Australian Government
Australian Taxation Office

Tax-smart tips

for your investment property

Being tax-smart when investing in property means more than making the right property choices. If you use your property to earn income at any time, you need to:

- keep records right from the start
- work out what expenses you can claim as deductions
- work out if you need to pay tax instalments throughout the year
- declare all rental-related income in your tax return
- consider capital gains tax (CGT) when you sell.

Record keeping makes tax time easier

You need to keep records for the period you own the property to make sure you don't pay more tax than you need to, in case you later sell or rent out all or part of the property.

If you sell a property you use to earn income, you need the following records to work out if you are subject to capital gains tax.

Buying

Records to keep when you buy include:

- contract of purchase
- settlement statement
- conveyancing documents
- loan documents
- costs to buy the property
- borrowing expenses.

Owning

Records to keep during ownership include:

- proof of earned rental income
- all your expenses
- periods of private use by you or your friends
- periods the property is used as your main residence
- loan documents if you refinance your property
- efforts to rent the property out
- capital improvements
- depreciating assets.

Selling

Records you need when you sell include:

- contract of sale
- conveyancing documents
- sale of property fees
- how you calculated your capital gain or loss.

Record keeping tips

Set up an easy-to-use record-keeping system as a priority. For example, use a spreadsheet or professional software.

Keep records of every transaction while you own the property. This includes contracts of purchase and sale, as well as conveyancing and loan documents.

Scan copies of your receipts to make it easier to store and access them.

Remember, keeping proof of all your income, expenses and effort to rent out your property means you can claim everything you are entitled to.

Preparing your return

Rental property owners should remember these 3 simple steps when preparing their return.

1. Include all the income when you receive it

Report rental income in the income year the tenants pay it.

If tenants pay the rent to a real estate agent or property manager who takes their fees out before forwarding on to you – report the gross amount (the amount before fees or expenses) in your tax return.

Rental income includes:

- short-term rental arrangements (for example, a holiday home)
- sharing part of your main residence (home)
- insurance payouts
- rental bond money you keep.

2. Get your expenses right

- **Eligibility** – only claim expenses for the periods you can directly connect to earning assessable income.
- **Timing** – some expenses must be claimed over several years.
- **Apportionment** – apportion your claim where:
  - your property was not used as a rental for part of the year
  - only part of your property was rented out
  - you used the property or kept it vacant for yourself
  - you rented it at below market rates.

Report your income and expenses in line with your share of the investment.

3. Keep records to prove it all

You should keep records of all income and expenses relating to your rental property, as well as purchase and sale records.

Selling your property

When you sell or dispose of an investment property or your main residence that you rented out, remember:

- You may have to pay capital gains tax (CGT), even if you transfer the property into someone else's name rather than sell it.
- If you sell, transfer or gift property for less than market value, CGT is based on the market value of the property and you need to get a market valuation.

'Capital proceeds' is the amount you receive, or are deemed to receive, for example market value, when you sell the property.

If your purchase and ownership costs are greater than your capital proceeds, include your capital loss in your tax return in the income year it occurs. Reporting capital losses, means the losses are available to reduce any capital gains you make in the future.

- You need to work out the cost base for a capital gain, you can't include in this amount any deductions you claim for improvements, capital works or decline in value in any income year.
- If you live in the property before renting it out, you need to consider your entitlement to a full or partial main residence exemption, or if the 'Home first used to produce income rule' may apply.
- If you own the property for more than 12 months and you're an Australian resident, you may be entitled to a 50% discount of the capital gains tax.

A capital gain is the difference between your cost base (cost of ownership) and your capital proceeds (what you receive when you sell the property or the market value when you transfer the property).

This is a general summary only.
For more information go to ato.gov.au/rental
Watch our short videos at ato.gov.au/rentalvideos
Download our Rental properties guide at ato.gov.au/rentalpropertyguide
Read our Capital gains tax guide at ato.gov.au/cgtguide

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