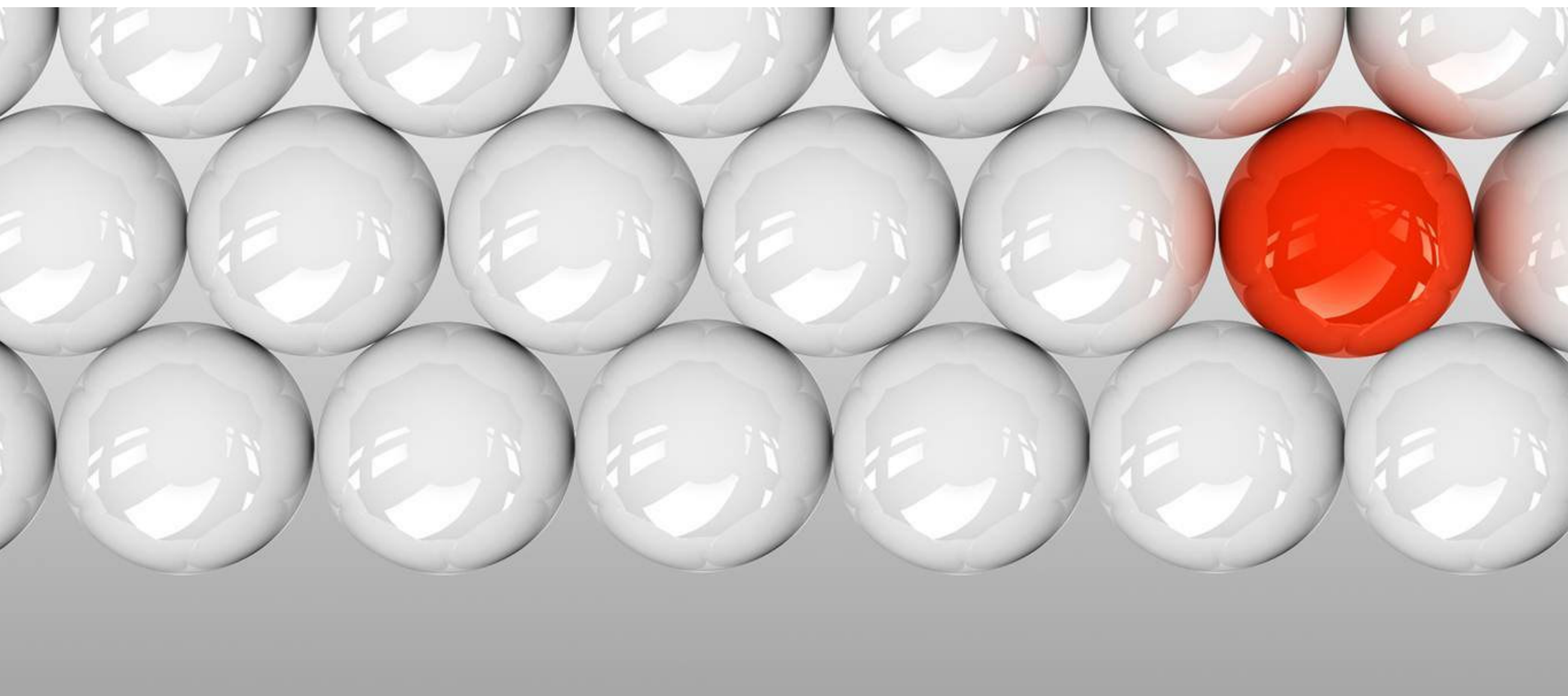
Rental Property Expenses Booklet



What can you claim?

You can claim expenses relating to your rental property but only for the period your property was rented or available for rent - for example, advertised for rent.

Expenses could include:

- advertising for tenants
- bank charges
- body corporate fees
- borrowing expenses (1)
- capital works (2)
- council rates
- decline in value of depreciating assets (3)
- gardening and lawn mowing
- insurance
- interest expenses (4)
- land tax
- legal expenses (5)
- pest control
- phone
- property agent fees or commissions
- repairs and maintenance (6)
- stationery
- travel undertaken to inspect the property or to collect the rent (7)
- water charges

If part of your property is used to earn rent, you can claim expenses relating to only that part of the property. You will need to work out a reasonable basis to apportion the claim.

Example

> Jason's private residence includes a second storey which he rented out. The second storey represents 30% of the total floor area of the house. Jason also shared the laundry with his tenant. The laundry takes up 10% of the total floor area of the house. If half is a reasonable figure for use of the laundry by the tenant, Jason can claim 35% of the expenses for the property - that is:
> 30% + (1/2 x 10%) = 35%.

Prepaid expenses

If you prepaid a rental property expense, such as insurance or interest on money borrowed, that covers a period of 12 months or less **and** the period ends on or before 30 June 2011, you can claim an immediate deduction. Otherwise, your deduction may have to be spread over two or more years under the prepayment rules if the expense is $1,000 or more.

1. Borrowing expenses

The types of borrowing expenses you can claim as income tax deductions for taking out a loan to purchase a rental property.

What can you claim?

You can claim all of the following:

- stamp duty charged on the mortgage
- loan establishment fees
- title search fees charged by your lender
- costs for preparing and filing mortgage documents
- mortgage broker fees
- fees for a valuation required for loan approval
- lender's mortgage insurance, which is insurance taken out by the lender and billed to you

What can't you claim?

You can't claim any of the following:

- stamp duty charged by your state/territory government on the transfer (purchase) of the property title
  This stamp duty may be included in calculating the 'cost base' of the property for capital gains tax (CGT) purposes.
- stamp duty you incur when you acquire a leasehold interest in property such as an Australian Capital Territory 99-year crown lease (you may be able to claim this as a lease document expense)
- insurance premiums where under the policy your loan will be paid out in the event that you die, become disabled or unemployed (this is a private expense), or
- borrowing expenses on the portion of the loan you use for private purposes (for example, money you invest in a super fund)

If your total deductible expenses are more than $100, the deduction you claim for those expenses must be spread over five years or the term of the loan, whichever is less. If the total deductible borrowing expenses are $100 or less, you can claim the deduction in full in the income year you incur them.

Example

On 3 July 2009, Robert took out a 25-year loan of $300,000 to purchase a rental property. Robert's deductible expenses were:

- $800 Stamp duty on the mortgage
- $500 Loan establishment fees
- $300 Valuation fees required for loan.

Robert also paid $1,200 stamp duty on the transfer of the property title for which he cannot claim a tax deduction. However, this expense will form part of the 'cost base'.

As Robert's borrowing expenses are more than $100, he must claim them over five years from the date he took out his loan for the property. He would work out the borrowing expense deduction for the first year as follows:

2009-10 (363 days)

Borrowing expenses	x	Number of relevant days in year / number of days in 5 years	=	deduction for year
$1,600	x	363 / 1,826	=	$318

The borrowing expense deductions for each other year would be worked out as follows:

Borrowing expenses remaining	x	Number of relevant days in year / remaining number of days in 5 years	=	deduction for year
2010-11 (year 2)				
$1,282 (that is, $1,600 - $318)	x	365 / 1,463	=	$320
2011-12 year 3 (leap year)				
$962 (that is, $1,282 - $320)	x	366 / 1,098	=	$321
2012-13 (year 4)				
$641 (that is, $962 - $321)	x	365 / 732	=	$320
2013-14 (year 5)				
$321 (that is, $641 - $320)	x	365 / 367	=	$319
2014-15 (year 6)				
$2 (that is, $321 - $319)	x	2 / 2	=	$2

What records do you 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

- your ownership of the property and all the costs of purchasing or acquiring it and selling or disposing of it - keep these records for five years from the date you sell or dispose of your rental property

2. Capital works deductions

You may be able to claim a deduction for the construction costs of your property over a 25-year or 40-year period - called a capital works deduction.
You can claim a deduction if construction began after:

- 17 July 1985 and the property is used for residential accommodation or to produce income
- 19 July 1982 and the property is not used for residential accommodation (for example, a shop), or
- 21 August 1979, the property is used to provide short-term accommodation for travellers and it meets certain other criteria

A deduction may also be available for structural improvements made to parts of the property other than the building if work began after 26 February 1992. Examples include sealed driveways, fences and retaining walls.
The deduction does not apply until completion of the construction. The deduction is at the rate of 2.5% or 4% (adjusted for part-year claims) depending on the date the capital works began.

What are capital works deductions?

Capital works deductions are the following expenses you pay for which you can claim an income tax deduction:

- building construction costs
- the cost of altering a building
- the cost of capital improvements to the surrounding property

You can only claim a deduction for the capital works on residential rental properties you built after 17 July 1985.

What can you claim?

If you own a rental property, you may be able to claim a deduction (usually at the rate of 2.5% per year in the 40 years following construction) for the construction cost of:

- buildings
- extensions, such as a garage or patio
- alterations, such as adding an internal wall, kitchen renovations or bathroom makeovers
- structural improvements - such as a gazebo, carport, sealed driveway, retaining wall or fence

What do you need to know to work out your claim?

As a general rule, you can claim a deduction for the cost of constructing a residential rental property over 40 years from the date the construction was completed. However, to be sure you get your claim right; you must have all of the following:

- the date construction commenced
- details of the type of construction
- the date construction was completed
- details of who carried out the construction work
- the construction cost (not the purchase price)
- details of the period during the year that the property was used for income producing purposes

Capital works expenses you incur form part of the cost base of your property for capital gains tax purposes. If you claim a capital works deduction, you will need to take this into account when you work out your capital gain or loss.

The date construction commenced

To work out the rate at which you can claim a deduction and the period over which you can claim it, you must have all of the following details:

- when the construction commenced
- the type of construction
- when the construction was completed

Date construction commenced	Period (years) over which you can claim a deduction	Rate of deduction per income year
Before 22 August 1979	n/a	nil
22 August 1979 to 21 August 1984	40	2.5%
22 August 1984 to 15 September 1987	25	4%
After 15 September 1987	40	2.5%

Where you built short-term accommodation for travelers (for example, a hotel or serviced apartments) and that construction commenced after 26 February 1992, the:

- period over which you can claim a deduction is 25 years
- rate at which you can claim the deduction is 4%

The type of construction

Deductions for capital works have been introduced over time. Due to this, the date from which you can claim a deduction will depend on the type of construction.

To be eligible to claim a capital works deduction, the type of construction must commence after the relevant date in the table below.

Type of construction	Construction commenced after
The following building intended to be used on completion to provide short-term accommodation to travelers: • apartment buildings in which you own or lease • least 10 apartments • units or flats • hotels • motels • guest houses with at least 10 bedrooms	21 August 1979
Building intended to be used on completion for non-residential purposes such as a shop or office.	19 July 1982
Any building intended to be used on completion for residential purposes or to produce income.	17 July 1985
Structural improvements intended to be used on completion for residential purposes or to produce income.	26 February 1992
Environment protection earthworks intended to be used on completion for residential purposes or to produce income.	18 August 1992
Any capital works used to produce income, even if they were not intended to be used for that purpose.	30 June 1997

The date construction was completed

You cannot claim a deduction until the construction is completed. The rate of your deduction and the number of years over which you can claim it depends on the date the construction commenced.

the PRACTICE

Who carried out the construction work

If you carried out the construction as an owner/builder, the value of your contribution to the works does not form part of the construction cost; for example:

- your labour and expertise
- any notional profit element - that is, an amount you might consider as a profit margin on the construction cost

Construction cost

The construction cost must take the form of either of the following:

- precise evidence of the construction costs such as receipts
- a report written by an appropriately qualified person

Remember, none of the following can be used as the construction cost:

- the purchase price of the building and land
- the insured cost
- the replacement cost

The period during the year that the property was used for income producing purposes

You can only claim a deduction for those periods during the year you used your rental property for income producing purposes, not when you used the property for private purposes.

Example

On 1 March 2010 Alan purchased a rental property for $300,000 and immediately rented it out. Alan obtained a report from a quantity surveyor stating:

- construction of the property commenced in February 2003
- the property was a residential townhouse
- construction was completed in November 2003
- the townhouse was built by a developer
- the estimated cost of constructing the townhouse was $200,000

Alan claims a capital works deduction in her 2010 tax return for his rental property based on the estimate of the construction costs she obtained from the quantity surveyor. However, he only claims a deduction for that part of the year his property was available for rent (1 March to 30 June 2010).

The rate of deduction he claims was 2.5% as construction of his residential property started after 15 September 1987.
His annual capital works deduction was calculated as follows:
$200,000 x 2.5%=$5,000
As the property was only used for income producing purposes for 122 days in 2010, his 2009-10 claim was calculated as follows:$5,000 x 122/365 = $1,671.

Where do you get the construction information?

If you carried out the construction or contracted a builder to do so, you should make sure you keep detailed records of the construction costs.
If you purchased the property and do not have a record of the construction costs - for example, where the vendor did not provide them - you will need to obtain this information from an appropriately qualified person.

This could be a:

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

You can claim a deduction for the cost you pay to obtain this information from an appropriately qualified person in the year you pay it.
Quantity surveyor reports can also include a schedule of depreciable assets (capital allowances). You can claim a separate deduction for the decline in value of depreciable assets.

Remember to obtain your construction costs report as soon as possible as these reports can take a long time to prepare. If you obtain a report after you lodge your tax return, you can amend your tax return at a later date. However, there is a time limit on amending tax returns.

What records do you need to keep?

You must keep proper records in order to make a claim, even if you use a tax agent to prepare your tax return. This includes records of:

- the rental income you receive and the expenses you pay for which you can claim a deduction – 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

- all costs you incurred when you purchased the property, while you owned the property and when you sold the property - you may need to keep some of these records for longer than five years, depending on how long you own the property.

As capital tax gains may apply if you sell your rental property, we recommend you keep records of every transaction over the period of ownership of the property. This would include contracts of purchase and sale, and conveyance and loan documentation. Keeping these records will help you work out your capital gain or loss correctly and ensure you don't pay more tax than you need to.

3. Deduction for decline in value of depreciating assets

You can claim a deduction for the decline in value of certain items, known as depreciating assets, that you acquired as part of the purchase of your property or that you subsequently purchased for your property.

What is a depreciating asset?

A depreciating asset is an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used. Examples of depreciating assets are freestanding furniture, stoves, washing machines and television sets.

4. Interest expenses

The types of interest expenses you can claim as income tax deductions.

What can you 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 you 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

Example: Claiming all interest incurred

Kosta and Jenny take out an investment loan for $350,000 to purchase an apartment they hold as joint tenants.
They rent out the property for the whole of the year from July 1.
They incur interest of $30,000 for the year.
Kosta and Jenny can each make an interest claim of $15,000 on their respective tax returns for the first year of the property.

Example: Claiming part of the interest incurred

Yoko takes out a loan of $400,000 from which $380,000 is to be used to buy a rental property and $20,000 is to be used to buy a new car.
Yoko's property is rented for the whole year from 1 July. Her total interest expense on the $400,000 loan is $35,000.
To work out how much interest she can claim as a tax deduction, Yoko must do the following calculation:

$$\text{Total interest expense} \times \frac{\text{Rental property loan}}{\text{Total borrowings}} = \text{Deductible interest}$$

That is:

$$\$35{,}000 \times \frac{\$380{,}000}{\$400{,}000} = \$33{,}250$$

Yoko works out she can claim $33,250 as an allowable deduction.

Example: Interest incurred on a mortgage for a new home

Zac and Lucy take out a $400,000 loan secured against their existing property to purchase a new home on the other side of town.
Rather than sell their previous home they decide to rent it out.
They have a mortgage of $25,000 remaining on their existing home which is added to the $400,000 loan under a loan facility with sub-accounts - that is, the two loans are managed separately but are secured by the one property.
Zac and Lucy can claim an interest deduction against the $25,000 loan for their previous home, as it is now rented out.
They cannot claim an interest deduction against the $400,000 loan used to purchase their new home as it is not being used to produce income even though the loan is secured against their rental property.

What records do you 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 and selling/disposing of it - keep these records for five years from the date you sell/dispose of your rental property

5. Legal expenses

The types of legal expenses you can claim as income tax deductions.

What can you claim?

You can claim the cost of:

- preparing a lease agreement with your tenant, and
- evicting a non-paying tenant

What can't you claim?

You can't claim:

- solicitor's fees for the purchase of the property (these are a capital expense, see below)
- solicitor's fees for the preparation of loan documents (can be claimed as borrowing expenses)
- legal costs associated with resisting land resumption (these are a capital expense, see below)

What are capital expenses?

Expenses you incur when purchasing/acquiring or selling/disposing of your rental property are capital expenses.

Capital expenses include:

- conveyancing costs paid to a conveyancer or solicitor
- title search fees, and
- valuation fees

You may be able to include capital expenses when calculating the 'cost base' of your property. The cost base of a capital gains tax (CGT) asset is generally the cost of the asset when you bought it. However, it also includes certain other costs associated with purchasing/acquiring, holding and selling/disposing of the asset. This can help you reduce the amount of CGT you pay when you sell your property.

Example

Barry purchased a rental property for $300,000. The expenses Barry paid that he can claim as a deduction on his next tax return were:

- $800 - solicitor's fees for preparation of the lease
- $500 - solicitor's fees for preparation of loan documents, and
- $400 - stamp duty on the mortgage.

Barry can claim deductions for the $500 solicitor's fees for handling the loan documents and the $400 stamp duty on the mortgage as borrowing expenses. Because the borrowing expenses are over $100, Barry must claim them over five years or the term of the loan, whichever is shorter.
The legal expenses Barry paid that he cannot claim as a deduction (capital costs that may form part of cost base of the property) were:

- $1,000 - solicitor's fees for purchase of the property
- $12,000 - stamp duty on the transfer of the property, and
- $30 - title search fees.

What records do you 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 it and selling/disposing of it - keep

- legal costs associated with defending your title to the property (for example, defending an action by the mortgagee to take possession of the property where you have defaulted under the loan) (these are a capital expense, see below)

6. Repairs and maintenance expenses

The types of repairs and maintenance expenses you can claim as income tax deductions.

What are repairs and maintenance?

When we say 'repairs', we mean work to make good or remedy defects in, damage to or deterioration of the property, for example:

- replacing part of the guttering or windows damaged in a storm
- replacing part of a fence damaged by a falling tree branch
- repairing electrical appliances or machinery

When we say 'maintenance', we mean work to prevent deterioration or fix existing deterioration. For example:

- painting a rental property
- oiling, brushing or cleaning something that is otherwise in good working condition
- maintaining plumbing

What can you claim?

You can claim a deduction for the costs you pay to repair and maintain your rental property, in the year you pay them.

What can't you claim?

You can't claim the total costs of repairs and maintenance in the year you paid them if they did not relate directly to wear and tear or other damage that occurred due to renting out your property. These are capital expenses you may be able to claim over a number of years as capital works deductions or deductions for decline in value.

Can you claim the cost of repairs you make before you rent out the property?

You cannot claim the cost of repairing defects, damage or deterioration that existed when you obtained the property, even if you carried out these repairs to make the property suitable for renting. This is because these expenses relate to the period before the property became an income producing property.

Example

Stephen needed to do some repairs to a rental property he recently purchased before the first tenants moved in. He paid tradespeople to repaint dirty walls, replace broken light fittings and repair doors on two bedrooms. He also had to have the house treated for damage by white ants.

Because Stephen incurred these expenses to make the property suitable for rental, not while he was using the property to generate rental income, the expenses are capital expenses. This means he cannot claim a deduction for them.

Can you claim the cost of completely replacing something?

If you have to replace something identifiable as a separate item of capital equipment (such as a complete fence or building, a stove, kitchen cupboards or a refrigerator) you have not carried out a repair.

This means you cannot claim the entire replacement cost you incurred in the year you incurred it. However, you may be able to claim the cost as a capital works deduction or a deduction for decline in value.

Example

Janet has owned and rented out a residential property since 12 January 1983. Recently she replaced the old kitchen fixtures, including the cupboards and appliances. The old cupboards had deteriorated through water damage and wear and tear.

The kitchen cupboards are separately identifiable capital items with their own function. This means the cost of completely replacing them is a capital cost. Because of this, Janet can only claim a:

- capital works deduction for the construction cost of this work
- deduction for the decline in value of the kitchen appliances

This is the case regardless of whether or not the:

- new fittings are of a similar size, design and quality as the originals
- new cupboards are made from a modern equivalent of the material used in the originals
- layout and design of the new kitchen may be substantially the same as the original

Can you claim the cost of improvements?

When we say 'improvement' we mean work that:

- provides something new
- generally furthers the income-producing ability or expected life of the property
- generally changes the character of the item you have improved
- goes beyond just restoring the efficient functioning of the property

You cannot claim a deduction for the total cost of improvements to your rental property in the year you incur them.

Example

Tim replaced a fibro wall inside his rental property, which was damaged by tenants, with a brick feature wall.
The new wall is an improvement because Tim did more than just restore the efficient function of the wall. This means Tim cannot claim the cost of the new wall as a repair.
However, had Tim replaced the fibro with a current equivalent such as plasterboard, he could have claimed his costs as a repair. This is because it would have merely restored the efficient function of the wall without changing its character, even though a different material was used.

Can you claim repairs you carry out at the same time as improvements?

If you conduct a project that includes both repairs and improvements to your property, you can only claim a deduction for the cost of your repairs if you can separate the cost of the repairs from the cost of the improvements.
If you hire a builder or other professional to carry out these works for you, we recommend you ask for an itemised invoice to help work out your claim.

Example

Caitlin has modernised her rental property by hiring trades people to render and paint the external walls. She also asked the painter to paint the internal walls, which had deteriorated during the time she rented out the property.
As Caitlin requested an itemised invoice from the painter, she separates the cost of the internal and external painting, and rendering. She claims a deduction for the cost of painting the internal walls as a repair.

If you receive income other than rent for your rental property (for example, an insurance payout for the cost of repairs), you must include this amount as income on your tax return.

What records do you need to keep?

You must keep proper records in order to make a claim, even if you use a tax agent to prepare your tax return. This includes records of:

- the rental income you receive and the expenses you pay for which you can claim a deduction - 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
- all costs you incurred when you purchased the property, while you owned the property and when you sold the property - you may need to keep some of these records for longer than five years, depending on how long you own the property.

As capital gains tax may apply if you sell your rental property, we recommend you keep records of every transaction over the period of ownership of the property. This would include contracts of purchase and sale, and conveyance and loan documentation.

Keeping these records will help you work out your capital gain or loss correctly and ensure you don't pay more tax than you need to.

7. Claiming travel expenses deductions

What are travel expenses deductions?

Generally, the cost of travel you incur to inspect or maintain rental properties or to collect rent is an allowable deduction.

What can you claim?

You can claim travel expenses for:

- preparing the property for new tenants (except for the first tenants)
- inspecting the property during or at the end of tenancy
- undertaking repairs, where those repairs are because of damage or wear and tear incurred while you rented the property out
- maintaining the property, such as cleaning and gardening, while it is rented or available for rent
- collecting the rent
- visiting your agent to discuss your rental property

What can't you claim?

You can't claim travel:

- for your personal use of the property - if the travel is for private purposes only, no part of the expense is deductible
- to carry out general maintenance of the property while it is not genuinely available for rent
- to undertake repairs, where those repairs are not because of damage or wear and tear incurred while you rented out the property (for example, initial repairs before you rent the property for the first time

You can claim a full deduction where the sole purpose of a trip relates to the rental property. However, where your travel expenses are partly for private purposes, you can only claim the amount relating to the rental property.

What car travel expenses can you claim?

If you use your own car to travel to inspect or maintain your rental property or to collect rent, you can claim an allowable travel expense deduction.

You can't claim motor vehicle expenses for travel that is incidental to the main purpose of the trip. For example, you can't claim travel expenses because you drive past the property to 'keep an eye on things' on your way to or from work.

Example: Claimable car expenses

Claire decides to inspect her rental property three months after the tenants move in. During the income year, she also makes a number of visits to the property to carry out minor repairs.
Claire travels 162 kilometers during the course of these visits in her 2.5 litre car.
Claire works out her car expenses using the cents per kilometer method and claims the following deduction:

Distance travelled x rate per kilometer = deductible amount
162 km x 74 cents per kilometer = $119.88

Claire can only claim this deduction for travel expenses associated with her rental property - she can't also claim the expense at the work-related car expenses label (D1) on her tax return.
If she wants to make a separate work-related car expenses claim, the total distance she travelled on income producing activities (including rental property travel expenses) can't exceed 5,000 kilometers when using the cents per kilometer method.

What overnight stay expenses can you claim?

You can claim a deduction for travel expenses for travelling to your rental property if:

- you own a rental property that is far away from where you live
- it would be unreasonable to expect you not to stay near the rental property overnight when making an inspection

Where you stay overnight, you can claim meals and accommodation.

Where your trip is mainly for private purposes (for example, having a holiday) and inspecting the property is incidental to that main purpose, you can't claim the costs of getting there or the return trip. You can only claim local expenses directly related to the property inspection such as taxi fares and a proportion of accommodation expenses.

Example: apportionment

Bill and Marli King are joint owners of a rental property in a resort town on the north coast of Queensland. They spend $1,800 on airfares and $1,500 on accommodation when they travel from their home in Melbourne, mainly for the purpose of holidaying in the resort town, but also to inspect the property. They also spend

$100 on taxi fares from the hotel to the rental property and back. The Kings spent:

- one day (10% of their total time in Queensland) on matters relating to the rental property
- nine days (90% of their total time in Queensland) swimming and sightseeing

They can't claim a deduction for any part of the $1,800 airfares because the main purpose of the trip is a holiday and the property inspection is incidental.
If the trip included a significant amount of time devoted to the rental property, they could apportion some of the airfares.
They can claim deductions for the $100 taxi fare and a reasonable apportionment of the accommodation expenses (that is 10% of the $1,500).
Their total claim is $250.
As the Kings jointly own the rental property, they can claim $125 each.

Example: accommodation

Jabari is the sole owner of a rental property on the Gold Coast. He travels from Sydney to the Gold Coast to undertake deductible repairs on his rental property but takes his spouse, Kym, with him for company and to share the driving. Jabari and Kym stay in a hotel where the cost of a:

- single room is $55
- double room is $70

A reasonable basis for apportionment of accommodation expenses in this instance is to claim the single room rate of $55 (rather than half the double room rate), as Jabari would have stayed in the single room if Kym had not travelled with him.

What overseas travel expenses can you claim?

If you are an Australian resident and own a rental property overseas, you may travel overseas on holiday and inspect your rental property at the same time.
If the main purpose of the trip is a holiday, you can't claim the cost of getting there - you can only claim local expenses directly related to inspecting the property, such as taxi fares and part of your accommodation expenses.

The records you keep, such as invoices for your accommodation or airline tickets, will help you do this. If you spend six or more nights away from where you live, you must keep a travel diary or similar document that shows the dates, places, times and duration of your activities and travel.

Can you claim travel expenses without an ownership interest?

If you don't have an ownership interest in the rental property, you can't claim travel expenses, even if you travel for the purposes of maintenance or inspections.

Example: Ownership interest
Kei is the sole owner of a rental property. Her husband, Bert, occasionally drives to the rental property in his own car to undertake maintenance. As he has no ownership interest in the property, Bert can't claim travel expenses.

Similarly, since Kei did not travel to the property to undertake the maintenance, she can't claim a deduction.
If Kei and Bert co-owned the property, Bert could share his travel expenses with Kei in line with their legal interest in the property.

Can you claim for travel before you purchase the property?

You can't claim for travel to inspect a property before you buy it.
You can't claim for travel to (or other costs for) rental seminars about helping you find a rental property to invest in.

Seminars are only tax deductible if they relate to producing income from the property. So, when a seminar teaches you how to locate a suitable rental property to buy, you can't claim a deduction against rental income for the cost of the seminar.

What written evidence do you need?

If you travel over a considerable distance to inspect a rental property (for example, interstate), you need written evidence to show that you travelled and what expense you incurred.

Written records can include:

- a travel diary
- receipts for:
  - airline tickets
  - fuel
  - accommodation
  - other purchases while travelling
  - items you used for repairs and maintenance that you purchased when you travelled to or stayed near the rental property

If you spend six or more nights away from where you live, you must keep a travel diary or similar document that shows the dates, places, times and duration of your activities and travel.

How do you work out car expenses?

If you use your own car, you may choose from the following four methods to work out your car expenses:

- **cents per kilometre method** - you can use this method where your travel is no more than 5,000km
- **12% of original value method** - you must:
  - own or lease the car
  - travel more than 5,000km (subject to the luxury car tax limit)
- **one-third of actual expenses method** - you must:
  - own or lease the car or cars
  - travel more than 5,000km
- **logbook method** - your claim is based on the business use percentage of each car expense

Each method has its own calculation formula and record keeping requirements.

What records do you need to keep?

You must keep proper records 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 you lodge your tax return
- your ownership of the property and all the costs of acquiring it and disposing of it - keep these records for five years from the date you dispose of your rental property

For further information please contact us via:
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