

ARROWHEAD TAX ACCOUNTANTS

Education Series

Rental Property Investments

Congratulations! you have purchased a rental property for investment purposes. Now is the opportunity to optimise the deductibility of associated expenses by following a few little tips to ensure you remain compliant with the Australian Taxation Office. Kenneth Chircop, Director, Arrowhead Tax www.arrowheadtax.com.au will guide you through this.

For most of you, the interest expense associated with financing your rental property will yield the greatest deduction. However, care must be taken to ensure the interest expense is apportioned correctly if the finance is for a mixed use or the rental property is not exclusively available to tenants at market rates (e.g., for family or friends).

The depreciation of fixtures, fittings, and the property itself is also deductible under certain conditions. The caveat being that a schedule must be prepared by a certified quantity surveyor who is also a registered tax agent. There is a cost incurred to prepare these schedules, which may be well worth it if you have purchased a newly constructed property.

Finally, the following worksheet may act as a guide to assist you to determine what information is required to prepare the rental property section of your tax return. As with all sections of your tax return, this section is no different and must be fully supported with receipts and diary entries. However, it is important to establish that your rental property was genuinely available for rent. Also, that repairs to your property and in fact repairs, as opposed to capital improvements as excessive deductions for repairs may compromise the validity of your deductions.

The following completed worksheet is an example of how to work out your net rental income or loss.

<u>Income</u>		<i>Source: Examples</i>
Rental income	\$ 21,840	Real Estate Agent Income Statement.
Other rental income	\$ 1,000	Insurance Recoveries.
Gross rent	\$22,840	
Expenses		
Advertising for tenants	\$75	Advertising through a property manager.
Body corporate fees and charges	\$650	As charged by owner's corporations.
Borrowing expenses*	\$289	Fees associated with securing finance for the property.
Cleaning	\$150	Cleaning between tenants.
Council rates	\$850	Rates and levies by local council.
Deductions for decline in value*	\$990	Quantity Surveyors report required.
Gardening / Lawnmowing	\$350	Must relate to property rented.
Insurance	\$495	Landlord insurance, Building insurance etc.
Interest on loans*	\$12,350	So long as property is occupied.
Land tax	\$400	State based levies
Legal expenses	\$250	To draw up leases.
Pest control	\$100	As stated.
Property agent fees / Commissions	\$1200	As agreed with real estate agent.
Repairs and maintenance*	\$50	Minor, incidental repairs not improvements.
Capital works deductions*	\$3,500	Quantity Surveyors report required.
Stationery, telephone, and postage	\$80	Incidental calls and stationery for administration purposes.
Travel expenses*	\$450	Incidental travel.
Water charges	\$350	As stated.
Sundry rental expenses	\$45	Minor low value transaction that can not be allocated elsewhere.
Total Expenses	\$22,624	
Net rental income / loss (\$22,840 - \$22,624)	\$216	Income

*Special rulings apply

Disclaimer: The contents of this paper are for general information only. They are not intended as professional advice, for this you should contact a suitably qualified accountant or other professional. The tax law and ATO position on these matters may be subject to both prospective and retrospective changes.

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