# What rental expenses can you claim right now?

*No matter if you've bought a property with the intention of renting, or have decided to upgrade your home and rent out your previous home, it's good to understand which rental expenses you can claim as a deduction off your income tax. It could save you thousands.*

**Is Your Rental Positively or Negatively Geared?**

You'll need to understand if your property will be positively or negatively geared as this will impact your tax claims. If your rental property is positively geared, it means that the income you earn from renting your property is more than your expenses. You make a profit from your rental.

Your rental property is negatively geared if your expenses outweigh the income you earn from the property. This means that you'll be able to claim a deduction for your rental expenses against your rental income and other income, such as salary wages or business income, when you complete your tax return.

If your other income is not enough to absorb the cost, then the loss can be carried forward into the next income year.

**What Expenses Can You Claim This Year?**

**Pro Tax Tip:** The expenses you can claim must be your own, and not expenses that your tenant has incurred.

There are a lot of expenses that can be immediately claimed as a tax deduction. Some expenses are claims you can make right now. That is you'll be able to claim the expenses in the same year as they were incurred. Other rental expenses can be claimed over several years, such as depreciation. Some expenses may not be claimed at all.

The expenses you'll be able to claim in the same year as they were incurred include:

- Advertising for tenants
- Body corporate fees and charges
- Borrowing expenses (incurred from directly taking out a loan for the purchase of your rental property – claimed over five year period or 20% each year)
- Council rates
- Water charges
- Land tax
- Cleaning
- Gardening and lawn mowing
- Pest control
- Insurance (building, contents, public liability)
- Interest expenses
- Pre-paid expenses

- Property agents fees and commissions
- Income protection insurance
- Repairs and maintenance
- Some legal expenses
- Accounting and tax agents fees

**Which Expenses Can't Be Claimed?**

There are a few expenses that can't be claimed as a rental property expense. These include capital expenses, depreciating assets and some other items.

**Pro Tax Tip:** If you can include capital expenses in the cost base of your property, it may help you reduce the amount of Capital Gains Tax (CGT) you pay when you sell your property. Expenses incurred purchasing and selling your property are capital expenses.

Depreciating assets cannot be claimed for the decline in value of an existing property if you signed the contract for purchase on or after 7:30pm (AEST) on 9 May 2017. If you used a home you moved out of as a rental on or after 1 July 2017, depreciated deductions can't be claimed on items that were already in your home. Only new items installed can be claimed. There are exceptions to the rules. Speak with a tax professional to discuss your individual circumstances.

**What Are Interest Expenses?**

If you take out a loan with which you purchased your rental property, the interest charges on that loan may be claimed as a tax deduction.

**Pro Tax Tip:** To be eligible to claim interest on your loan, your property must have been rented or available to be rented in the same income year. You won't be able to claim interest on the time you used the property for private purposes, on any portion of the loan you used for private purposes, if you do not use the home for rental income, or any portion of the loan you redraw for private purposes.

**Claims To Be Made**

You can claim the interest charged in the loan you used to:

- purchase a rental property
- purchase a depreciating asset for the rental property (this may be for a new air conditioner, heating system, hot water system)
- make repairs to the property (roof repairs after a storm)
- finance renovations on your rental property

**Pro Tax Tip:** You'll also be able to claim interest on pre-paid claims for up to 12 months in advance

**Pre-Paid Expenses**

If you've paid insurance that extends beyond the income year, or other costs and service for your rental, you'll generally be able to claim an immediate deduction on pre-paid expenses of less than $1,000 or on expenses of $1,000 or more where the service is less than 12 months. If you pre-paid expense doesn't meet the current criteria, your expense may be spread over two or more years.

**Repairs And Maintenance**

Your rental property may need some work prior to putting in tenants, as a result of tenants or through normal wear and tear. You'll probably need to fix and maintain your house during the year. Your repair and maintenance costs can be claimed in the same year you incurred them is the expense directly relates to damages that occurred as a result of renting or if you need to undertake repairs between tenants if you're looking to continue to use the property as a rental.

There are three areas in which your expenses may be allocated. These include:

1. Repair and Maintenance
2. Capital Works
3. Capital Allowance

Repairs are expenses incurred to fix defects, damage or deterioration to your property and must be incurred as a direct result of rental in order to be claimed. These types of repairs are replacing broken windows, replacing storm-damaged gutters, repairing electrical appliances or machinery.

Maintenance expenses are costs incurred to prevent damage or deterioration. These expenses cover repainting, maintaining a deck or plumbing.

If your expenses is replacing part of a fence damaged in a storm or payment for a plumber to fix a leaking tap, your expenses is likely to be a repair and should be claimed as a Repair and Maintenance expense. If you're preventing or fixing a broken or deteriorating item that was incurred as a result of rental, such as painting or installing a deck, this will be a maintenance expense and can be claimed as a Repair and Maintenance expense.

If you're fixing damage to a property that existed when you bought your rental, such as fixing floorboards, this expense is likely to be an initial repair and can be claimed as Capital Works and as a Capital Allowance on your rental schedule. If the structure you're replacing is only partly damaged, you'll be able to claim your expense as Capital Works.

Claiming a depreciating asset is an expense where you have installed a brand new appliance or floor / window covering and can be claimed as a Capital Allowance in your rental schedule.

**Improvements**

An improvement is anything you have done to your rental property to make it better, more valuable and desirable or made changes to the character to your property. These types of expenses include remodelling a bathroom or adding a pergola. An improvement is work that provides something new, further increases the earning potential of your property and goes beyond restoration.

**Pro Tax Tip:** You can't claim a tax deduction for the total cost of improvements to your rental property in the year you incurred them.

If the work done on your property is a mix of repairs and improvements, you'll only be able to claim an income tax deduction on your repair expenses if you can separate the costs from the improvement.

**Pro Tax Tip:** If you hire a contractor, make sure they understand where you are allocating costs so they can provide an itemised invoice.

Deducting your expense claims on a rental property can become complex. It's important to understand and allocate your expenses so that they are claimed correctly so you can make the most out of your claims. The difference could mean thousands.

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