Australian Government
Australian Taxation Office

Property

- https://www.ato.gov.au/General/Property/
- Last modified: 11 Jun 2020
- QC 23614

You need to consider your tax obligations, including income tax, capital gains tax (CGT) and goods and services tax (GST) when dealing in property or land, including:

- buying
- selling
- renting out
- investing
- renovating for a profit, such as property flipping
- developing.

Find out about:

- Your home
- Inheriting property
- Residential rental properties
- Land – vacant land and subdividing
- Property development, building and renovating
- Property used in running a business
- Holiday homes

See also:

- GST and property
- GST and residential property
- GST and commercial property
- Selling an asset and other CGT events
- Your home and other real estate
- Rental property video series

Your home

- https://www.ato.gov.au/General/Property/Your-home/
- Last modified: 29 Mar 2019
- QC 23615

While your home is generally exempt from tax, if you rent out part or all of it (or otherwise use it to produce income) you must include the income in your tax return (and you can claim the associated expenses). You may also have to pay capital gains tax when you sell it.

You should keep all the records relating to your home so that if circumstances change (you start to rent it out for example) you don't pay more tax than necessary.

If you work at home you may be able to claim a deduction for some of the expenses relating to the area you use.

If you buy new residential premises or potential residential land, you may be required to withhold an amount from the contract price and pay it directly to us. The vendor is required to notify you of this in writing (before settlement of the property). The information provided will help you to comply with your withholding obligation, including the submission of two online forms.

The information in this section (Your home) applies to dwellings owned or rented out by individuals, not to dwellings owned or rented by companies or trusts.

Find out about:

- Buying and selling your home
- Renting out part or all of your home
- Building or renovating your home
- Working from home
- GST at settlement
- GST at settlement – a guide for purchasers and their representatives

Buying and selling your home

- https://www.ato.gov.au/General/Property/Your-home/Buying-and-selling-your-home/
- Last modified: 08 Nov 2017
- QC 23617

Generally, you don't pay capital gains tax (CGT) if you sell the home you live in (under the main residence exemption). You also can't claim income tax deductions for costs associated with buying or selling your home.

But you should keep all the records relating to your home so that if things change – for example, you start to rent it out or otherwise use it to produce income (such as flipping the property) – you don't pay more tax than necessary.

A second property, such as a holiday house or hobby farm, is subject to CGT.Similarly, you're not liable for goods and services tax (GST) when you sell your home and you can't claim GST credits on any costs associated with buying or selling it (except in some circumstances where you're in the business of building or renovating properties).

Some states charge stamp duty when you buy a property, including a home. Some states also levy land tax on land that exceeds a certain value, though the property you live in is usually exempt.

Business.gov.au has links to more information about stamp duty and land tax in the various states and territories. Find out more about:

- stamp duty
- land tax

See also:

- Capital gains tax - Selling your home
- GST at settlement

Renting out part or all of your home

- https://www.ato.gov.au/General/Property/Your-home/Renting-out-part-or-all-of-your-home/
- Last modified: 10 Jun 2020
- QC 23622

If you rent out all or part of your home, the rent money you receive is generally regarded as assessable income. This means you:

- must declare your rental income in your income tax return
- can claim deductions for the associated expenses, such as part or all of the interest on your home loan
- may not be entitled to the full main residence exemption from capital gains tax (CGT), meaning you'll have to pay CGT on part of any capital gain made when you sell your home.

Good and services tax (GST) doesn't apply to residential rentals, so you're not liable for GST on the rent you charge. You also can't claim GST credits for associated costs.

On this page:

- Income and expenses

- Capital gains tax

Income and expenses

If you rent out all or part of your home at normal commercial rates, the tax treatment of income and expenses is the same as for any residential rental property.

You must include the rental income in your income tax return and you can claim deductions for associated expenses, such as the interest on your home loan.

If you are only renting part of your home, for example a single room, you can only claim expenses related to renting out that part of the house. This means you can't claim the total amount of the expenses you incur – you need to apportion the expenses.

As a general guide, you should apportion expenses on a floor-area basis based on the area solely occupied by the renter (user) and add that to a reasonable amount based on their access to common areas.

You can only claim a deduction for expenses when the room was rented to a client. If you use the room in any capacity when it's not occupied, for example for storage or as an office, you can't claim deductions.

If you rent out all or part of your home at less than normal commercial rates – for example, you rent to a relative or friend at a reduced rate – this may limit the deductions you can claim.

Note that payments from a family member for board or lodging are considered to be domestic arrangements and are not rental income. You can't claim deductions for expenses in these circumstances.

See also:

- Taxation Ruling IT 2167 – *Income tax: rental properties - non-economic rental, holiday home, share of residence, etc. cases, family trust cases* for information about situations involving non-commercial rental and renting to related parties
- The sharing economy and tax

Capital gains tax

Generally, you don't pay CGT if you sell the home you live in (under the main residence exemption).

However, if you've used any part of your home to produce income – for example, by renting out all or part of it – you're generally not entitled to the full exemption.

To work out the capital gain that is not exempt, you need to take into account a number of factors, including:

- the proportion of the floor area that is set aside to produce income

- the period you use it for this purpose
- whether you're eligible for the 'absence' rule (see Treating a dwelling as your main residence after you move out)
- whether it was first used to produce income after 20 August 1996.

You can work out the proportion of your capital gain that is exempt from capital gains tax using the Property exemption tool.

See also:

- Selling a rental property
- Your home and other real estate
- Using your home to produce income
- Your main residence

Building or renovating your home

- https://www.ato.gov.au/General/Property/Your-home/Building-or-renovating-your-home/
- Last modified: 03 Aug 2017
- QC 23623

Generally, there are no direct tax implications (for income or capital gains tax) if you build or renovate your own home.

If the dwelling is your main residence and you use any improvements as part of your home, they're exempt from capital gains tax if you sell it. This includes improvements on land adjacent to the dwelling (such as installing a swimming pool) if the total area, including that on which the home stands, is two hectares or less.

Similarly, you're not liable for GST if you sell your family home. GST is only imposed on sales of new residential dwellings by enterprises. You're not considered to be carrying on an enterprise if your property transactions are for private purposes. (GST is generally included in the price of the goods and services you purchase to build or renovate your home, but because these purchases are for a private purpose, you're not entitled to GST credits.)

See also:

- Major capital improvements to a dwelling

Buying to renovate for profit

You're likely to be entering into a profit-making activity if you acquire a property with the intention of renovating and selling it at a profit, and go about it in a business-like way. This process is also known as 'house flipping', 'property flipping' or buying to flip'. This could have implications for the way the profits are taxed (as income or capital) and for GST.

See also:

- [Property development, building and renovating]

Working from home

- https://www.ato.gov.au/General/Property/Your-home/Working-from-home/
- Last modified: 08 Apr 2020
- QC 23624

If you work from home you may be able to claim a deduction for some of your expenses relating to the area you use.

If you are in business and your home is also your principal place of business, you should refer to running your business from home.

For employees working from home due COVID-19, we have specific information available about home office expenses and recording keeping.

On this page:

Conditions of working from home

In general, the deductions you can claim depend on whether:

- you have a work area – a room such as a study or spare room is set aside primarily or exclusively for work activities but your home isn't your principal place of business – for example, you may have an office elsewhere, but work at home after hours
- you don't have a work area – your principal place of business is not at home, nor do you have an area or room primarily or exclusively set aside for work, but you do some work at home – for example, you might work for a few hours in the lounge room
- your home is the principal place of business – a business is run from home and a room is set aside exclusively for business activities. If this is your situation, see Running your business from home.

If you are only working from home due to COVID-19, refer to – Employees working from home.

The following table set out the deductions you may be able to claim if your home is not your principal place of business.

Deductions if your home is not your principal place of business

Deductions you may be able to claim	You do have a work area	You don't have a work area
Cost of using a room's utilities such as gas and electricity	Yes	Yes
Work-related phone costs	Yes	Yes
Decline in value (depreciation) of office plant and equipment such as desks, chairs and computers	Yes	Yes
Decline in value (depreciation) of curtains, carpets and light fittings	Yes	No
Occupancy expenses such as rent, mortgage interest, insurance and rates	No	No

For more information about the expenses you can claim and record keeping requirements, see Home office expenses.

Capital gains tax implications

In most cases, if you are working from home as an employee, regardless of whether or not you have separate work area, there will be no capital gains tax (CGT) implications for your home. This is the case even if you claim home office expenses.

CGT may apply if you are running a business from home or you claim occupancy expenses (like mortgage interest repayments or rates).

If you do claim occupancy expenses, you don‘t get the full main residence CGT exemption, although you may be entitled to a partial exemption.

See also:

- Running your business from home
- Using your home to produce income
- Home office expenses
- Employees working from home

Inheriting property

- https://www.ato.gov.au/General/Property/Inheriting-property/
- Last modified: 13 May 2015
- QC 23625

When someone dies, a capital gain or loss is generally disregarded when a property passes:

- to the deceased person's executor or other legal personal representative
- to the deceased person's beneficiary — such as next of kin or a person named in the will
- from the deceased person's legal personal representative to a beneficiary.

But this exception doesn't apply if the property passes from the deceased to a tax-advantaged entity (such as a charity) or foreign resident.

If you inherit a dwelling or other property after CGT started on 20 September 1985 and later sell or otherwise dispose of it, capital gains tax may then apply.

Similarly, capital gains tax may apply if the deceased person's legal personal representative sells a property as part of winding up their estate.

See also:

- Deceased estate and capital gains tax
- Inheriting a dwelling

Residential rental properties

- https://www.ato.gov.au/General/Property/Residential-rental-properties/
- Last modified: 17 Jun 2019
- QC 23626

If you invest in a rental property or rent out your current property, you'll need to keep records right from the start, work out what expenses you can claim as deductions, and declare all your rental-related income in your tax return.

Any capital gain you make when selling or otherwise disposing of the property will be subject to capital gains tax (CGT) except in some circumstances where you rent out the home you've been living in.

If you have an investment property that is not rented or available for rent – such as a holiday home, hobby farm, or another dwelling you choose not to rent:

- the property is subject to CGT in the same way as a rental property
- you generally can't claim income tax deductions for the costs of owning the property because it doesn't generate rental income
- you may be able to include your costs of ownership in the property's cost base, which would reduce any capital gains tax liability when you sell it.

To download a PDF guide on how to treat rental income and expenses – see Rental properties 2019.

Find out about:

- Obtaining and owning a rental property
- Rental income you must declare
- Rental expenses to claim
- Rental expenses you can claim now
- Rental expenses you claim over several years
- Rental expenses you can't claim
- Rental properties and travel expenses
- Selling a rental property
- Holiday homes

Prepare your tax return – rental properties

Rental property owners should remember these key points when preparing their income tax return:

- include all income you receive from
  - short term rental arrangements (for example, a holiday home)
  - sharing a part of your home
  - other rental-related income such as insurance payouts and rental bond

- get your expenses right
  - claim only for expenses incurred for the period your property was rented out or you were actively trying to rent the property on commercial terms
  - some expenses must be claimed over a number of years

- apportion your claim in line with your ownership interest and where
  - the property is only rented for part of the year
  - only part of the property is rented
  - the property is rented to yourself
  - the property is rented below market rates

- keep records – you should keep records of both income and expenses relating to your rental property, as well as purchase and sale records.

Obtaining and owning a rental property

- https://www.ato.gov.au/General/Property/Residential-rental-properties/Obtaining-and-owning-a-rental-property/
- Last modified: 08 Oct 2018
- QC 23627

On this page:

When investing in a rental property, you'll need to keep records right from the start and work out what you can and can't claim as a deduction.

If you buy the property with someone else, you'll also need to work out how to divide the income and expenses.

If you make a net profit from renting your property, you may need to make pay as you go (PAYG) instalments towards your expected tax liability.

Generally, you only declare the income you earn from a property and claim related expenses if your name is on the title deed.

If you buy a property, the date you enter into the contract – not the settlement date – is your date of purchase for capital gains tax purposes.

Apart from buying, you can obtain a property by inheriting it, receiving it as a prize or gift, or having it transferred to you as a result of a marriage breakdown.

Keep records from the start

With an investment property, it's important to keep records right from the start. You'll want proof of all your expenses so you can claim everything you're entitled to. You'll also need records of the date and costs of buying the property so you can work out any capital gain (or capital loss) when you dispose of it.

While owning the property you need to keep track of any related income and expenses. You also need to keep track of any significant changes – for example, if you carry out repairs or improvements or subdivide and sell part or all of it.

Remember to keep the costs of repairs or improvements separate from depreciation costs (the decline in value of depreciating assets). This is necessary to work out your deductions correctly and any capital gain or loss when you sell the property.

What records do you need to keep?

You need to keep proper records in order to make a claim, whether you use a tax agent to prepare your tax return or you do it yourself. You must keep records of:

- the rental income you receive and the deductible expenses you pay – keep

these records for five years from 31 October or, if you lodge later, for five years from the date your tax return is lodged
- your ownership of the property and all the costs of purchasing or otherwise acquiring it and selling or otherwise disposing of it – keep these records for five years from the date you sell or dispose of your rental property.

As capital gains tax may apply if you sell your rental property, we recommend you keep records of every transaction over the period of ownership of the property. This would include contracts of purchase and sale, and conveyance and loan documentation. Keeping these records will help you work out your capital gain or loss correctly and ensure you do not pay more tax than you need to.

Co-ownership of rental property

Rental property activities are generally considered a form of investment rather than a business. This means that where a rental property is owned jointly, rental income and expenses are divided among the co-owners according to their legal interest in the property. This is despite any written or oral agreement between co-owners stating otherwise.

However, where partners carry on a rental property business, the net rental income or loss is divided among them according to the partnership agreement.

Co-owners of a rental property

This video explains the rental income you must declare and the expenses you can claim if you co-own a rental property.

Media: [Co-owners of a rental property]
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiun85ittq (Duration: 02:18)

Co-owners of an investment property – not in business

A person who simply co-owns one or more investment properties is usually regarded as an investor rather than being engaged in a rental property business with the other co-owners. This is because of the limited scope of the rental property activities and the limited degree to which a co-owner actively participates in rental property activities.

As investors, the co-owners must divide the property's income and expenses in line with their legal interest in the property. If they own the property as:

- joint tenants – they each hold an equal interest in the property
- tenants in common – they may hold unequal interests in the property (for example, one may hold a 20% interest and the other an 80% interest).

Rental income and expenses must be attributed to each co-owner according to their legal interest in the property, even if there is an agreement between co-owners, either oral or in writing, stating otherwise.

Partners carrying on a rental property business

Most rental activities are a form of investment and don't amount to carrying on a business. But where you are carrying on a rental property business in partnership with others, you must divide the net rental income or loss according to the partnership agreement. If you don't have a partnership agreement, you should divide your net rental income or loss between the partners equally.

See also:

- Rental properties
- Taxation Ruling TR 93/32 - Income tax: rental property - division of net income or loss between co-owners

Pay as you go instalments and withholding

PAYG instalments

If you make a net profit from renting your property, you may need to make pay as you go (PAYG) instalments towards your expected tax liability for an income year.

An individual is generally required to pay PAYG instalments if they have gross business or investment income (including rental income) of $4,000 or more (or $1 for foreign residents) in their most recent income tax return and the tax outstanding on their income tax assessment is more than $1,000.

If you're required to pay PAYG instalments we'll notify you.

See also:

- PAYG instalments

PAYG withholding

If your property is negatively geared you may be able to reduce the rate at which tax is deducted from your salary or wages (the PAYG withholding rate) to better match your year-end tax liability.

If you believe your circumstances warrant a reduction to your rate or amount of withholding, you can apply to us for a variation.

See also:

- Varying your PAYG withholding

Rental income you must declare

- https://www.ato.gov.au/General/Property/Residential-rental-properties/Rental-income-you-must-declare/
- Last modified: 26 Jun 2019
- QC 23632

Rent and other rental-related income is the full amount of rent and associated payments you receive or become entitled to when you rent out your property. This includes payments in the form of goods and services. You will need to work out the monetary value of these.

You must include in your tax return the full amount of rent and any other rental-related income you receive – whether paid to you or your agent.

Rental-related income includes:

- rental bond money you become entitled to retain – such as when a tenant defaults on the rent, or damage to your rental property requires repairs or maintenance
- insurance payouts in some circumstances – such as where you receive an insurance payment to compensate for damage to your property or for lost rent
- letting and booking fees you receive
- associated payments you receive, or become entitled to, as part of the normal, repetitive and recurrent activities through which you intend to generate profit from the use of your rental property (if these payments are in the form of goods and services you'll need to work out their monetary value)
- reimbursement or recoupment for deductible expenditure – for example:
  - if you receive an amount from a tenant to cover the cost of repairing damage to your rental property and you can claim a deduction for the cost of the repairs, you need to include the whole amount in your income
  - if you receive a government rebate for the purchase of a depreciating asset, such as a solar hot-water system, you may need to include an amount in your income

- any excessive deductions for capital allowances involving your rental property where a limited recourse debt is terminated without you paying it in full.
- lump sum payment, where the nature of the payment is a substitute for or prepayment of rental income (and thus ordinary income).

Watch:

Media: [video title]
How to include rental income and expenses in myTax http://tv.ato.gov.au/ato-tv/media?v=bd1bdiubtjsfhw (Duration: 1:59)

Duration 1m:33s.

Goods and services tax

GST doesn't apply to rent on residential premises. If you rent out residential accommodation, you're not liable for GST on the rent you charge.

See also:

- Rental properties 2019
- Limited recourse debt arrangements
- TD 2006/31: *Income tax: is a government rebate received by a rental property owner an assessable recoupment under subsection 20-20(3) of the Income Tax Assessment Act 1997, where the owner is not carrying on a property rental business and receives the rebate for the purchase of a depreciating asset (for example an energy saving appliance) for use in the rental property*

Rental expenses to claim

- https://www.ato.gov.au/General/Property/Residential-rental-properties/Rental-expenses-to-claim/
- Last modified: 14 Jun 2019
- QC 23633

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

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.

On this page:

Types of rental expenses

There are three main types of rental expenses:

- expenses you can claim in the same income year, such as interest on loans – see Rental expenses you can claim now
- expenses you can claim over several years, such as depreciation – see Rental expenses you claim over several years
- expenses you can't claim, such as costs your tenant paid and deductions unrelated to your investment property – see Rental expenses you can’t claim.

This video explains when you can claim a deduction for rental property expenses.

Media: [When can I claim a deduction for rental expenses]
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiun85ited (Duration: 03:07)

Property rented or genuinely available for rent

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. You can only claim expenses for periods when the property is rented out or genuinely available for rent.

For example, if you have a holiday home or time-share unit, you can't claim a deduction for any expenditure related to those periods when you, your friends or your family used the home or unit for private purposes.

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.

You can claim expenses for periods when your property is either:

- rented out
- not rented out but is genuinely available for rent, which means
  - the property is advertised, giving it broad exposure to potential tenants
  - considering all the circumstances, tenants are reasonably likely to rent the property.

If these don't apply, it's likely that you can't claim all your expenses as you don't have a genuine intention to earn income from your property.

We look at factors such as:

- whether you advertise in ways that limit your exposure to potential tenants – for example, if you only advertise
  - at your workplace, or by word of mouth
  - outside holiday periods, so it is less likely to be rented out
- 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 or no pets.
- you refuse to rent out the property to interested people but you don't give adequate reasons.

All or 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	(26 weeks × $100) = $2,600
Less expenses	($3,000 × 50%) = $1,500
Net rent (gross rent less expenses)	($2,600 − $1,500) = $1,100

Commercial or non-commercial rates

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 cases

Positive or negative gearing

Your rental property is 'positively geared' if your deductible expenses are less than the income you earn from the property – that is, you make a profit from your property.

Your rental property is said to be 'negatively geared' if your deductible expenses are more than the income you earn 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. If your other income is not enough to absorb the loss, you can carry forward your loss to the next income year.

See also:

- Net rental property loss for online lodgment
- IT6 Net rental property loss for paper lodgment

Rental expenses you can claim now

- https://www.ato.gov.au/General/Property/Residential-rental-properties/Rental-expenses-you-can-claim-now/
- Last modified: 04 Mar 2020
- QC 23635

You can generally claim an immediate deduction against your current year's income for your expenses related to the management and maintenance of the property, including interest on loans.

If your property is negatively geared, you may be able to deduct the full amount of rental expenses against your rental and other income, such as salary and wages and business income.

On this page:

- Expenses you claim this year
- Interest expenses
- Pre-paid expenses
- Repairs and maintenance
- Legal expenses

See also:

- Rental expenses to claim – for eligibility

Expenses you claim this year

You can claim a deduction for these expenses only if you actually incur them and they are not paid by the tenant.

Expenses you may be entitled to claim an immediate deduction for in the income year you incur them include:

- advertising for tenants
- body corporate fees and charges
- council rates
- water charges
- land tax
- cleaning
- gardening and lawn mowing
- pest control
- insurance (building, contents, public liability)
- interest expenses
- pre-paid expenses
- property agent's fees and commission
- repairs and maintenance
- some legal expenses.

See also:

- Rental properties guide

Interest expenses

If you take out a loan to purchase a rental property, you can claim a deduction for the interest charged on the loan or a portion of the interest. However, the property must be rented out or genuinely available for rent in the income year you claim a deduction.

For a summary of this information in poster format see, Rental properties – interest expenses (PDF, 207KB) .

What you can claim

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

- purchase a rental property
- purchase a depreciating asset for the rental property (for example, to purchase an air conditioner for the rental property)
- make repairs to the rental property (for example, roof repairs due to storm damage)
- finance renovations on the rental property, which is currently rented out, or which you intend to rent out (for example, to add a deck to the rear of the rental property)

You can also claim interest you have pre-paid up to 12 months in advance.

What you can't claim

You can't claim a deduction for interest expenses you incur:

- for any period you used the property for private purposes, even if it's a short period of time
- on the portion of the loan you use for private purposes either when you took out the loan or if you refinanced (for example, money you use to purchase a new car or invest in a super fund)
- on a loan you used to buy a new home if you don't use the new home to produce income, even if you use your rental property as security for the loan
- on any portion of the , even if you are ahead in your repayments.

If you have a loan you used to purchase a rental property and also for another purpose, such as to buy a car, you can't repay only the portion of the loan related to the personal purchase. Any repayments of the loan are apportioned across both purposes.

Example: Claiming all interest incurred

Kosta and Jenny take out an investment loan for $350,000 to purchase an apartment they hold as joint tenants.

They rent out the property for the whole of the year from 1 July. They incur interest of $30,000 for the year.

Kosta and Jenny can each make an interest claim of $15,000 on their respective tax returns for the first year of the property.

Example: Claiming part of the interest incurred

Yoko takes out a loan of $400,000 from which $380,000 is to be used to buy a rental property and $20,000 is to be used to buy a new car.

Yoko's property is rented for the whole year from 1 July. Her total interest expense on the $400,000 loan is $35,000.

To work out how much interest she can claim as a tax deduction, Yoko must do the following calculation:

> Total interest expenses × (rental property loan ÷ total borrowings) = deductible interest

The calculation is:

$35,000 × ($380,000 ÷ $400,000) = $33,250

Yoko can claim $33,250 as an allowable deduction.

Loan accounts used for private and rental expenses

If you have a loan account that has a fluctuating balance due to a variety of deposits and withdrawals and is used for both private purposes and rental property expenses, you must keep accurate records to enable you to calculate the interest that applies to the rental property portion of the loan. You must separate the interest that relates to the rental property from any interest that relates to the private use of the fund.

For apportionment calculations in these situations, see paragraphs 19 and 20 of the TR 2000/2 – *Income tax: deductibility of interest on moneys drawn down under line of credit facilities and redraw facilities*.

Example: Interest incurred on a mortgage for a new home

Zac and Lucy take out a $400,000 loan secured against their existing home to purchase a new home.

Rather than sell their existing home, they decide to rent it out.

They have a mortgage of $25,000 remaining on their existing home which is added to the $400,000 loan under a loan facility with sub-accounts – that is, the two loans are managed separately but are secured by the one property.

Zac and Lucy can claim an interest deduction against the $25,000 loan for their original home, as it is now rented out.

They can't claim an interest deduction against the $400,000 loan used to purchase their new home as it's not being used to produce income even though the loan is secured against their rental property.

Example: Interest incurred on fund redrawn from the loan halfway through the year

Tyler has an investment loan for his rental property with a redraw facility. He is ahead on his repayments by $9,500 which he can redraw. Halfway through the year, Tyler decides to redraw the available amount of $9,500 and buys himself a new TV and a lounge suite.

The outstanding balance of the loan at that time is $365,000 and total interest expense incurred until then is $9,300. The total interest for the year is $19,000.

Tyler can only claim the interest expense on the portion of the loan relating to the rental property using the following calculation:

> Total loan balance − redraw amount = rental property loan portion

The calculation is:

> $365,000 − $9,500 = $355,500

To work out how much interest he can claim, he does the following calculation in respect of the period following the redraw:

> Total interest expenses × (rental property loan portion ÷ loan balance at the time of the redraw) = deductible interest

The calculation is:

> $9,700 × ($355,500 ÷ $365,000) = $9,448

Tyler can claim interest of $18,748, being $9,300 plus $9,448.

Thin capitalisation

If you are an Australian resident and you (or any associate entities) have certain international dealings, overseas interests, or if you are a foreign resident, the thin capitalisation rules may apply if your debt deductions, such as interest (combined with those of your associate entities) for 2017–18 are more than $2 million.

See also:

- Thin capitalisation

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

Repairs and maintenance

You may be able to claim a full deduction for the cost of repairs and maintenance in the year that you incur them if:

- the expense directly relates to wear and tear or other damage that occurred as a result of renting out property, and the property
  - continues to be rented on an ongoing basis
  - remains available for rent but there is a short period when the property is unoccupied – for example, where unseasonable weather causes cancellations of bookings or advertising is unsuccessful in attracting tenants.

For a summary of this information in poster format see, Rental properties – Repairs and maintenance and capital expenditure (PDF, 172KB) .

For more detail on capital expenditure and improvements see, Rental expenses you claim over several years

Watch: This video explains what you need to know before claiming a deduction for repairs and improvements to your property.

Media: Getting repairs and capital works right
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiun85itx8 (Duration: 02:32)

What you can claim immediately

Repairs

Repairs means working to make good or remedy defects in, damage to or deterioration of the property. Generally repairs must relate directly to wear and tear or other damage that occurred as a result of renting out the property.

Examples of repairs include:

- replacing broken windows
- replacing part of the guttering damaged in a storm
- replacing part of a fence damaged by a falling tree branch
- repairing electrical appliances or machinery.

Maintenance

Maintenance means work to prevent deterioration or fix existing deterioration. Maintenance generally involves keeping your property in a tenantable condition.

Examples of maintenance include:

- repainting faded or damaged interior walls of a rental property
- oiling, brushing or cleaning something that is otherwise in good working condition – for example, oiling a deck or cleaning a swimming pool
- maintaining plumbing.

What you can claim over several years

Repairs and maintenance unrelated to wear and tear or damage

You can't claim the total costs of repairs and maintenance in the year you paid them if they did not relate directly to wear and tear or other damage occurring due to renting out your property. These are capital expenses you may be able to claim over a number of years as capital works deductions or deductions for decline in value.

See also:

- [Rental expenses you can claim over several years]

Improvements

You can't claim a deduction for the total cost of improvements to your rental property in the year you incur them.

An improvement is anything that makes an aspect of the property better, more valuable, more desirable or changes the character of the item on which works are being carried out.

Capital improvements (such as remodelling a bathroom or adding a pergola) should be claimed as capital works deductions.

Improvement means work that:

- provides something new
- generally furthers the income-producing ability or expected life of the property
- goes beyond just restoring the efficient functioning of the property.

Improvements can be either capital works where it is a structural improvement or capital allowances where the item is a depreciable asset.

Example: Property improvements

Tim replaced a fibre cement sheeting wall inside his property because it was damaged by tenants. He replaced the old wall with a brick feature wall.

The new wall is an improvement because Tim did more than just restore the efficient function of the wall. This means Tim cannot claim the cost of the new wall as a repair, but he can claim it as capital works deductions.

However, had Tim replaced the fibro with a current equivalent, such as plasterboard, he could have claimed his costs as a repair. This is because it would have merely restored the efficient function of the wall without changing its character, even though a different material was used.

Repairs vs improvements

If you conduct a project that includes both repairs and improvements to your property, you can only claim an income tax deduction for the cost of your repairs if you can separate the cost of the repairs from the cost of the improvements.

If you hire a builder or other professionals to carry out these works for you, we recommend you ask for an itemised invoice to help work out your claim.

Example: Apportioning expenses between repairs and improvements

Caitlin has modernised her rental property by hiring tradespeople to render and paint the external walls. She also asked the painter to paint the internal walls, which had deteriorated during the time she rented out the property.

As Caitlin requested an itemised invoice from the painter, she could separate the cost of the internal and external painting, and rendering. Due to this, she could claim an income tax deduction for the cost of painting the internal walls as a repair. She could claim the costs for the external walls as capital works deductions.

It is important to correctly categorise each expense you incur to ensure it is treated correctly for tax purposes. Our quick reference guide in the table below will help you to determine which category your expense relates to.

Table: Determine the category of your rental property expense

Situation	Category	Example	Claim at
Replacing something that is worn out, damaged or broken as a result of renting out the property	Repair	Replacing part of a fence damaged in a storm Hiring a plumber to fix a leaking tap	Repair and maintenance
Preventing or fixing deterioration of an item that occurred while renting out the property	Maintenance	Repainting faded interior walls Re-oiling a deck	Repair and maintenance
Repairing damage that existed when the	Initial repair	Fixing floor boards	Capital

property was bought (whether it was known at the time of purchase or not)		that had damage when the property was bought	works or Capital allowances
Purchasing an entire structure that is only partly damaged	Capital works	Replacing all the fencing, not just the damaged portion	Capital works
Renovating or adding a new structure to the property	Capital works	Adding a carport	Capital works
Installing a brand new appliance, floor or window covering	Depreciating asset	Buying a new dishwasher Installing new carpet	Capital allowances

See also:

- Rental expenses you claim over several years

Legal expenses

What you can claim

You can claim the cost of the following as income tax deductions:

- evicting a non-paying tenant
- expenses incurred in taking court action for loss of rental income
- defending a damages claim regarding injuries suffered by a third party on your rental property.

What you can't claim

You can't claim the cost of the following as income tax deductions:

- solicitor's fees for the purchase of the property (these are a capital expense)
- solicitor's fees for the preparation of loan documents (these can be claimed as borrowing expenses)
- legal costs associated with resisting land resumption (these are a capital expense)
- legal costs associated with defending your title to the property (for example, defending an action by the mortgagee to take possession of the property where you have defaulted under the loan – these are a capital expense).

Next steps:

- Rental expenses you claim over several years
- Tax-smart tips for your investment property – Simple steps when preparing your return

For more information about how tax applies to rental properties, refer to:

- Rental properties guide

- Guide to capital gains tax
- Guide to depreciating assets

Rental expenses you claim over several years

- https://www.ato.gov.au/General/Property/Residential-rental-properties/Rental-expenses-you-claim-over-several-years/
- Last modified: 26 Jul 2019
- QC 23636

You can generally claim a deduction over several years for your expenses related to borrowing, your assets' decline in value and capital works.

Find out about:

- Borrowing expenses
- Capital expenditure
- Depreciating assets
- Initial repairs
- Capital allowances
- Capital works

See also:

- Rental expenses to claim – for eligibility

Borrowing expenses

You can claim a deduction for borrowing expenses associated with purchasing your rental property. These are expenses directly incurred in taking out a loan for the purchase of your rental property.

If your total borrowing expenses are more than $100, the deduction is spread over five years or the term of the loan, whichever is less.

If the total borrowing expenses are $100 or less, you can claim a full deduction in the income year they are incurred.

For a summary of this information in poster format see, Rental properties – Borrowing expenses (PDF, 177KB) .

For more detail on borrowing expenses you can't claim see, Rental expenses you can't claim

Borrowing expenses you can claim

You can claim the following as borrowing expenses:

- loan establishment fees
- lender's mortgage insurance (insurance taken out by the lender and billed to you)
- title search fees charged by your lender
- costs for preparing and filing mortgage documents (including solicitors' fees)
- mortgage broker fees
- fees for a valuation required for loan approval
- stamp duty charged on the mortgage.

If you repay the loan early and in less than five years, you can claim a deduction for the balance of the borrowing expenses in the final year of repayment.

If you got the loan part way through the income year, the deduction for the first year will be apportioned according to the number of days in the year you had the loan.

Example: Apportionment of borrowing expenses

To secure a 20-year loan of $209,000 to purchase a rental property for $170,000 and a private motor vehicle for $39,000 the Hitchman's, paid a total of $1,670 in establishment fees, valuation fees and stamp duty on the loan.

As the Hitchman's borrowing expenses are more than $100, they must be apportioned over five years, or the period of the loan, whichever is the lesser.

Also, as the loan was used for both income-producing and personal purposes, only the income-producing potion of the borrowing expenses is deductible. As they obtained the loan on 17 July 2017, they would work out their deductions for the borrowing expenses for the first year as follows:

- Borrowing expenses × (number of relevant days in year ÷ number of days in a five year period) × (amount of rental property loan ÷ total amount borrowed) = deduction for the year.

Their borrowing expense deductions in the subsequent years should be worked out as follows:

- Borrowing expenses remaining × (number of relevant days in year ÷ remaining number of days in a five year period) × (amount of rental property loan ÷ total amount borrowed) = deduction for the year.

Example of calculating borrowing expense deduction over a five-year period

Year	Calculation	Available deduction for the year
Year 1	$1,670 × (349 ÷ 1,826) × ($170,000 ÷ $209,000)	$260
Year 2	$1,351 × (365 ÷ 1,477) × ($170,000 ÷ $209,000)	$272

Year 3 (leap year)	$1,017 × (366 ÷ 1,112) × ($170,000 ÷ $209,000)	$272
Year 4	$682 × (365 ÷ 746) × ($170,000 ÷ $209,000)	$271
Year 5	$348 × (365 ÷ 381) × ($170,000 ÷ $209,000)	$271
Year 6	$15 × (16 ÷ 16) × ($170,000 ÷ $209,000)	$12

Find out about:

- Borrowing expenses you can't claim

Capital expenditure

Capital expenditure you may be able to claim a deduction for over time includes:

- Depreciating assets
- Initial repairs
- Capital allowances
- Capital works

For a summary of this information in poster format see, Rental properties – Repairs, maintenance and capital expenditure (PDF, 177KB) .

For more detail on repairs and maintenance expenses see, Rental expenses you can claim now.

Depreciating assets

Depreciable assets are those items that can be described as plant, that don't form part of the premises. These items are usually:

- separately identifiable
- not likely to be permanent, and expected to be replaced within a relatively short period
- not part of the structure.

Decline in value of depreciating assets

A depreciating asset is one that has a limited effective life and can reasonably be expected to decline in value over the time it is used.

Examples of assets that deductions for decline in value can be applied to include:

- timber flooring
- carpets

- curtains
- appliances like a washing machine or fridge
- furniture.

For example, a washing machine is an asset that wears out over time and you can claim a deduction for the cost of the washing machine spread out over its expected effective life.

Special rules can apply to some assets that may allow you to claim deductions for their decline in value (depreciation) more quickly.

When you purchase a rental property, you are treated for tax purposes as having bought a building, plus various separate depreciating assets, such as air conditioners, stoves and other items.

Some assets don't depreciate, such as land, trading stock and some intangible assets (for example, goodwill).

An asset that is fixed to, or otherwise part of, a building or structural improvement, will generally be construction expenditure for capital works and only a deduction for capital works may be available for those assets.

A quantity surveyor will often prepare a report that creates a depreciation schedule for these claims at the time a rental property is purchased.

The decline in value of a depreciating asset starts when you first use it, or install it ready for use – it doesn't matter whether it is for a private purpose or to earn assessable income. For example, if you purchased an asset on 1 January and used it only for a taxable purpose, you can claim for the decline in value for that half of the year.

Your deductions need to be reduced for any personal use of the asset. For example, if you use your rental property for private holidays.

Watch: This video explains depreciating assets and when you can claim them as a deduction for a rental property.

Media: Claiming depreciating assets
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiun85ity3 (Duration: 02:20)

Example: Claiming the decline in value of depreciating assets

Kerrie purchased a unit off-the-plan from a developer as an investment; that is, it was new and no one lived in it prior to that time.

Kerrie also purchased a residential investment apartment from another developer four months after completion. It was already tenanted when Kerrie purchased it. The developer told Kerrie that she was not entitled to claim a deduction for the decline in value of the depreciating asset at the property because they were his trading stock.

Both of the properties included depreciating assets such as curtains and furniture installed before settlement and the transfer of title to Kerrie.

For the unit, Kerrie is entitled to claim deductions for decline in value of the depreciating assets because no one has lived in it before she purchased it.

For the apartment, Kerrie is still entitled to claim deductions for decline in value of the depreciating assets (although they have been used by the tenants) because both of the following apply:

- no one could claim any deductions for decline in value of the depreciating assets
- the property was supplied to Kerrie within six months of being built.

If Kerrie had entered into the contract to buy this apartment after six months of it being newly built, she would not have been entitled to claim a deduction for the decline in value for any of the assets that were already in it at that time.

Depreciating assets costing $300 or less

For assets costing $300 or less, you can claim an immediate deduction for this cost if you used the asset for a taxable purpose during the income year in which the deduction is available. You can't do this if the asset is part of a set of assets that together cost more than $300. For example, if you buy four dining chairs each costing $250 for your rental property, you can't treat them as separate assets to claim an immediate deduction.

Depreciating assets you can claim

Depreciating assets you can claim a deduction for include:

- New assets
- Substantial renovations
- Limit on a deduction for the decline in value of second-hand depreciating assets for residential premises
- Home turned into a rental property before 1 July 2017
- Carrying on a business of letting rental properties
- Calculating deductions for decline in value

New assets

You can claim for assets that are new; not second-hand or used.

This includes where you purchase a newly built or substantially renovated property, for which no one was previously entitled to a deduction for the decline in value of the depreciating asset, and either:

- no one resided at the property before you acquired it, or
- the depreciating assets were installed for use, or used at this property, and you acquired the property within six months of it being newly built or substantially renovated.

Substantial renovations

Substantial renovations of a rental property are renovations in which all, or substantially all, of a building is removed or is replaced. This could include the removal or replacement of foundations, external walls, interior supporting walls, floors, roof or staircases.

For renovations to be substantial, they must directly affect most rooms in a building. The removal and replacement of the exterior walls, the removal of some internal walls, and the replacement of the flooring and the kitchen in a house are considered collectively to amount to substantial renovations.

Example: Claiming the decline in value of renovations

Jake bought a four bedroom residential property in October 2017 with the intent of it being a rental property. Three months before selling, the previous owners removed a wall between two bedrooms and turned the space into a large bedroom with an ensuite. They also repainted and recarpeted the room.

Even though Jake acquired the property within six months of the renovations being completed, the renovations only affected a part of the house, and aren't classified as being substantial renovations. In this case, Jake can't claim a deduction for the decline in value of the depreciating assets in the property.

However, if Jake buys any brand new depreciating assets for the property, he will be able to claim a deduction for their decline in value.

Limit on a deduction for the decline in value of second-hand depreciating assets for residential premises

Limits apply to a deduction for the decline in value of second-hand or used depreciating assets in residential rental properties.

You can only claim deductions for second-hand or used depreciating assets in residential rental properties if both of the following apply:

- you purchased the asset before 7.30pm on 9 May 2017
- you installed it into your rental property before 1 July 2017.

Example: Claiming the decline in value of second-hand assets

Sharon owns a residential property she has been renting out since September 2015. In March 2017, Sharon purchased a second-hand fridge to replace the fridge that had broken down.

Because Sharon purchased the second-hand fridge for her rental property before 7.30pm on 9 May 2017, she can claim a deduction for the decline in value for any remaining effective life of the asset.

Example: Tim's rental property

Sue purchased her house in 2009. In October 2017, she listed her house for sale. While it was advertised, she moved out and then replaced the carpet. No one lived in the house while it was advertised. The house was then sold to Tim. After purchasing the property, Tim rented it out immediately.

Tim can't claim a deduction for the decline in value of the depreciating assets in the property because they are all previously used. Also, he cannot claim a deduction for the decline in value for the carpets because he did not own the asset when it was first installed ready for use.

Example: Deductions for the decline in value over the effective life of a second-hand depreciating asset

Don purchased a second-hand clothes dryer and installed it in his residential rental property on 8 May 2017. Assuming the dryer had five years of remaining effective life, Don can claim deductions for its decline in value for five years because he had purchased it before 9 May 2017. It doesn't matter whether the dryer was brand new or previously used.

Home turned into a rental property before 1 July 2017

You can only claim a deduction for the decline in value of assets in your home used for private purposes if you moved out and turned it into a residential rental property, and both of the following apply:

- you purchased your home before 7.30pm on 9 May 2017
- you turned your home into a residential rental property before 1 July 2017.

Example: Deductions for decline in value over the effective life – assets bought after 9 May 2017

At the start of 2016, Marty purchased a home as his main place of residence. In June 2017, Marty moved out and rented out the property fully furnished, which included the furniture and fittings he had been using while living there.

As Marty rented out his home before 1 July 2017, and he purchased it before 7.30pm on 9 May 2017, he can claim a deduction for the decline in value for any remaining effective life of the used depreciating assets in it.

However, from the 2018 year, Marty cannot claim a deduction for the decline in value for any second-hand depreciating asset that he purchases for this property on or after 7.30pm on 9 May 2017.

If Marty moved out in June 2017 and the property was vacant until it was available for rent after 30 June 2017, he is not able to claim a deduction for the decline in value for any remaining useful effective life of the used depreciating assets in it.

However, if Marty purchased a new asset for the rental property after he moved out, he can claim a deduction for its decline in value as the asset was not previously used.

Example: Deductions for decline in value – asset used privately

Eliza purchased a dishwasher in July 2015 and used it for private purposes at her main residence. In July 2017, she installed this dishwasher in her residential rental property. Eliza can't claim deductions for the dishwasher's decline in value because:

- she had previously used it privately, and
- she installed it in her rental property after 30 June 2017.

See also:

- Guide to depreciating assets
- Rental properties – for a list of rental property items that can be depreciated.

Carrying on a business of letting rental properties

Your income from the letting of property to a tenant, or multiple tenants, will not typically amount to the carrying on of a business, as such activities are generally considered a form of investment rather than a business.

Whether a business is carried on must be answered based on a wide survey and the extent of your involvement in the activities. No one indicator is decisive. They must be considered in combination and as a whole.

Some of the factors considered in determining whether you carry on a business of letting rental properties are:

- the total number of residential properties that are rented out
- the average number of hours per week you spend actively engaged in managing the rental properties
- the skill and expertise exercised in undertaking these activities
- whether professional records are kept and maintained in a businesslike manner.

Example: Not carrying on a business of property investing

Saania owns 16 rental properties, 14 of which are managed by real estate agents. Saania frequently attends personally to rental property matters, such as collecting rent and arranging for repairs to be done, She also undertakes regular analysis to measure the financial performance of her rental properties.

Saania is not carrying on a business of property investing because the activities are no more than letting properties.

Example: Carrying on a rental property business

Mr and Mrs Smith own a number of rental properties either as joint tenants or equal tenants in common. They own eight houses and three apartment blocks. Each block comprises six residential units. So, they own a total of 26 rental properties. The Smiths actively manage all of the properties. They devote a significant amount of time to these activities – an average of 25 hours per week each. They undertake all financial planning and decision-making in relation to the properties. They interview all prospective tenants and conduct all of the rent collections. They carry out regular property inspections and attend to all of the everyday maintenance and repairs themselves or organise for them to be done.

The Smiths are carrying on a rental property business. This is indicated by the following factors:

- the significant size and scale of the rental property activities
- the number of hours they spend on the activities
- their extensive personal involvement in the activities
- the business-like manner in which the activities are planned, organised and carried on.

Calculating deductions for decline in value

To work out your deduction for decline in value, use either the:

- diminishing value method – the decline in value each year is a constant proportion of the remaining value, or
- prime cost method – the decline in value each year is a constant amount of the original value.

Depreciating assets valued at less than $1,000 can be grouped in a low-value asset pool and depreciated together.

Example: Calculating deductions for decline in value

Laura purchased a new hot water system for her rental property on 1 July 2018, for $1,500. It has an effective life of five years. She can choose to use either the diminishing value or prime cost method.

Diminishing value method

The formula for the annual decline in value using the diminishing value method is:

- Asset's cost × (days held ÷ 365) × (200% ÷ asset's effective life)

The decline in value for 2018–19 is $600, worked out as follows:

- 1,500 × (365 ÷ 365) × (200% ÷ 5)

Laura is entitled to a deduction for decline in value of $600. The adjustable value of the asset on 30 June 2019 is $900. This is the cost of the asset ($1,500) less its decline in value up to 30 June 2019 ($600).

Prime cost method

The formula for the annual decline in value using the prime cost method is:

- Asset's cost × (days held ÷ 365) × (100% ÷ asset's effective life)

The decline in value for 2018–19 is $300, worked out as follows:

- $1,500 × (365 ÷ 365) × (100% ÷ 5)

Laura is entitled to a deduction equal to the decline in value. The adjustable value of the asset at 30 June 2019 is $1,200. This is the cost of the asset ($1,500) less its decline in value up to 30 June 2019 ($300).

See also:

- Depreciation and capital allowances tool

Initial repairs

Costs you incur to remedy defects, damage or deterioration that existed at the time you acquired the property are considered to be capital in nature. These may be classified as capital works or capital allowances, dependant on what the expenditure was for.

Capital allowances

For each of the assets where you may claim a deduction for decline in value, you can choose to use either the effective life the Commissioner has determined for such assets, or your own reasonable estimate of its effective life. Where you estimate an asset's effective life, you must keep records to show how you worked it out.

Capital works

Capital works is used to describe certain kinds of construction expenditure used to produce income. You can claim capital works deductions for construction costs for a rental property that satisfies certain conditions.

Examples of capital works include:

- building construction costs
- the cost of alterations, such as removing or adding an internal wall
- major renovations to a room
- adding a fence
- building extensions – for example, adding a garage or patio
- structural improvements – for example, adding a gazebo, carport, sealed driveway, retaining wall or fence.

Your total capital works deductions can't exceed the construction costs. No deduction is available until the construction is complete.

You can only claim deductions for the period during the year that the property is rented or available for rent.

On this page:

Repairs on a newly-acquired rental property

Initial repairs to rectify damage, defects or deterioration that existed at the time of purchasing a property can't be claimed as an immediate deduction but may be claimed over a number of years as capital works deductions.

Replacing an asset

If you replace assets such as a complete fence or building, you may be able to claim the cost as capital works.

If you replace depreciating assets such as a dishwasher or carpets, you may be able to claim the cost as deductions for decline in value.

Example: Replacing assets in a residential property

Janet has owned and rented out a residential property since 12 January 1983. In 2019, she replaced the old kitchen fixtures, including the cupboards and appliances. The old cupboards had deteriorated through water damage and wear and tear.

The kitchen cupboards are separately identifiable capital items with their own function. This means the cost of completely replacing them is a capital cost. Because of this, Janet can claim:

- capital works deductions for the construction cost of this work
- deductions for the decline in value of the kitchen appliances (none of these appliances were previously used).

This is the case regardless of whether:

- new fittings are of a similar size, design and quality as the originals
- new cupboards are made from a modern equivalent of the material used in the originals
- layout and design of the new kitchen may be substantially the same as the original.

Next steps:

- Work out your capital works deductions
- Rental expenses you can claim now
- Simple steps when preparing your return

For more information about how tax applies to rental properties, refer to:

- Residential rental properties
- Rental properties
- Guide to capital gains tax
- Guide to depreciating assets

Rental properties and travel expenses

- https://www.ato.gov.au/General/Property/Residential-rental-properties/Rental-properties-and-travel-expenses/

- Last modified: 14 Jun 2019
- QC 22093

If you have a residential rental property, you may not be able to claim a deduction for your travel expenses. A residential premise (property) is land or a building that is:

- occupied as a residence or for residential accommodation
- intended to be occupied, and is capable of being occupied, as a residence or for residential accommodation.

On this page:

- Who can't claim
- Who can claim
- Travel expenses you can't claim
- Travel expenses you can claim

Who can't claim

You can't claim any deductions for the cost of travel you incur relating to your residential rental property unless you are In the business of letting rental properties or are an excluded entity.

If you don't have an ownership interest in the rental property, you can't claim travel expenses, even if you travel for the purposes of maintenance or inspections.

Example: Ownership interest

Kei is the sole owner of a commercial rental property. Her husband, Bert, occasionally drives to the rental property in his own car to undertake maintenance. As he has no ownership interest in the property, Bert can't claim travel expenses. Similarly, since Kei didn't travel to the property to undertake the maintenance, she can't claim a deduction.

If Kei and Bert co-owned the property, Bert could share his travel expenses with Kei in line with their legal interest in the property.

For travel before 1 July 2017, you:

- can claim your travel
- can't include your travel expenditure in the cost base for calculating your capital gain or capital loss when you sell the property.

See also:

- Travel expenses you can't claim

Who can claim

In the business of letting rental properties

You can claim your travel expenses if you are in the business of letting rental properties. Generally, owning one or several rental properties will not be considered being in the business of letting rental properties.

If you are an individual and you receive income from letting property to a tenant, or multiple tenants, you are not typically carrying on of a business of letting rental properties. Generally, we consider your activities are a form of investment rather than a business, so you can't claim deductions for travel expenses.

Entities that can claim travel expenses

You can claim travel expenses, if you're a:

- corporate tax entity
- superannuation plan that is not a self-managed superannuation fund
- public unit trust
- managed investment trust
- unit trust or a partnership, all of the members of which are entities of a type listed above.

Example: An individual with residential investment property in 2017–18

Sarah rented out her residential rental property in 2017–18. She travelled to the property to repair damages caused by tenants during the year.

As the investment is a residential property, Sarah can't claim travel expense.

Example: An excluded entity in 2017–18

Terry's Tyres Pty Ltd incurred travel expenses in 2017–18 when the property manager was tasked with inspecting a residential property investment that is currently tenanted. Terry's Tyres Pty Ltd is a corporate tax entity (a company) and can claim a deduction for rental travel expenses.

Travel expenses you can't claim

Even if you are eligible to claim travel expenses, you can't claim for expenses such as:

- your personal use of the property or for purely private purposes
- carrying out general maintenance of the property while it's not genuinely

available for rent
- undertaking repairs, where those repairs are not because of damage or wear and tear incurred while you rented out the property (for example, if you travel to undertake initial repairs before you rent the property for the first time, these are capital expenses and may be included as part of the cost base for capital gains tax calculation when the property is being sold later).

If your travel expenses are partly for private purposes and partly related to the rental property, you can only claim the amount relating to the rental property.

Travel expenses before you purchase

You can't claim for travel to inspect a property before you buy it.

You can't claim for travel to (or other costs for) rental seminars about helping you find a rental property to invest in.

Seminars are only tax deductible if they relate to producing income from the property. So, when a seminar teaches you how to locate a suitable rental property to buy, you can't claim a deduction against rental income for the cost of the seminar.

Some promoters have incorrectly told taxpayers that they can claim the cost of their travel to and from a property they may purchase. You can't claim these costs, for properties within Australia or overseas.

Travel expenses you can claim

If you are eligible to claim travel expenses, the types of expenses you can claim include:

- preparing the property for new tenants (except for the first tenants)
- inspecting the property during or at the end of tenancy
- undertaking repairs, where those repairs are because of damage or wear and tear incurred while you rented out the property
- maintaining the property, such as cleaning and gardening, while it is rented or genuinely available for rent
- collecting the rent
- visiting your agent to discuss your rental property.

See also:

- Rental expenses to claim

Car travel

If you use your own car to travel to inspect your rental property or to collect rent, you can use the same method to calculate your deductions as work-related travel.

See also:

- Car expenses

Overnight travel

You can claim a deduction for travel expenses for travelling to your rental property if:

- you own a rental property that is far away from where you live
- it would be unreasonable to expect you not to stay near the rental property overnight when making an inspection
- your main purpose in travelling was to inspect and maintain the rental property.

Where you stay overnight, you can claim meals and accommodation.

Where your trip is mainly for private purposes (for example, having a holiday) and inspecting the property is incidental to that main purpose, you can't claim the costs of getting there or the return trip. You can only claim local expenses directly related to the property inspection such as taxi fares to the rental property and a proportion of accommodation expenses.

Example: Apportionment

Bill and Marli King are joint owners of a residential rental property in a resort town on the north coast of Queensland. In 2014–15, they spent $1,800 on airfares and $1,500 on accommodation when they travelled from their home in Melbourne, mainly for the purpose of holidaying in the resort town, but also to inspect the property. They also spent $100 on taxi fares from the hotel to the rental property and back. The Kings spent:

- one day (10% of their total time in Queensland) on matters relating to the rental property
- nine days (90% of their total time in Queensland) swimming and sightseeing.

They can't claim a deduction for any part of the $1,800 airfares because the main purpose of the trip is a holiday and the property inspection is incidental.

Since the travel expenses were incurred in the 2014–15 year, they can claim deductions for the $100 taxi fare and a reasonable apportionment of the accommodation expenses (that is $150 of the $1,500).

As the Kings jointly own the rental property, they can claim $125 each.

Example: Accommodation

Jabari is the sole owner of a rental property on the Gold Coast. In 2014–15, he travels from Sydney to the Gold Coast to undertake deductible repairs on his rental property but takes his spouse, Kym, with him for company and to share the driving. Jabari and Kym stay in a hotel where the cost of a:

- single room is $55
- double room is $70

A reasonable basis for apportionment of accommodation expenses in this instance is to claim the single room rate of $55 (rather than half the double room rate), as Jabari would have stayed in the single room if Kym had not travelled with him.

Overseas travel

If you are an Australian resident and own a rental property overseas, you may travel overseas on holiday and inspect your rental property at the same time.

If the main purpose of the trip is a holiday, you can't claim the cost of getting there - you can only claim local expenses directly related to inspecting the property, such as taxi fares and part of your accommodation expenses.

You must be able to show your reason for visiting the rental property.

The records you keep, such as invoices for your accommodation or airline tickets, will help you do this.

Written evidence

If you travel over a considerable distance to inspect a rental property (for example, interstate), you need written evidence to show that you travelled and what expenses you incurred.

Written records can include:

- a travel diary
- receipts for
  - airline tickets
  - fuel
  - accommodation
  - other purchases while travelling
  - items you used for repairs and maintenance that you purchased when you travelled to or stayed near the rental property.

If you spend six or more nights away from where you live, you must keep a travel diary or similar document that shows the nature of the activities, dates, places, times and duration of your activities and travel.

Example: Individual with a commercial investment property

In 2017–18, Greg purchased a shopfront and leased the property to Paul. Paul used the shopfront to operate a bakery and paid rent to Greg under a 12 month contract.

Greg travelled to the shopfront to inspect the property at the end of the tenancy agreement. As the property was used for commercial purposes, Greg can claim the travel expenses.

See also:

- Obtaining and owning a rental property

Rental expenses you can't claim

- https://www.ato.gov.au/General/Property/Residential-rental-properties/Rental-expenses-you-can-t-claim/
- Last modified: 26 Jul 2019
- QC 59315

On this page:

- Borrowing expenses you can't claim
- Depreciating assets you can't claim
- Other expenses you can't claim

See also:

- Rental expenses to claim

Borrowing expenses you can't claim

Borrowing expenses are expenses you directly incur in taking out a loan for the purchase of your rental property.

For a summary of borrowing expenses you can and can't claim in poster format see, Rental properties – Borrowing expenses (PDF, 167KB) .

For more detail on borrowing expenses you can claim see, Rental expenses you claim over several years.

You can't claim any of the following as borrowing expenses:

- the amount you borrow for the property
- loan balances for the property
- interest expenses (these are claimed separately)

- repayments of principal against the loan balance
- stamp duty charged by your state/territory government on the transfer (purchase) of the property title (this is a capital expense)
- legal expenses including solicitors' and conveyancers' fees for the purchase of the property (this is a capital expense)
- stamp duty you incur when you acquire a leasehold interest in property such as an Australian Capital Territory 99-year crown lease (you may be able to claim this as a lease document expense)
- insurance premiums where, under the policy, your loan will be paid out in the event that you die, become disabled or unemployed (this is a private expense)
- borrowing expenses on any portion of the loan you use for private purposes (for example, money you use buy a car).

You may be able to include capital expenses in the 'cost base' of your property. This can help you reduce the amount of capital gains tax (CGT) you pay when you sell your property. Expenses you incur when purchasing and selling your rental property are capital expenses.

Find out about:

- Capital expenses

Example: Calculating borrowing expenses over five years

On 3 July 2012, Peter took out a 25-year loan of $300,000 to purchase a rental property. Peter's deductible borrowing expenses were:

- $800 stamp duty on the mortgage
- $500 loan establishment fees
- $300 valuation fees required for loan.

Peter also paid $12,000 stamp duty on the transfer of the property title. He cannot claim a tax deduction for this expense but it will form part of the cost base of the property for CGT purposes when he sells the property.

As Peter's borrowing expenses are more than $100, he must claim them over five years from the date he took out his loan for the property. He works out his borrowing expenses' deductions as follows:

- For the first year, 2012–13, Peter performs the following steps
  - Step 1: works out the number of days between 3 July 2012 and 30 June 2013 (363)
  - Step 2: works out the number of days in the five-year period from 3 July 2012 to 2 July 2017 (1,826)
  - Step 3: divides Step 1 result by Step 2 result (equals 0.19879)
  - Step 4: multiplies Step 3 result by the borrowing expenses of $1,600 (equals $318). He claims $318 as a deduction on his 2012–13 tax return.

- For each of the following years, 2013–14 to 2016–17, Peter performs

the following steps
  - Step 1: works out the remaining borrowing expenses, by reducing the original borrowing expenses of $1,600 by deductions already claimed in previous years
  - Step 2: works out the number of days in the financial year (remembering any leap years)
  - Step 3: works out the number of days remaining in the five years (this includes the number of days in the year for which he is preparing the tax return)
  - Step 4: divides Step 2 result by Step 3 result
  - Step 5: multiplies Step 4 result by Step 1 result (equals the amount he claims as a deduction on his tax return).

- By the end of the 2016–17 income year, Peter has claimed deductions totalling $1,598.
- In the final year, 2017–18, Peter performs the following steps
  - Step 1: works out the remaining borrowing expenses, which equals $2 ($1,600 minus $1,598)
  - Step 2: works out the number of days between 1 July 2017 and 2 July 2017 (equals two)
  - Step 3: works out the number of days remaining in the five years, which equals two (1,826 minus 1,824)
  - Step 4: divides Step 2 result by Step 3 result (equals one)
  - Step 5: multiplies Step 4 result by Step 1 result (equals $2). Thus, he claims a deduction of $2 on his 2017–18 tax return.

Depreciating assets you can't claim

Existing residential rental property purchase

You can't claim a deduction for the decline in value for assets in an existing residential rental property if you entered into a contract to purchase that property on or after 7.30pm (AEST) on 9 May 2017.

Example: Assets previously used

In August 2017, Donna purchased a two-year old apartment and immediately rented it out. A year before Donna purchased the apartment, the previous owner installed new carpet and, upon purchasing the property, Donna installed a second-hand television.

Donna can't claim deductions for the decline in value of the carpet and the television because they have both been previously used.

Home turned into a residential rental property

If you turn your home into a residential rental property on or after 1 July 2017, you can't claim a deduction for the decline in value for depreciating assets that were in your home. You can only claim a deduction for the decline in value for any new depreciating assets that you purchase for your residential rental property.

Example: Changing main residence as a residential property

At the start of 2016, Kendrick purchased a home as his main place of residence. In August 2017, Kendrick moved out and rented out the property fully furnished, which included the furniture and fittings he had been using while living there.

As Kendrick's home was made available for rent on or after 1 July 2017, he is not able to claim a deduction for the decline in value for any remaining useful effective life of the used depreciating assets in it.

Kendrick can claim a deduction for the decline in value for the new depreciating assets that he purchases for his rental property.

Exceptions – when you can claim

You can claim a deduction for the decline in value of depreciating assets if any of the following apply:

- You are carrying on a business of letting rental properties.
- You purchased a second-hand depreciating asset for your residential rental property before 7.30pm (AEST) on 9 May 2017.
- You used a depreciating asset that you acquired before 7.30pm (AEST) on 9 May 2017 and then, before 1 July 2017, you installed it at your residential rental property.
- Your rental property is not used to provide residential accommodation; for example, it is let out for commercial purposes (such as a doctor's surgery).
- The entity that owns the residential rental property is any of the following
    - a corporate tax entity
    - a superannuation plan (except a self-managed superannuation fund)
    - a public unit trust or managed investment trust
    - a partnership or unit trust if each of its members are a corporate tax entity, superannuation plan (other than a self-managed superannuation fund), public unit trust or managed investment trust.
- The income generating activities at your rental property are unrelated to providing residential accommodation (for example, solar panels used in generating income from the sale of electricity).

Other expenses you can't claim

You can’t claim a deduction for:

- 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 outside the ACT
    - instead, these are usually included in the property's cost base, which would reduce any capital gains tax when you sell the property
    - 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')

- 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).

Next steps:

- [Simple steps when preparing your return]

For more information about how tax applies to rental properties, refer to:

- [Residential rental properties]
- [Rental properties]

Selling a rental property

- https://www.ato.gov.au/General/Property/Residential-rental-properties/Selling-a-rental-property/
- Last modified: 02 Aug 2018
- QC 23637

You're likely to make a capital gain or capital loss when you sell or otherwise dispose of a rental property. If you make a net capital gain in an income year, you'll generally be liable for capital gains tax (CGT). If you make a net capital loss you can carry it forward and deduct it from your capital gains in later years.

A capital gain, or capital loss, is the difference between what it cost you to obtain and improve the property (the cost base), and what you receive when you dispose of it. Amounts that you've claimed as a tax deduction, or that you can claim, are excluded from the property's cost base. The cost base of a capital gains tax (CGT) asset is generally the cost of the asset when you bought it. It also includes certain other costs associated with purchasing or acquiring, holding and selling or disposing of the asset.

If you acquired the property before CGT came into effect on 20 September 1985, you disregard any capital gain or capital loss. However, you may make a capital gain or capital loss from capital improvements made since 20 September 1985, even if you acquired the property before that date.

Example

Karl and Louisa bought a residential rental property in November 2012 for a purchase price of $750,000.

They incur costs of purchase, including stamp duty and legal fees of $30,000.

After purchase they improved the property by constructing a fence for $6,000.

Over the five years of ownership of the property, they claimed $25,000 (average $5,000 per year) in decline in value deductions and $35,000 (average $7,000 per year) in capital works deductions.

In November 2017 they sold the property for $900,000. Their costs of sale, including legal fees, were $10,000.

A + B + C − D − E + F = Cost base

Where:

A is the purchase price

B is the costs of the purchase

C is the cost of property improvements

D is the decline in value deductions

E is the capital works deductions

F is the legal fees

$750,000 + $30,000 + $6,000 − $25,000 − $35,000 + $10,000 = $736,000

The capital gains outcomes are:

Proceeds − Cost base = Capital gain outcome

$900,000 − $736,000 = $164,000

As the property has been owned for more than a year, the discount capital gain rules reduce the capital gain to $82,000.

Karl and Louisa owned the property jointly. This means that they each have a capital gain of $41,000 which they will need to put in their tax return for the year in which the contract to sell the property was made, being the 2018 year.

Capital expenses

You may be able to include capital expenses when calculating the 'cost base' of your property. This can help you reduce the amount of CGT you pay when you sell your property. Expenses you incur when purchasing or acquiring and selling or disposing of your rental property are capital expenses.

Capital expenses include:

- conveyancing costs paid to a conveyancer or solicitor
- title search fees
- valuation fees (when it is a private valuation conducted by your solicitor)
- stamp duty on the transfer of the property.

Example

Stephen needed to do some repairs to a rental property he recently purchased before the first tenants moved in. He paid tradespeople to repaint dirty walls, replace broken light fittings and repair doors on two bedrooms. He also had to have the house treated for damage by white ants.

Because Stephen incurred these expenses to make the property suitable for rental, not while he was using the property to generate rental income, the expenses are capital expenses.

Media: Selling your rental property
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiubfs6pgx (Duration: 02:46)

Media: Selling a rental property that was your home
http://tv.ato.gov.au/ato-tv/media?v=bd1bdiubfs6pgq (Duration: 03:17)

Goods and services tax

You're not liable for goods and services tax (GST) when you sell a rental property and you can't claim GST credits on any costs associated with buying or selling it, as the sale of existing residential premises is generally input taxed.

However, if you build new residential premises for sale, you may be liable for GST on the sale and entitled to GST credits on construction and sale costs, even if the premises have been rented for a period before being sold.

See also:

- Building and construction - residential premises

Vacant land and subdividing

- https://www.ato.gov.au/General/Property/Land---vacant-land-and-subdividing/
- Last modified: 11 Dec 2018
- QC 45084

The tax treatment of land and the proceeds from selling it generally depends on whether it's considered a capital asset or the subject of a business or commercial transaction (such as where it's considered the trading stock of a business dealing in land).

Vacant land is usually considered a capital asset subject to capital gains tax (CGT).

However, when land transactions are undertaken as part of a business activity, sale proceeds may be considered ordinary income and subject to GST.

Certain purchasers of potential residential land are now required to withhold an amount from the price of that land for payment to us. The withholding amount in most instances will be due on the settlement date or the day you paid the first instalment under an instalment contract. The GST at settlement changes started on 1 July 2018.

Find out about:

- Deductions for vacant land
- Vacant land - prior years
- Subdividing land

See also:

- GST at settlement
- Potential residential land

Deductions for vacant land

- https://www.ato.gov.au/General/Property/Land---vacant-land-and-subdividing/Deductions-for-vacant-land/
- Last modified: 16 Dec 2019
- QC 60628

Changes to legislation to limit deductions that can be claimed for holding vacant land received royal assent on 28 October 2019. These changes apply to costs incurred on or after 1 July 2019, even if the land was held before that date.

In the 2018–19 Federal Budget the government announced that it would limit deductions for vacant land. For more information on these changes, go to Treasury Laws Amendment (2019 Tax Integrity and Other Measures No.1) Act 2019.

There are some entities and circumstances where deductions for vacant land can still be claimed – for example, where the entity holding the land is a company, where you use the land in carrying on a business, or exceptional circumstances apply.

See also:

- Vacant land prior years – for information for lodgment and deductions prior to 1 July 2019.

On this page:

Entities not affected by this change

You can continue to claim deductions for expenses incurred for holding costs of vacant land if you're a:

- corporate tax entity
- superannuation plan (other than self-managed superannuation funds)
- managed investment trust
- public unit trust
- unit trust or partnership where all the members are entity types listed above.

What is vacant land

Land will be considered vacant during the period the entity held the land if:

- it didn't contain a substantial and permanent structure
- it did contain a substantial and permanent structure and the structure is a residential premises which was constructed or substantially renovated while the entity held the land and the premises are either
  - not yet lawfully able to be occupied
  - lawfully able to be occupied but not yet rented or made available for rent.

If the land is vacant and the Exceptional circumstances exemption applies, deductions for holding costs of vacant land can still be claimed.

Example: Vacant land

Jess purchased a block of land in Brisbane in July 2018 and intends to build a rental property on it. Jess engaged an architect to develop plans and erected some temporary fencing to stop illegal dumping. As the land doesn't yet contain a substantial and permanent structure Jess can't claim deductions for the costs of holding the land.

Farmland not vacant land

In most circumstances farmland won't be considered vacant as it contains a variety of substantial and permanent structures.

Example: Farmland not vacant – substantial structure

The AB family trust holds a single title parcel of farmland on which two family members grow grain. The land contains a number of silos used to store the grain. Expenses related to holding the land such as interest costs and council rates are not impacted by this measure because the land is not vacant as there is a substantial permanent structure on that land (the silos).

Example: Farmland not vacant – family homestead

John and Mary have a large parcel of farmland. The land contains a homestead that has been on the land for more than a century and is the family home. John and Mary are not affected by this change as the land is not vacant; the land contains a substantial structure (the homestead).

John and Mary's ability to claim deductions for their holding cost expenses will depend on whether any of the land is also being used to generate assessable business income.

Costs of holding vacant land

The costs involved in holding vacant land include:

- ongoing borrowing costs, including interest payments on money borrowed for the acquisition of land
- land taxes
- council rates
- maintenance costs.

Claiming deductions for vacant land

For expenses of holding land to be deductible, they must have been incurred in carrying on a business such as farming or gaining or producing assessable income. These changes operate to limit the deductions where the land is vacant.

Use the determination questions to help you determine if your deductions for expenses related to your vacant land are limited.

To claim deductions for vacant land the land must also meet one of the following:

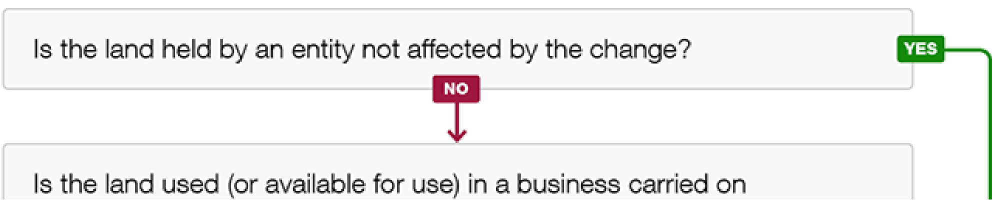
- be held by a type of entity not affected by the change
- be used in a business
- be held by a primary producer and leased by other entities
- contain a substantial and permanent building or other structure that is in use or available for use.

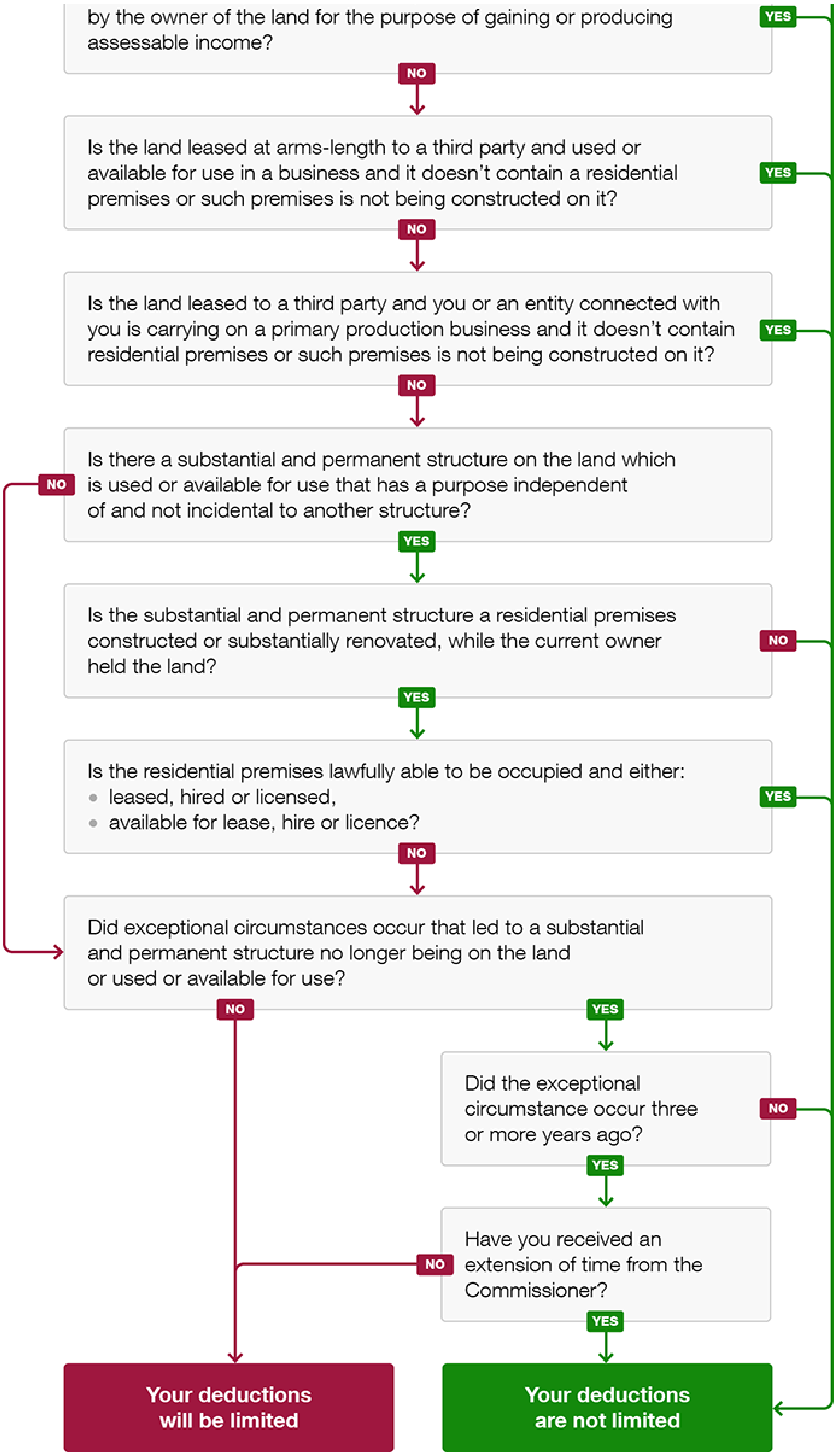
If the substantial and permanent structure is a residential premises constructed or substantially renovated while you held the land the premises must also be either:

- lawfully able to be occupied
- leased, hired or licensed
- available for lease, hire or license
- where an exceptional circumstances exemption applies.

Determine if deductions for vacant land are limited

You can use the either the flow chart or the questions below to determine if your deductions for expenses related to your vacant land are limited.




by the owner of the land for the purpose of gaining or producing assessable income?
YES
NO
Is the land leased at arms-length to a third party and used or available for use in a business and it doesn't contain a residential premises or such premises is not being constructed on it?
YES
NO
Is the land leased to a third party and you or an entity connected with you is carrying on a primary production business and it doesn't contain residential premises or such premises is not being constructed on it?
YES
NO
Is there a substantial and permanent structure on the land which is used or available for use that has a purpose independent of and not incidental to another structure?
NO
YES
Is the substantial and permanent structure a residential premises constructed or substantially renovated, while the current owner held the land?
NO
YES
Is the residential premises lawfully able to be occupied and either:
• leased, hired or licensed,
• available for lease, hire or licence?
YES
NO
Did exceptional circumstances occur that led to a substantial and permanent structure no longer being on the land or used or available for use?
NO
YES
Did the exceptional circumstance occur three or more years ago?
NO
YES
Have you received an extension of time from the Commissioner?
NO
YES
Your deductions will be limited
Your deductions are not limited

1. Is the land held by an entity not affected by the change?
   Yes – your deductions are not limited
   No – continue to question 2
2. Is the land used (or available for use) in a business carried on by the owner of the land for the purpose of gaining or producing assessable income?
   Yes – your deductions are not limited
   No – continue to question 3
3. Is the land leased at arms-length to a third party and used or available for use in a business and it doesn't contain residential premises or such premises is not being constructed on it?
   Yes – your deductions are not limited
   No – continue to question 4
4. Is the land leased to a third party and you or an entity connected with you is carrying on a primary production business and the land doesn't contain residential premises or such premises is not being constructed on it?
   Yes – your deductions are not limited
   No – continue to question 5
5. Is there a substantial and permanent structure on the land which is used or available for use and has a purpose independent of, and not incidental to another structure?
   Yes – continue to question 6
   No – continue to question 8
6. Is the substantial and permanent structure is a residential premises constructed, or substantially renovated, while the current owner held the land?
   Yes – continue to question 7
   No – your deductions are not limited
7. Is the residential premises lawfully able to be occupied; and either
   1. leased, hired or licensed
   2. available for lease, hire or licence?
      Yes – your deductions are not limited
      No – continue to question 8
8. Did exceptional circumstances occur that led to a substantial and permanent structure no longer being on the land or used or available for use?
   Yes – continue to question 9
   No – your deductions will be limited
9. Did the exceptional circumstance occur three or more years ago?
   Yes – continue to question 10
   No – your deductions are not limited
10. Have you received an extension of time from the Commissioner?
    Yes – your deductions are not limited
    No – your deductions will be limited.

Land used in business

If the vacant land is used in business, deductions for holding costs for the land are not impacted by these changes if:

- the land is used or available for use in carrying on a business by

    - you
    - your affiliates or an entity of which you are an affiliate either by
    - your spouse or child (under 18)
    - an entity connected with you

- the land is leased at arm's length to a business for use in their business
- a residential premises is not being constructed on the land and the land does not contain a permanent structure.

If residential premises are being constructed on vacant land being used by your business, you can only claim a deduction for the costs of holding the land that is being used in the business and not for that part of the land relating to the construction of residential premises. The deductions should be apportioned on a fair and reasonable basis.

> Example: land used in business – residential rental property being constructed
>
> Howard owns one hectare of land in Queensland. He uses one third of the land for carrying on his firewood sales business. He stores all his firewood in the open and there are no structures on the land. Howard has separately fenced off the remainder of the land and has started earthworks to clear the land ready for construction of a rental property.
>
> Howard is eligible to claim losses and outgoings relating to holding the part of the land that he uses for carrying on his firewood business.
>
> Howard is not entitled to claim any deductions relating to the costs of holding the land ready for construction of a rental property.

Land held by primary producers

Deductions for land used by you in a business of primary production are not impacted by these changes.

In addition if you hold vacant land that is leased, hired or licensed to another entity, deductions can continue to be claimed where:

- a primary production business is carried on by
    - you
    - your affiliates or an entity of which you are an affiliate either by
    - your spouse or child (under 18)
    - an entity connected with you

- a residential premises is not on the land, or being constructed on the land.

If residential premises are being constructed on vacant land being used to carry on a primary production business, you can only claim a deduction for the costs of holding the land that is being used for primary production and not for that part of the land relating to the construction of residential premises. The deductions should be apportioned on a fair and reasonable basis.

You need to consider various indicators before you decide if you are in a business of primary production. For a comprehensive explanation of the relevant indicators together with examples of the application of the indicators, see – Taxation Ruling TR 97/11 *Income tax: am I carrying on a business of primary production?*

Example: primary production exception

Gina owns vacant land in New South Wales which she rents to her spouse Robin for use in his primary production business. Robin, as Gina's spouse, satisfies the related parties condition (spouses, children under 18 years old, affiliates and connected entities) that allow Gina to deduct her costs of holding the land. This is because Robin is carrying on a primary production business on the land to gain or produce assessable income.

Exceptional circumstances exemption

Deductions for holding costs of vacant land can still be claimed if the exceptional circumstances exemption applies.

An exemption can apply where an exceptional circumstance outside your control occurs that results in the substantial and permanent structure no longer being on your land or being disregarded.

Exceptional circumstances include:

- a natural disaster
- a major building fire
- substantial building defects (where the structure can no longer be lawfully occupied).

For the exemption to apply there must have been a substantial and permanent structure on the land prior to the time that the exceptional circumstance occurred.

If the substantial and permanent structure was a residential premises, then the residence must have been able to be occupied under the law and have been either rented or available for rent prior to the exceptional circumstance.

If before 1 July 2019 you were claiming deductions for vacant land due to hardship or delays in construction you cannot rely on this exemption to continue claiming deductions after 1 July 2019.

The exceptional circumstances exemption can apply if the event that rendered the land vacant occurred before 1 July 2019 and the land is still vacant.

Three year limit

There is a limit of three years from the date of the exceptional circumstance to continue to claim deductions using this exception. This can be extended by applying to the Commissioner clearly stating why the exceptional circumstances exemption should be extended for a period beyond three years.

Record keeping

If you are applying the exceptional circumstances exemption you must keep written records of the exceptional circumstance and its effect on the structure for five years after the end of the income year in which the cost was incurred.

Example: exceptional circumstances major building fire

Isaac had a rental property in Sydney that he had been renting out since 2010. In March 2019 a fire gutted the house and the entire structure was destroyed. As a major building fire is considered exceptional circumstances Isaac can continue claiming deductions for holding the land, including his interest costs even though there is no substantial structure on the land.

Isaac will be able continue to claim deductions using the exemption until the property becomes available for rent, or for three years from the time the building was destroyed.

If the property is still unavailable for rent after three years he can apply to the Commissioner of Taxation for an extension. Isaac must provide the Commissioner reasons why his premises are not rented or available for rent, and the steps taken to rectify the problem.

If the Commissioner grants the extension, Isaac will be able to continue to claim deductions for his holding costs.

Isaac should keep records about why his property is unavailable for rent to substantiate his claim.

Substantial building defects

If you rented out or had an apartment available for rent in a multi-unit development that was found to have significant building faults and deemed uninhabitable you are not likely to be impacted by the changes and deductions could be continued to be claimed as there is still a substantial structure on the land or the exceptional circumstances exemption could apply.

Substantial and permanent structures

A substantial and permanent structure is a building or other structure constructed on the land that is:

- significant in size and value
- not incidental to the purpose of another structure or proposed structure on the land
- not related to or reliant on, or exists to support, the use or function of another structure
- fixed and enduring (not built for a temporary purpose).

Structures that are substantial and permanent include:

- a commercial parking garage complex
- a woolshed for shearing and baling wool
- a grain silo
- a homestead on a farming property.

A structure is not substantial and permanent if it only has value as an addition to another structure.

Structures that are not substantial and permanent include:

- a residential garage or shed
- a letterbox
- pipes and powerlines
- residential landscaping.

> Example: residential premises with no permanent structure
>
> Chelsy owns a block of land where she intends to build a rental property on the land. Although the block of land is fenced and has a retaining wall, it doesn't yet contain any substantial and permanent building. This means the block is vacant land and Chelsy can't deduct any holding costs she may incur in relation to the land.
>
> As the property is residential, property deductions will be limited until such time as the property contains residential premises that are:
>
> - lawfully able to be occupied
> - rented or available for rent.

Denied deductions

Under the existing law the denied deductions may be included in the cost base of the asset for CGT purposes, resulting in a reduction of any capital gain.

See also:

- Cost base

Vacant land prior years

- https://www.ato.gov.au/General/Property/Land---vacant-land-and-subdividing/Vacant-land/
- Last modified: 18 Nov 2019
- QC 23639

If you've acquired vacant land (either for private purposes or as an investment) it's usually considered a capital asset which is subject to capital gains tax (CGT) when you sell the land. But if you purchase land for use in a business or profit making activity that deals in land, any sale proceeds are treated as ordinary income, and you may need to register for goods and services tax (GST).

If you buy vacant land with the intent to build a rental property on it, you may be able to claim tax deductions for expenses incurred in holding the land.

On this page:

Land as a capital asset

Vacant land that is held as a capital asset is subject to the same capital gains tax rules as other properties.

Keep records of the date and cost of obtaining the land, and your ongoing expenses, such as council rates and loan interest. These expenses can't be claimed as an income tax deduction because the land does not generate income. Instead these expenses can be added to the cost base of the land for the purposes of calculating your capital gain or capital loss when you sell it.

Building a rental property on vacant land

If you bought vacant land with the intention of building a dwelling to rent prior to 1 July 2019, you may be able to claim tax deductions for expenses such as loan interest, council rates and other ongoing holding costs.

To be entitled to these deductions, you must demonstrate that active and genuine steps have (and are) been undertaken to build the dwelling and make it available for rent as soon as it's completed. It is expected that you make continuing efforts within normal timeframes relevant to the industry. We accept there are times where delays may occur. Where these delays are beyond your control, you may still be entitled to claim tax deductions.

If you decide to sell your vacant land or your intention to build a residential dwelling to rent changes, you must cease claiming deductions immediately. Ensure you keep records of expenses claimed as the remaining costs may form part of your cost base when calculating your capital gain or capital loss.

Find out about:

- Taking active and genuine steps
- Delays beyond your control
- Unacceptable delays
- Deductions for vacant land – from 1 July 2019

Taking active and genuine steps

Examples of taking active and genuine steps may include:

- seeking finance for the development from a financial institution or disposing of other investments to fund the development
- engaging with builders to understand the construction process and obtain building cost estimates
- engaging with architects to design a suitable house plan
- researching council development plans or possible covenants over the property
- meeting with local real estate agents to determine expected rental returns.

Delays beyond your control

Examples of delays beyond your control may include:

- disputes in the approval process with local council or neighbours
- your builder going into liquidation
- the property has been impacted by a natural disaster.

Example: Delays beyond your control

Tony purchases a block of land with the intention to build a residential dwelling to rent. He immediately begins engaging with various builders and visiting display homes to obtain a suitable house plan and estimates of building costs. During this time, Tony also meets with his mortgage broker to acquire a loan to finance construction of the dwelling.

Upon finalising the house plans, Tony submits them to the local council for approval. However, after a few months the council rejects Tony’s plans as they don’t meet certain regulations. This dispute takes a number of months to resolve before Tony is able to re-submit plans. Construction of the dwelling commences following council approval and the building is let once it is completed.

As Tony has demonstrated that he made continuing efforts within normal industry timeframes to derive rental income, he can deduct his interest, council rates and water expenses. The delays in the development were beyond his control.

Unacceptable delays

Examples of unacceptable delays may include:

- inability to build your desired house due to lack of affordability
- holding onto the land, due to a downturn in the real estate market, or to generate capital growth – even if you may consider developing the land in the future.

If a venture becomes dormant and the holding of the land is passive, you will not be able to claim deductions even if there is an intention to revive that venture at some point in the future. These expenses may be included within your cost base.

Example: Unacceptable delays

Emily seeks finance from her bank to purchase a block of land. She doesn't discuss any proposed plans to build a dwelling with her broker and it is not factored in to the loan application. Emily undertakes some initial enquires with various builders and visits some display homes during this time, but doesn't sign any contracts to construct a dwelling. Over the subsequent years, Emily's employment changes which means that she is unable to commit further to the development.

Emily is seeing that land values are rising in the area and developers are buying blocks close by for development. Although it is now no longer financially viable for Emily to build the rental property she decides that she can still afford to keep making the interest payments on the vacant land purchase until she gets an offer to buy her land by a property developer. Emily is no longer making active and genuine steps to construct the rental property and cannot claim interest deductions.

As Emily can't demonstrate that she undertook active steps to develop the property she will not be allowed to claim any deductions relating to the property.

If Emily undertakes steps to build a dwelling to rent in the future, she may be able to claim associated deductions but only from the time she progresses on her intention. Where Emily claimed a deduction for holding costs, she will not be able to include those expenses in her cost base.

See also:

- Taxation Ruling TR 2004/4 *Income tax: deductions for interest incurred prior to the commencement of, or following the cessation of, relevant income earning activities*

- Working out your capital gain or loss

Land as trading stock

If you sell land that was trading stock the sales proceeds are assessable income. Land may be treated as trading stock for income tax purposes if either:

- you carry on a business activity that involves dealing in land
- you hold the land for the purpose of resale.

Business activities that involve dealing in land include either:

- acquiring land to develop or subdivide and sell
- acquiring land for the purpose of building a dwelling or commercial property and selling the developed property.

This can be the case even for a one-off transaction that is undertaken in a business-like or commercial manner. For example, if you purchase a block of land for the purpose of development, subdivision and sale. This would lead to the land being treated as a revenue asset rather than a capital asset.

The business activity is taken to have begun when you embark on a definite and continuous cycle of operations designed to lead to the sale of the land.

For vacant land that is trading stock, the proceeds from the land are treated as ordinary income (not a capital gain) and associated costs are deductible.

GST treatment of land in property transactions

If you are dealing with property, including one-off transactions, you may be considered to be carrying on a business or a commercial venture and need to register for GST.

Once registered, you need to include the GST in the price of the goods you sell, including vacant land, commercial and commercial residential premises and new residential premises. You'll be able to claim credits for the GST included in the price of most of your business purchases, subject to normal GST rules. You'll also need to report these transactions by completing a business activity statement.

If you buy vacant land with the intent to build a residential rental property on it, you are not liable for GST on the rent you charge and you will not be able to claim credits for the GST included in anything you purchase.

See also:

- Registering for GST
- Property development, building and renovating
- GST and property
- Residential premises
- GST at settlement

Subdividing land

- https://www.ato.gov.au/General/Property/Land---vacant-land-and-subdividing/Subdividing-land/
- Last modified: 31 Jan 2020
- QC 23640

The profit from selling subdivided land may be a capital gain or ordinary income, depending on the circumstances.

If you subdivide a block of land – such as the land on which you live – and sell the newly created block, any profit is generally treated as a capital gain subject to capital gains tax.

However, any profit is treated as ordinary income (not a capital gain) if both of the following apply:

- your intention or purpose in entering into the transaction was to make a profit or gain
- you entered into the transaction, and the profit was made, in the course of carrying on a business or carrying out a business operation or commercial transaction.

In this case you'll probably have GST obligations and entitlements.

You don't need to be in business for this tax treatment to apply – it's enough that there is a profit motive and the transaction has the character of a business operation or commercial transaction. It could apply even for a one-off transaction, such as:

- a subdivision by a non-business taxpayer
- a transaction by a business taxpayer that is outside the ordinary course of their business.

See also:

- Taxation Ruling TR 92/3 - Income tax: whether profits on isolated transactions are income

Capital gains tax on subdivided land

If you subdivide a block of land, each block that results is registered with a separate title. For capital gains tax purposes, the original land parcel is divided into two or more separate assets.

Subdividing the land doesn't in itself result in a CGT event if you retain ownership of the subdivided blocks, meaning you don't make a capital gain or a capital loss at the time of the subdivision. You make a capital gain or capital loss only when you sell the subdivided blocks.

For the purposes of working out your capital gain or capital loss, the date you acquired the subdivided blocks is the date you acquired the original parcel of land and the cost base of the original land is divided between the subdivided blocks on a reasonable basis.

See also:

- Subdividing and amalgamating land

When your home is affected

If you sell any land separately from your home, the land is not exempt from capital gains tax under the main residence exemption. It's only exempt when sold with the home that is your main residence.

Land is adjacent to your home if it is close to, near, adjoining or neighbouring it.

See also:

- Capital gains tax - Selling your home

GST treatment of subdividing

You may have GST obligations and entitlements if you subdivide and sell land with the intention of profit and in the course of carrying on a business or as a business or commercial transaction. Even with a one-off transaction, you may still be required to register for GST because your one-off property transaction may have the characteristics of a business deal.

Once registered for GST, you need to include GST in the price of goods you sell, including land that you've subdivided. You'll be able to claim credits for the GST included in the price of most of your business purchases (subject to the normal GST rules). You also need to report these transactions by completing an activity statement.

If you're unsure whether your subdivision transaction is a profit-making activity, a business, a commercial transaction or something else, write to us and request a private ruling to determine your tax position.

See also:

- Property development, building and renovating
- GST at settlement

Property development, building and renovating

- https://www.ato.gov.au/General/Property/Property-development,-building-and-

renovating/
- Last modified: 26 Oct 2018
- QC 23643

If you're renovating one or more properties you need to work out if you are a personal property investor, engaged in a profit-making activity of property renovations, or carrying on a business of renovating properties. If you are 'property flipping' or 'renovating for profit' there could be tax implications.

You may need to register for GST if:

- you build new residential premises for sale and the total income from your property development activities is more than $75,000 per year, and
- these activities are regarded as an enterprise.

Your activities may be regarded as an enterprise if, for example, you buy vacant land to subdivide with the intention to sell for profit, or you develop new residential premises and sell them. Even a one-off property transaction may be an enterprise.

If you are registered – or required to be registered for GST – you are liable to pay GST on your property sale. You can generally claim GST credits for your construction costs and purchases related to the sale.

Certain purchasers of new residential premises or potential residential land are now required to withhold an amount from the contract price and pay it to us. This change started on 1 July 2018.

Businesses in the building and construction industry need to report to us each year the total payments they make to each contractor for building and construction services.

Find out about:

- Renovating properties
- Building and construction – residential premises
- GST at settlement
- Registering for GST when dealing in property

See also:

- Taxable payments reporting - building and construction industry

Renovating properties

- https://www.ato.gov.au/General/Property/Property-development,-building-and-renovating/Renovating-properties/
- Last modified: 03 Aug 2017

- QC 23644

If you're renovating one or more properties you need to work out if you are:

- a personal property investor
- engaged in a profit-making activity of property renovations
- carrying on a business of renovating properties.

Personal property investor

If you're considered a personal property investor, your net gain or loss from the renovation (proceeds from the sale of the property less the purchase and other costs associated with buying, renovating and selling it) is treated as a capital gain or capital loss respectively.

CGT concessions such as the CGT discount and the main residence exemption may reduce your capital gain.

You're not conducting an enterprise of property renovation for GST purposes and are not required to register for GST. But if you're registered in some other business capacity you don't pay GST on the proceeds from the sale of the property or claim GST credits for related purchases.

The following example illustrates the characteristics of personal property investing.

Example: Personal investor

Doug is a sales representative. He obtains an investment loan and purchases a property that he intends to rent out. He would not consider selling the property unless the price appreciated markedly.

The property requires renovation to attract desirable tenants. Doug renovates the property after work and on weekends. Over the period of the renovation, the real estate market booms and Doug decides to sell the property.

Doug would not be considered to be in the business of property renovation because:

- his intention when he bought the property was to gain rental income rather than make a profit from buying, renovating and selling it
- Doug didn't rely on the income to meet regular expenses because he has income from his job
- his renovation activities were not carried on in a business-like manner
- Doug did not buy the property with a view to selling it at a profit, and did not carry out a one-off profit-making activity.

So, Doug is regarded as a personal investor.

However, if Doug, because of his success with this renovation (either in his own right or with another or others) was to then undertake another renovation similar to the first with a view to achieving the same profit levels, he will be regarded as being in the business of property renovation.

Profit-making activity of property renovations

If you're carrying out a profit-making activity of property renovations also known as 'property flipping', you report in your income tax return your net profit or loss from the renovation (proceeds from the sale of the property less the purchase and other costs associated with buying, holding, renovating and selling it).

You're entitled to an Australian business number (ABN) and you may be required to register for GST if the renovations are substantial.

The following example illustrates the characteristics of a profit-making activity of property renovations.

Example: Renovation as a profit-making activity

Fred and Sally are married with two children. They renovated their home, substantially increasing its value. After watching many of the home improvement shows and seeing how other people have bought, renovated and sold properties for a significant profit, they decide to investigate the purchase of another property to renovate and make a profit.

They consider many properties, costing out the renovations, the costs of buying and selling and timeframes to complete the renovations. Their research shows that they could also make a significant profit.

Fred and Sally sell their current home and purchase a new property, which they move into while completing the renovations. They plan out the renovation in stages, including the costs and any contractors needed to complete the work. The renovation runs to schedule and, when completed, they list the property for sale and it sells for a profit.

Because the property renovation activities were planned, organised and carried on in a business-like manner, the purpose of buying the property was to renovate it and make a profit, and the renovations were carried on in a similar manner to other property renovation businesses, Fred and Sally have entered into a one-off profit-making activity.

Business of renovating properties

If you're carrying on a business of renovating properties or 'flipping' properties, the purchased properties are regarded as trading stock (even if you live in one for a short period) and the costs associated with buying and renovating them form part of the cost of your trading stock until they're sold.

You calculate your business's annual profit or loss in the same way as any business with trading stock.

CGT doesn't apply to assets held as trading stock, and CGT concessions such as the CGT discount, small business concessions and main residence exemption don't apply to any income from the sale of the properties.

You're entitled to an Australian business number (ABN) and you may be required to register for GST if the renovations are substantial.

The following example illustrates the characteristics of a business of renovating properties.

Example: Renovation business

Tony is a carpenter. After reading the Investors Club News, he decides to purchase a property. He thoroughly researches the real estate market, attends investment seminars and records the information he has found.

The property Tony purchases is in a good location but he pays a reduced price because it needs extensive renovation. Using his knowledge and contacts within the building industry, Tony quickly completes the renovations.

He then sells the property and makes a generous profit.

Using the proceeds from the sale of the first property, Tony purchases two more houses that require renovation.

Tony sets up an office in one of the rooms in his house. He has a computer and access to the internet so he can monitor the property market. Tony’s objective is to identify properties that will increase in value over a short time once he has improved them. He leaves his job so he can spend more time on his research and renovations.

Tony’s activities show all the factors that would be expected from a person carrying on a business. His property renovating operation demonstrates a profit-making intention; there is repetition and regularity to his activities. Tony’s activities are organised in a business-like manner.

Therefore, Tony is regarded as being in the business of property renovation.

See also:

- Are you in the business of renovating properties?

- Miscellaneous Tax Ruling MT 2006/1 *The New Tax System: the meaning of entity carrying on an enterprise for the purposes of entitlement to an Australian Business Number*

Building and construction – residential premises

- https://www.ato.gov.au/General/Property/Property-development,-building-and-renovating/Building-and-construction---residential-premises/
- Last modified: 02 Apr 2019
- QC 23645

If you build new residential premises for sale:

- you're liable for GST on the sale
- you can claim GST credits for your construction costs and any purchases you make related to the sale (subject to the normal rules on GST credits).

If GST applies, you generally pay GST of one-eleventh of the sale price. But if eligible, you can work out your GST liability using the margin scheme, under which your GST liability is one-eleventh of the margin on the sale of the property, rather than one-eleventh of the total selling price.

If you sell residential premises or potential residential land, you may be required to notify your purchaser in writing (before settlement of the property) whether or not they are required to withhold an amount from the contract price and pay this directly to us.

You are still required to report the sale of this property on your Business Activity Statement.

Residential premises include houses, units and flats that are occupied or can be occupied as residences. It does not include vacant land. Residential premises are new when any of the following apply:

- they have not been sold as residential premises before
- they have been created through substantial renovations
- new buildings replace demolished buildings on the same land.

However, residential premises are generally no longer new residential premises if they have been continuously rented for five years after first becoming new residential premises. In this case, the sale of the property after being rented out is input taxed.

If you claimed GST credits on the construction costs and related purchases, you may have to make one or more adjustments that effectively reverse these credits, as you are not entitled to GST credits for things purchased to make input taxed supplies.

New residential premises rented out continuously for five years or more may still be considered new residential premises if they have been held for the dual purpose of sale and rent.

If you rent out the new premises while you are planning to sell them, you'll need to adjust part of the GST credits you claimed. You must show you intend to sell the premises. Actively marketing the premises for sale is one way of showing this.

See also:

- GST at settlement
- Selling new residential property that has been rented within five years of construction
- Change in use of new residential premises

New residential premises off-the-plan

An off-the-plan purchase occurs when the buyer enters into a contract to purchase new residential premises before construction is completed. At this stage the buyer is purchasing a contractual right to have the premises built.

Generally, the buyer pays a deposit and signs a contract with the developer, paying the balance of the purchase price on settlement. On settlement, the buyer is purchasing new residential premises and the purchase price includes GST.

However, if you as the 'buyer' sell the contractual right before settlement you're not selling new residential premises, and GST will apply if the sale of the contractual right is made in the course of your GST registered business.

The sale of an off-the-plan property may be an enterprise in its own right and may form part of the seller's GST registration turnover threshold.

See also:

- GST and property
- GSTR 2009/4 Goods and services tax: new residential premises and adjustments for changes in extent of creditable purpose
- GSTR 2003/3 Goods and services tax: when is a sale of real property a sale of new residential premises?
- GSTR 2000/24 Goods and services tax: Division 129 – making adjustments for changes in extent of creditable purpose

Property used in running a business

- https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/
- Last modified: 14 Sep 2016
- QC 23646

If you own, lease or rent property used for business purposes – whether commercial premises like a shop or office, or even your own home – you:

- must include any rental income in your tax return
- can claim income tax deductions for some property expenses
- will be liable for capital gains tax on any capital gain if you sell the property.

You may also have GST obligations and entitlements when you buy, sell, lease or rent commercial premises.

If you're dealing with property, including one-off transactions (for example, you buy, sell, lease or develop), you may be considered to be conducting an enterprise. If your turnover from these activities is more than the GST registration turnover threshold, you may be required to register for GST.

Find out about:

- Buying commercial premises
- Selling commercial premises
- Leasing and renting commercial premises
- Running your business from home
- Working farms
- Commercial residential premises and GST
- Retirement villages and GST

Buying commercial premises

- https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/Buying-commercial-premises/
- Last modified: 13 May 2015
- QC 23647

When you buy or otherwise obtain a commercial property – such as a shop, factory or office – it's important to keep records right from the start.

Commercial properties used in the running of a business are subject to capital gains tax. You'll need records of the date and costs of obtaining the premises so that you can work out your capital gain (or capital loss) when you sell it.

Income tax deductions

If your property is used to run a business or is available to rent for that purpose, you can claim tax deductions for expenses associated with owning it, such as interest on a loan to buy the property and maintenance expenses. Keep records of your expenses from the start, so you can claim everything you're entitled to.

See also:

- Claiming business deductions

GST

If you buy commercial premises, you may be eligible to claim a credit for the GST included in the purchase price.

You may also be able to claim GST on other expenses that relate to buying the property – such as the GST included in solicitors' fees and on-going running expenses.

You can't claim GST credits if:

- the seller used the margin scheme to work out the GST included in the price
- you purchase property from someone who is not registered or required to be registered for GST
- you purchase the property as a GST-free supply, or
- you're not registered for GST.

Selling commercial premises

- https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/Selling-commercial-premises/
- Last modified: 13 May 2015
- QC 23648

When you sell (or otherwise cease to own) a commercial property, you're likely to make a capital gain or capital loss. Capital gains are subject to capital gains tax (CGT), with a discount for individuals and trusts, and concessions for small businesses.

You're also generally liable for GST on the sale price and can claim GST credits on related purchases. To work out the GST you may be eligible to use the margin scheme, under which your GST liability is one-eleventh of the margin on the sale of the property, rather than one-eleventh of the total selling price.

GST doesn't apply to property when it's being sold as part of a GST-free sale of a going concern.

On this page:

- Capital gains
- GST
- Selling a business as a going concern

Capital gains

You're likely to make a capital gain or capital loss when you sell (or otherwise cease to own) a commercial property. If you make a net capital gain in an income year, you'll generally be liable for capital gains tax (CGT). If you make a net capital loss you can carry it forward and deduct it from your capital gains in later income years.

A capital gain, or capital loss, is the difference between what it cost you to obtain and improve the property (the cost base), and what you receive when you dispose of it. Amounts that you've claimed (or could have claimed) as a tax deduction are excluded from the property's cost base.

If you acquired the property before CGT came into effect on 20 September 1985, any capital gain or capital loss is disregarded. However, capital gains or capital losses from capital improvements made since 20 September 1985 are subject to CGT, even if you acquired the property before that date.

See also:

- Capital gains tax

Discounts and concessions

If you own the property as an individual (including as a partner in a partnership), and you've owned it for at least 12 months, you may be eligible to discount your capital gain by 50%. This discount is also available to trusts, but not to companies.

If you are a small business entity and the property you sell is your business premises, you may be able to reduce the capital gain using one of four small business concessions:

- 15-year exemption: If your business has owned the premises for 15 years and you're 55 or over and are retiring, or are permanently incapacitated, you won't have an assessable capital gain when you sell.
- 50% active asset reduction: You can reduce the capital gain on your premises by 50%.
- Retirement exemption: Capital gains from the sale of your premises are exempt up to a lifetime limit of $500,000. If you're under 55, the exempt amount must be paid into a complying superannuation fund or retirement savings account.
- Rollover: You can defer your capital gain until another event happens that crystallises the gain. For example, if you sell your existing business premises and buy different premises for your business within a certain period, you can defer your capital gain until the new premises are sold.

See also:

- Capital gains tax (CGT) concessions for small business - overview

GST

If you sell commercial premises, such as shops, factories or offices, you're generally liable for GST on the sale price. This means you:

- pay GST of one-eleventh of the sale price
- can claim GST credits on your purchases that relate to selling the property (subject to the normal rules on GST credits) – such as the GST included in a real estate agent's fees.

But if your commercial property is being leased when you sell it, you may be able to treat your sale as a GST-free supply of a going concern.

Margin scheme

You may be eligible to use the margin scheme to work out the GST on the sale of commercial premises (or new residential premises). Under this scheme, your GST liability is one-eleventh of the margin on the sale of the property, rather than one-eleventh of the total selling price. You can only apply the margin scheme if the sale is taxable.

The margin is generally the difference between the sale price and either:

- the amount you paid for the property, or
- an appropriate property valuation.

Whether you can use the margin scheme depends on how and when you purchased the property.

If you sell the property using the margin scheme any GST charged can't be claimed by the purchaser.

See also:

- GST and the margin scheme

Registering for GST

If you are dealing with property, including one-off transactions (for example, you buy, sell, lease or develop), you may be considered to be conducting an enterprise. If so, you may be required to register for GST if your turnover from these activities exceeds the GST registration turnover threshold.

See also:

- Working out your GST turnover

Selling a business as a going concern

If you sell property as part of a GST-free sale of a going concern:

- you're not liable for GST on the sale
- the seller and the purchaser may be able to claim GST on other expenses that

relate to selling and buying the property – such as the GST in solicitors' fees.

A sale of a going concern is GST-free if all of the following apply:

- payment is made for the supply
- the purchaser is registered (or required to be registered) for GST
- the buyer and seller have agreed in writing that the sale is of a going concern
- the supplier supplies all things necessary for the continued operation of the business
- the supplier carries on the business until the day of supply.

Property that is part of a sale of a going concern can include:

- the premises, together with the assets and operating structure of the business
- a fully tenanted building, where the property and all leases, agreements and covenants are included in the sale
- the sale of a partially tenanted building, where both of the following apply
  - the vacant part of the building is either being actively marketed for lease or undergoing repairs or refurbishment
  - all leases, agreements and covenants are included in the sale.

See also:

- Sale of a business as a going concern – supporting information

Leasing and renting commercial premises

- https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/Leasing-and-renting-commercial-premises/
- Last modified: 13 May 2015
- QC 23653

This section has information for:

- the lessor, or owner of the premises
- the renter, or tenant of the premises.

Leasing (as owner)

Income tax

If you lease commercial premises to others you must include the full amount of rent you earn in your income tax return.

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

- generally, you can claim an immediate deduction for expenses relating to the management and maintenance of the property, including interest on loans.
- some expenses are claimed over a number of years, including depreciation costs (decline in value of depreciating assets such as carpet, furniture and appliances), and certain construction expenditure.

You can't claim:

- acquisition and disposal costs of the property – these are usually included in the property's cost base for capital gains tax purposes
- expenses not actually paid by you, such as water or electricity charges paid by your tenants
- expenses not related to the rental of the property.

See also:

- Residential rental properties

GST

You're liable for GST on the rent you charge on commercial premises if you're registered, or required to be registered, for GST.

You may be required to register for GST if you're dealing with property, including one-off transactions such as buying, selling, leasing and developing (that may constitute conducting an enterprise) and your turnover from these activities exceeds the GST registration turnover threshold.

You can claim GST credits on your purchases that relate to renting out your property (subject to the normal rules on GST credits) – such as the GST included in the managing agent's fees.

Renting (as tenant)

If you rent a commercial property as your business premises, the rent is tax deductible.

As the renter (tenant), you may be able to claim GST credits for the GST included in the rent if you and the lessor are registered, or required to be registered, for GST.

Running your business from home

- https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/Running-your-business-from-home/
- Last modified: 24 Sep 2018
- QC 23654

The information in this section applies where your home is also your principal place of business – that is, you run your business from home, and a room is set aside exclusively for business activities. Examples include:

- a small business operator whose main office is in their home
- a tradesperson or craftsperson who has their workshop at home
- a doctor or dentist who has their surgery or consulting room at home.

If you do only some business or work from home, in either a designated work area or another part of your home, refer instead to Working from home.

On this page:

- Deductions you can claim
- Capital gains and the main residence exemption

Deductions you can claim

Where your home is also your place of business, you can claim deductions if you carry out income-producing work at home and incur expenses in using your home for that purpose.

You can claim a deduction for the following:

- the cost of using a room's utilities, such as gas and electricity – which must be apportioned between business and private use, based on actual usage
- business phone costs – if a telephone is used exclusively for business, you can claim for the rental and calls, but not the installation costs. If the telephone is used for both business and private calls, you can claim a deduction for business calls
- decline in value (depreciation) of office plant and equipment, such as desks, chairs, computers. If equipment such as a computer is also used for non-business purposes, your claim must be apportioned between business and private use
- decline in value (depreciation) of curtains, carpets and light fittings
- occupancy expenses (such as rent, mortgage interest, insurance, rates). You can claim the portion of these costs that relates to the room or workshop you use as a place of business. A common method of working out how much to claim is the floor area (as a proportion of the floor area in your whole home).

If your employer has an office in the city or town where you live, your home office will not be a place of business, even if your work requires you to work outside normal business hours.

If your income includes personal services income (PSI), you may not be able to claim a deduction for occupancy expenses.

Capital gains and the main residence exemption

Generally, you can ignore a capital gain or loss you make when you sell your home or main residence (under the main residence exemption).

However, you don't get the full main residence exemption if your home is your principal place of business, although you're probably entitled to a partial exemption.

To work out the capital gain that is not exempt, you need to take into account a number of factors including:

- proportion of the floor area of your home that is set aside to produce income
- period you use it for this purpose
- whether you're eligible for the 'absence' rule (see Treating a dwelling as your main residence after you move out)
- whether it was first used to produce income after 20 August 1996.

If you first used your home as your place of business after 20 August 1996, the period before you first used your home to produce income is not taken into account in working out the amount of any capital gain or capital loss. Instead, you use the market value of your home at the time you first used it to produce income.

It's a good idea to get a valuation of your home at the time you first use it as your place of business, so that when you come to sell it you don't pay more capital gains tax than necessary.

See also:

- Using your home to produce income

Working farms

- https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/Working-farms/
- Last modified: 13 Feb 2020
- QC 23655

Capital gains

You're likely to make a capital gain or capital loss when you sell (or otherwise cease to own) a working farm. Capital gains are subject to capital gains tax, with a discount for individuals and trusts, and concessions for small businesses.

If your home is part of the working farm, you may be eligible for a partial main residence exemption.

See also:

- Capital gains

GST

Farmland you sell (or supply by way of a long term lease) is GST-free if both of the following apply:

- the land was used for a farming business for at least five years immediately before the sale
- the buyer intends to use it for a farming business.

Note: the supply will be GST-free when you meet the above conditions regardless of whether you are, or are not, registered for GST.

A short term lease by an Australian government agency is also GST-free if both the above conditions are met.

A long-term lease is a lease for 50 or more years or a lease that is likely to continue for at least 50 years because of renewals or extensions provided for in the lease. Where a non-government entity supplies a lease of 50 years or more, the lease will only be a long term lease if the terms of the lease are substantially the same as under which the supplier held the lease.

The sale (or supply by way of a long term lease) of subdivided land used for farming business for at least five years is GST-free if both of the following apply:

- it's permissible to use the land for residential purposes
- the supply is made to an associate of the supplier – such as a relative or a closely connected company or trust – for less than market value.

Similarly, a short term lease of the subdivided land by an Australian government agency is also GST-free if both the above conditions are met.

See also:

- Selling a business as a going concern
- Subdividing land

Commercial residential premises and GST

- https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/Commercial-residential-premises-and-GST/
- Last modified: 01 Nov 2016
- QC 23656

The sale and lease of commercial residential premises is subject to goods and services tax (GST).

Commercial residential premises include:

- hotels, motels, inns
- hostels, boarding houses
- caravan parks, camping grounds
- establishments that provide residential premises similar to hotels, motels, inns, hostels and boarding houses.

Retirement villages are not commercial residential premises for GST purposes.

On this page:

Buying and selling commercial residential premises

If you sell commercial residential premises (such as hotels, motels, inns, hostels or boarding houses), you're generally liable for GST on the sale price. This means you:

- pay GST of one-eleventh of the sale price
- can claim GST credits on your purchases that relate to selling the property (subject to the normal rules on GST credits) – such as the GST included in a real estate agent's fees.

GST applies differently if you sell commercial residential premises under the margin scheme or as a going concern.

If you purchase commercial residential premises, you can claim a credit for the GST included in the purchase price if either:

- the seller did not use the margin scheme to work out the GST included in the price
- the sale was not a GST-free sale of a going concern to you, and the seller was registered, or required to be registered, for GST.

You may also be able to claim a GST credit on other expenses, such as solicitor's fees, that relate to buying the property.

Leasing commercial accommodation

If you're registered, or required to be registered, for GST, you're generally liable for GST on commercial accommodation you lease to others. Commercial accommodation is accommodation in commercial residential premises, such as hotels, motels, inns, hostels or boarding houses.

Your GST liability depends on whether you provide short-term, long-term or predominantly long-term accommodation.

You provide:

- short-term accommodation – when a guest stays for less than 28 continuous days, in which case you're liable for GST of one-eleventh of the price you

charge for the accommodation
- long-term accommodation – when a guest stays for 28 or more continuous days, in which case concessionary GST treatment applies
- predominantly long-term accommodation – if at least 70% of the individuals to whom you provide commercial accommodation stay for 28 or more continuous days, in which case concessionary GST treatment applies.

See also:

- Holiday apartments in commercial residential premises
- GSTR 2012/7: *Goods and services tax: long-term accommodation in commercial residential premises*

Retirement villages and GST

- https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/Retirement-villages-and-GST/
- Last modified: 14 Sep 2016
- QC 23659

If you provide accommodation in a GST retirement village you're generally making an input taxed supply and you don't charge GST.

A GST retirement village is residential premises in which:

- the accommodation is intended for people at least 55 or older
- there are communal facilities for the residents to use.

A GST retirement village is not considered to be commercial residential premises for GST purposes.

Under certain conditions, the supply of accommodation in a serviced apartment in a village is GST-free when the resident of the apartment is also provided with certain care services.

Where the village is operated by an endorsed charity, the provision of accommodation in the entire village is GST-free.

See also:

- Retirement villages
- GSTR 2012/3 Goods and services tax: GST treatment of care services and accommodation in retirement villages and privately funded nursing homes and hostels
- GSTR 2004/09 Goods and services tax: GST consequences of the assumption of vendor liabilities by the purchaser of an enterprise – Addendum

- GSTR 2011/1 Goods and services tax: development, lease and disposal of a retirement village tenanted under a 'loan-lease' arrangement

Holiday homes

- https://www.ato.gov.au/General/Property/Holiday-homes/
- Last modified: 07 Aug 2019
- QC 45076

If you own a holiday home, you can only claim tax deductions for expenses to the extent the home is rented out or genuinely available for rent.

Even if you don't rent out your holiday home, there are capital gains tax implications when you sell it.

On this page:

- Holiday home – not rented out
- Holiday home – rented out
- Holiday home – not genuinely available for rent
- Holiday home – part year rental

See also:

- Holiday apartments in commercial residential premises
- Renting out part or all of your home
- The sharing economy and tax

Holiday home – not rented out

If you own a holiday home and don't rent out the property, you don't include anything in your tax return until you sell it.

When you sell the property, you will need to calculate your capital gain or loss.

Keep all records from the time you purchase the property until the time you sell it to be able to work out the capital gain or loss when you sell.

See also:

- Your home and other real estate

Holiday home – rented out

If your holiday home is rented out, you need to include the rental income you receive as income in your tax return.

You can claim expenses for the property based on the extent that they are incurred for the purpose of producing rental income.

You will need to apportion your expenses if:

- your property is genuinely available for rent for only part of the year
- your property is used for private purposes for part of the year
- only part of your property is used to earn rent
- you charge less than market rent to family or friends to use the property.

Holiday home – not genuinely available for rent

Expenses may be deductible for periods when the property is not rented out, if the property is genuinely available for rent.

Factors that may indicate a property isn't genuinely available for rent include:

- it's advertised in ways that limit its exposure to potential tenants – for example, the property is only advertised
  - at your workplace
  - by word of mouth
  - on restricted social media groups
  - 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 that it's 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 – for example, 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.

These factors generally indicate the owner doesn't have a genuine intention to earn rental income from the property and may have other purposes, such as using it or reserving it for private use.

Example 1 – property advertised for rent but rent is excessive

Viraji owns a holiday home and has a real estate agent who advertises the property for rent. The market rent of comparable properties in the same location as Viraji's holiday home is $1,000 a week. Viraji arranges for her property to be advertised at $1,500 a week or $300 a night.

Viraji's property is not genuinely available for rent. Her intention is to reserve it for her own use. At no time during the year does anyone rent the property. Viraji can't claim any deductions for the property because it is not genuinely available for rent.

Viraji needs to keep records of her expenses. If she makes a capital gain when she sells the property, her property expenses (such as property insurance, interest on the funds borrowed to purchase the property, repair costs, maintenance costs and council rates) are taken into account in working out her capital gain.

Example 2 – unreasonable rental conditions placed on property

Josh and Maria are retired and own a holiday home where they stay periodically. They have a real estate agent advertise the property for short-term holiday rental. Josh and Maria instruct the agent that they must personally approve tenants before they are permitted to stay. Prospective tenants must provide references and have no children or pets.

At no time during the year do Josh and Maria agree to rent out the property even though they receive a number of inquiries. The conditions placed on the renting of the property and Josh and Maria's refusal to rent it to prospective tenants indicate their intention isn't to earn rental income from the property, but to reserve it for their own use. Josh and Maria can't claim any deductions for the property.

Josh and Maria need to keep records of their expenses. If they make a capital gain when they sell the property, their property expenses (such as property insurance, interest on the funds borrowed to purchase the property, repair costs, maintenance costs and council rates) are taken into account in working out their capital gain.

Example 3 – private use by owners during key periods with little or no demand for property at other times

Daniel and Kate have two school-aged children and own a holiday house near the beach. The house is located in an area that is popular with summer holiday-makers but is only accessible by four-wheel drive vehicles.

During the year, Daniel and Kate advertise the property for rent through a local real estate agent. However, Daniel and Kate advise the agent that during each school holiday period, the property isn't to be rented out. They want to reserve the property for their own use.

While there is demand for the property during the summer holiday period, there is no demand outside this period because of the small number of holiday-makers, the location and the limited access to the property. The house isn't rented out at all during the income year.

In Daniel and Kate’s circumstances, they can't claim any deductions for the property. They don't have a genuine intention to earn rental income from the property. It is essentially for private use.

If in the circumstances Daniel and Kate happen to rent out the property for a period, they can claim a deduction for a proportion of their expenses based on the period the property is actually rented out. For example, if the house is rented out for two weeks, they can claim a deduction for their expenses for two weeks out of the 52 weeks in the year.

Daniel and Kate need to keep records of their expenses. If they make a capital gain when they sell the property, the proportion of expenses (interest, insurance, maintenance costs and council rates) they could not claim as a rental deduction because it relates to their own occupation of the property, are taken into account in working out their capital gain.

Holiday home – part year rental

If you rent out your holiday home and also use it for private purposes, you must apportion your expenses. You can't claim deductions for the proportion of expenses that relate to your private use or if it was not genuinely available for rent, such as when used or reserved for yourself, friends or family.

If your holiday home is rented out to family, relatives or friends below market rates, your deductions for that period are limited to the amount of rent received.

Example 1 – investment property made genuinely available for rent, with minor private use

Gail and Craig purchase a holiday home in 2016 which they rent out at the market rate to holiday makers. They have a property manager at a local real estate agent advertise it for rent during the year and communicate regularly to ensure the property is being managed. Gail and Craig consider renting out the property on a long-term lease; however determine they can derive more profit from short-term rental.

The property is available for rent during all holiday periods, including weekends, school holidays, Easter and Christmas. Gail and Craig use the property themselves for four weeks during the year, in 'off-peak' periods when they are unlikely to find tenants.

During the year, Gail and Craig’s expenses for the property are $34,800. This includes interest on the funds borrowed to purchase the holiday home, property insurance, the agent's commission, maintenance costs, council rates, the [decline in value of depreciating assets] and [deductions for capital works].

Gail and Craig receive $25,650 from renting out the property during the year. They can claim deductions for their expenses based on the proportion of the income year the property is rented out or is genuinely available for rent. They can't claim any deductions for the four weeks they use the property themselves.

Gail and Craig’s rental income and deductions for the year are as follows:

- rent received = $25,650
- rental expenses ((48 ÷ 52) × $34,800) = $32,123
- rental loss is $32,123 − $25,650 = $6,473.

As they are joint owners, Gail and Craig claim a rental loss of $3,237 each in their tax returns.

Gail and Craig need to keep records of their expenses. If they make a capital gain when they sell the property, the expenses (interest, insurance, maintenance costs and council rates) they couldn't claim as a rental deduction relating to their own occupation of the property are taken into account in working out their capital gain.

Example 2 – rented out for part of the year at market rates

Akshay and Jesminda have a holiday home. They rent it out between 20 December and 17 January because they can make a significant amount of money, This helps offset the costs of owning the property for the year. They reserve the property for their own use for the rest of the peak holiday period, and a number of other weekends during the year.

Akshay and Jesminda receive $3,000 a week from renting the property out during the four weeks over the Christmas–New Year period. The property is not rented out any other time during the year.

Akshay and Jesminda's expenses for the holiday home for the year are $31,200. This includes interest on the funds borrowed to purchase the property, property insurance, the agent's commission, repair costs, maintenance costs and council rates.

Akshay and Jesminda can only claim deductions for the proportion of the year they rent out the property (four weeks). They declare net rental income in their tax returns as follows:

- rent received = $12,000
- rental deductions (4 ÷ 52 weeks) × $31,200 = $2,400
- net rental income $12,000 − $2,400 = $9,600.

As they are joint owners, Akshay and Jesminda declare net rental income of $4,800 each in their tax returns.

Akshay and Jesminda need to keep records of their expenses. If they make a capital gain when they sell the property, the expenses (interest, insurance, maintenance costs and council rates) they can't claim as a rental deduction relating to their own occupation of the property are taken into account in working out their capital gain.

Example 3 – rented out for part of the year at market rates

Marie purchases a property in a seaside holiday town so that her family can holiday there over the December to January school holidays and Easter period each year. For the remainder of the year, Marie rents the property out via an accommodation sharing platform so that she can claim some of the costs of holding the property against the rental income.

On the platform, Marie 'blocks out' the school holiday and Easter periods for her family's use. The town's busiest times for tourists are during the school holidays; particularly the December/January period when the weather is warmest.

Marie uses the property personally for 20 days per year over December to January holiday period and a total of another 20 days during school holidays and Easter. Marie rents out the property to other holiday-makers for 25 days per year at times outside school holidays and Easter.

Marie receives $3,000 from renting her property and incurs expenses of $60,000 in relation to the property.

Marie can't claim any deductions for:

- the time she uses the property herself
- the period the property is not in use.

Marie can claim deductions for the period the property is actually rented (25 days). Marie would calculate her deductions as:

- rent received = $3,000

- rental expenses (25 ÷ 365) × $60,000 = 4,109
- net rental loss = $3,000 − $4,109 = $1,109.

Marie can claim a net rental loss of $1,109 in her income tax return.

Example 4 – private use by owner and rented to relatives/friends at a discounted rate

Kelly and Dean purchase a holiday home in 2016. During holiday periods, the market rent is $840 a week. They have a real estate agent advertise it for rent during the year and communicate regularly to ensure the property is being managed.

Kelly and Dean arrange with the agent for their friend Kimarny to stay at the property for three weeks at a nominal rent of $200 a week. They also use the property themselves for four weeks during the year.

During the year, Kelly and Dean's expenses for the property are $30,000. This includes interest on the funds borrowed to purchase the holiday home, property insurance, the agent's commission, maintenance costs, council rates, the decline in value of depreciating assets and deductions for capital works.

Kelly and Dean receive $600 from renting out the property to Kimarny during the year. They can't claim any deductions for the four weeks they use the property themselves or the period that the property is not rented out.

Kelly and Dean can claim deductions for their expenses based on the period of the income year it is rented out to Kimarny. Because the rent they receive from Kimarny is less than market rate and their expenses are more than the rent received during that period, they can't claim all of the expenses.

Kelly and Dean can only claim deductions equal to the amount of the rent during this period – that is, $600.

Example 5 – rented to relatives/friends at a discounted rate where expenses are less than the rent received for the period

Shahani and Marvin buy a holiday home in 2016. They advertise it for rent at a market rate of up to $1,040 a week. They have a real estate agent advertise it for rent during the year and communicate regularly to ensure the property is being managed.

Shahani and Marvin arrange with the agent for their friends, Katrina and Greg, to stay at the property for one week at a nominal rent of $600, and for a cousin, Gerard, to stay for another week for $600. They also use the property themselves for four weeks during the year.

During the year, Shahani and Marvin’s expenses for the property are $30,940. This includes interest on the funds borrowed to purchase the holiday home, property insurance, the agent's commission, maintenance costs, council rates, the decline in value of depreciating assets and capital works deductions.

Shahani and Marvin receive $46,960 from renting out the property during the year. This includes the $1,200 they receive from Katrina, Greg and Gerard.

Shahani and Marvin can't claim a deduction for the four weeks they use the property themselves.

Shahani and Marvin can claim a deduction for their expenses based on the proportion of the income year the property is rented out or is genuinely available for rent at market rates:

- (46÷52 weeks) × $30,940 = $27,370.

Shahani and Marvin’s deductions for the two weeks Katrina, Greg and Gerard rented their property are not affected because the rent received ($1,200) is more than their expenses for that period of $1,190 (2÷52 × $30,940).

Shahani and Marvin's rental income and deductions for the year are as follows:

- rent received = $46,960
- rental expenses $27,370 + $1,190 = $28,560
- net rental income $46,960 − $28,560 = $18,400.

As they are joint owners, Shahani and Marvin declare net rental income of $9,200 each in their tax returns.

Shahani and Marvin need to keep records of their expenses. If they make a capital gain when they sell the property, the expenses (interest, insurance, maintenance costs and council rates) they can't claim as a rental deduction relating to their own occupation of the property are taken into account in working out their capital gain.

Holiday apartments in commercial residential properties

- https://www.ato.gov.au/General/Property/Holiday-homes/Holiday-apartments-in-commercial-residential-properties/
- Last modified: 20 Dec 2019
- QC 23638

If you have an apartment that is part of commercial residential premises, it's treated like other residential rental properties. You're not liable for GST on related income and can't claim GST credits for related purchases.

While commercial residential premises are generally subject to GST, an individual apartment doesn't, by itself, have the characteristics of commercial residential premises.

On this page:

Leasing

If you lease your apartment to either a guest or a management company (to use as part of commercial residential premises), you make an input taxed supply of residential premises. This means you:

- are not liable for GST on the income
- can't claim GST credits for anything you purchase or import to lease the premises.

As with any rental property, you must declare the income you receive in your income tax return, and you can claim tax deductions for many of the associated expenses.

Example: Leasing out your apartment to a management company

Aiko owns a strata-titled apartment. When she leases her apartment to Mink Management Services (MMS) the supply is input taxed.

MMS will group Aiko's apartment with other apartments in a complex and let them out as serviced apartments.

Even though Aiko's apartment is located within commercial residential premises, her apartment doesn't, by itself, have the characteristics of commercial residential premises – it is residential.

This means Aiko:

- isn't liable for GST on the income
- can't claim GST credits for anything she purchases or imports to lease the premises.

Selling

If you sell your apartment it's considered residential premises and is input taxed, regardless of whether it's located within commercial residential premises. This means you:

- are not liable for GST on the income
- can't claim GST credits for anything you purchase or import to make the sale.

If you make a capital gain when you sell your apartment, you may need to pay capital gains tax, just as you would when selling any rental property.

See also:

- Commercial residential premises and GST

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If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

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