

Investment property Tax Deductions

Firstly the property must be for income producing purposes. If not apportionment will be applicable which is based on floor area if some of the area is personal. If however, the entire purpose changes then it is apportioned on a time basis.

Once we know if we are entitled to a deduction and how much of a deduction we are entitled to it is simply a matter of when it can be claimed. Expenses may be claimed from the date the property first became available for rent. Prior to that only interest, rates and insurance are deductible.

Acquisition & Disposal Cost

You cannot claim a deduction for the costs of acquiring or disposing of your rental property.

These types of expenses are capital in nature and go to the cost of the property and include:

- **conveyance costs,**
- advertising,
- agent commission,
- legal fees and stamp duty on the purchase and sale and
- travel expenses.

Advertising for Tenants

This is a claimable expense if you advertise for tenants. The cost of advertising for the "sale of a property" is a capital expense and therefore can not be deducted, but records should be kept as it will affect the cost base of the property on disposal and will be needed for **capital gains tax** purposes.

Body Corporate Fees/Strata Title Fees

These are most commonly paid quarterly and cover the running costs of the building. It covers repairs, insurance, gardening, communal lighting, pest control etc. This is a deductible expense.

Borrowing Expenses

These are costs associated with **borrowing the money** required to purchase the property and although are not deductible upfront, they are deductible over the shorter of either the period of the loan or five years.

Borrowing expenses include mortgage insurance, title search fees, registration of mortgage, stamp duty on mortgage and loan establishment fees.

Capital Works

This deduction is known as the "special building write off" and is based on the actual cost of construction to the owner.

This is broken up into three categories, specifically building, structural improvements and environment protection earthworks.

Building Construction Costs include:

- Engineering
- Drafting
- Architects fees
- Surveyor fees
- Foundation and excavation costs
- Building fees (*cost associated with obtaining the necessary approvals from relevant authorities*)

Building Construction costs exclude:

- Expenditure on acquiring land
- Expenditure on demolishing existing structure

- Expenditure on clearing, levelling, filling, draining, or otherwise preparing the construction site prior to carrying out excavation works
- Expenditure on landscaping
- Expenditure on plant
- Profit by the builder

Where a new owner is unable to determine the construction cost associated with the building, an estimate provided by a qualified person may be used.

Appropriate qualified people include:

- A clerk of works, such as a project organizer for major building projects
- A supervising architect who approves payments at stages of projects
- A builder who is experienced in estimating construction costs of similar building projects
- A quantity surveyor - the most common

Structural Improvements

These include extensions, alterations and improvements constructed after 26 February 1992. Other examples of these include:

- Sealed roads
- Driveways
- Car parks
- Retaining walls
- Fences and gates

Environment Protection Earthworks

Generally not applicable to residential properties.

Cleaning

This is deductible and includes internal and external cleaning. Landlords who do the cleaning themselves can only claim the cost of materials NOT their own labour.

Commissions & Management Fees

Commissions and management fees are deductible and are usually charged as a percentage of rent, however, the commission or fee on sale is not deductible, but is counted as a capital expense, and adds to the cost base.

Depreciation

This essentially is a deduction for the cost of furniture, fixtures and fittings based on the assets effective life stipulated in

Depreciation Schedules.

Electricity/Gas

This is a deductible expense that may be subject to apportionment if the entire property is not used for income producing activity.

Gardening & Yard Work

This deductible and includes dump fees, mower expense, tree lopping, replacement

garden tools, fertilizers, sprays and replacement plants.

Insurance

Insurance on building, contents, public liability and **landlord insurance** which cover default rent is deductible.

Mortgage insurance is not immediately claimable but is amortized/depreciated over time as part of borrowing expenses.

Interest

Interest on a loan to purchase, build, improve or repair is deductible. The purpose of the loan is very important; it should be used for income producing purposes.

Land Tax

Land tax is a deductible expense. The amount varies according to the tax in each state.

Lease Expense

This includes the preparation, registration & stamp duty on the lease and these are deductible expenses.

Legal Expenses

This is usually incurred when tenants default on rent. These include filing fees to the small claims tribunal (up to \$5000) and other court costs associated with Magistrates Court.

Legal expenses incurred in purchasing the property are NOT deductible. This is a capital expense and will effect the cost base of the property.

Management Fees

Commissions paid to agents.

Office Supplies

Stationery, rent books, incidentals, postage and the business percentage of a computer etc are deductible.

Pest Control

This is a deductible expense and includes payments to contractors and purchase of sprays etc.

Rates

This includes council, water and sewerage and is deductible. There will be an adjustment on the sale or purchase of a property for the time apportionment relating to your ownership as well and this must be taken into account.

Repairs

"Repairing" is restoring the item to the condition it was in before it deteriorated without changing its essential character.

If you "replace" an item with similar parts/materials then it is also a repair even though you repair the entire item.

If the item is "repaired" with improved parts/materials, which will improve the function of the item or extend its life then it would be considered as an improvement and need to be included as a new asset.

Initial Repair Rule:

Repairs undertaken within 12 months of the purchase will not be allowed as a deduction.

These non-allowable deduction details should be kept as they will increase the cost base of the property on disposal and will be needed for capital gains calculations. (*Law Shipping Co v IRC (1923)* and *W Thomas & Co Pty Ltd v FCT.*)

Repairs at the end of the tenancy

Any painting or cleaning or other repairs will be allowable to return the property to the condition it was in before it was rented.

This is allowable even if the property is reverted to private use as long as the expense is incurred in the year of income.

Telephone Expenses

Calls made to tenant, agent or for arranging repairs, etc are deductible expenses. A diary should be kept to detail this expense.

Travel

Travel is deductible if used for the collection of rent, repairs, inspections and preparing the property for incoming tenants.

Included are motor vehicle travel and airline travel as well as accommodation, car hire and meals. If the rental property is in a different town to taxpayer's residence travel must be pro-rated on the number of days spent on actual rental business.

Travel expenses incurred in purchasing and selling a property are of a capital nature and therefore NOT deductible.