



## Rental expenses

The following list sets out the type of expenses that can be claimed as immediate or full deductions in respect of rental properties. The expenses must have been incurred for the deduction to be allowable.

The list is not exhaustive, but it provides a guide as to what can and cannot be claimed

Deductions may be limited where the property is used for both private and business purposes or where the property is let on non commercial rates.

### Deductible expenses

- Advertising for tenants
- Bank charges
- Body corporate fees (Note 1)
- Council rates
- Electricity and gas
- Gardening and lawn mowing
- In-house audio/video service charges
- Insurance - building, contents, public liability
- Interest on loans (Note 2)
- Land tax
- Legal expenses (Note 3)
- Lease costs: preparation, registration, stamp duty (Note 4)
- Mortgage discharge expenses (Note 5)
- Pest control
- Property agent's fees and commission
- Quantity surveyor's fees
- Repairs and maintenance (Note 6)
- Secretarial and bookkeeping fees
- Security patrol fees
- Servicing costs: eg. servicing a hot water system
- Stationery and postage
- Telephone calls and rental
- Tax-related expenses
- Travel and car expenses: rent collection, (Note 7) inspection or maintenance of property
- Water charges
- Borrowing expenses (Note 8)
- Depreciation (Note 9)
- Capital works (Note 10)

## Notes

1. Applies to administration funds and general purpose funds. Funds contributed to special purpose funds or capital purpose funds may not be deducted but may qualify for capital works deduction or depreciation.
2. Applies only to the business proportion of a loan. Interest on borrowed funds used for private purposes is not deductible.
3. The following legal expenses are capital and are not deductible - the cost of purchasing or selling a property; resisting land resumption; and defending title to the property. They may form part of the cost base for CGT purposes. Expenses in evicting a tenant are deductible.
4. The deduction for these expenses is limited to the business use of the property. If the property is used partly for business and partly for private use then any deduction is limited to the business use.
5. These are expenses other than repayments of principal or interest and are deductible to the extent the mortgage was used for business purposes. An apportionment will be required if the property was used for private purposes.
6. To be deductible, repairs and maintenance must relate directly to wear and tear of the property, eg. replacement or renewal of a broken or damaged window, plumbing or roof tiles. The following are not treated as repairs:
  - initial repairs;
  - improvements, renovations, extensions and alterations; or
  - replacement of an entire structure, eg. fence, stove, kitchen cupboards, carpets.These are capital expenditure and may qualify for capital works deduction or depreciation.
7. Travel associated with the purchase or selling of a property is capital and is not deductible. It may be included as part of the cost base for CGT purposes. Otherwise, most travel to inspect a rental property is deductible and can include travel and accommodation costs. Where the travel is associated with a non business purpose eg holiday then the amount of any deduction will be based on the primary purpose of the trip.
8. Borrowing expenses are deductible on the following basis -
  - \$100 or less ..... fully deductible in 1st year
  - More than \$100 ..... deductible over lesser of 5 years or term of loan
9. Depreciation (or decline in value) can be claimed on plant and equipment. This includes stoves, fridges, hot water systems, lifts, televisions, stereo, microwave ovens etc. The claim is based on the effective life of the item.
10. Deductions for capital expenditure is available for the cost of building, extensions and other improvements that are not otherwise deductible or depreciable. The types of construction and extensions that would qualify include - removing or adding an internal wall, garage, patio or pergola, new room(s), sealed driveway, carport, retaining wall or fence, but not landscaping. The rate varies between 2.5 and 4 per annum depending on the date when the construction was completed.

## **Acknowledgement**

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