



ezytax
BLUE

chapter 2a
rental



CHAPTER 2A – RENTAL INCOME

ITEM 21 – RENTAL

RENT

Income received by way of rent from residential, Commercial or Industrial property is assessable income, with expenses incurred in gaining such income able to be claimed as deductions.

ATO Requirements:-

- Date of signing contract to purchase property.
- Date property first became income producing
- Number of weeks it was rented
- If property purchased as joint tenants- income and deductions must be divided equally.
- If the property is purchased as tenants in common – the % of the income and deductions may vary according to their agreement.

These details must also be kept with the taxpayers records.

Capital Gains Implications- In general on disposal of the property it will be subject to capital gains tax for the period it as rented out. There are however a few exceptions to this rule, which will be dealt with in the chapter on Capital Gains Tax.

INCOME

Rental Income is assessable when received.

It includes -

Advance rent, late rent, and current rent received in the income year and insurance payments for loss of rent.

It excludes -

Rent due but not paid, rental bond (unless used for back rent for expenses).

In the case of properties in the hands of real estate agents, they are acting as the owner's trustee, and they receive income on the owner's behalf. Income is declared from the agent's statements from July to June even though the rental periods may be different financial years and the income maybe credited to the owners account until July the following year.

Money received from a boarder:-

Monies received from a boarder under a domestic arrangement, may be regarded by the commissioner as having no tax consequences i.e. Income is not accounted for and no deductions are allowed e.g.-

- A family member making a token contribution
- An exchange student not paying commercial rent, and

- Any other class of boarder not paying arms length commercial rent.

However, where the tenant is a boarder paying commercial rent, then interest and outgoings are an allowable deduction apportioned to usage. Where the tenant pays for room and board, the cost of supplying meals is deductible.

Holiday Letting Conditions:-

- a) The property must be available for rent.
- b) As there are often long periods of time where there is no rent a concerted effort has to be made to ensure the property is available e.g. active advertising not just “word of mouth”.
- c) If the above conditions are not met then the expenses must be apportioned on a time basis.

DEDUCTIONS

Timing:-

- a) Deductions may be claimed from the date the property first became available for rent. The key word is “available”. The property may be vacant but still available for rent.
- b) Deductions may also be claimed (e.g. interest, rates and insurance) before the property is actually built. The requirement is that the property must be for income producing purposes.
- c) Deductions may also be claimed for expenses incurred when a property ceases to be an investment property. (e.g. Repairs and maintenance). These must be paid for by the end of the financial year in which the property ceases to be an investment property.

Holiday Home Case Study

John and Betty own an investment rental property in the holiday area of Merimbula in Southern NSW. They have owned the property for the past 2 years. For the first year they had a full time tenant, a school teacher who was posted to Merimbula. For the past 12 Months they have had the property available for rent with a real estate agent and have rented the property for the following periods: -

15 Dec - 15 Jan	Holiday Makers
15 Jan - 30 Jan	John and Betty
01 Feb - 15 Feb	Their children took 2 weeks holiday and paid no rent
16 Feb- 15 Mar	Retired holiday makers

During the Easter school Holidays John and Betty's best friend rented the property at half the going rent for 16 days. For the rest of the year they rented it to holiday makers for a total of 8 weeks.

John and Betty visit the property regularly to carry out any required maintenance. The drive down for the weekend and carry out any work required. They stay at the property on the weekends (2 nights per visit) When they have no tenants. They did this on 5 occasions in the past 12 months.

John and Betty also purchased a \$15000 motorboat, (which was stored at their Sydney home when they are not at the property) by drawing down on their loan on the holiday home. The total amount owing after the time of the draw down was \$110000.

What are the Implications of these circumstances?.....

John and Betty will have to apportion all the expenses for the periods that they and their family and friends (who rented at a discounted rate) stayed. There are 57 Days of private or domestic use during the year. Consequently 15.62% of all expenses are not directly related to the rental income and cannot be claimed.

The loan on the boat means the interest deduction has to be reduced by 13.6% which is the % of the borrowing that pertains the boat.

The travel is no longer claimable.

Whilst John and Betty can claim the material costs for the repairs they carry out they are not entitled to claim the hours they spend doing the repairs.

JOINT OWNERS OF AN INVESTMENT PROPERTY

An owner of an investment property is regarded as an investor who is not carrying on a rental property business, either alone or in conjunction with other co-owners. This is because of limited scope of the rental activities, and the limited degree to which an owner actively participates in rental property activities.

Joint Owners must divide the income and expenses for the property in line with their legal interest in the property. There are 2 types of joint owners:-

- **Joint tenants** - Each investor holds an equal share in the property
- **Tenants in common** - Each investor holds a specified % of the property.

A partnership agreement, either oral or writing, cannot change this.

- Joint tenants

Where 2 or more people are joint owners in a rental property, the net rental loss or profit must be shared in line with their legal interest in the property. Therefore as joint tenants they must each include an equal share of the total income and expenses in their tax returns.

Any agreement that they might draw up to divide the income and expenses in proportions other than equal shares has no effect for income tax purposes. Therefore even if the tax payer pays most of the bills associated with the rental property, they would not be able to claim more of the rental property deductions than the other owner.

Interest on money borrowed by only one of the joint tenants which is exclusively used to acquire that person's interest in the rental property, does not need to be divided between the joint owners.

- Tenants in Common.

Must divide the income and expenses of the property in line with their legal interest in the property. However, with a tenancy in common, the investors may hold different proportionate interests in the property.

- Multiple property owners who are not partners at general law

A husband and a wife own, as joint owners, 2 units and a house from which they derive rental income. They occasionally inspect the properties and also interview prospective tenants. They perform most repairs and maintenance on the properties themselves, although they generally rely on tenants to let them know what is required. They do any cleaning and maintenance that is required when the 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 they devote some of their time to rental activities, their main sources of income are their respective full-time jobs.

They are not partners at general law, they are only joint-owners of several rental properties. Therefore, they must include half of the total income and expenses on their tax returns - that is in line with their legal interest in the properties.

- Partners at general law

Where there is a partnership at general law that is carrying on a rental property business, the net rental income or loss should be divided in line with the terms of the partnership agreement. This is so whether or not legal interests in the rental properties are different to the partner's entitlements to profits and losses under the partnership agreement.

Example.....

Two tax payers, own a number of rental properties, either as joint owners or equal tenants in common. They own 8 houses and three apartment blocks- each block comprising 6 residential units- a total of 26 properties.

They 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 interview Prospective tenants, organize for repairs and maintenance to be done, have regular property inspections and personally attend to minor repairs, financial planning and decision making. Apart from income earned from shares, they have no other source of income.

They are carrying on a rental property business. This is demonstrated by:

- ***The significant size and scale of the rental property activities***
- ***The number of hours they spend on the activities***
- ***The extensive personal involvement in the activities, and***
- ***The businesslike manner, in which the activities are planned, organized and carried on.***

They have a written partnership agreement in which they agreed to carry on a rental property business. They have agreed that one is entitled to a 75% share of the partnership profits or losses and the other is entitled to 25% of the partnership profit or losses

They are partners at general law. This means that the net profit or loss generated from their rental business is divided between them in proportions of 75% and 25%, even though the legal interests in the rental properties are held equally – that is 50 per cent each.

NEGATIVE GEARING

When the expense exceeds the rent and a loss ensues it is termed as negative gearing. The term is commonly used when talking about interest costs but it includes all rental deductions. Losses incurred can be offset against other assessable income, thereby reducing the amount of tax payable.

A common practice when the loss is large is to vary the owner's PAYG tax withheld to account for the loss. This reduces the amount of tax withheld from gross salary and improves the taxpayer's cash flow.

Example.....

Mick has a salary of \$80000 (no deductions) and tax withheld of \$24000 and a loss from his rental property of \$10750. His taxable income is \$69250 and his tax liability would be \$18423.75. His refund would be \$5576.25.

The taxpayer has a choice of receiving their refund as a lump sum payment at the end of the financial year or they may vary their tax instalments. This is achieved by the tax payer completing an ATO form "Application for Variation" of amounts required to be withheld under PAYG withholding (NAT 2036) formerly known as S221D. This form is submitted to the ATO each year. The ATO will notify the employer to reduce the taxpayers weekly tax withheld (by approx \$107 per week).

PROPERTY NOT LOCATED IN AUSTRALIA

If the property is located outside Australia, special rules apply to the deductibility of the rental property expenses. It is declared at item 20 on the return Foreign income and interest payments at **D15**.

RENTAL EXPENSES

The taxpayer can claim a deduction for certain expenses incurred for the period the property is rented or available for rent. However, expenses of capital or private nature cannot be claimed.

There are many situations where apportionment between deductible and non deductible expenses will be needed i.e.

- If the property is not available for rent the entire year, some of the expenses may need to be apportioned on a time basis
- If only part of the property is used to earn rent, only the part of the expense that relates to the rental income is claimable. As a general guide, apportionment should be made on a floor area basis. That is by reference to the floor area of the part of the residence solely occupied by the tenant, together with a reasonable figure for tenant access to the general living areas, including the garage and outdoor areas.
- If the tax payer combines travel to inspect or maintain the rental property with travel for private purposes, the travel expense may need to be apportioned.

Claimable expenses may include:

- Advertising for tenants
- Bank charges
- Body Corporate fees
- Cleaning
- Council Rates
- Electricity and gas
- Gardening and lawn mowing
- in-house audio/ video service charges
- insurance- building, contents, public liability, landlord insurance
- interest on loans
- land tax
- legal expenses
- lease costs- preparation, registration, stamp duty
- pest control
- property agents fees and commissioner quantity surveyors fees (claimed at D10)
- repairers and maintenance
- Secretarial and book keeping fees
- security patrol fees
- servicing costs- such as servicing a water heater
- stationary and postage
- Telephone calls and rental
- Tax related expenses
- travel and car expenses- rent collection, inspection of property, maintenance of property
- water charges

A deduction can only be claimed for these expenses if the expense was actually incurred. Some of these deductions are examined in more detail below.

- (1) ACQUISITION AND DISPOSAL COSTS

A deduction cannot be claimed for the costs of acquiring or disposing of the rental property, except in ACT where there is leasehold. Examples of expenses of this kind include the purchase cost of the property, conveyance costs, advertising expenses and stamp duty on the transfer of the property. However, if the property was acquired after 19th of September 1985, this cost may form part of the cost base of the property for capital gains tax purposes. See Capital Gains Tax dealt with in Chapter 2C.

Example.....

Acquisition Costs

A rental property is purchased for \$170000 in July 1999. Surveyor's fees of \$350 and stamp duty of \$750 on the transfer of the property were also paid. None of these expenses are deductible against the rental income. However in addition to the \$170000 purchase price, the incidental cost of \$350 and \$750, totalling \$1100 are included in the cost base of the property.

This means that when the property is disposed of, \$171100 (170000 + \$1100) will be taken into account in determining the amount of any capital gain or capital loss. However, the \$1100 is deductible in the ACT.

– **(2) ADVERTISING**

The cost of advertising for tenants is a deductible rental expense.

The cost for advertising for the sale of the property is a capital expense and not deductible. Details of this expense should be kept as it will affect the cost base of the property on the disposal and will be needed for the calculation of capital gains tax.

– **(3) BODY CORPORATE FEES AND CHARGES / STRATA TITLE LEVIES**

A deduction may be claimed for the body corporate fees and charges incurred for the rental property. Body corporate fees and charges may be incurred to cover the costs of the day to day administration and maintenance or they may be applied to a special purpose sinking fund.

If the fees and charges incurred include a contribution to a special purpose fund a deduction can only be claimed for that portion of the fees and charges that relate to the cost of day to day administration and maintenance. This is because payments to special purpose funds are usually to cover the costs of capital improvements or major repairs which are therefore not deductible. See Taxation Ruling TR 97/23- Income tax: Deductions for repairers. A capital works deduction may be claimed for the costs of capital improvements or capital repairs once the cost has been charged to the landlord- see capital works (special building write off) deductions.

If the body corporate fees and charges incurred are for items such as the maintenance of gardens, incidental repairs and building insurance, they cannot also be claimed as deductions as part of other expenses. For example, a separate deduction cannot be claimed for garden maintenance if that expense is included in body corporate fees and charges.

– **(4) BORROWING EXPENSES**

Certain costs incurred when borrowing from banks, building societies, solicitors trust funds etc are deductible. They include procurement fees, stamp duty on mortgage, valuation, survey fees, broker's commission and lenders mortgage protection insurance. They do not include stamp duty on transfer, solicitor's fees and registration on transfer on the purchase of the property. In other words it is the cost of borrowing the money NOT the cost of buying the property.

These expenses are deductible over the period of the loan or five years, whichever is the shorter period, beginning with the year in which they were incurred. If the expense incurred in any year is \$100 or less, it is wholly deductible in that year. If the property is purchased part way through the year the deductible amount will be calculated on a daily basis.

Example.....

On 2 January 2013 Ralph obtained a loan of \$80000. Borrowing expenses incurred in relation to the loan were \$1525. These include mortgage establishment fee, stamp duty on the loan and title search fee.

The total period of the loan was 25 years, so borrowing expenses must be spread over 5 years i.e. 1826 days (180+365+366+365+365+185) The borrowing expenses would be as follows:

Borrowing expenses	X		Equals	Maximum amount for the income year
\$1525	X		Equals	\$150
Borrowing expenses	X		Equals	Maximum amount for the income year
\$1375	X		Equals	\$305
\$1070	X		Equals	\$306
\$764	X		Equals	\$305
\$459	X		Equals	\$305
\$154	X		Equals	\$154

When claiming borrowing expenses it is important to note the balance outstanding

PRACTICE 2A.1

Leo Purchased a new rental property on the 10/10/22. He incurred borrowing expenses of \$1655 for setting up a loan for a term of 20 years. What could he claim for borrowing expenses in his 2023 tax return? What will he claim in future years?

– **(5) CLEANING**

Is a deductible expense and includes- Internal (e.g. Carpet cleaning) and external (e.g. house washing)

Payments to associated persons must be in reasonable in relation to hours spent (the tax payer cannot pay a child \$50 per hour to clean a rental house).

Landlords can only claim the costs of materials not their own labour.

– **(6) COMMISSIONS AND MANAGEMENT FEES**

Are deductible expenses and usually charged as a percentage of rent. If paid to an associated person they must fulfil the obligations of a letting agent.

If the property is let through a real estate agent, must would supply their clients with an annual statement, detailing the income and expenses for the tax year.

NOTE: The expenses on an annual or monthly statement only detail expenses paid by the agent. There may be a lot of expenses that the tax payer maybe able to claim that they have paid themselves and not through a real estate agent.

– **(7) CAPITAL WORKS (SPECIAL BUILDING WRITE-OFF) DEDUCTIONS**

A Deduction can be made for certain kinds of construction expenditure. In case of residential rental properties, the deductions would generally be spread over a period of 25 or 40 years. These are referred to as capital works(Special building write off) deductions. The deduction is limited to 100% of the construction expenditure.

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

- A building or an extension - for example adding a room or a garage
- Alterations such as removing or adding an internal wall or
- Improvements to the property - for example erecting a pergola, patio or carport.

Deductions can be claimed only for the period the property is rented or is available for rent.

The rate depends on the type of building and the construction date. The construction date is taken as the day site preparation began e.g. pouring the foundations.

Residential Buildings

Date Construction Commenced- after 18/7/85- Rate 4%

Date Construction Commenced- after 16/9/87- Rate 2.5%

Non-Residential Buildings(industrial not used for manufacture)

Date construction commenced- after 20/7/82 -Rate 2.5%
Date construction commenced- after 22/8/84- Rate 4%
Date construction commenced- after 16/9/87- Rate 2.5%

Industrial Buildings – (used for manufacture etc)

Date construction commenced- after 20/7/82 -Rate 2.5%
Date construction commenced- after 22/8/84 – Rate 4%
Date construction commenced- after 16/9/87- Rate 2.5%
Date construction commenced- after 27/2/92- Rate 4%

Hotel/ Motel/ Guest House-(at least 10 bedrooms\ short term traveller accommodation)

Date Construction Commenced- after 22/8/79- Rate 2.5%
Date Construction Commenced- after 22/8/84- Rate 4%
Date Construction Commenced- after 16/9/87- Rate 2.5%
Date Construction Commenced- after 27/2/92- Rate 4%

Structural Improvements, Alterations or Extensions

– relating to all of the above. They include driveways, retaining walls and fences.
Date Construction Commenced- after 27/2/92- Rate 2.5%

Construction Costs

Included are:-

- Architects and engineering fees
- Surveyor Fees
- Building Fees- cost associated with obtaining the necessary approvals from relevant authorities
- Foundation and Excavation costs

Not included are:

- The cost of the land
- Landscaping
- Profit by the builder
- Cost of the depreciable Plant e.g. carpets, stoves

Estimating Construction Costs

Where the actual construction costs cannot be determined the ATO will accept an estimate by a quantity surveyor, clerks of works, supervising architects and experienced builders. Solicitors, real estate agents, accountants and valuers do not have the necessary qualifications to give these estimates. Quantity surveyors are most commonly used for this purpose. The cost of the quantity surveyors report is an allowable deduction against tax related expenses (item D10) and not against rental income.

The copy of the quantity surveyors report below details capital expenditure incurred on eligible capital works in accordance with Division 43.

Example.....

Capital Works (Special building Write off) Deductions

Danielle acquired a rental property on July 20 2017 which was constructed in August 1991. At the time she acquired the property it contained the following structural improvements.

A supervising architect values the construction cost of the rental property for special building write off purposes at \$115800. This includes the cost of the house, the in ground swimming pool, the protective fencing and the timber decking. Whilst the retaining wall and the concrete driveway are structural improvements, they were constructed before 27 February 1992 and were not included in the \$115,800 valuation. Therefore they do not form part of the construction costs.

Danielle can claim a 2.5% per annual capital works deduction for the construction costs. As she did not acquire the property until 20 July 2017, she can claim the deduction for the 346 days from the 20 July 2012 to the 30 June 2018. The Maximum deduction for 17/18 would be as follows:

**Construction Cost X rate X portion of year = deductible amount
\$115,800 X 2.5% X 346/365 = \$2744**

Changes in Building Ownership

Where ownership of the building changes, the right to claim the special building write off for capital works passes to new owner. A new owner should confirm that the building was constructed during one of the appropriate periods outlined above. To be able to claim the deduction they must continue to use the building to produce income.

Example...

Martin purchases a rental property on 10/10/17 for \$200000 and it is rented from that date. He is advised that the property was built after 18/07/85, he may be able to claim building cost write off. Martin pays a quantity surveyor to do a report on the construction costs of the property, which is also claimable as a deduction. The report is on page 10-11.

**Working out the deduction for building cost write off on his 17/18 tax return
Building cost write off is for 40 years (at 2.5%) from the time the property is constructed. When purchasing a property after construction the special building write off can only be claimed for any years remaining of the 40 from the time it was built.**

He can only claim the remaining \$50235 as a deduction against the rental property.

Claim for 2017/2018

Cost write off is 2.5% of the original cost. (62039*2.5%)

10/10/17 to 30/06/18 50,235 (1551 x 264/365) 1122 49,114

– (8) DEDUCTION FOR DECLINE IN VALUE OF DEPRECIATING ASSETS (PREVIOUSLY KNOWN AS DEPRECIATION)

From July 1 2001, the uniform capital allowance system (UCA) applies to most depreciating assets including those in rental properties.

Deductions for the decline in value of depreciating assets are now calculated using these

new rules. The deduction is an amount equal to the decline in value for an income year of a depreciating asset that the taxpayer held anytime during that year. However, the deduction is reduced to the extent that it is used to installed ready for use for any other purpose than producing assessable income- for example a private purpose.

If a depreciating asset is used for more than one purpose- for example if the same lawn mower is used at both the rental property and the tax payers private residence, only a partial deduction is allowed for decline in value, based on the percentage it was used at the rental property.

Effective Life

In broad terms, the effective life of a depreciating asset is how long it can be used for any purpose., including a taxable purpose, having regard to the wear and tear reasonably expected from the accepted circumstances of use and assuming reasonable levels of maintenance. Effective life is expressed in years including fractions of the years. It is not rounded to the nearest whole year.

The tax payer can either make an estimate of the effective life of the asset or adopt the effective life by the commissioner.

This was dealt with in Chapter 3A.

The effective life of a depreciating asset as determined by the commissioner is found in the taxation ruling TR 2000/18- Income tax: depreciation effective life which came into force on 1 January 2001. if the tax payer decides to use the effective life determined by the commissioner they generally use the effective life contained in the particular taxation ruling that was in force at the time they entered into contract to acquire the depreciating asset.

Extract from Taxation Ruling TR2000/18A10 as at 1 July 05 showing changes in the effective lives of some commonly used items in rental properties.

Some items found in a rental property are regarded as part of the setting for the rent producing activity and are not treated as separate assets in their own right. However, a capital works deduction maybe allowed for some of these items -(see capital works special building write-offs)deductions. Examples of items which are not treated as separate assets in their own rights are:

- kitchen cupboards
- built in wardrobes
- clothes hoists
- door and window fittings
- driveways and paths
- electrical wiring
- insulating materials (including batts)
- fencing and retaining walls
- floor and wall tiles
- tubing for ducted (built in) vacuum system
- garages and non-portable sheds

- in-ground swimming pools, saunas and spas
- plumbing and gas fittings
- reticulation piping
- roller door shutters
- roof top ventilators and skylights
- security doors and screens which are permanently fixed to the building
- sinks, tubs and baths, and
- wash basins and toilet bowls.

- **(9) ELECTRICITY / GAS** is a deductible expense for the business percentage paid by the landlord.

- **(10) FIRE LEVY** is a deductible expense. In Queensland it is imposed by the state government but collected by the local government rates system.

- **(11) GARDENING AND YARD WORK** is a deductible expense and includes dump fees, mower expenses, tree lopping, replacement garden tools, fertilizers, sprays and replacement plants.

Please note the following-

- a) Payments to associated persons must be reasonable in relation to hours spent
- b) Landlords can only claim the cost of materials NOT their own labour.

- **(12) INSURANCE** is a deductible expense and includes- building, contents, public liability and landlords insurance (covers rental default)

NOTE- Mortgage Protection Insurance

Mortgage insurance is not claimable unless it is part of the borrowing expenses as discussed earlier (as this covers the loan and not the rent). ATO ID 2001/310.

- **(13) INTEREST**

Interest on a loan to purchase, build, improve or repair is a deductible expense.

It is the purpose of the loan that is important. The loan must not be used for income producing purposes - the collateral used to secure the loan is not relevant.

If a loan is taken out to purchase a rental property, the interest charged on that loan, or a portion of the interest, can be claimed as a deduction. However, the property must be rented or available for rental, in the income year for which the deduction is claimed. If a loan is taken out to purchase land on which to build a rental property, the interest on the loan will be deductible from the date the loan was secured. However, if the taxpayer's intention changes and the property is not used to produce rent or other income, interest cannot be claimed after the intention changed.

The tax payer may also claim interest charged on loans taken out:-

- to purchase depreciating assets, or
- for renovations, or
- for repairs to the property required as a result of rental damage.

Banks and other lending institutions offer a range of financial products that can be used to acquire a rental property. Many of these products permit flexible repayment and redraw facilities. As a consequence, a loan might be obtained to purchase both a rental property and a car. In cases of this type, the interest of the loan must be divided into deductible and not deductible parts according to the amount borrowed for the rental property and for the private purposes.

Example.....

Appointment Of Interest

The taxpayer has a loan of \$209000 from which \$170000 is to be paid for a rental property and \$39000 is to be used to purchase a private car. You will need to calculate each year how much of their interest payments are tax deductible assuming that the property is rented from 1 July 2022 to 30 June 2023 and the interest for the year is \$14108.

Appointment of interest payment related to rental property:

Total interest expense x rental property loan divide by total borrowings = deductible interest

$$\mathbf{\$14,108 \times \$170,000 / \$209,000 = \$11,475}$$

Line of credit / redraw facilities

From TR 2000/12

If the tax payer has a loan account that has a fluctuating balance due to a variety of deposits and withdrawals and its used for both private purposes and rental property purposes, accurate records must be kept to enable calculation of the interest that applies to the rental property portion of the loan; that is the interest that relates to the private use of the funds must be recorded separately. An example of this type of arrangement is a line of credit where the tax payer's salary is paid into the mortgage account.

Line of credit facilities

A line of credit is a credit facility taken out with a financial institution under which a borrower may draw down funds up to an agreed credit limit. They operate with one account that is used for all draw downs. Funds may be drawn down from a single line of credit account up to the full amount of the available credit limit and may be used for either income producing or non income producing purposes or both.

Redraw Facilities

There are a number of loan arrangements under which a borrower may redraw previous repayments of the loan principal. The loan may be for income producing purposes, non-income producing purposes or mixed purposes. The lender prescribes a minimum

payment that is due on the loan. This minimum payment is at least equal to the amount of interest, fees and charges that accrues on the loan ,but more commonly is a principle and interest payment.

Example 1.....

NOTE- This example shows how complicated calculating interest on a line of credit account is, where possible you should get the taxpayer to ask the bank to calculate.

The example assumes the taxpayer gets paid monthly on the last day of the month, in practice very few people are paid monthly most are paid weekly or fortnightly. It assumes a lump sum is withdrawn monthly on the first of the month for personal expenses, in practice most withdraw money during the month by way of credit card or cheque during the month as needed

A taxpayer has a line of credit with a bank. The credit limit is \$100,000 and when the facility is established on the 1 April they draw down \$80000 to invest in a rental property. They receive a net salary of \$4000 per month that is paid directly into the line of credit account on the last day of every month and interest and charges are debited on the same day. They redraw \$2000 per month on the first day of the month for living expenses. On the 30th of April they make a lump sum repayment of \$20000 from the proceeds of the sale of a private yacht, in addition to the \$4000 repayment from his salary. On June 1, they draw down a further \$20000 for home renovations, in addition to the \$2000 draw down for living expenses.

The repayments of \$20000 and \$4000 made on the 30 April first pay the accrued interest of \$400 and then reduce the outstanding principle used at that time for income producing purposes to \$56400

The interest of \$400 accrued in April is wholly attributable to borrowed funds used for income producing purposes and is therefore fully deductible.

The \$4000 repayment on 31 May first pays the accrued interest of \$292 and the proportionately reduces the outstanding principle used at the time for income producing purposes and for non income producing purposes. The proportionate reduction in the outstanding principle attributable to income producing purposes will be $\$3,708 \times 56400/58400 = \3581 , giving a balance of the outstanding principle used for income producing purposes at that time of \$52819. The proportionate reduction of principal attributed to non income producing purposes will be $\$3708 \times 2,000/58400 = \127 . The balance of the outstanding principle used for non income producing purposes at that time, therefore will be reduced by \$127 to \$1873.

The interest of \$292 accrued in May is related partly to the outstanding principle used that month for non income producing purposes. The amount of interest they can claim as a deduction for May is calculated as:

$$\begin{aligned} & 292 \times \text{deductible interest percentage} \\ & = 292 \times ((56,400 = 52,819) / (56,400 + 54,692)) \times 100 \\ & = 292 \times 98.3\% \\ & = 287 \end{aligned}$$

They can claim a deduction of \$287 for interest for the month of May

The borrowings on 1 June of \$20000 for home renovations and \$2000 for living expenses were for non income producing purposes. The outstanding principle used for non-income producing purposes at 1 June will, therefore be \$1,873 (see above) + \$22,000 = \$23873.

The \$4000 repayment on 30 June first pays the interest accrued that month of \$383 and then proportionately reduces the outstanding principle used at the time for income producing purposes and for non income producing purposes. The proportionate reduction in the outstanding principle used at that time of income producing purposes will be $\$3617 \times \frac{52819}{76692} = \2491 , giving a balance of the outstanding principle used as at the 30th June for income producing purposes of \$50328. The balance of the outstanding principle used for non income producing purposes at 30 June will therefore be reduced by \$1126 to \$22747.

The interest of \$383 accrued in June is related partly to the outstanding principle used that month for income and partly to the outstanding principle used that month for non income producing purposes. The amount of interest they can claim as a deduction for June is Calculated as :

$$\begin{aligned} & \text{383x deductible interest percentage} \\ & = 383 \times ((52819 + 50328) / (54692 + 73075)) \times 100 \\ & = 383 \times 80.7\% \\ & = 309 \end{aligned}$$

They can claim a deduction of \$309 for interest for the month of June

Example Two.....

Burt is offered a job in Darwin and decides to relocate his family there. He borrows \$200000 from the bank and purchases a house in Darwin. He makes the minimum monthly repayment of \$1650. After 2 years the balance of the loan is \$186000.

He received a \$50000 windfall and decides to pay this money off his home loan. This reduces the balance to \$136000.

He is then offered a job in Perth. He decides to take the job and relocate his family. He decides to rent out his house in Darwin, and borrow to purchase a new residential property in Perth. He redraws \$50000 from the Darwin loan and uses this as a deposit for a new home in Perth.

He can deduct the interest accrued on the outstanding loan principle of \$136000 that is related to the Darwin house from the date the property was available for rental. Those borrowed funds are used at that time for income producing purposes. As a new borrowing of \$50000 is used as a deposit on the residence in Perth, The interest on that borrowing will not be deductible as it is incurred for a non income producing purpose.

Restructure of Loans

If the tax payer restructures their rental property borrowing arrangements , and incurs a change for a penalty interest payment - that is interest that would otherwise have accrued on those borrowings. They may be able to claim a deduction for the amount of the change. Such as a situation could arise where the tax payer renegotiates a loan agreement that has a fixed interest rate to provide for a variable interest rate and they are required to pay an amount which represents interest that the lender would have otherwise charged under the terms of the original loan.

Purpose of loan

Some rental property owners borrow money to buy a new home and then rent out their previous home. If there is an outstanding loan on the old home and the property is used to produce income, the interest outstanding 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 so whether or not the loan for a new home is secured against the former home.

Example.....

Ernie owns his own home. He purchases another property and has borrowed \$150000. He moves into his property and wishes to claim the interest against the first house as it has the mortgage. The interest is not claimable because the purpose in borrowing the money is to purchase the house he is now living in.

NOTE- If a loan is taken out to purchase a rental property and the taxpayer starts to use the property for private purposes, they cannot claim any interest expenses incurred after that time.

Mortgage discharge expenses

The costs of discharging a mortgage are deductible in the year they are incurred to the extent that the taxpayer gave the mortgage as security for the repayment of money they borrowed that was used to purchase assessable income.

For example, If they used a property to produce rental income for half the time the property was held and used as a holiday home the other half, 50 % of the costs of discharging the mortgage are deductible.

Penalty interest payments are amounts paid to a lender , such as a bank to agree to accept early repayments on a loan- including a loan on a rental property. The amounts are commonly calculated by reference to the number of months interest payments would had been made had the premature repayment not been made.

Penalty interest payments relating to a rental property are deductible:

- if the loan moneys borrowed are secured by a mortgage over the property and the payment affects the discharge of the mortgage. Or
- If the payment is made in order to rid the taxpayer of a recurring obligation to pay interest on the loan.

Where penalty interest is paid to rid a tax payer of a burdensome property or is otherwise incidental to the sale of the property, the payments are not deductible.

– **(14) LAND TAX**

The land tax amount varies according to the tax in each state. It is calculated on the unimproved value of the land. The tax is based on a sliding scale and varies from state to state. There will be an adjustment on the sale of purchase of a property . This must be taken into account in calculating this claim.

– **(15) LEASE DOCUMENT EXPENSES**

The cost of preparing and registering a lease and the cost of stamp duty on a lease are

deductible to the extent that the taxpayer has used , or will use the property to produce income. This includes as such costs associated with an assignment or surrender of a lease.

For example, freehold title cannot be obtained for properties in the Australian capital territory (ACT)- they are commonly acquired under a 99 year crown lease. Therefore stamp duty, preparation and registration cost incurred on the lease of an ACT Property are deductible to the extent that the taxpayer used the property as a rental property.

– **(16) LEGAL EXPENSES**

Some legal expenses incurred in producing rental income are deductible such as the cost of evicting a non paying tenant.

Most legal expenses, however are of a capital nature and are therefore not deductible. These include costs of :

- purchasing or selling property
- resisting land resumption
- defending the title of the property.

Non-deductible legal expenses , however form part of the cost base of the property for capital gains tax purposes.

Example.....

Legal Expenses

In May 2023, the tenants moved out owing 4 weeks rent. The bond money was retained and the taxpayer takes the tenants to court to terminate the lease and recover the balance of the rent. The legal expenses incurred for this are fully deductible . The taxpayer is seeking to recover assessable rental income , and they wish to continue earning income from the property. They must include the retained bond money and the recovered rent in the assessable income in the year of the receipt.

– **(17) MANAGEMENT FEES**

Agent's commission is a deductible expense. Payments to associated persons are allowed provided they act in the same role as an agent.

– **(18) OFFICE SUPPLIES**

Stationary, rent books, incidentals and postage and business % use of a computer etc are a deductible expense.

– **(19) PEST CONTROL**

Deductible expense for payments to contractors and for sprays etc, purchased by the

landlord.

– **(20) PREPAID EXPENSES**

If the tax payer prepays 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 the 30 June 12, an immediate deduction can be claimed. Otherwise the deduction may have to be spread over 2 or more years under the prepayment rule if the expenses are \$1000 or more.

– **(21) RATES**

Including council rates , water and sewage are deductible. There will be an adjustment on the sale or purchase of the property. This must be taken into account when calculating this claim.

– **(22)REPAIRS**

Repair – is loosely defined as restoring the item to a condition it was in before it deteriorated without changing its essential character. These expenses are deductible. Care must be taken in this area – see conditions listed below.

Expenditure for repairs made to the property may be deductible. However the repairs must relate directly to wear and tear or other damage that occurred as a result of renting out the property.

Repairs generally involve a replacement or renewal of a worn out or broken part for example, replacing some guttering damaged in a storm or part of a fence that was damaged because of a falling branch.

However, the following expenses are capital, or of a capital nature, and are not deductible:

- replacement of an entire structure or unit of a property (such as a complete fence or building)
- Improvements renovations, extensions and alterations
- initial repairs - for example in remedying defects, damage or deterioration that existed at the date of the property were acquired.

The taxpayer may be able to claim for these expenses - “capital works (special building write off) deductions”. Expenses of a capital nature may form part of a cost base of the property for capital gains tax purposes- but not to the extent of capital works (special building write off) deductions have been or can be claimed for them.

Initial Repair Rule

The ATO takes the view that repairs (not running repairs e.g. replacement of light bulbs) undertaken within 12 months of the purchase will not be allowed, unless the tenant

damaged. The cost of the repairs will not be allowed as it has been taken into account in the purchase price. Details of the non-allowable deductions should be kept as they will affect the cost base of the property, on disposal and will be needed for the calculation of capital gains tax.

Example.....

Repairs prior to renting out the property

Malcolm needs to do some repairs to a newly acquired rental property before the first tenants move in. He paid an interior decorator to repaint the dirty walls, replace broken light fittings and repair 2 bedroom doors. He also discovered white ants in some of the floorboards. This requires white ant treatment and replacement of some floorboards.

These examples were incurred to make the property suitable for rental and did not arise from the use of the property to generate assessable rental income. The expenses are capital in nature and no deduction is able to be claimed for these expenses.

Repairs to a rental property will generally be deductible if:

- the property continues to be rented on a ongoing basis
- the property remains available for rental, but there is a short period when the property is unoccupied for example where unseasonal weather causes cancellation of bookings or advertising is unsuccessful in attracting tenants.

If the property is no longer available for rent, the cost of the repairs may still be deductible if:

- The need for the repairs is related to the period in which the property was used to produce income and
- the property was income producing during the income year in which the cost of the repairs was incurred.

Example.....

Repairs when the property is no longer rented out

After the last tenants move out in May 2023, it was discovered that the stove didn't work, kitchen tiles were cracked and the toilet window was broken. They also discovered a hole in the bedroom wall that had be covered with a poster. In June 2023 the taxpayer paid for the damage to be repaired so they could sell the property.

As the tenants were no longer in the property, the property was no longer producing assessable income. However, they could still claim a deduction for repairs to the property because the repairs related to the period when the tenants were living in the property and the repairs were completed before the end of the income year in which the property ceased to be used to produce income.

Examples of repairs for which deductions can be claimed are:

- replacing broken windows
- maintaining plumbing
- repairing electrical appliances

Examples of improvements for which deductions cannot be claimed are:

- Landscaping
- insulating the house
- adding on another room

SUMMARY

If a repair replaces out a worn or broken part, a deduction can be claimed in the year the expense was incurred.

If the repair involves replacing it, in its entirety and it costs more than \$300 it will need to be depreciated either by effective life or cost write off %.

– (23) REPLACEMENTS

It has been the long outstanding practice to treat the initial purpose of certain assets as not depreciable but to allow claims for an immediate deduction for the cost of their replacement. The practice principally related to low cost items that had very long or indeterminate lives, were difficult to keep track of, and were the subject to frequent replacement through loss or breakage for example crockery, bedding and linen.

Low value pooling was introduced on 1 July 2001 and the \$300 immediate write off for depreciating assets used predominantly in deriving non business income (including rental income) has been retained with some changes for assets acquired after 1 July 2001. The replacement basis for deductions is no longer available for assets first used (or have installed ready for use) to produce income after 30 June 2000.

Immediate deduction for depreciating assets costing \$300 or less

An immediate deduction can be claimed for a depreciating asset costing \$300 or less if the asset is used predominantly to produce assessable income that it not from carrying on a business including rental income.

If the asset was acquired on or after 1 July 2001, there are 2 additional tests that must be met before an immediate deduction can be claimed:

- the asset must not be one that is part of a set of assets that the taxpayer started to acquire in the same year where the total costs of the set is more than \$300 and
- the total costs of the asset and any other identical , asset that the taxpayer started to acquire in an income year must not be more than \$300.

Examples.....

Immediate Deduction

In November 2022, Daniel purchased a toaster for his rental property at the cost of \$70. He can claim an immediate deduction as he uses the toaster to produce assessable income, but not from carrying on a business.

No immediate deduction

Paula is buying a set of 4 identical bedside drawers for her rental property that costs \$90 each. She cannot claim an immediate deduction for these as they are identical and the total cost is more than \$300.

– (24) TELEPHONE

Calls made to the tenant, agent or arranging repairs ext are deductible expense . A diary should be kept to detail this expense.

– **(25) TRAVEL EXPENSES**

From 1 July 2017, taxpayers are no longer able to claim any deductions for the cost of travel they incur relating to a residential rental property. They may only claim travel deductions if they are carrying on a business of property investing or are an excluded entity such as:

- corporate tax entity
- superannuation plan that is not a self-managed superannuation fund
- public unit trust
- managed investment trust
- unit trust or a partnership, all of the members of which are entities of a type listed above.

Prior to 1st July 2017, If the taxpayer travels to inspect or maintain the property or to collect rent, they may be able to claim the costs of travelling as a deduction. A full deduction is allowed where the sole purpose of the trip relates to the rental property. However in other circumstances the taxpayer may not be able to claim a deduction or they may be entitled to a partial deduction.

Travelling expenses incurred by the owner of a holiday home for inspecting and maintaining it are accepted as a deductible if the travel is undertaken to prepare the property for incoming tenants or the inspect the property at the end of a tenancy. Travel expenses associated with the taxpayer's personal use of the property or its general maintenance is not deductible.

If the taxpayer flies to inspect their rental property, stays overnight and returns home on the following day, all of the airfare and accommodation expenses would generally be an allowable deduction.

Example.....

Although Paula's local rental property was managed by a property agent, she decided to inspect the property 3 months after the tenants moved in. During the income year she also made a number of visits to the property in order to carry our minor repairs. She travelled 162km during the course of these visits. On the basis of cents per kilometre rate of 62 cents for there 2.4 litre cars they can claim the following deduction:

$$\begin{aligned} \text{Distance travelled} \times \text{rate per kilometre} &= \text{deductible amount} \\ 162 \text{ km} \times .62 \text{ cents} &= \$100 \end{aligned}$$

Example.....

On Daniels way to golf each Saturday, he drove past the property to keep an eye on things. These vehicle expenses are not deductible as they are incidental to the private purpose of the journey.

Apportionment of travel expenses

Where travel related to the rental property is combined with a holiday or other private activities, the expenses need to be apportioned.

If the tax payer travels to inspect the rental property and combines this with a holiday, the reason for the trip will need to be taken into account. If the main purpose of the trip is to have a holiday and the inspection of the property was incidental to that main purpose, a deduction cannot be claimed for the cost of the travel. However they may be able to claim local expenses directly related to the property inspection and a proportion of accommodation expenses.

Example.....

Neville owns a rental property in a resort town on the north coast of Queensland. He spent \$1000 on airfares and \$1500 on accommodation when he travelled from their home in Perth mainly for the purpose of holidaying in the resort town, but also to inspect the property. He also spent \$50 on taxi fares from the hotel to the rental property and return. He spent one day on matters relating to the rental property and 9 days of swimming and sightseeing.

***No deduction can be claimed for any part of the \$1000 airfares.
He can claim a deduction for the \$50 taxi fare***

A deduction of 10% of the accommodation expenses would be considered reasonable circumstance. That is he can claim a deduction of \$200 as shown below:

$$\mathbf{\$50 + \$150 = \$200}$$

$$\mathbf{\$150 = 10\% \times \$1500}$$

Apportionment of other expenses

If there is both private and income producing use of the property, a deduction cannot be claimed for the portion of any expenditure that relates to the private use. Examples of properties that may have both private and income producing use are holidaying homes and time share units. In cases such as these a deduction cannot be claimed for any expenditure incurred for those periods when the home or unit was used by the tax payer, their relatives or friends for private purposes.

In some circumstances it may be easy to decide which expenditure is private in nature. For example council rates paid for a full year would need to be apportioned on a time basis according to rental and private use where a property is used for both purposes during the year.

In other circumstances where the taxpayer is not able to specifically identify the direct cost, the expenses will need to be apportioned on a reasonable basis.

There are a number of methods of apportionment. The following examples illustrate a basis for apportionment of some other rental property related expenses.

Example.....

Renting out part of a residential Property

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

The flat is rented for 6 months in the year at \$100 a 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 \$9000. Using the floor area basis of apportioning these expenses, one third that is \$3000- applies to the flat. However as they used the flat to produce income for only half the year they can claim a deduction for only \$1500- half of \$3000.

Assuming there were no other expenses, Barney would calculate the net rent from his property as:

Gross Rent	\$2600	(26 weeks x \$100)
Less Expenses	\$1500	(\$3000 x 50%)
Net rent	\$1100	

Example.....

Apportionment of expenses where property is rented for part of the year

Joanne rents out her property during the period 1 November 2022 to 30 March 2023 - a total of 150 days. She lives alone in the house for the rest of the year. The council rates are \$1000 per year. She apportions the council rates on the basis of time rented.

Deductible expenses x portion of year = deductible amount

*She can claim a deduction against her rental income of
 $\$1000 \times 150/365 = \411*

If she has any other expenses these too may need to be apportioned

NON-COMMERCIAL RENTAL

If the taxpayer lets a property – or part of a property – at less than normal commercial rates, this may limit the amount of deductions they can claim.

Example.....

Chester charged his previous tenants the normal commercial rate of rent - \$180 per week. He then allowed his son Myron to live in the property at a normal rent of \$40 per week. Myron lived in the property for 4 weeks and when he moved out, Chester then started advertising for tenants.

Although Myron was paying rent, the arrangement was not based on normal commercial rates. As a result Chester cannot claim a deduction for the total rental property expenses for the period his son was living in the property . Generally a deduction can be claimed for rental property expenses up to the amount of rental income received from this type of non commercial arrangement.

Assuming that during the 4 weeks they incurred rental expenses of more than \$160 in total - that is $\$40 \times 4$ weeks.

If he allowed his son to live in the house rent free, Chester would not have been able to claim any deductions for the time Myron was living in the property.

REMEMBER.....

Claims must be apportioned when the property is let out for only part of the year (this is

calculated on a daily basis)

- Where rental property is used for both personal and rental purposes, expenses applicable to the entire residence would be apportioned and only rental percentage deducted from rental income.
- If a specific area is rented e.g. a granny flat this is done on an area basis.
- If 2 bedrooms of a three bedroom house are rented the ATO apportions the business percentage as two thirds as long as all the common areas are shared equally.
- Adjustments of rate, strata title fees etc must be made on the purchase and the sale of a property.
- Interest has to be apportioned between private and income producing purposes where loans are mixed.
- Interest can only be claimed if the purpose of the loan is to purchase, improve or repair an income producing property.
- Check construction dates for building cost write off.

Example.....

Property located at unit 10/132 Wave street, Redcliffe 6104. Basil has owned the property since March 1996, he moved to another state for work in June 12. He tried to sell the property but could not find a buyer. He then registered the property with a real estate agent to rent on 1/10/22

The agent gave Basil a statement of expenses as follows:

<i>Rental Income</i>	<i>6500</i>
<i>Other rental related income</i>	<i>230</i>
<i>Advertising for tenants</i>	<i>116</i>
<i>Cleaning</i>	<i>100</i>
<i>Gardening/ lawn mowing*</i>	<i>295</i>
<i>Property agent fees\ Commission</i>	<i>625</i>
<i>Lease expenses</i>	<i>125</i>
<i>Telephone</i>	<i>25</i>
<i>Repairs(plumbing tenant damage)</i>	<i>263</i>

They also had expenses that were not paid by the agent:

<i>Body corporate fees & charges</i>	<i>840</i>
<i>Council Rates</i>	<i>510</i>
<i>Insurance*</i>	<i>195</i>
<i>Interest on loans</i>	<i>5620</i>
<i>Water charges</i>	<i>495</i>

As the expenses paid by Basil are usually paid yearly, they can only be claimed from the date the unit was available as an income producing property. The private portion is calculated as 92/365 days or 25.21%

**Theses items cannot be claimed if the expenditure is already included in the body corporate fees and charges.*

Goto (F2)

Front cover **Income** Deductions & Losses Tax offsets Medicare Adj Credits Income tests Spouse details Business items

21 Rent

Gross rent **P**

Interest deductions **Q**

Capital works deductions **F**

Other rental deductions **U**

Net rent (P-Q-F-U)

Goto (F2) **10**

2020 Multi-Property Rental Schedule

Address of rental property

Name of property

Line 1

Line 2

Suburb/town State Post code

Distributed share from

Acquisition and disposal details

	Date	Gross amount
Acquired	<input type="text" value="31/08/2016"/>	<input type="text"/>
Date property was sold (if sold during current year)	<input type="text"/>	<input type="text"/>
Ownership %	<input type="text" value="50.00"/>	

Current year rental start and end dates

Date property first earned rental income

Rented from to

Number of weeks property was rented this year

Income

(If registered for GST and GST was payable on your rental income, do not include it here.)

	Gross amount		Your share
5 → Rents received	29486.90	A	14743.45
→ Total other rental related income		B	

(Press [Alt +S] to open a worksheet for the breakdown of total other related income)

Gross rent

Add income amounts (A and B)	29486.90	C	14743.45
------------------------------	----------	----------	----------

Expenses

(If registered for GST do not claim Input credits here. If NOT registered for GST or income is for residential premises, include any GST in the expenses you claim.)

	Gross amount	Ownership share	Private amount	Your share
Default private use %				
Advertising for tenants	696.16	348.08	0.00	D 348.08
Body corporate fees	11392.22	5696.11	0.00	E 5696.11
Borrowing expenses	169.00	84.50		F 84.50
Cleaning	4178.73	2089.37	0.00	G 2089.37
6c → Council rates	2568.34	1284.17	0.00	H 1284.17
Depreciation on plant	938.00	469.00		I 469.00
Gardening / lawn mowing				J
Insurance				K
6f → Interest on loans	5459.69	2729.85	0.00	L 2729.85
Land tax				M
Legal fees				N
Pest control				O
Property agent fees / commission	5318.70	2659.35	0.00	P 2659.35
Repairs and maintenance	275.21	137.61	0.00	Q 137.61
Capital works deductions (special building write off)				R
Stationery, telephone and postage				S
Travel expenses				T
Water charges	146.47	73.24	0.00	U 73.24
Sundry rental expenses	980.71	490.36	0.00	V 490.36

Total expenses	32123.23	Add labels D to V	W	16061.64
Total net rent	-2636.33	Share of net rent	X	-1318.19

Sharing rental property details, income and expenses

Details	Ownership %	Gross share
Name: George William Cook TFN: 126 080 813	50.00	
Name: Doreen Anne Cook TFN: 153 954 555	50.00	-1318.19
Totals		100.00

* Click Share for distribution to other returns

1) Address of Rental Property:

Name of Property – Enter first line of address eg: 29 Savannah Street

Line 1 – First line of address eg: 29 Savannah Street

Line 2 – Leave blank unless line 1 is a building name

Suburb

State

Post Code

2) Acquisition and Disposal Details:

Acquired – Enter date bought and amount (if available)

Date Property Sold – Enter if property sold in CURRENT financial year

3) Ownership % - Enter percentage based on ownership eg:100% or 50%

4) Current Year Rental Start and End Dates:

Date Property First Earned Rental Income – Enter per client/Prefill

Rented from/to – Enter dates rented for the CURRENT financial year.

5) Rent Received – Enter per Property Agent **ANNUAL** Statement OR per client records.

6) **Expenses:** The Property Agent Annual Statement will have some deductions – Enter in the appropriate boxes. The rest of the expenses will be per the client's records. Expenses to note:

● **6a – Default Private Use %** - Enter private use amount if property was only partly deductible eg: AirBnB or Granny Flat

- **6b – Body Corporate Fees** – Usually occur quarterly
- **6c – Council Rates** – Usually occur bi-annually
- **6d – Depreciation** – See **Depreciation Manual**. Some clients pay for this to be done. If they have, enter ONLY the total amounts. No schedule is required. Find the page that looks similar to this:

depreciation claims under the...
 depreciation claim for the items that have been allocated to the low-value pool.

The depreciation of 'Plant & Equipment' in these schedules is in accordance with the relevant depreciation legislation provided by the ATO. The current taxation ruling for depreciation on 'Plant & Equipment' is TR 2010/2 which is effective as at 1 July 2010. For those properties that have exchanged and settled prior to this date the legislation and taxation rulings applicable at that time have been utilised.

The basic depreciation rates shown in the schedule have been calculated on the basis of The Commissioner's effective life estimates outlined in the above rulings. The effective life of an asset is divided into either 150 or 200 to determine the basic Diminishing Value rate for the asset depending on when the item was purchased.

1.2 Diminishing Value Total - Plant & Equipment and Division 43

Date	Division 40			Division 43	Total
	Effective Life Plant	Pooled Plant	Total Division 40		
4-Nov-11 to 30-Jun-12	6,420	3,885	10,305	4,917	15,222
1-Jul-12 to 30-Jun-13	3,097	6,317	9,414	7,468	16,882
1-Jul-13 to 30-Jun-14	2,559	3,950	6,509	7,468	13,977
1-Jul-14 to 30-Jun-15	1,774	3,177	4,951	7,468	12,419
1-Jul-15 to 30-Jun-16	1,335	2,314	3,649	7,468	11,117
1-Jul-16 to 30-Jun-17	980	1,760	2,740	7,468	10,208
1-Jul-17 to 30-Jun-18	295	2,096	2,391	7,468	9,859
1-Jul-18 to 30-Jun-19	275	1,310	1,585	7,468	9,053
1-Jul-19 to 30-Jun-20	237	819	1,078	7,468	8,546
1-Jul-20 to 30-Jun-21	240	509	749	7,468	8,217
1-Jul-21 to 30-Jun-22	224	318	542	7,468	8,010
1-Jul-22 to 30-Jun-23	209	201	410	7,468	7,878
1-Jul-23 to 30-Jun-24	195	127	322	7,468	7,790
1-Jul-24 to 30-Jun-25	182	73	255	7,468	7,723
1-Jul-25 to 30-Jun-26	170	44	214	7,468	7,682
1-Jul-26 to 30-Jun-27	158	27	185	7,468	7,653
1-Jul-27 to 30-Jun-28	148	16	164	7,468	7,632
1-Jul-28 to 30-Jun-29	138	8	146	7,468	7,614
1-Jul-29 to 30-Jun-30	0	727	727	7,468	8,195

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Total Div 40 = Depreciation on Plant

Div 43 = Capital Works Deductions

- **6e – Borrowing Costs** – This is for the costs involved with obtaining a loan. These costs are amortised over 5 years and apportioned for part year.
 - **6f – Interest on Loan** – ASK THE CLIENT! Most people have a loan. Do NOT forget to ask for this. Apportion the interest if it covers two properties or there is private use component.
 - **6g – Property Agent Fees/Commissions** – Check the ANNUAL statement and include GST.
7. **Sharing rental property details** – If the property is jointly owned, enter the other owner's name here. If we are doing BOTH tax returns > click the grey button with three dots and share the schedule across to the other owner's tax return.

If we are only doing ONE tax return > write the other owner's name only

8. **Ownership %** - Enter the percentage here. If Label '3' says 100%, this will not be editable.
9. **SHARE** – click this button to split the rental details across owners.
10. Press the green Back-arrow to close schedule.