Corporate Essentials

RESIDENTIAL RENTAL PROPERTIES

ISSUE	124

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Contents

Contents

RESIDENTIAL RENTAL PROPERTIES

With ownership of residential rental properties at an all-time high in Australia, we examine some of the issues owners may face.

COMMON MISTAKES

The ten most common mistakes around rental properties, according to the ATO, are:

Initial repairs and capital improvements

You can't claim an immediate deduction for:

- **Initial repairs** on damage existing when you bought the property. For example, replacing a broken windowpane or repairing damaged floorboards. You may, however, be able to claim a deduction over several years as a capital works deduction (see later). Initial repair costs are also used to determine your capital gain or loss when you sell the property.
- **Improvements** you make to the property. For example, you replace an entire structure like a roof when only part is damaged or renovate a bathroom. You can claim These building costs generally at 2.5% each year for 40 years from completion.
- **Damaged items detached from the house cost more than $300**. For example, replacing an entire hot water system – the cost must be claimed as a decline in value(depreciation) deduction over several years.

Loan interest

You can claim interest incurred on the amount borrowed as a deduction if you take out a loan for your rental property.

You can only claim part of the interest related to the rental property. If you use some of the loan for personal use, such as buying a boat or going on a holiday, you can't claim the interest on that part of the loan.

Where this is the case, your interest must be apportioned for the duration of the loan or any refinanced loans, regardless of whether you repay the cost of your boat, holiday or other personal expenses. It's essential to consider this when using your investment loan for private purposes.

Claiming borrowing expenses

The deduction is over five years if your borrowing expenses are over $100. If they are $100 or less, you can claim the total amount in the same income year you incurred the expense.

Borrowing expenses:

- include loan establishment fees, title search fees and costs of preparing and filing mortgage documents.
- don't include stamp duty charged by your state or territory government on the property title.

Remember to apportion your borrowing expenses in the first year based on the days you owned the property during that financial year.

Claiming purchase costs

You can't claim deductions for the costs of buying your property. These include conveyancing fees and stamp duty (for properties outside the ACT). If you sell your property, these costs are used when working out if you need to pay capital gains tax.

Construction costs

You can claim certain building costs, including extensions, alterations and structural improvements, as capital works deductions. Generally, you can claim a capital works deduction of 2.5% of the construction cost for 40 years from completion.

Where your property was previously owned by someone else, and they claimed capital works deductions, ask them to provide you with the details so you can correctly calculate the deduction you're entitled to claim. Suppose you can't get the details from the previous owner. In that case, you can use the services of a qualified professional who can estimate previous construction costs, often based on a visit to your property.

Body corporate fees and charges

Your body corporate administration fund payments are fully deductible in the year you incur them.

Suppose your body corporate raises funds applied to a special purpose fund to pay for significant capital improvements or repairs of a capital nature. You can't claim an immediate deduction for these amounts in that case. Once the work is complete, you may claim a capital works deduction for your share of the expense. The cost must also be charged to either the special-purpose fund or the general-purpose sinking fund if a special contribution has been levied.

Apportioning expenses and income for co-owned properties

If you own a rental property with someone else, you must declare rental income and claim expenses according to your legal ownership. As joint tenants, your legal interest will be an equal split, and as tenants in common, you may have different ownership interests.

Apportioning deductions for private use

You must limit the deductions you claim to the periods you can directly connect to earning assessable income. If you use only part of your property to make rent or rent it out for part of the year, you must apportion your expenses to reflect the area and days it was rented. Your private use of the property includes any use by you and if you:

- rent to family or friends below market rates.
- keep it vacant.

To claim a tax deduction for periods, the property has been kept vacant, you must be able to show a clear intention to rent your property. This includes:

- advertising the property so that someone is likely to rent it by setting the rent in line with similar properties in the area.
- avoid unreasonable rental conditions.

Record keeping

You must have evidence of your rental property income and expenses to claim a deduction.

Capital gains tax may apply when you sell your rental property, so keep all records for the period you own the property and for five years from the date you sell it.

CGT

When you sell your rental property, you may make a capital gain or a capital loss. Generally, this is the difference between:

- what it costs you to buy, own and improve the property (cost base)
- what you receive when you sell it.

Don't include amounts in your cost base which you have already claimed as a deduction against rental income earned from the property, including a decline in value and capital works.

If you make a capital gain, include the gain in your tax return for that income year.

If you make a capital loss, you can carry the loss forward and deduct it from capital gains in later years.

RESIDENTIAL PROPERTY

Why it matters

Determining whether a property is residential (as opposed to commercial residential or commercial) is essential from a GST standpoint. If a property is residential, generally, if you are GST-registered, you cannot claim GST on the acquisitions you make in making the property available for rent (e.g. repairs, electricity, etc.). Furthermore, no GST is charged on the rent of residential premises.

Physical characteristics is the test

GST Ruling GSTR 2012/5 highlights that for residential premises exemption from GST to apply, there is a single test that looks at the physical characteristics of the property to determine the suitability of that property for residential accommodation.

The ruling confirms that the purchaser's intention is irrelevant when determining whether the property is residential.

Example – intention

John carries on an enterprise that involves leasing a house on his property. Based on the place's physical characteristics, residential premises are used predominantly for residential accommodation. The local Council recently rezoned the area where the home is located to permit higher-density residential apartments. Following the rezoning, a developer, Knock Them Down Co, approaches John and offers to purchase his property. Knock Them Down Co intends to demolish the house, redevelop the property into a new apartment building, and sell the apartments.

The fact that Knock Them Down Co does not intend to use the house to provide residential accommodation does not mean that it is not residential premises to be used predominantly for residential accommodation. Knock Them Down Co's intention is not a relevant factor in determining the character of the premises. Based on its physical characteristics, the house is a residential premises predominantly for residential accommodation. John's sale of the home to Knock Them Down Co. is an input-taxed supply.

To recap, if the premises are residential, it makes no difference if the purchaser intends to redevelop the property because the buyer's plans do not change the premises' characteristics in the supplier's hands. Provided the house, at the date of supply, constitutes residential premises capable of being used predominantly for residential accommodation, the sale is input taxed.

The ruling confirms that residential premises do not have to be used for accommodation on an extended basis. The premises have to be capable of providing "living accommodation", and this does not require a degree of permanence.

Premises that do not display physical characteristics demonstrating that they are suitable for, capable of being occupied as a residence or for residential accommodation are not residential premises to be used predominantly for residential accommodation, even if they are occupied as a residence or for residential accommodation. For example, someone might occupy premises that lack the physical characteristics of premises suitable for, or capable of, residential accommodation (such as a settler residing in a disused factory)

Fit for human habitation

The condition of the premises supplied is relevant in deciding whether they are suitable for, capable of, being occupied as a residence or for residential accommodation. To be residential premises as defined, premises must be fit for human habitation. An objective consideration of the relevant facts and circumstances determines whether residential premises are fit for human habitation. Premises are not suitable for, or capable of, human habitation if they are dilapidated to the extent that their condition prevents occupation for residential accommodation (as may be evidenced by a demolition order issued by a relevant authority because of the premises' condition). In these circumstances, the condition of the premises indicates that the premises are no longer suitable for, or capable of, providing shelter and basic living facilities.

INVESTMENT OR BUSINESS?

Why it matters

In the rare event that you are carrying on a business of letting residential properties, this may entitle you to access the small business CGT concessions, which in turn may enable you to dramatically reduce or even eliminate your CGT liability when it comes time to sell the properties.

As the owner of rental properties, some of the factors that show you are carrying on a business of letting rental properties are the following:

- significant size and scale of the rental property activities (there needs to be at least three or four properties in play)
- A significant number of hours spent on the activities
- extensive personal involvement in the activities
- business-like manner in which the activities are planned, organised and carried on.

There are eight indicators to determine whether a business is being carried on. These are listed in paragraph 13 of Taxation Ruling TR 97/11, available on the ATO website. Although the ruling refers to primary production, these are equally relevant to non-primary production activities.

Example – addition of furniture and minor fittings

Rebecca is a solicitor. She lives in a terrace house that is not new residential premises and decides to convert a room at the front of the house into an office for her practice. Rebecca arranged to install an electricity point and telephone line for the room where she intends to set up a printer and facsimile machine. She fits the room with bookshelves, filing cabinets, a desk, office chairs, a printer and facsimile machine table, and suitable floor coverings. She also has an advertising sign outside her house's front door. Rebecca does not modify any of the other rooms in the house.

These changes are insufficient to modify the terrace house's physical characteristics into premises other than residential premises to be used predominantly for residential accommodation. The furniture and fittings that Rebecca has brought into the room do not change the physical characteristics of the house itself. Also, installing an electricity point and telephone line and placing a sign outside the home are not sufficient modifications to alter the physical characteristics of the premises so that they are no longer residential premises to be used predominantly for residential accommodation. Rebecca will make a wholly input-taxed supply if she sells or leases the premises.

Case study - No business

The Tobins own, as joint tenants, two units and a house from which they derive rental income.

The Tobins occasionally inspect the properties and also interview prospective tenants. Mr Tobin performs most repairs and maintenance on the properties, although he generally relies on the tenants to let him know what is required.

The Tobins do any cleaning or maintenance required when tenants move out. Arrangements have been made with the tenants for the weekly rent to be paid into an account at their local bank.

Although the Tobins devote some of their time to rental income activities, their primary sources of income are their respective full-time jobs.

The Tobins are not partners carrying on a business of letting rental properties. They are only co-owners of several rental properties.

By contrast, a business may be in play where some earlier factors are present.

Case study - Business

The D'Souzas own several rental properties as joint tenants or tenants in common. They own eight houses. The D'Souzas actively manage all of the properties.

They devote a significant amount of time, an average of 25 hours per week each, to these activities. They undertake all financial planning and decision-making about the properties. They interview all prospective tenants and collect all the rent. They carry out regular property inspections and attend to all the everyday maintenance and repairs themselves or organise for them to be done on their behalf.

Apart from the income Mr D'Souza earns from shares, they have no other sources of income. The D'Souzas are carrying on a business of letting rental properties. This is demonstrated by the significant size and scale of the rental property activities. Then, by the number of hours the D'Souzas spend on the activities, and D'Souzas' extensive personal involvement in the activities, and the business-like manner in which the activities are planned, organised and carried on.

Are all Airbnb properties eligible for the small business CGT concessions?

For landowners who hold their property for short-stay accommodation purposes (such as via Airbnb and Stayz), can the income tax on disposal of their property be reduced (potentially to nil) under the small business CGT concessions?

The concessions

The Concessions are complex but can significantly reduce (if not eliminate) the CGT that would otherwise arise from the disposal of properties. A core requirement under the Concessions is the "active asset test".

For landowners to satisfy the active asset test on the disposal of their short-term accommodation property, they would need to ensure that:

1. the property is used, or held ready for use, in carrying on a business; and
2. The primary use of the property is not to derive rent.

Carrying on a business

There is no statutory test as to whether a person's activities are the carrying on of a business. It is a question of fact—in a 2021 decision in FFYS and FCT [2021] AATA 4844. Deputy President McCabe described the concept of carrying on a business as "fluid and inherently difficult to define exhaustively – but, like obscenity, one knows it when one sees it".

Most landowners listing their property on Airbnb are unlikely to be doing business. Such activities are passive and lack the typical hallmarks of a company, such as significant commercial activity and repetition or regularity.

However, even though some short-stay accommodation activities may be unsophisticated, recent decisions in the Federal Court and AAT have acknowledged that informalities (such as an absence of a business plan) are commonplace for small businesses, e.g. see Melbourne Corporation of Australia Pty Ltd v FCT [2022] FCA 972; DQTB and FCT [2023] AATA 515.

Furthermore, it is conceivable that taxpayers could carry on a business about their Airbnb property. The ATO accepted as much in a recent private ruling about a tax law partnership that advertised their property on Airbnb for venue-hire purposes.

In addition, a taxpayer who owns multiple Airbnb properties and actively manages their listings could be carrying on a business.

The primary use is not to derive rent

If the property's primary use is to derive rent, apart from limited circumstances, it will fail the active asset test.

Rent has been defined as "...payment which a tenant is bound by his contract to pay to the landlord for the use of his land" and an integral component of a lease – see United Scientific Holdings Ltd v Burnley Borough Council [1978] AC 904, 935. Accordingly, if the characteristics of a lease relationship are present between an owner and an occupier, then the payments by the occupier for the use of the owner's assets are likely to be considered rent.

Notably, a lease is distinguished from a licence or right to occupy. The distinction is fine and typically depends on whether an occupant of the property has an "exclusive possession" right.

In Taxation Determination TD 2006/78, the ATO considers the lease versus licence distinction in the context of the active asset test under the Concessions. Example 4 in TD 2006/78 is an example of a licence.

"Linda owns a complex of 6-holiday apartments. The apartments are advertised collectively as motels and are booked for periods ranging from 1 night to 1 month. The majority of bookings are from 1 to 7 nights.

Linda is responsible for bookings, checking guests in and out and cleaning the apartments. She also provides clean linen and meal facilities to guests. Linda does not enter into lease agreements with guests staying at the apartments.

In this example, the apartments are operated similar to a motel. The guests do not have exclusive possession of the apartment they are staying in but only a right to occupy it in certain conditions. The usual length of stay by guests is concise, and room cleaning, linen and meals are also provided to guests.

These facts indicate that the relationship between Linda and the guests is not that of a landlord/tenant under a lease agreement. Accordingly, the income derived is not 'rent'. If Linda's activities amount to the carrying on of a business, paragraph 152-40(4)(e) of the ITAA 1997 exclusion would not apply, and the apartments would be active assets under section 152-40 of the ITAA 1997."

Arguably, some of the features described in Example 4 could be present when a taxpayer uses a property for short-term accommodation:

1. the bookings are for short-term periods;
2. the owner supplies linen, does the cleaning, and
3. the owner does not enter lease agreements with guests (see below).

However, in recent private rulings, it was concluded that receipts from Airbnb activities were rented. The conclusions were based on the pronouncements by Justice Croft in the Victorian Supreme Court case of Swan v Uecker [2016] VSC 313.

Significance of the Swan Case

In Swan v Uecker (which concerned a landlord who had discovered that her tenants had been listing her apartment on Airbnb for stays between 3 and 5 nights), Justice Croft held that the effect of the "Airbnb Agreement", thoroughly analysed, was that the Airbnb guests enjoyed a right of exclusive possession. It was irrelevant that the "Airbnb Agreement" characterised the arrangement as a licence rather than a lease.

Based on *Swan*, the ATO has concluded in private rulings that the decision "clearly establishes a general principle that short-term accommodation can be rented, despite how the parties describe the arrangement". But does Swan agree that all Airbnb/short-term accommodation arrangements are leases rather than licences?

Justice Croft acknowledged that each case must be assessed on its merits in distinguishing a lease from a licence. The task requires properly constructing the agreement, considering the surrounding circumstances, and adopting a substance-over-form approach.

In *Swan*, the facts concerned an "Airbnb Agreement" from 2016. It was that agreement, considering the surrounding circumstances of the sub-letting arrangement, which informed Justice Croft's decision. Justice Croft did not say that all Airbnb listings were leases.

Having recently looked at the Airbnb website, there no longer appears to be an "Airbnb Agreement" that governs the relationship between hosts and guests. Rather, hosts and guests are subject to a "Terms of Service" which, notably, does not have the clauses referred to in the "Airbnb Agreement" in Swan.

Interestingly, the "Terms of Service" allows hosts and guests to enter supplemental contracts further to specify the relationship conditions and rules regarding the stay. Drafting these additional contracts might be important in assessing if a lease or licence exists (although the terms of a written agreement are not necessarily determinative of the lease versus licence distinction).

Closing remarks

Accordingly, whether all Airbnb/Stayz/short-term accommodation arrangements are leases rather than licences, landowners contemplating disposal of their short-term accommodation property should not discount the potential for the Concessions to apply (although satisfying the active asset test is not the only threshold to pass!).

NEGATIVE GEARING

It's common for investors in Australia to adopt a negative gearing strategy for residential rental properties. While this may reduce their taxable income, there are dangers to be aware of.

Definition

Negative gearing is a financial strategy where the expenses of maintaining an investment property (or shares, etc.), including mortgage interest, council rates, and other related costs, surpass the asset's income.

From a tax standpoint, any resulting loss from gearing can usually offset other sources of taxable income, such as salary and wages. Thus, your overall tax liability for the year is lessened.

This is in contrast to positive gearing as follows:

	Negative gearing	Positive gearing
Definition	It occurs when the costs of owning a rental property, such as the interest on a loan, exceed the rent returns earned.	It is when the income from an asset, such as a rental property, is more than the costs, resulting in passive income for investors.
Income v Expenses	An investment asset incurs greater expenses than the income it generates. This situation often arises when rental income exceeds interest payments and outgoings.	The investments create more revenue than expenses. This means the rental income is higher than the costs associated with the property, including the loan interest.
Tax strategy	It has been a widely used tax strategy in Australia for many years, making owning investment properties more feasible for many investors.	While an alternative approach is less common as a tax strategy, however, it provides investors with additional income, subject to income tax.

Downsides

Despite being a popular strategy, there are some risks involved

1. Losses

Negative gearing at its core involves making losses – more money is going out each year in expenses than is coming in each year in income. Yes, you are reducing your tax, but the tax savings will never exceed the value of the outgoings/losses.

Example

Ken has a taxable income of $150,000, including $36,400 in rent and a $30,000 net loss from negative gearing. This means a total taxable income of $120,000. His negative gearing, therefore, has saved him $11,100 (loss of $30,000 x 37% tax rate).

Thus, the value of the tax savings has been far outweighed by his overall loss of $30,000. For this negative gearing exercise to be sustainable, Ken must sustain such losses moving forward. Hopefully, until he sells, the property's capital growth will outweigh the losses he has sustained yearly.

For this reason, selecting a property with the potential for significant capital growth in your ownership period is essential.

2. Increased costs

Investors also need to factor in increases in costs. As we have seen recently, since May 2022, interest rates have increased by four percentage points, adding thousands of dollars to mortgage repayments each year.

Rates and insurance are other significant costs that typically trend up.

3. Non-tenancy

Although vacancy rates in Australia are currently at an all-time low, investors also need to factor in periods of non-tenancy. Can you afford to step forward and pay the mortgage during periods when the property is untenanted?

4. High purchase costs

Investing in real estate usually requires a hefty upfront payment. This initial investment might be challenging for many Australians who do not have sufficient savings on hand.

INVESTMENT VEHICLE

There are several ownership structures for residential property, as follows:

SMSF

Some taxpayers prefer to use their SMSF as an investment vehicle for residential property. This can be for several reasons, including:

1. Asset protection

As a rule, the assets in your SMSF are protected from creditors. For that protection to work, SMSF trustees must ensure that the accounts and investments of the fund are held in the correct name.

For asset protection reasons, it is also recommended that SMSFs have a corporate trustee – rather than the individuals acting as trustees.

For example, if an SMSF trustee is sued and a significant debt results, individual trustees have their assets at stake if the SMSF assets are insufficient. In contrast, a corporate trustee is a separate legal entity offering better protection.

2. Lower tax rate

The tax rate on any income from the property (rent) is also generally lower. Rental income will generally be taxed at 15% when your account is in accumulation mode and tax-free once you turn 60. This contrasts your marginal tax rate if you own the property personally or as high as 30% if your company owns the property.

3. CGT discount

Unlike companies, SMSFs are eligible for a 33% CGT discount if they hold the property for 12 months or more.

You can only buy property through your SMSF if you comply with the rules.

To this end, the property must:

- Meet the 'sole purpose test of solely providing retirement benefits to fund members.
- Not be acquired from a related party of a member.
- Not be lived in by a fund member or any fund members' related parties.
- Not be rented by a fund member or any fund members' related parties (even if the rent is at market value).

Borrowing or gearing your super into property involves stringent borrowing conditions. This is called a 'limited recourse borrowing arrangement' (LRBA).

You can only purchase a single asset with an LRBA—for example, a residential or commercial property. The ATO has more information about limited recourse borrowing arrangements on its website.

You should assess whether investing in property is consistent with the investment strategy and risk profile of your SMSF.

Borrowing adds complexity to your SMSF, so getting advice from a licensed financial adviser is essential. Ask the financial adviser to explain the following risks which include:

- **Higher costs** – SMSF property loans tend to be more costly than other property loans.
- **Cash flow** – Your fund must always have sufficient liquidity or cash flow to meet expenses. These may include loan repayments, insurance premiums, and other property expenses such as rates or property management. The fund may also need to allow retirement pension payments or lump sum withdrawals.
- **Loan balance** - You need to ensure a strategy is in place to repay the loan in case of illness, disability, death of members, or rental vacancy.
- **Hard to cancel** – You can't unwind the arrangement if your SMSF property loan documents and contract aren't set up. You may have to sell the property, potentially causing substantial losses to the SMSF if the market is flat.
- **Possible tax losses** – You can't offset tax losses from the property against your taxable income outside the fund.
- **No alterations to the property** – You can't make alterations that change the character of the property until you pay off the SMSF property loan.

Trusts

Asset protection is the main advantage of holding a rental property in a trust. Further, if the property is positively geared, then the rental income may be distributed to low-earning beneficiaries, thus optimising the taxation of this income.

The disadvantages include negative gearing loss – trust losses cannot be distributed to beneficiaries. They are trapped in the trust and can only be carried forward to offset other income. That is, while partners share partnership losses, trusts and company losses are not shared by the beneficiaries or directors, respectively. Thus, one of the chief benefits of negative gearing is lost.

Companies

Broadly, the same pros and cons apply to companies as to trusts, including the loss of negative gearing. Additionally, companies cannot access the 12-month, 50% CGT discount for selling. Therefore, an increased CGT liability may apply.

DEPRECIATION – SECOND-HAND ASSETS

On 1 July 2017, changes were made to the tax law about the claiming of depreciation on certain assets used in residential rental properties. Since then, investors in residential rental properties have not been able to claim a decline in value (depreciation) deductions concerning the acquisition of second-hand assets or assets previously used for private purposes.

Background

Before 1 July 2017, a purchaser of a residential rental property would allocate a portion of the purchase price to depreciating assets purchased with the property and claim depreciation deductions.

This created opportunities for successive investors to 'refresh' the value of previously used depreciating assets and claim amounts over their actual value or even original cost, resulting in a 'double dip' of claims for tax purposes across successive owners of the assets.

The new rules

The Treasury Laws Amendment (Housing Tax Integrity) Act 2017 — which received Royal Assent on 30 November 2017 — addressed this issue by amending the tax law to limit deductions to investors' outlay.

These rules reduce the amount a taxpayer can deduct for the depreciation of an asset to the extent that the asset:

1. is used, or installed ready for use, to gain or produce assessable income from the use of 'residential premises to provide residential accommodation; and
2. has been 'previously used'.

Previous use

An asset has been 'previously used' if:

- The taxpayer did not hold the asset when it was first used or first installed ready for use (other than trading stock) — i.e. the taxpayer purchased it second-hand from another entity or
- at any time during the income year or an earlier income year, the asset was first used or installed ready for use, either:

– in residential premises that were one of the taxpayer's residences at that time; or

– for a purpose that was not a 'taxable purpose' and in a way that was not occasional.

Previous use as trading stock

Previous use can cover situations where another taxpayer, such as a property developer, has used an asset in a property both as trading stock and for another purpose.

The Explanatory Memorandum to the legislation states that, for example, when a property developer:

- installs an asset in premises they intend to sell — this will generally constitute use as trading stock, and
- rents out the property containing the asset. At the same time, they seek to find a purchaser — the property and hence the asset are used, at least in part, for a purpose other than as trading stock and the asset would be 'previously used' in the hands of any subsequent purchaser (subject to the exception for assets used or installed in certain new residential premises).

Previous use in the taxpayer's residence

'Residence' takes its ordinary meaning. A person may have more than one residence if they commonly occupy or have available to entertain two or more residential premises.

According to the EM, a dwelling an entity owns that is currently rented out to a tenant is not generally a residence of the entity at that time (even if it previously had been), whereas a holiday home that is principally held available and ready for the use of an entity may be the entity's residence at that time.

This means that the new rules may apply to an asset that the taxpayer held and not previously used for a taxable purpose but is later used for a taxable purpose.

Previous use for a non-taxable purpose, other than occasional use

An asset will not be previously used if it has only occasionally been used for a purpose that is not a 'taxable purpose'. A 'taxable purpose' includes producing assessable income (amongst other things).

Use for a purpose is 'occasional' where the use is infrequent, minor and irregular. For example, according to the EM, spending a weekend in a holiday home or allowing relatives to stay free of charge for one weekend in the holiday home that is usually used for rent would generally be considered 'occasional' use.

Depreciation deductions are not denied under the new rules in any of the following circumstances:

1. the taxpayer is an 'excluded entity;
2. the asset is installed in new residential premises, and certain other conditions are met or
3. the asset is used in carrying on a business.

Exception 1 - excluded entities

These are:

- a corporate tax entity (i.e., a company);
- a superannuation fund **other than an SMSF**.
- a managed investment trust.
- a public unit trust; or
- a unit trust or partnership, where each unit holder/ partner is one of the above entity types.

Exception 2 – new residential premises

'New residential' premises has the same meaning as in

The GST Act — i.e. includes premises that have:

- not previously been sold as residential premises (and have not previously been subject to a long-term lease); or
- been created through 'substantial renovation' or replacement of existing premises.

'Substantial renovations' broadly means renovations in which substantially all of a building is removed and replaced. Installing a new kitchen and bathroom is not, on its own, a 'substantial renovation'.

The following five conditions must be satisfied to access this exception, which is limited to circumstances where the asset is substantially new:

1. The residential premises are supplied to the taxpayer as new residential premises on a particular day.
2. The asset is supplied as part of that supply of the premises.
3. When the taxpayer first holds the asset as a result of that supply, the asset is used or installed ready for use in the premises (or any other related real property in which interest is supplied to the taxpayer);
4. At any earlier time, no one was residing in any residential premises in which the asset was used or installed ready for use at the time — except where the new residential premises (or related real property) was supplied within six months of the premises becoming new residential premises; and
5. No entity has previously been entitled to a deduction for asset depreciation under Div 40 or Subdiv 328-D.

This exception allows investors to purchase new residential premises from property developers without being subject to the new rules.

Exception 3 – asset used in carrying on a business

Deductions continue to be available for assets used while carrying on a business to produce income from residential premises for residential accommodation — e.g., a taxpayer operating a hotel can deduct the decline in value of depreciating assets used for the business in the hotel premises.

There is much commentary on what constitutes 'carrying on a business', which will not be considered here. Whether a taxpayer is carrying on a business is a question of fact. Still, ordinarily, the ATO would generally not regard, for example, a property owned by an individual taxpayer as providing short-term or long-term accommodation as a business. The outcome would be different if a company owned the property.

Which assets?

The table below summarises when the new rules do and don't apply:

Cannot Claim – new restrictions apply to limit depreciation	Can Claim – new rules do not apply
Acquire a property on or after 7:30 p.m. on 9 May 2017 that has not been 'previously used.'	Acquire a new property on or after 7:30 pm on 9 May 2017 that has not been 'previously used' (e.g. purchased new from a builder)
Replace an existing depreciating asset with a **second-hand asset**	Replace an existing depreciating asset with a **new asset**
Property held before 7:30 pm on 9 May 2017 and used wholly in 2016-17 for a non-taxable purpose.	Property held before 7:30 pm on 9 May 2017 and used wholly or partly in 2016-17 for a **taxable** purpose.

EXAMPLE

Craig has acquired an apartment that he intends to offer for rent. This apartment is three years old and has been used as a residence for most of this time.

Craig acquired several depreciating assets with the apartment, including the carpet the previous owner installed. He also receives several depreciating assets to install in the apartment immediately before renting it out, including:

- ***curtains**, which he purchases new from Retailer Co; and*
- *a used **washing machine** that he purchased from a friend, Jo.*

*Craig also purchases a new **fridge**, but rather than place it in the newly purchased apartment, he uses it to replace his fridge, which he acquired several years ago for use in his home. He instead places his old fridge in the apartment.*

Treatment of depreciable assets

1. Carpet, washing machine, fridge

The amendments do not permit Craig to deduct an amount under Div 40 for the decline in value of the carpet, the washing machine or the fridge for their use in generating assessable income from using his apartment as a rental property because all of these assets have been previously used.

The carpet and the washing machine have been previously used by the previous owner and Jo, who first used or installed the assets (other than as trading stock) rather than Craig. The fridge is taken to be previously used because, although Craig first *used or installed the refrigerator, he has used it on premises that were his residence at that time.*

2. Curtains

The amendments do not affect Craig's entitlement to deduct an amount under Div 40 for the decline in value of the new curtains. They are not 'previously used' under either limb of the definition.

DEDUCTIONS

Key to any negative gearing strategy is deductible expenses. Deductions will reduce your overall tax liability even if the property is positively geared.

Available for rent

Rental expenses are deductible to the extent incurred to produce rental income.

Expenses may be deductible for periods when the property is not rented out, providing the property is genuinely available for rent – that is:

- the property is advertised in ways which give it broad exposure to potential tenants and
- Considering all the circumstances, tenants are reasonably likely to rent it.

The absence of these factors generally indicates the owner does not have a genuine intention to make income from the property and may have other purposes – such as using it or reserving it for private use.

Factors that may indicate a property is not genuinely available for rent include:

- it is advertised in ways that limit its exposure to potential tenants – for example, the property is only advertised.
    - at your workplace
    - by word of mouth
    - outside annual holiday periods when the likelihood of it being rented out is very low
- the location, condition of the property, or accessibility to the property means that it is unlikely tenants will seek to rent it
- you place unreasonable or stringent conditions on renting out the property that restrict the likelihood of the property being rented out, such as
    - setting the rent above the rate of comparable properties in the area
    - placing a combination of restrictions on renting out the property – such as requiring prospective tenants to provide references for short holiday stays and having conditions like 'no children' and 'no pets.'
- you refuse to rent the property to interested people without adequate reasons.

Example – unreasonable conditions placed on the rental property

Josh and Maria are retired and own a holiday home where they stay periodically. They advertise the property for short-term holiday rental through a real estate agent.

Josh and Maria have instructed the agent to approve tenants before they can stay personally, and prospective tenants must provide references and have no children or pets.

At no time during the year do Josh and Maria agree to rent out the property even though they receive several inquiries.

The conditions placed on renting the property and Josh and Maria's refusal to rent it to prospective tenants indicate their intention is not to make income from the property but to reserve it for their use. Josh and Maria cannot claim any deductions for the property.

Josh and Maria need to keep records of their expenses. Suppose they make a capital gain when they sell the property. In that case, their property expenses (such as property insurance, interest on the funds borrowed to purchase the property, repair costs, maintenance costs and council rates) are considered in working out any capital gain.

Example – private use during critical periods with little demand at other times

Daniel and Kate have two school-aged children and own a holiday house near the beach. The home is in an area popular with summer holidaymakers but only accessible by four-wheel drive vehicles.

Daniel and Kate advertise the property for rent through a local real estate agent during the year. However, Daniel and Kate advised the agent that the property should not be rented out during each school holiday period. They want to reserve the property for their use.

While there would be demand for the property during the summer holiday, there is no demand outside this period because of the small number of holidaymakers and the location and limited access to the property.

The house is not rented out at all during the income year.

In Daniel and Kate's circumstances, they cannot claim any deductions for the property. They did not have a genuine intention to make income from the property. It was essentially for private use.

Suppose in the circumstances, Daniel and Kate happened to rent out the property for a period. In that case, they can claim a deduction for a proportion of their expenses based on the period the property was rented out. For example, if the house was rented out for two weeks, they could claim a deduction for 2 out of 52 weeks for their expenses.

Daniel and Kate need to keep records of their expenses. If they make a capital gain when they sell the property, the proportion of payments (such as interest, insurance, maintenance costs and council rates) they could not claim a deduction for are taken into account in working out their capital gain.

Part-year rental

If you use your property for both private purposes and to produce rental income, you cannot claim a deduction for the portion of any expenditure that relates to your personal use. Examples of properties you may use for private and rental purposes are holiday homes and time-share units. In such cases, you cannot claim a deduction for any expenditure incurred for periods when the house or team was not genuinely available for rent. This includes when it was used by you, your relatives or your friends for private purposes.

In some circumstances, deciding which expenditure is private may be easy. For example, council rates paid for an entire year could be apportioned according to the proportion of the year that:

- the property was rented out, and
- genuinely available for rent during the year.

It may not be appropriate to apportion all your expenses on the same basis. For example, expenses that relate solely to renting your property are fully deductible, and you would not apportion them based on the time the property was rented out. Such costs include:

- real estate agents commissions
- costs of advertising for tenants
- phone calls you make to a tradesperson to fix damage caused by a tenant
- the cost of removing rubbish left by tenants.

On the other hand, no part of certain expenses that relate solely to periods when the property is not rented out are deductible. This would include the cost of phone calls you make to a tradesperson to fix damage caused when you were using the property for private purposes.

Example – apportionment for part-year rental

Dave owns a property in Tasmania. He rents out his property from 1 November 2022 to 30 March 2023, a total of 150 days. He lives alone in the house for the rest of the year. The council rates are $1,000 per year. He apportions the council rates based on the time rented.

Rental expense × portion of year = deductible amount

He can claim a deduction against his rental income of:

$1,000 × (150 ÷ 365) = $411

Suppose Dave has to call tradespersons to fix damage caused by a tenant or has any other expenses relating solely to renting his property. In that case, he works out his deduction for these by reasonably estimating the cost of each of these expenses. It is inappropriate for him to work out his deduction by claiming 150 ÷ 365 of the total expense.

Example – private use

Gail and Craig jointly owned a brand-new property when they purchased it. They rent the property at market rates and use it as a holiday home. They advertise the property for rent during the year through a real estate agent.

Gail and Craig use the property for four weeks as a holiday home during the year.

During the year, Gail and Craig's expenses for the property are $36,629. This includes $1,828 for the agent's commission and tenant advertising costs. It also has interest on the funds borrowed to purchase the holiday home, property insurance, maintenance costs, council rates, decreased value of depreciating assets, and capital works deductions.

Gail and Craig receive $25,650 from renting the property during the year.

No deductions can be claimed for the four weeks Gail and Craig used the property.

Gail and Craig can claim $1,828 as a deduction for the agent's commission and advertising costs for tenants. Gail and Craig can claim deductions for their other expenses ($34,801) based on the proportion of the income year the property was rented out or was genuinely available for rent.

Income tax return: Gail and Craig's rental income and deductions for the year are as follows.

Rent received	$25,650
Rental deductions	$33,952
(48 ÷ 52 weeks × $34,801) + $1,828	
Rental loss	($8,302)

As joint owners, Gail and Craig claim a rental loss of $4,151 each in their tax returns.

Gail and Craig need to keep records of their expenses. If they make a capital gain when they sell the property, the proportion of the costs they could not claim a deduction for is considered in working out any capital gain.

Part-home rental

With the advent of Airbnb and other apps, it's become increasingly common for individuals to rent out part of their homes. Where this is the case, you can claim only that part of the expenses related to the rental income. As a general guide, apportioned according to the floor-area basis that part of the residence is solely occupied by the tenant, together with a reasonable figure for tenant access to the general living areas, including garage and outdoor spaces, if applicable.

Example – part of residential property

Michael's private residence includes a self-contained flat. The apartment's floor area is one-third of the place of the residence.

Michael rented out the flat for six months at $100 per week. During the rest of the year, his niece, Fiona, lived in the flat rent-free.

The annual mortgage interest, building insurance, rates and taxes for the whole property amounted to $9,000. Michael apportions these expenses based on the floor area, so one-third ($3,000) applies to the flat. However, as Michael used the apartment to produce rental income for only half of the year, he can claim a deduction for only $1,500 (half of $3,000).

Assuming there were no other expenses, Michael would calculate the income and expenses from his property as follows:

Rent	$2,600
(26 weeks × $100)	
Expenses	$1,500
($9,000 × one-third × 50%)	
Net rental income	$1,100

Example – part of residential property

John decided to rent out one room in his residence. The room's floor area is 20% of the area of the residence. John also shared equal access to the general areas, such as the kitchen, bathroom and laundry. The floor area of these rooms is 60% of the area of the residence.

John rented out the room and access to the general areas for 12 months at $250 per week.

The annual mortgage interest, building insurance, rates and taxes for the whole property amounted to $12,000. Using the floor-area basis for apportioning these expenses, 20% ($2,400) applies to the room.

Assuming there were no other expenses, John would calculate the income and expenses from his property as follows:

Rent	$13,000
(52 weeks × $250)	
Room Expenses	$2,400
($12,000 × 20%)	
General areas expenses	$3,600
($12,000 × 60% × 50%)	
Net rental income	$7,000

Non-commercial rates

If you let a property, or part of a property, at less than average commercial rates, there may be a limit on the deductions you can claim.

Example – discounted rental

Kelly and Dean bought a holiday home on 1 July 2021, which they own jointly. The house was three years old when they bought it. During holiday periods, the market rent is $840 per week. They advertise the property for rent during the year through a real estate agent.

Kelly and Dean arranged with the agent for their friend Kimarny to stay at the property for three weeks at a nominal rent of $200 per week. They also use the property themselves for four weeks during the year.

During the year, Kelly and Dean's expenses for the property are $20,800 ($400 per week). This includes interest on the funds borrowed to purchase the holiday home, property insurance, the agent's commission, maintenance costs, council rates, and capital works deductions.

Kelly and Dean receive $10,000 from renting out the property during the year. This includes the $600 they received from Kimarny.

No deductions can be claimed for the four weeks Kelly and Dean used the property.

Kelly and Dean can claim deductions for their expenses based on the proportion of the income year it was rented out or was genuinely available for rent at the market rate: 45 ÷ 52 weeks × $20,800 = $18,000.

If Kimarny had rented the property for the market rate, Kelly and Dean could have claimed deductions for the three weeks of $1200 (3 ÷ 52 × $20,800 = $1200).

However, because the rent Kelly and Dean received from Kimarny was less than the market rate and their expenses were more than the rent received during that period, they can only claim deductions equal to the amount of the rent during this period, that is, $600.

Income tax return

Kelly and Dean's rental income and deductions for the year are as follows:

Rent received	*$10,000*
Rental deductions	*$18,600*
($18,000 + $600)	
Rental loss	*($8,600)*

As joint owners, Kelly and Dean claim a rental loss of $4,300 each in their tax returns.

Kelly and Dean need to keep records of their expenses. If they make a capital gain when they sell the property, the proportion of the costs they could not claim a deduction for is considered in working out their capital gain.

Rental loan becomes private

If you take out a loan to purchase a rental property, you can claim the interest charged on that loan as a deduction. However, if the loan is used or refinanced for a private purpose, you must apportion the interest expense to account for the personal use.

Example

Rufus has owned his apartment for several years and is now looking to turn it into a rental when he upgrades to a larger residence.

Rufus still has a mortgage over the apartment and decides to refinance the mortgage into an investment loan. When the loan is refinanced, Rufus uses part of the new loan towards purchasing his new residence, which will be used for a private purpose.

Rufus must apportion his interest expenses and can only claim a deduction for interest expenses to the extent that it relates to producing his rental income. He cannot claim a deduction for any of the costs associated with private purposes.

Interest

If you take out a loan to purchase a rental property, you can claim the interest charged on that loan, or a portion of the good, as a deduction. However, the property must be rented or genuinely available for rental in the income year you claim a deduction.

You cannot claim a deduction for interest expenses you incur if:

- you start to use the property for private purposes or
- you refinance an investment loan for private purposes or otherwise use the loan for a private purpose.

If the expenses were incurred partly for a private purpose, you must apportion the cost accordingly. For more information, see Investment loan used for private purpose.

While the property is rented or genuinely available for rent, you may also claim interest charged on loans taken out:

- to purchase depreciating assets
- for repairs
- for renovations.

Similarly, if you take out a loan to finance renovations to a property you intend to rent out, the interest on the loan will be deductible from the time you took the loan out. However, suppose your intention changes; for example, you decide to use the property for private purposes and no longer use it to produce rent or other income. In that case, you cannot claim the interest after your intention changes.

Banks and other lending institutions offer a range of financial products which can be used to acquire a rental property. Many of these products permit flexible repayment and redraw facilities. Consequently, a loan might be obtained to purchase a rental property, such as a private car. In cases of this type, the interest on the loan must be apportioned into deductible and non-deductible parts according to the amounts borrowed for rental property and private purposes. If you have a loan account that has a fluctuating balance because of a variety of deposits and withdrawals, and it is used for both personal goals and rental property purposes, you must keep accurate records to enable you to calculate the interest that applies to the rental property portion of the loan; that is, you must separate the claim that relates to the rental property from any interest that relates to the private use of the funds.

Some rental property owners borrow money to buy a new home and rent out their previous one. If there is an outstanding loan on the old house and the property is used to produce income, the interest due on the loan, or part of the interest, will be deductible. However, an interest deduction cannot be claimed on the loan used to buy the new home because it is not used to produce income. This is the case whether or not the loan for the new home is secured against the former home.

Example – Interest apportionment

The Hitchmans decide to use their bank's 'Mortgage breaker' account to take out a loan of $209,000, from which $170,000 is to buy a rental property and $39,000 is to purchase a private car. They must determine how much their interest payments are tax deductible each year. The following whole-year example illustrates an appropriate method that could be used to calculate the proportion of interest that is deductible. The example assumes an interest rate of 6.75% per annum on the loan and that the property is rented from 1 July:

Interest for year 1 = $209,000 × 6.75% = $14,108

Apportionment of interest payment related to rental property:

Total interest expenses × (rental property loan ÷ total borrowings) = deductible interest

$14,108 × ($170,000 ÷ $209,000) = $11,475

Immediate deductions

Following is a list of expenses for which you may be entitled to an immediate deduction:

- Advertising for tenants
- Bank charges
- Body corporate fees
- Cleaning
- Local council rates
- Electricity and gas
  - Annual power guarantee fees
- Gardening and lawn mowing
- In-house audio and video service charges
- Insurance
  - Building
  - Contents
  - Public liability
  - Loss or rent
- Interest on loans
- Land tax
- Lease document expenses for:
  - Preparation
  - Registration
  - Stamp duty
- Legal expenses
- Mortgage discharge expenses
- Pest control
- Property agent's fees and commissions (including before the property being available for rent)
- Quantity surveyor's fees
- Costs incurred in relocating tenants into temporary accommodation if the property is not fit to occupy for a period
- Repairs and maintenance
- Cost of a defective building works in connection to repairs and maintenance conducted
- Secretarial and bookkeeping fees
- Security patrol fees
- Servicing costs, for example, servicing a water heater
- Stationery and postage
- Telephone calls and rental
- Tax-related expenses
- Travel and car expenses to the extent they are deductible
- Water charges.

Deductible over several years

There are three types of expenses you may incur for your rental property that may be claimed over several income years:

1. Borrowing Expenses

The following table clarifies what does not qualify as a borrowing expense.

Yes	No
Loan establishment fees	Insurance policy premiums on a policy that provides for your loan on the property to be paid out if you die or become disabled or unemployed.
Title search fees charged by your lender	Interest expenses
Costs for preparing and filing mortgage documents.	
Mortgage broker fees	Stamp duty charged on the property transfer
Stamp duty charged on the mortgage	Stamp duty incurred to acquire a leasehold interest in the property (such as an ACT 99-year Crown lease).
Fees for a valuation required for loan approval	
The lender's mortgage insurance is billed to the borrower.	

If your total borrowing expenses are more than $100, the deduction is spread over five years or the loan term, whichever is less. If the total deductible borrowing expenses are $100 or less, they are fully deductible in the income year they are incurred.

2. Capital Works

You can deduct certain kinds of construction expenditures. In the case of residential rental properties, the deductions would generally be spread over 25 or 40 years. These are referred to as capital works deductions. Your total capital works deductions cannot exceed the construction expenditure. No deduction is available until the construction is complete.

Deductions based on construction expenditure apply to capital works such as:

- a building or an extension, for example, adding a room, garage, patio or pergola.
- alterations, such as removing or adding an internal wall.
- structural improvements to the property – for example, adding a gazebo, carport, sealed driveway, retaining wall or fence.

You can only claim deductions for the period during the year that the property is rented or is genuinely available for rent (see earlier).

The deduction can be claimed for:

- 25 years from the date construction was completed in the case of a 4% deduction.
- 40 years from the date construction was completed in the case of a 2.5% deduction.

If the construction was completed part of the way through the income year, you can claim a pro-rata deduction for that part.

Construction expenditure is the actual cost of constructing the building or extension. The following table sets out the type of construction costs which can and cannot be claimed:

Yes – it can be claimed	No – cannot be claimed
Preliminary expenses such as architects' fees, engineering fees and the cost of foundation excavations	The cost of the land on which the rental property is built
Payments to carpenters, bricklayers and other tradespeople for the construction of the building	Expenditure on clearing the land before construction
Payments for the construction of retaining walls, fences and in-ground swimming pools.	Permanent earthworks can be economically maintained and are not integral to the installation or construction of a structure.
	Expenditure on landscaping

Where a new owner cannot precisely determine the construction expenditure associated with a building, an estimate provided by an appropriately qualified person may be used. Properly capable people include:

- a clerk of works, such as a project organiser 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.

Unless they are otherwise qualified, valuers, real estate agents, accountants and solicitors generally have neither the relevant qualifications nor the experience to make such an estimate.

3. Depreciation

You can deduct an amount equal to the decline in value of a depreciating asset you held at any time during the year. However, your deduction is reduced to the extent you use the asset for a purpose other than a taxable purpose.

As per earlier, from 1 July 2017, your deduction is also reduced by the extent you installed or used the asset in your residential rental property to derive rental income, and the asset was a second-hand depreciating asset (unless an exception applies).

When you purchase a rental property, you are generally treated for tax purposes as having bought a building plus various items of 'plant'. Plant items are depreciating assets, such as air conditioners, stoves and other items. Accordingly, The purchase price must be allocated between the 'building' and various depreciating assets.

You work out your deduction for the decline in value of a depreciating asset using either the diminishing value method or the prime cost method. Both methods are based on the effective life of the asset.

TRAVEL

You can't claim any deductions for the cost of travel you incur relating to your residential rental property unless you are either:

- in the business of letting rental properties
- an excluded entity.

Travel expenses include the costs you incur on car expenses, airfare, taxi, hire car, public transport, accommodation and meals to:

- inspect, maintain or collect rent for your rental property.
- travel to any other place as long as it is associated with earning rental income from your existing rental property (for example, visiting your real estate agent to discuss your current rental property).

A residential premises (property) is land or a building that is:

- occupied as a residence or for residential accommodation.
- intended to be occupied, and is capable of being occupied, as a residence or for residential accommodation.

Suppose you don't have an ownership interest in the rental property (whether it is a residential rental property or commercial rental property). In that case, 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 commercial rental property. Her husband, Bert, occasionally drives to the rental property in his car to undertake maintenance. Bert can't claim travel expenses because he has no ownership interest in the property. Similarly, since Kei didn't travel to the property to undertake the maintenance, she can't claim a deduction.

As the property is a commercial rental rather than a residential one, if Kei and Bert co-owned it, Bert could share his travel expenses with Kei in line with their legal interest.

Returning to the earlier exclusions to this rule, entities that can claim travel expenses are:

- corporate tax entities (companies)
- superannuation plan that is not an SMSF
- public unit trust
- managed investment trust
- unit trust or a partnership, where all members are entities of the type listed above.

As noted earlier, you can also claim travel expenses if you are in the business of letting residential properties – a concept we will return to later, but not most individuals will not qualify. Generally, even owning one or several rental properties will not be considered being in the business of letting rental properties.

Excluded

Even if you are eligible to claim travel expenses, you still can't claim for expenses such as:

- your personal use of the property or for purely private purposes
- carrying out general maintenance of the property while it's not genuinely available for rent
- undertaking repairs, where those repairs are not because of damage or wear and tear incurred while you rented out the property.

For example, suppose you travel to undertake initial repairs before renting the property for the first time. In that case, these are capital expenses and may be included as part of the cost base for capital gains tax calculation when the property is sold later.

If your travel expenses are partly for private purposes and partly related to the rental property, you can only claim the amount relating to the rental property.

Pre-purchase

You can't claim for travel expenses to inspect a property before you buy it.

You can't claim for travel expenses 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 earning rental income from your existing rental 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 seminar cost because the costs incurred 'too soon' before the commencement of the income-producing activity.

Included

If you are in the business of letting rental properties or an excluded entity and are eligible to claim travel expenses, the types of costs you can claim include:

- 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 out the property
- maintaining the property, such as cleaning and gardening, while it is rented or genuinely available for rent
- collecting the rent
- Visit your agent to discuss your rental property.

> **TIP**
>
> If you are ineligible to claim and your travel expenses are significant, for example, your rental property is located interstate. Engaging somebody else more local (e.g., an agent, friend, or family member) may be cheaper to attend to the above tasks.

Overseas

If you are an Australian resident and own a rental property overseas, you may travel overseas on holiday and inspect your rental property simultaneously.

If the trip's primary purpose is a holiday, you can't claim the cost of getting there. You can only claim local expenses incurred after you arrive at your destination that are directly related to inspecting the property, such as taxi fares to and from the rental property. You may also claim a deduction for part of your accommodation expenses.

You must be able to show your reason for visiting the rental property.

The records you keep, such as invoices for your accommodation or airline tickets, will help you do this.

Notes

Corporate
Essentials

TSA Unit Trust
t/as bo2 Corporate Essentials Pty Ltd

ABN 70 377 440 020
ACN 119 058 310

Level 9, Wyndham Building,
1 Corporate Court, Bundall, Qld 4217

T 1300 55 55 33
E info@bo2.com.au

www.bo2.com.au

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