2017 travel & car expenses related to inspecting, maintaining or collecting rent for a residential rental property **will not** be deductible.

Interest

- Interest paid on the loan used to purchase the property is deductible, provided that all the money borrowed was used to purchase the property.
- For accounts that are a line of credit and used privately as well, the interest claim needs to be apportioned for the private expenses.
- Interest on a rental property that was previously your principal residence is deductible from the date the property is available for rent.

Repairs

- Repairs and maintenance are only those directly related to the wear and tear or other damage that occurred as a result of your renting out the property and excludes repairs of a capital nature.

Other Deductions that are also available and are claimed over a number of income years:

- Borrowing expenses – where directly incurred in taking out a loan (including loan establishment fees, title search fees and costs for preparing & filing mortgage documents, mortgage broker fees & stamp duty charged on the mortgage)

You can't claim deductions for:

- Acquisition and disposal costs
- Expenses not actually incurred by you (such as water/electricity charges borne by tenants)
- Expenses not related to the rental of a property (such as expenses connected to your own use of a holiday home) that you rent out for part of the year).

No deductions for vacant land:

You can no longer claim tax deductions for the cost of holding vacant land, such as:

- Interest incurred on loans to acquire the land
- Land taxes
- Council rates
- Maintenance costs

These changes apply to costs incurred from 1 July 2019, even if you held the land before that date.

While all reasonable care has been taken in the preparation of the publication, we do not accept any responsibility for any errors it may contain, whether caused by negligence or otherwise, or for any loss, however, caused, or sustained by any person that relies on it.

Note: This information is of a general nature only and is not intended to be relied upon, nor to be a substitute for, specific professional advice. Also as changes in legislation may occur quickly we recommend that our formal advice be sought before acting in any of the above areas.

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