



# Rental property – repairs or capital expenses?

Tips for tax agents to correctly claim deductions for repairs and improvements made to a client's rental property.

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When your clients have work done on their rental property, make sure it's categorised correctly to avoid errors when including it in their tax returns.

Consider these factors to determine claims for expenses:

- **Repairs and general maintenance** are expenses for work done to remedy, or prevent, defects, damage or deterioration from using the property to earn income. These expenses can be claimed in the year the expense occurred.
- **Initial repairs** include any work done, including fixing defects, damage or deterioration existing at the time of purchase, regardless of whether your client knew about the need for repairs at the time they acquired the property. These are capital repair expenses and can't be claimed as a deduction. Instead, initial repairs are part of the acquisition cost and included in the cost base of the property for CGT purposes, unless they are
  - capital works
  - depreciating assets.
- **Capital works** are structural improvements, alterations and extensions to the property:
  - claimed at 2.5% over 40 years, with some exceptions
  - can only be claimed **after** the work has been completed, regardless of when your client pays a deposit or pays the bill as

instalments.

- **Improvements or renovations** that are structural are also capital works. Work going beyond remedying defects, damage or deterioration and improves the function of the property are improvements.
- **Repairs to an 'entirety'** are capital and can't be claimed as repairs. Repairs to an entirety generally involve the replacement or reconstruction of something separately identifiable as a capital item, for example, a depreciating asset.
- **Depreciating assets** (capital allowances) must be claimed over time according to their **effective life**.

Use our **Rental repairs factsheet** (part of the Investors toolkit) to help guide conversations with your clients about what can be claimed and when.

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