Typical Rental Items

Income

Summarise all rental, showing gross rent receipts and dates

Your Estate Agent may prepare a full year summary for you each financial year showing gross income and totals of any deduction (agents fees, etc)

- Recent Received
- Insurance Claims
- Tenancy Bonds received
- Disposals of Chattels...

Expenses

- Agents Fees and Commissions
- Advertising
- Bank Charges
- Body Corporate Fees
- Cleaning
- Depreciation. (Provide details of cost and purchase date of items)
- Loan interest and fees - bank statements and the loan contract / letter detailing borrowing costs
- Legal Expenses
- Rates and Insurances
- Repairs and Maintenance. Note: Improvements are generally of a capital nature
- Record keeping
- Telephone
- Postage and Stationary
- Travel to inspect the property. Keep a record of kilometres

Anything else that you would consider to be relevant to the rental property provide thorough details.

Note: substantiation rules apply - keep your receipts

Important Issues

When was the property first available for rent?

Were there periods of vacancy during the year?

Did you use the property for private purposes at any time?

Capital Gains Tax!

This is a complex and very important aspect for investors to consider. Ensure regular reviews as part of your Wealth Creating Strategy are monitored by Miranda Professional Services.

Please remember our office is here to support and assist you, so please contact us should you have any queries or concerns.

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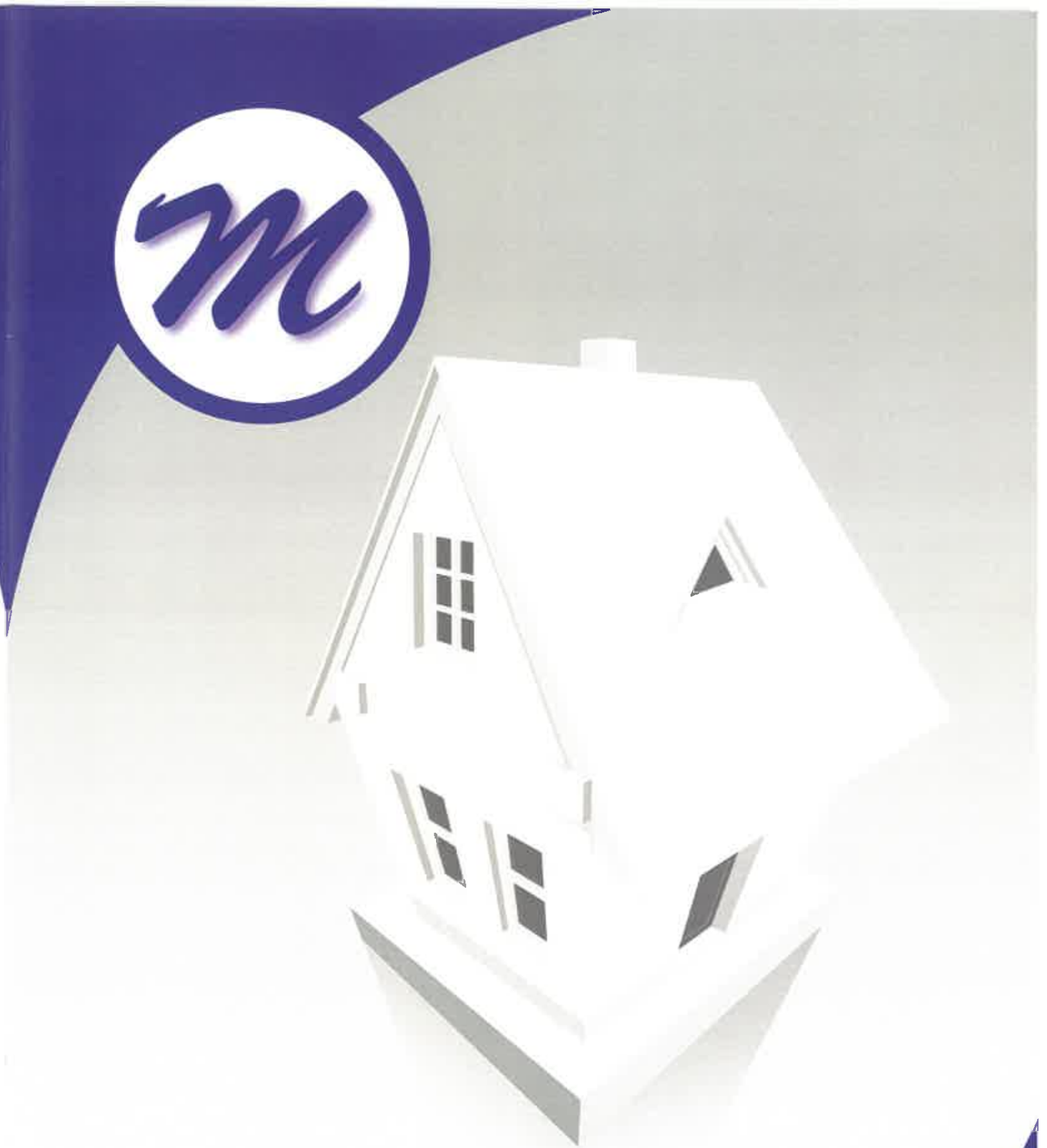

Rental Booklet

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Common mistakes revealed by tax office

During the ATO reviews of rental property income and deduction claims we continue to see mistakes, with over 80% of rental property audit cases requiring adjustment.

- **Apportionment of expenses** - where a property is not available for rent for the whole year, is let at non-commercial rates or is used partly for private purposes expenses should be apportioned to exclude that portion that relates to private use. Where only part of a property is used for income-producing purposes, expenses should be apportioned on a floor area basis

- **Availability for rent** - when a rental property has not been rented for the full year, taxpayers need to be able to demonstrate they have made active and bona fide efforts to attract tenants. Inability to evidence these efforts may result in apportionment of expenses based on the period of time the property was considered to be genuinely available for rent.

- **Borrowing expenses** - legal, insurance, and interest expenses are often incorrectly included at this label. Stamp Duty on transfer of title is part of the cost of acquiring a property and forms part of the cost base of the property for capital gains tax purposes

- **Capital Gains Tax for rental properties** - acquired after 19 September 1985, taxpayers must return the correct capital gain made on the sale of a rental property and retain all documentation pertaining to their ownership and all the costs of acquiring and disposing of the property for five years after its date of disposal.

- **Insurance expenses** - lender's mortgage insurance is often incorrectly claimed at this label. This is a capital expense and, while not eligible for an immediate deduction, can be claimed as a borrowing expense over the life of the loan, or five years, whichever is the shorter period.

- **Interest expenses** - taxpayers should ensure they keep accurate records on rental property loans to evidence that all funds borrowed, including drawdown amounts, have been used in producing rental income.

- **Joint ownership** - rental income and expenses should be returned in accordance with the taxpayer's legal interest in the property. However,interest on money borrowed by only one of the co-owners which is used exclusively to acquire that person's interest in the rental property does not need to be divided between all of the co-owners.

- **Legal fees** - claims continue to incorrectly include expenses of a capital nature, forÅ example, legal costs incurred in purchasing the rental property.

- **Record keeping** - some taxpayers are unable to produce adequate evidence of rental income received and expenses incurred when subject to audit. This may result in rental deduction claims being disallowed.

- **Renting to relatives** – Taxpayers who rent their property to relatives or related parties are required to demonstrate that the rental arrangement is consistent with commercial arm's length practices. If this is not the case, apportionment or limitations to claims for rental expenses may be necessary.

- **Repairs and maintenance** - many taxpayers acquiring a rental property need to remedy some defect, damage or deterioration that existed at the time they acquired their property. These are classified as initial repairs and form part of the capital costs of the property. These expenses cannot be claimed as an immediate deduction, although a capital works deduction may be available.
Expenses for work that constitutes an improvement to the property, such as remodelling kitchens or bathrooms, or adding a deck or pergola, should not be claimed as deductions for repairs, but may be eligible for a capital works deduction.

Travel expenses - incorrect claims have included costs of travel: To view prospective rental properties or to inspect a property at settlement; When there is also a private purpose for the trip and the expenses have not been apportioned; and When a property is not available for rent.

Also note that travel claims are often inadequately documented, particularly where the cents per kilometre method has been used. A taxpayer's records must be able to support the basis of their claim.

Claiming interest expenses

What can I 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 an 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, which is currently rented out, or which you intend to rent out (for example, to add a deck to the rear of the rental property), and
- purchase land on which to build a rental property

You can also claim interest you have pre-paid up to 12 months in advance.

What can't I claim?

You can't claim interest:

- You incur after you start using the rental property for private purposes
- on the portion of the loan you use for private purposes (for example, money you use to purchase a new car or invest in a super fund), or
- on a loan you used to buy a new home if you do not use the new home to produce income

What records do I need to keep?

You need to keep proper records in order to make a claim, regardless of whether you use a tax agent to prepare your tax return or you do it yourself. You must keep records of:

- the rental income you receive and the deductible expenses you pay – keep these records for five years from 31 October or, if you lodge later, for five years from the date your tax return is lodged, and
- your ownership of the property and all the costs of purchasing / acquiring the selling / disposing of it – keep these records for five years from the date you sell / dispose of your rental property.

Negative Gearing Example

	$	$
Gross Rental Income ($350 a week x 52 weeks)		18,200
Less Cash Expenses		
Repairs and Maintenance	500	
Loan Interest ($400,000 @ 4% interest only)	16,000	
Insurance		600
Rates & Land Tax	1,000	
Commissions	1,200	
Cash loss	19,300	1100
Less Non Cash Expenses		
Borrowing Costs	100	
Building Write Off	4,000	
Depreciation	2,000	
	6,100	
	12.200	
Net (Negative) Tax loss		(13,300)
Non cash expenses	12.200	
Tax Benefit @ 30%	3,900	
Net (negative) cash (loss) gain	2,800 gain	