

Income

Rental deductions checklist for landlords

To assist landlords in reducing the audit risk associated with claiming rental property expense deductions, the following checklist summarises the more common residential rental property expenses, and whether these expenses are **generally** deductible/non-deductible.

Deductions are **only** available to the extent to which a property is *either* rented to tenants or genuinely available for rent (i.e., where active and bona fide efforts are made to let the property). Furthermore, all section references are to the ITAA 1997 unless otherwise stated.

Item	Deductible	Non-deductible	Comments
Accountant's fees – tax return preparation or lodgment costs, and tax advice	✓		Refer to S.25-5
Adjustments for rates/land tax (in favour of vendor) – related to purchase of property	✓		Refer to S.8-1 and <i>FCT v Morgan</i>
Advertising expenses – looking for a tenant	✓		Refer to S.8-1
Agent fees/commission – for managing the property and collecting rent	✓		Refer to S.8-1
Bank charges – for accounts used to deposit rent receipts and to meet deductible outgoings (including interest expenses)	✓		Refer to S.8-1 and IT 2084
Body corporate fees: <ul style="list-style-type: none"> • Administration or general purpose sinking fund contributions for general maintenance, repairs, etc. • Special purpose levy contributions for improvements, initial repairs, etc. 	✓	✓	Refer to S.8-1, ATO ID 2004/934W and ATO ID 2004/933W ^o
Borrowing expenses – e.g., search fees, valuation fees, survey and registration fees, stamp duty, broker's commission, mortgage insurance, etc.	✓		Deductible over the shorter of five years or the term of the loan (refer to S.25-25)
Buildings and structural improvements – an annual write-off may be available for the cost of constructing: <ul style="list-style-type: none"> • a rental property building; • an extension, alteration or improvement to a rental property building; or • a structural improvement (e.g., a sealed driveway or a fence). Basically, construction must commence after 17/07/1985 (for residential buildings) or after 26/02/1992 (for structural improvements).	✓ ✓ ✓		Construction costs are generally written-off at the rate of 2.5% p.a. (or, in some cases, 4% p.a.). Refer to Division 43 and TR 97/25
Deposit bond fees		✓	Refer to ATO ID 2003/113
Depreciation – only for assets that qualify as 'plant' or 'depreciable assets' (e.g., carpets, blinds, hot water service, air-conditioning, oven, etc.)	✓		Cost is written-off over the effective life, in a low-value pool, or using the \$300 rule (refer to Division 40)
Gardening/lawn mowing	✓		Refer to S.8-1

Income

Item	Deductible	Non-deductible	Comments
Initial repairs (i.e., repairs to problems that existed at the time the property was purchased)		✓	Refer to TR 97/23
Insurance premiums: <ul style="list-style-type: none"> • sickness/accident, building, fire, burglary, public liability, loss of rent • life and trauma 	✓		Refer to S.8-1
Interest expenses on loan, to the extent the loan is used: <ul style="list-style-type: none"> • to purchase a rental property • to buy land to build a rental property • to buy plant for a rental property • for repairs to a rental property • for renovations to a rental property • for paying other rental-related expenses 	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ ✓ 		Refer to S.8-1, <i>Steele v FCT</i> (99 ATC 4242) and TR 2004/4
Land tax	✓		Refer to S.8-1
Lease preparation, registration, stamping	✓		Refer to S.25-20
Legal costs for: <ul style="list-style-type: none"> • recovering unpaid rent, seeking damages for breach of agency agreement, reviewing credit worthiness of proposed tenant • to buy or sell the property, to defend title to the property, to oppose a neighbour's building application 	✓		Refer to S.8-1
Mortgage discharge expenses	✓		Refer to S.25-30
Mortgage insurance – treated as borrowing expense (refer above)	✓		Refer to S.25-25
Penalty interest on early loan repayment	✓		Refer to S.8-1, S.25-30 and to TR 93/7
Pest control	✓		Refer to S.8-1
Postage and stationery	✓		Refer to S.8-1
Quantity surveyor report (cost estimate) – for Division 40 or Division 43 purposes	✓		Refer to S.25-5
Rates (council and water)	✓		Refer to S.8-1
Repairs and maintenance (excluding initial repairs)	✓		Refer to S.8-1, S.25-10, and TR 97/23
Telephone calls and rental – related to dealing with real estate agents, tenants, plumbers, and other rental property matters	✓		Refer to S.8-1

Income

Item	Deductible	Non-deductible	Comments
Travel expenses:			
• to prepare property for incoming tenants	✓		
• to collect rent	✓		
• to inspect the property during, or at the conclusion of, a tenancy	✓		
• to maintain/undertake repairs to property	✓		
• to inspect property prior to purchase		✓	Refer to S.8-1, ATO ID 2007/67 and <i>FCT v Green</i> (1950) 81 CLR 313
• to inspect property prior to settlement		✓	
• to purchase property		✓	
• to undertake improvements to property		✓	

❶ ATO IDs 2004/933 and 2004/934 were both withdrawn on 25 July 2008) as the ATO view in these ATO IDs is contained in the Tax Office publication *Rental properties* (NAT 1729).