TOP 10 COMMON TAX MISTAKES RENTAL PROPERTY OWNERS MAKE

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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 TRAVEL EXPENSES

Please note that from the 1st July 2017, you are no longer able to claim travel expenses to a rental property. Also, travel expenditure cannot be included in the cost base for calculating your capital gain or capital loss when you sell the property.

2 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.

3 INITIAL 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.

4 DEPRECIATION COST

You cannot claim depreciation deductions for the assets in an existing rental property if you entered into a contract to purchase that property on or after **7.30 p.m. (AEST) on 9 May 2017**

5 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 rental loans are kept separate and distinct from any other loans.

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 (such as disrepair) that may be classed as unreasonable.

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7 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.

8 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, these costs are used to work out the capital gain or loss.

For more information see tip 9

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 than you bought it for, means that an 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, appropriate records of income and expenses must be kept as evidence. As capital gains tax may apply, the records for the ownership period should be kept and for five years after you sell it.