Expenses you can claim as an investor – sourced from www.ato.gov.au

- Expenses you can claim

You can claim a deduction for your related expenses for the period your property is rented or is available for rent.

- management and maintenance costs, including interest on loans, can generally be claimed immediately (that is, deducted against your current year's income).
- borrowing expenses, depreciation and capital works spending can be deducted over a number of years.

You can't claim:

- expenses not actually paid by you, such as water or electricity charges paid by your tenants
- acquisition and disposal costs, including the purchase cost, conveyancing and advertising costs and stamp duty* on the title transfer – instead, these are usually included in the property's cost base, which would reduce any capital gains tax when you sell the property
- GST credits for anything you purchase to lease the premises – GST doesn't apply to residential rental properties. However, when claiming the expense as a deduction, you claim the total amount you've paid (inclusive of GST, if applicable).

*Unlike stamp duty on the transfer of freehold title, stamp duty on the transfer of a property under the ACT's leasehold system is generally deductible (see Expenses for which you can claim an immediate deduction, 'Lease document expenses').

Property genuinely available for rent

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, giving it broad exposure to potential tenants
- considering all the circumstances, tenants are reasonably likely to rent the property.

The absence of these factors generally indicates the owner doesn't have a genuine intention to make income from the property. 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 of the property, mean 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 out the property to interested people without adequate reasons.

Apportioning expenses

You'll need to apportion your expenses to determine the deductible amounts if:

- your property is available for rent for only part of the year
- only part of your property is used to earn rent
- you rent your property at non-commercial rates.

If you prepay an expense, such as insurance or interest, that covers a period of more than 12 months, you may need to spread your deduction over two or more years.

Property available for part-year rental

If you use your property for both private and income-producing purposes, you can only claim a deduction for the portion of any expenditure that relates to the income-producing use.

For example, with holiday homes and time-share units, you can't claim a deduction for any expenditure related to those periods when the home or unit was used by you, your relatives or your friends for private purposes.

Only part of your property is used to earn rent

If only part of your property is used to earn rent, you can claim only that part of your expenses that relates to the rental income.

As a general guide, apportion your expenses on a floor-area basis – that is, based on the area solely occupied by the tenant, together with a reasonable figure for their access to the general living areas, including garage and outdoor areas if applicable.

Example

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

Michael rented out the flat for six months in the year 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. Using the floor-area basis for apportioning these expenses, one-third – that is, $3,000 – applies to the flat. However, as Michael used the flat to produce assessable 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 net rent from his property as:

Gross rent	$2,600(26 weeks x $100)
Less expenses	$1,500($3,000 x 50%)
Net rent	$1,100

Non-commercial rental

Letting a property, or part of a property, at less than normal commercial rates – for example, renting to a family member at a reduced rate – may limit the amount of deductions you can claim.

See also:

- Holiday homes
- Taxation ruling IT 2167 – Income tax: rental properties - non-economic rental, holiday home, share of residence, etc. cases, family trust casesExternal Link

Pre-paid expenses

Pre-paid expenses are those that provide for services extending beyond the current income year, such as payment of an insurance premium on 1 January that provides cover for the entire calendar year.

You can generally claim an immediate deduction in the current income year for:

- pre-paid expenses of less than $1,000
- expenses of $1,000 or more where the service period is 12 months or less (such as payment of an annual insurance premium part way through an income year).

A prepayment that doesn't meet these criteria may have to be spread over two or more years.

See also:

- Deductions for prepaid expenses

Negative gearing

A rental property is said to be 'negatively geared' where the deductible expenses (including interest on the loan borrowed to finance the property) exceed the income earned from the property.

The overall tax result of a negatively geared property is a net rental loss. In this case, you may be able to claim a deduction for the full amount of rental expenses against your rental and other income – such as salary, wages or business income – when you complete your tax return for the relevant income year. Where the other income is not sufficient to absorb the loss it's carried forward to the next income year.

You will need to show the total net rental property loss at label IT6 on your tax return. The amount of the loss is included in your adjusted taxable income and may be used in calculating various tax obligations, tax offsets and entitlement to other tax related concessions.