TOP 10 TIPS RENTAL PROPERTY OWNERS TO AVOID COMMON TAX MISTAKES

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Here is a list of tips that will help any rental property owner avoid the top 10 most common mistakes when it comes to tax. By following these rules you avoid any unfortunate tax errors that cost time and money.

1 CLAIMING THE CORRECT PORTION OF EXPENSES

Deductions on rental properties cannot be claimed when either family or friends are staying free of charge, or if the property is being used for personal purposes. Similarly, if the property is rented out to family and friends below the market rate then a deduction can only be claimed for the period up to the amount of rent received.

2 INTIAL REPAIRS AND CAPITAL IMPROVEMENTS

In the case of initial repairs or improvements an immediate deduction cannot be claimed in the same year that the expense has occurred. For more help and advice navigating the complex rules associated please feel free to call us.

3 CONSTRUCTION COST

Certain building costs, including but not limited to extensions, alterations and structural improvements, can be claimed as capital works deductions. Capital work deductions can generally be claimed at 2.5% of the construction cost each year for 40 years from the date of completion.

We would like to add that new rules affecting this type of deduction have come into effect from the 1st July 2017 and if you need any additional help please feel free to contact our friendly staff.

4 BORROWING EXPENSES

Borrowing expenses over $100 have a deduction spread over 5 years, however, if the expense is $100 or less than the full amount can be claimed in the same income year as the expense occurred.

These borrowing expenses can include title search fees, loan establishment fees and the costs of preparing and filing mortgage documents.

5 COSTS ASSOCIATED WITH PURCHASING PROPERTY

When buying a property the costs associated, including stamp duty (for properties outside the ACT) and conveyancing fees cannot be claimed with deductions. When later selling the property the costs mentioned are used to work out the capital gain or loss.

For more information see tip 9.

6 PROPERTIES ARE ACTUALLY AVAILABLE FOR RENT

For a tax deduction claim to be made then the property must show a clear purpose of being rented. This includes having the rent in line with similar properties in the area as well as being advertised so that someone will rent it, it is also a good idea to avoid any conditions that may be classed as unreasonable.

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7 INTEREST ON LOANS

Interest can be claimed as a deduction if a loan is taken out on the rental property, however if any of the loan money is used for personal reasons then the interest that applies to the rental property can be claimed as a deduction and the other interest cannot, however we advise to our clients that any deduction loans are kept separate and distinct from any private loans.

8 A PROPERTY THAT IS CO-OWNED

Owning a rental property with someone else means that any rental income and claim expenses are according to the legal ownership of the property. However, joint tenants will have an equal divide of legal interest but tenants in common may have differing ownership interest percentages.

9 SELLING RENTAL PROPERTIES AND CAPITAL GAINS

Selling a rental property means that there will either be a capital gain or a capital loss, this is the difference between the cost to buy and improve the property and the amount received upon selling. Capital gains, when you received more upon selling then you bought it for, means that the amount will need to be included in your assessable income for that financial year. If capital loss is the result then this can then be used as a carry forward and deducted from future capital gains.

10 THE RIGHT RECORDS

To be able to claim everything that you are entitled to claim then appropriate records of income and expenses need to be kept as evidence. As capital gains tax may apply then records for the period that the property was owned should be kept and for five years after you sell it.

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