This cover sheet is provided for information only. It does not form part of *Rental properties 2024*

This document has changed over time. This version was published on *1 July 2022*

Australian Government
Australian Taxation Office

Rental properties 2023

This guide explains how to treat rental income and expenses, including how to treat more than 230 residential rental property items

For more information go to **ato.gov.au**

NAT 1729-06.2023

Our commitment to you

We are committed to providing you with reliable, accessible and useful information to help you understand your rights and entitlements and your obligations.

If you follow our information in this publication and it is misleading or turns out to be incorrect and you make a mistake as a result, we must still apply the law correctly. If that means you owe us money, you must pay it but we will not charge you a penalty. Also, if you acted reasonably and in good faith we will not charge you interest. If correcting the mistake means we owe you money, we will pay it and pay you any interest you are entitled to.

For more information, go to ato.gov.au and search for 'How our advice and guidance protects you'.

If you feel that this publication does not fully cover your circumstances, or you are unsure how it applies to you, you can seek further help from us.

Our Charter outlines the commitments we make to you and everyone we work with, our expectations of you and steps you can take if you are not satisfied. For more information, go to ato.gov.au and search for 'Our Charter'.

We regularly revise our publications to take account of any changes to the law, so make sure that you have the latest information. If you are unsure, you can check for more recent information on our website at ato.gov.au or contact us.

This publication was current at **May 2023**.

© Australian Taxation Office for the Commonwealth of Australia, 2023

You are free to copy, adapt, modify, transmit and distribute this material as you wish (but not in any way that suggests the ATO or the Commonwealth endorses you or any of your services or products).

Published by

Australian Taxation Office
Canberra
June 2023

DE-50978

Contents

Introduction . . . 2
Tax and natural disasters . . . 2
Granny flat arrangements and capital gains tax . . . 2
Publications and services . . . 2
Is your rental property outside Australia? . . . 2

Rental income . . . 3
Rental-related income . . . 3
Co-ownership of rental property . . . 3

Rental expenses . . . 6
Types of rental expenses . . . 6
Always check your supplier's ABN . . . 6
Expenses for which you cannot claim deductions . . . 6
Travel expenses . . . 6
Certain second-hand depreciating assets . . . 6
Expenses for which you can claim an immediate deduction . . . 7
Expenses deductible over several income years . . . 18
Keeping rental property records . . . 30

Worksheet – work out your net rental income or loss . . . 31

Other tax considerations . . . 32
Capital gains tax (CGT) . . . 32
General value shifting regime . . . 33
Goods and services tax (GST) . . . 33
Negative gearing . . . 33
Pay as you go (PAYG) instalments . . . 33

Residential rental property assets . . . 34
Definitions . . . 34
Residential rental property items . . . 36

More information . . . 48
Website . . . 48
Publications . . . 48
Phone . . . 49
Other services . . . 49

Introduction

Rental properties 2023 will help you, as an owner of rental property in Australia, determine:

- which rental income is assessable for tax purposes
- which expenses are allowable deductions
- which records you need to keep
- what you need to know when you sell your rental property.

Many, but not all, of the expenses associated with rental properties will be deductible. This guide explains:

- how to apportion your expenses if only part of them are tax deductible
- what expenses are not deductible
- when you can claim those expenses that are deductible
  - some you can claim in the tax return for the income year in which you spent the money
  - others must be claimed over a number of years (including decline in value of depreciating assets and capital works expenses).

The examples given in this publication featuring Mr and Mrs Hitchman are based on the assumption that the Hitchmans own their rental properties as joint tenants who are not carrying on a business of letting rental properties.

When you own a rental property, you may also need to know about:

- capital gains tax (CGT)
- general value shifting regime
- goods and services tax (GST)
- negative gearing
- pay as you go (PAYG) instalments.

This guide explains these at pages 32–3.

Tax and natural disasters

We have special arrangements for people affected by natural disasters such as a cyclone, flood or fire occurring during the income year. For more information, go to ato.gov.au and search for 'Dealing with disasters'.

If your tax records were lost or destroyed, we can help you to reconstruct them, and make reasonable estimates where necessary.

Phone our emergency support team on **1800 806 218** and we can discuss the best way we can help you.

We can also:

- fast track refunds
- give you extra time to pay debts, without interest charges
- give you more time to meet activity statement, income tax and other lodgment obligations, without penalties
- help you if you are experiencing serious hardship.

Granny flat arrangements and CGT

A granny flat arrangement is a written agreement that gives an eligible person the right to occupy a property for life.

A granny flat arrangement is exempt from CGT if:

- the owner or owners of the property are individuals
- one or more eligible people have an eligible granny flat interest in the property
- the owners and the people with the granny flat interest enter into a written and binding granny flat arrangement. This arrangement must not be commercial in nature.

Other CGT events that are not related to a granny flat arrangement, or sit outside the arrangement, are subject to normal CGT rules. For example, the sale of a property that was used in a granny flat arrangement, which has since terminated, is subject to the normal CGT rules.

Is your rental property outside Australia?

If your property is located outside Australia, special rules apply to the deductibility of your rental property expenses. For more information on foreign source income, see question **20** in *Individual tax return instructions supplement 2023*. If you are unsure of your obligations, contact your recognised tax adviser or us.

Publications and services

To find out how to get a publication referred to in this guide and for information about our other services, see **More information** on page 48.

Rental income

Rental and other rental-related income is the full amount of rent and associated payments that you receive, or become entitled to, when you rent out your property, whether it is paid to you or your agent. You must include your share of the full amount of rent you earn in your tax return.

Your rental income also includes rent or associated payments that you receive, or become entitled to, when renting out part or all of your home through the sharing economy or the renting of your holiday home.

Rent and associated payments may be in the form of goods and services. You will need to work out the monetary value of these. For example, if the tenant gives you property or goods as rent instead of money, you include the market value of the property or goods as rental income in your tax return.

Rental-related income

You must include rental bond money as income if you become entitled to retain it, for instance, because a tenant defaulted on the rent, or because damage to your rental property required repairs or maintenance.

If you received an insurance payout, there may be situations where the payout needs to be included as income, for example, if you received an insurance payment to compensate you for lost rent.

If you received a letting or booking fee, you must include this as part of your rental income.

Associated payments include all amounts 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 you received a reimbursement or recoupment for deductible expenditure, you may have to include an amount as income. For example, if you received:

- an amount from a tenant to cover the cost of repairing damage to some part of 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
- 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. For more information, see *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*.

You must include as rental income any assessable amounts relating to limited recourse debt arrangements involving your rental property. For more information, see:

- **Limited recourse debt arrangements** on page 30
- *Guide to depreciating assets 2023* (NAT 1996).

Co-ownership of rental property

The way that rental income and expenses are divided between co-owners varies depending on whether the co-owners are joint tenants, tenants in common or there is a partnership carrying on a business of letting rental properties.

Dividing income and expenses according to legal interest

Co-owners who are not carrying on a business of letting rental properties must divide the income and expenses for the rental property 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, despite any agreement between co-owners, either oral or in writing, stating otherwise.

Example 1: Joint tenants

Mr and Mrs Hitchman own an investment rental property as joint tenants. In the relevant income year, Mrs Hitchman phones us and asks if she can claim 80% of the rental loss as:

- she is earning $67,000 a year, and
- Mr Hitchman is earning $31,000.

Therefore, it would be better if she claimed most of the rental loss, as she would save more tax. Mrs Hitchman thought it was fair that she claimed a bigger loss because most of the expenses were paid out of her wages. Under a partnership agreement drawn up by the Hitchmans, Mrs Hitchman is supposed to claim 80% of any rental loss.

We told Mrs Hitchman that where 2 people own a rental property as joint tenants, the net rental loss must be shared in line with their legal interest in the property. Therefore, the Hitchmans must each include half of the total income and expenses in their tax returns.

Any agreement that the Hitchmans might draw up to divide the income and expenses in proportions other than equal shares has no effect for income tax purposes. Therefore, even if Mrs Hitchman paid most of the bills associated with the rental property, she would not be able to claim more of the rental property deductions than Mr Hitchman.

Example 2: Tenants in common

In example 1, if the Hitchmans owned their property as tenants in common in equal shares, Mrs Hitchman would still be able to claim only 50% of the total property deductions.

However, if Mrs Hitchman's legal interest was 75% and Mr Hitchman's legal interest was 25%, Mrs Hitchman would have to include 75% of the income and expenses on her tax return and Mr Hitchman would have to include 25% of the income and expenses in his tax return.

Interest on money borrowed by only one of the co-owners which is exclusively used to acquire that person's interest in the rental property does not need to be divided between all of the co-owners.

If you don't know whether you hold your legal interest as a joint tenant or a tenant in common, read the title deed for the rental property. If you are unsure whether your activities constitute a rental property business, see **Partners carrying on a business of letting rental properties** in the next column.

Co-owners of an investment property (not in business)

A person who simply co-owns an investment property or several investment properties is usually regarded as an investor who is not carrying on a business of letting rental properties, either alone or 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.

Example 3: Co-owners who are not carrying on a business of letting rental properties

The Tobins own, as joint tenants, 2 units and a house from which they derive rental income. The Tobins occasionally inspect the properties and also interview prospective tenants. Mr Tobin performs most repairs and maintenance on the properties himself, although he generally relies on the tenants to let him know what is required. The Tobins do any cleaning or maintenance that is required when tenants move out. Arrangements have been made with the tenants for the weekly rent to be paid into an account at their local bank. Although the Tobins devote some of their time to rental income activities, their main sources of income are their respective full-time jobs.

The Tobins are not partners carrying on a business of letting rental properties. They are only co-owners of several rental properties. Therefore, as joint tenants, they must each include half of the total income and expenses in their tax returns, that is, in line with their legal interest in the properties.

Partners carrying on a business of letting rental properties

Most rental activities are a form of investment and do not amount to carrying on a business. However, where you are carrying on a business of letting rental properties in partnership with others, you must divide the net rental income or loss according to the partnership agreement. You must do this whether or not the legal interests in the rental properties are different to the partners' entitlements to profits and losses under the partnership agreement. If you do not have a partnership agreement, you should divide your net rental income or loss between the partners equally. See **example 4**.

Example 4: Co-owners who are carrying on a business of letting rental properties

The D'Souzas, own a number of rental properties, either as joint tenants or tenants in common. They own 8 houses and 3 apartment blocks (each apartment block comprising 6 residential units) making a total of 26 properties.

The D'Souzas actively manage all of the properties. They devote a significant amount of time, an average of 25 hours per week each, to these activities. They undertake all financial planning and decision making in relation to the properties. They interview all prospective tenants and collect all the rents. They carry out regular property inspections and attend to all of the everyday maintenance and repairs themselves or organise for them to be done on their behalf. Apart from income Mr D'Souza earns from shares, they have no other sources of income.

The D'Souzas are carrying on a business of letting rental properties. This is demonstrated by:

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

Mr and Mrs D'Souza have a written partnership agreement in which they agreed to carry on a business of letting rental properties. They have agreed that Mrs D'Souza is entitled to a 75% share of the partnership profits or losses and Mr D'Souza is entitled to a 25% share of the partnership profits or losses.

Because the D'Souzas are carrying on a business of letting rental properties, the net profit or loss it generates is divided between them according to their partnership agreement (in proportions of 75% and 25%), even if their legal interests in the rental properties are equal, that is, they each own 50%.

For more information about dividing net rental income or losses between co-owners, see *TR 93/32 – Income tax: rental property – division of net income or loss between co-owners*.

For more information about determining whether a business of letting rental properties is being carried on, determining whether it is being carried on in partnership, and the distribution of partnership profits and losses, see:

- *TR 97/11 – Income tax: am I carrying on a business of primary production?*
  - Paragraph 13 of TR 97/11 lists 8 indicators to determine whether a business is being carried on. Although this ruling refers to the business of primary production, these indicators apply equally to activities of a non-primary production nature.
- *TR 94/8 – Income tax: whether a business is carried on in partnership (including 'husband and wife' partnerships)*
- *IT 2423 – Withholding tax: whether rental income constitutes proceeds of business – permanent establishment – deduction for interest*
- *IT 2316 – Income tax: distribution of partnership profits and losses.*

If you are carrying on a business, you may be eligible for the small business concessions. Go to ato.gov.au for more information about small business entity concessions. CGT small business concessions do not apply to assets that are used mainly to derive rent.

Contact us or your recognised tax adviser if you are unsure whether:

- your rental property activities amount to a partnership carrying on a business of letting rental properties
- you are carrying on a rental property activity as a joint tenant or a tenant in common, or
- you are in both categories.

Rental expenses

You can claim a deduction for certain expenses you incur for the period your property is rented or is genuinely available for rent. However, you cannot claim expenses of a capital nature or private nature (although you may be able to claim decline in value deductions or capital works deductions for certain capital expenditure or include certain capital costs in the cost base of the property for CGT purposes).

Types of rental expenses

There are 3 categories of rental expenses, those for which you:

- cannot claim deductions
- can claim an immediate deduction in the income year you incur the expense
- can claim deductions over a number of income years.

Each of these categories is discussed in detail in the following pages.

Always check your supplier's ABN

If you pay a contractor for services on your rental property, you need to check that they have an Australian business number (ABN). If they do not provide you with an ABN, you may have to withhold 47% of that payment and pay it to us. For more information, go to ato.gov.au and search for 'withholding from suppliers'.

If you do not withhold from payments to a contractor who has not provided you with an ABN, you may not be able to claim a deduction for those expenses.

For more information, go to ato.gov.au and search for 'removing deductibility of non-compliant payments'.

Example 5: Withholding from suppliers

Sergio and Marcia own a rental property and need to make repairs to a wall.

Sergio gets a quote from Derek's Wall Repairs, a sole trader. Derek offers to do the job for $2500 with a tax invoice, or $1800 for cash. Sergio and Marcia opt to pay cash and **not receive** a tax invoice. They do not ask for Derek's ABN and Sergio does not withhold any amount from the $1800.

As no ABN is provided, Sergio should withhold 47% of the $1800 payment. That is, withholding the amount of $846, and paying Derek $954.

The payment of $1800 is non-compliant. As a result, Sergio and Marcia may not be able to claim a deduction for the repair.

Expenses for which you cannot claim deductions

Expenses for which you cannot to claim deductions include:

- expenses not incurred by you, such as water or electricity usage charges borne by your tenants
- expenses where your property (including your holiday home) was not genuinely available for rent
- expenses that do not relate to the rental of a property, for example:
  - expenses you incur for your own use of a holiday home that you rent out for part of the year
  - costs of maintaining a non-income producing property used as collateral for the investment loan
- expenses that relate to holding vacant land
- the cost of certain second-hand depreciating assets
- acquisition and disposal costs of the property
- travel expenses to inspect a property before you buy it and, in certain circumstances, when you own the property
- expenses incurred in relocating assets between rental properties prior to renting
- expenses for rental seminars about helping you find a rental property to invest in.

Travel expenses

Travel expenses include the costs of:

- travel to inspect, maintain or collect rent for the property
- meals and accommodation that relate to that travel.

You cannot claim a deduction for travel expenses that relate to your residential rental property unless you are:

- using the property in carrying on a business (including a business of letting rental properties), or
- an excluded entity.

For the meaning of 'excluded entity', see **Definitions** on page 35.

If your travel expenses also relate to another income producing activity, you will need to apportion the expenses. For more information, see **Apportionment of travel expenses** on page 17.

Certain second-hand depreciating assets

From 1 July 2017, you may not claim a deduction for a decline in value of certain second-hand depreciating assets against your residential rental property income unless:

- you are using the property in carrying on a business (including a business of letting rental properties), or
- you are an excluded entity.

For more information, see **Limit on deductions for decline in value of second-hand depreciating assets** on page 20.

For more information, see:

- **Travel and car expenses** on page 17
- *Rental expenses to claim*
- *Rental properties and travel expenses*

Acquisition and disposal costs

You cannot claim a deduction for the costs of acquiring or disposing of your rental property, such as:

- purchase cost of the property
- fees on bank guarantees in lieu of deposits
- conveyancing costs
- advertising expenses
- fees of a buyer's agent you engage to find you a suitable rental property to purchase, including where the agent recommends a property manager free of charge as an optional or supplementary service
- stamp duty on the transfer of the property (but not stamp duty on a lease of property; see **Lease document expenses** on page 15).

However, these costs may form part of the cost base of the property for CGT purposes. See also **Capital gains tax** on page 32.

Example 6: Acquisition costs

The Hitchmans bought a rental property for $170,000 in July 2022. They also paid surveyor's fees of $350 and stamp duty of $750 on the transfer of the property. Neither of these expenses are deductible against the Hitchmans' rental income.

However, in addition to the $170,000 purchase price, the incidental costs of $350 and $750 (totalling $1,100) are included in the cost base and reduced cost base of the property.

This means, when the Hitchmans dispose of the property, the cost base or reduced cost base for the purposes of determining the amount of any capital gain or capital loss will be $171,100 ($170,000 + $1,100).

For more information, go to ato.gov.au and see *Guide to capital gains tax 2023*.

Deductions for vacant land

Deductions for expenses you incur for holding vacant land are now limited. This applies to land you held both before and from 1 July 2019.

Your land is considered vacant if, at the time you incurred the expense the land:

- did not contain a substantial and permanent structure, or
- contained a substantial and permanent structure that is residential premises, but the premises
  - could not lawfully be occupied, or
  - was not rented out or made available for rent.

You can still deduct vacant land holding costs if:

- the land is held by an 'excluded entity', that is a
  - corporate tax entity
  - superannuation plan (other than a self-managed superannuation fund)
  - managed investment trust
  - public unit trust
  - unit trust or partnership of which all the members are corporate tax entities, superannuation plans, managed investment trust or public unit trust
- the land is used to carry on a business by
  - you
  - your affiliate or an entity of which you are an affiliate
  - your spouse or child under 18 years old
  - an entity connected with you
- you, an affiliate (as listed above), spouse or child, or an entity connected with you, are carrying on a business of primary production and the land is leased or hired to another entity
- you make the land available at arm's length to a business for use in that business
- a substantial and permanent structure was on the land but an exceptional circumstance occurred that resulted in the land becoming vacant.

Expenses for which you can claim an immediate deduction

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

- advertising for tenants
- bank charges
- body corporate fees and charges*
- cleaning
- local council rates
- electricity and gas
  - annual power guarantee fees
- gardening and lawn mowing
- in-house audio and video service charges
- insurance
  - building
  - contents
  - public liability
  - loss of rent
- interest on loans*
- land tax*
- lease document expenses for*
  - preparation
  - registration
  - stamp duty
- legal expenses* (excluding acquisition costs and borrowing costs)
- mortgage discharge expenses*
- pest control
- property agent's fees and commissions (including prior to the property being available to rent)
- quantity surveyor's fees

- costs incurred in relocating tenants into temporary accommodation if the property is unfit to occupy for a period of time
- repairs and maintenance*
  - cost of a defective building works report in connection to repairs and maintenance conducted
- secretarial and bookkeeping fees
- security patrol fees
- servicing costs, for example, servicing a water heater
- stationery and postage
- telephone calls and rental
- tax-related expenses
- travel and car expenses to the extent that they are deductible*
- water charges.

You can claim a deduction for these expenses only if you actually incur them and they are not paid by the tenant. Deductions marked with an asterisk (*) are discussed in detail on pages 12–17.

Expenses prior to property being genuinely available for rent

You can claim expenditure such as interest on loans, local council, water and sewerage rates, land taxes and emergency services levies you incurred during renovations to a property you intend to rent out. However, you cannot claim deductions from the time your intention changes, for example, if you decide to use the property for private purposes.

Apportionment of rental expenses

There may be situations where not all your expenses are deductible and you need to work out the deductible portion. To do this you subtract any non-deductible expenses from the total amount you have for each category of expense; what remains is your deductible expense.

You will need to apportion your expenses if any of the following apply to you:

- 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 rent your property at non-commercial rates
- your investment loan is partially used for private purposes.

Is the property genuinely available for rent?

Rental expenses are deductible to the extent that they are incurred for the purpose of producing rental income.

Expenses may be deductible for periods when the property is not rented out, providing the property is genuinely available for rent – that is:

- the property is advertised in ways which give it broad exposure to potential tenants, and
- having regard to all the circumstances, tenants are reasonably likely to rent it.

The absence of these factors generally indicates the owner does not have a genuine intention to make income from the property and may have other purposes – such as using it or reserving it for private use.

Factors that may indicate a property is not genuinely available for rent include:

- it is advertised in ways that limit its exposure to potential tenants – for example, the property is only advertised
  - at your workplace
  - by word of mouth
  - outside annual holiday periods when the likelihood of it being rented out is very low
- the location, condition of the property, or accessibility to the property, mean that 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 as well as having conditions like ‘no children’ and ‘no pets’
- you refuse to rent out the property to interested people without adequate reasons.

Example 7: Unreasonable rental conditions placed on property

Josh and Maria are retired and own a holiday home where they stay periodically. They advertise the property for short-term holiday rental through a real estate agent.

Josh and Maria have instructed the agent that they must personally approve tenants before they are permitted to stay and 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 is not to make income from the property, but to reserve it for their own use. Josh and Maria cannot 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 any capital gain.

Example 8: Private use by owners during key periods with little or no demand for property at other times

Daniel and Kate have 2 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 vehicle.

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 is not to be rented out. They want to reserve the property for their own use.

While there would be demand for the property during the summer holiday period, there is no demand outside this period because of the small number of holiday makers and the location and limited access to the property.

The house is not rented out at all during the income year.

In Daniel and Kate's circumstances, they cannot claim any deductions for the property. They did not have a genuine intention to make income from the property. It was essentially for private use.

If in the circumstances Daniel and Kate happened 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 was actually rented out. For example, if the house was rented out for 2 weeks, they could claim a deduction for 2 out of 52 weeks for their expenses.

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 (such as interest, insurance, maintenance costs and council rates) they could not claim a deduction for are taken into account in working out their capital gain.

Property available for part-year rental

If you use your property for both private purposes and to produce rental income, you cannot claim a deduction for the portion of any expenditure that relates to your private use. Examples of properties you may use for both private and rental purposes are holiday homes and time-share units. In cases such as these you cannot claim a deduction for any expenditure incurred for those periods when the home or unit was not genuinely available for rent. This includes when it was used by you, your relatives or your friends for private purposes.

In some circumstances it may be easy to decide which expenditure is private in nature. For example, council rates paid for a full year could be apportioned according to the proportion of the year that:

- the property was rented out, and
- genuinely available for rent during the year.

It may not be appropriate to apportion all your expenses on the same basis. For example, expenses that relate solely to the renting of your property are fully deductible and you would not apportion them based on the time the property was rented out. Such costs include:

- real estate agents commissions,
- costs of advertising for tenants,
- phone calls you make to a tradesperson to fix damage caused by a tenant,
- the cost of removing rubbish left by tenants.

On the other hand, no part of certain expenses that relate solely to periods when the property is not rented out are deductible. This would include the cost of phone calls you make to a tradesperson to fix damage caused when you were using the property for private purposes.

Example 9: Apportionment of expenses where property is rented for part of the year

Dave owns a property in Tasmania. He rents out his property from 1 November 2022 to 30 March 2023, a total of 150 days. He lives alone in the house for the rest of the year. The council rates are $1,000 per year. He apportions the council rates on the basis of time rented.

Rental expense × portion of year = deductible amount

He can claim a deduction against his rental income of

$$\$1{,}000 \times \frac{150}{365} = \$411$$

If Dave has to make phone calls to tradespersons to fix damage caused by a tenant or has any other expenses which relate solely to the renting of his property, he works out his deduction for these by reasonably estimating the cost of each of these expenses. It is not appropriate for him to work out his deduction by claiming 150/365 of the total expense.

Example 10: Private use of property by owner

Gail and Craig jointly own a property which was brand new when they purchased it. They rent the property out at market rates and use it as a holiday home. They advertise the property for rent during the year through a real estate agent.

Gail and Craig use the property themselves for 4 weeks as a holiday home during the year.

During the year, Gail and Craig's expenses for the property are $36,629. This includes $1,828 for the agent's commission and the costs of advertising for tenants. It also includes interest on the funds borrowed to purchase the holiday home, property insurance, maintenance costs, council rates, the decline in value of depreciating assets and capital works deductions.

Gail and Craig receive $25,650 from renting out the property during the year.

No deductions can be claimed for the 4 weeks Gail and Craig used the property themselves.

Gail and Craig can claim the full $1,828 as a deduction for the agent's commission and costs of advertising for tenants. Gail and Craig can claim deductions for their other expenses ($34,801) based on the proportion of the income year the property was rented out or was genuinely available for rent.

Income tax return

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

Rent received	$25,650
Rental deductions ((48/52 × $34,801) + $1,828)	$33,952
Rental loss	($8,302)

As they are joint owners, Gail and Craig claim a rental loss of $4,151 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 proportion of the expenses they could not claim a deduction for are taken into account in working out any capital gain.

Example 11: Holiday home rented out for part of the year

Akshay and Jesminda jointly own a holiday home. They rent it out between 20 December and 17 January because they can make a significant amount of money which helps offset the costs of owning the property for the year. They reserve the property for their own use for the rest of the year.

Akshay and Jesminda's expenses for the holiday home for the year were $32,300. This includes $1,100 for the agent's commission and the costs of advertising for tenants. It also 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 received $3,000 per week from renting the property out during the 4 weeks over the Christmas–New Year period.

Overall the property expenses were more than the rent they received. Akshay and Jesminda can claim the full $1,100 as a deduction for the agent's commission and the costs of advertising the tenants. However, for their other expenses, Akshay and Jesminda can only claim deductions for the proportion of the year they rented out the property (4 weeks). They declared net rental income in their tax returns as follows:

Rent received	$12,000
Rental deductions ((4/52 weeks × $31,200) + $1,100)	$3,500
Net rental income	$8,500

As they are joint owners, Akshay and Jesminda declare net rental income of $4,250 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 proportion of the expenses they could not claim a deduction for are taken into account in working out their capital gain.

Only part of your property is used to earn rent

If only part of your property is used to earn rent, you can claim only that part of the expenses that relates to the rental income. As a general guide, apportion according to the floor-area basis that is that part of the residence solely occupied by the tenant, together with a reasonable figure for tenant access to the general living areas, including garage and outdoor areas if applicable.

Example 12: Renting out part of a residential property

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 6 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. Michael apportions these expenses on the basis of the floor area, so one-third (that is $3,000) applies to the flat. However, as Michael used the flat to produce rental 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 income and expenses from his property as:

Rent	$2,600	(26 weeks × $100)
Expenses	$1,500	($9,000 × 1/3 × 50%)
Net rental income	$1,100	

Example 13: Renting out part of a residential property

John decided to rent out one room in his residence. The floor area of the room is 20 percent of the area of the residence. John also shared equal access to the general areas such as the kitchen, bathroom and laundry. The floor area of these rooms is 60 percent of the area of the residence.

John rented out the room and access to the general areas for 12 months in the year at $250 per week.

The annual mortgage interest, building insurance, rates and taxes for the whole property amounted to $12,000. Using the floor-area basis for apportioning these expenses, 20% (that is $2,400) applies to the room.

Assuming there were no other expenses, John would calculate the income and expenses from his property as:

Rent	$13,000	(52 weeks × $250)
Room Expenses	$2,400	($12,000 × 20%)
General areas expenses	$3,600	($12,000 × 60% × 50%)
Net rental income	$7,000	

For more information about the apportionment of expenses, see

- *IT 2167 – Income tax: rental properties – non-economic rental, holiday home, share of residence, etc. cases, family trust cases* and
- *TR 97/23 – Income tax: deductions for repairs*.

Non-commercial rental

If you let a property, or part of a property, at less than normal commercial rates, there may be a limit on the deductions you can claim.

Example 14: Private use by owner and rented to relatives or friends at a discounted rate

Kelly and Dean buy a holiday home on 1 July 2022, which they own jointly. The home was 3 years old when they purchased it. During holiday periods, the market rent is $840 per week. They advertise the property for rent during the year through a real estate agent.

Kelly and Dean arrange with the agent for their friend Kimarny to stay at the property for 3 weeks at a nominal rent of $200 per week. They also use the property themselves for 4 weeks during the year.

During the year, Kelly and Dean's expenses for the property are $20,800 ($400 per week). This includes interest on the funds borrowed to purchase the holiday home, property insurance, the agent's commission, maintenance costs, council rates, and capital works deductions.

Kelly and Dean receive $10,000 from renting out the property during the year. This includes the $600 they received from Kimarny.

No deductions can be claimed for the 4 weeks Kelly and Dean used the property themselves.

Kelly and Dean can claim deductions for their expenses based on the proportion of the income year it was rented out or was genuinely available for rent at the market rate: 45/52 weeks × $20,800 = $18,000.

If Kimarny had rented the property for the market rate, Kelly and Dean would have been able to claim deductions for the 3 week period of $1200 (3/52 × $20,800 = $1200).

However because the rent Kelly and Dean received from Kimarny was less than market rate and their expenses were more than the rent received during that period, they cannot 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.

Income tax return

Kelly and Dean's rental income and deductions for the year are as follows:

Rent received		$10,000
Rental deductions	($18,000 + $600)	$18,600
Rental loss		($8,600)

As they are joint owners, Kelly and Dean claim a rental loss of $4,300 each in their tax returns.

Kelly and Dean need to keep records of their expenses. If they make a capital gain when they sell the property, the proportion of the expenses they could not claim a deduction for are taken into account in working out their capital gain.

For more information about non-commercial rental arrangements, see *IT 2167 Income Tax: rental properties – non-economic rental, holiday home, share of residence, etc. cases, family trust cases*.

Investment loan used for private purposes

If you take out a loan to purchase a rental property, you can claim the interest charged on that loan as a deduction. However, to the extent that the loan is used or refinanced for a private purpose, you must apportion the interest expense to account for the private use.

Example 15: Investment loan used for partial private purpose

Rufus has owned his apartment for a number of years and is now looking to turn it into a rental when he upgrades to a larger residence.

Rufus still has a mortgage over the apartment and decides to refinance the mortgage into an investment loan. When the loan is refinanced, Rufus uses part of the new loan towards the purchase of his new residence which will be used for a private purpose.

Rufus must apportion his interest expenses and can only claim a deduction for interest expense to the extent that it relates to the producing of his rental income. He cannot claim a deduction for any portion of the expenses which relates to private purposes.

For more information, see *TR 2000/2 Income tax: deductibility of interest on moneys drawn down under line of credit and redraw facilities*.

Co-owner rents property

If you own a property:

- as tenant in common with another person,
- you do not live in the property, and
- you let your part of a property to your co-owner at a commercial rental rate

then the rent received is assessable income. Accordingly, you may deduct any losses or outgoings incurred in gaining the rental income, provided the losses or outgoings are not of a capital, domestic or private nature.

Asbestos remediation

Work undertaken to an investment property in dealing with asbestos may, in some cases, be a deductible repair. This depends on the nature or extent of the remediation process.

Where the expenditure is not otherwise deductible as a repair, a deduction may be available as an 'environmental protection activity'.

For more information, go to ato.gov.au and search for 'Asbestos affected properties'.

Body corporate fees and charges

Strata title body corporates are constituted under the strata title legislation of the various states and territories.

You may be able to claim a deduction for body corporate fees and charges you incur for your rental property.

Body corporate fees and charges may be incurred to cover the cost of day-to-day administration and maintenance or for a special purpose fund.

Regular payments you make to body corporate administration funds or **general purpose sinking funds** for ongoing administration and general maintenance are considered to be payments for the provision of services by the body corporate. You can claim a deduction for these regular payments at the time you incur them. However, if you are required by the body corporate to pay a special levy to fund a particular capital improvement, these levies are not deductible. This is the case whether that special levy is paid into a **special purpose fund** or as a special contribution to the general purpose sinking fund.

If the body corporate does raise a special levy to fund certain types of construction costs, you may be able to claim a capital works deduction. You can only claim a capital works deduction once the work is completed and the cost has been charged to either:

- the special purpose fund, or
- the general purpose sinking fund, if a special contribution has been levied.

If the body corporate fees and charges you incur are for things like:

- the maintenance of common gardens
- deductible repairs and building insurance

you cannot also claim a deduction for similar expenses. For example, you cannot claim a separate deduction for common garden maintenance if that expense is already included in body corporate fees and charges.

Common property

Common property is that part of a strata plan not comprised in any proprietor's lot. It includes stairways, lifts, passages, common garden areas, common laundries and other facilities intended for common use.

The ownership of the common property varies according to the relevant state strata title legislation. However, in all states, the income derived from the use of the common property is income of lot owners. You can claim deductions for the common property in proportion to your lot entitlement for:

- capital works
- the decline in value of depreciating assets (in some cases).

For more information, see **Deduction for decline in value of depreciating assets** on page 19.

For more information about strata title body corporates, see *TR 2015/3 – Income tax: matters relating to strata title bodies constituted under strata title legislation*.

Interest on loans

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

You cannot claim a deduction for interest expenses you incur if:

- you start to use the property for private purposes, or
- you refinance an investment loan for private purposes or otherwise use the loan for a private purpose.

If the expenses were incurred partly for a private purpose, you must apportion the expense accordingly. For more information see **Investment loan used for private purpose** on page 12.

While the property is rented, or genuinely available for rent, you may also claim interest charged on loans taken out:

- to purchase depreciating assets
- for repairs
- for renovations.

Similarly, if you take out a loan to finance renovations to a property you intend to rent out, the interest on the loan will be deductible from the time you took the loan out. However, if your intention changes, for example, you decide to use the property for private purposes and you no longer use it to produce rent or other income, you cannot claim the interest after your intention changes.

Banks and other lending institutions offer a range of financial products which can be used to acquire a rental property. Many of these products permit flexible repayment and redraw facilities. As a consequence, a loan might be obtained to purchase both a rental property and, for example, a private car. In cases of this type, the interest on the loan must be apportioned into deductible and non-deductible parts according to the amounts borrowed for the rental property and for private purposes. A simple example of the necessary calculation for apportionment of interest is in example 16. If you have a loan account that has a fluctuating balance due to a variety of deposits and withdrawals, and it is used for both private purposes and rental property purposes, you must keep accurate records to enable you to calculate the interest that applies to the rental property portion of the loan; that is, you must separate the interest that relates to the rental property from any interest that relates to the private use of the funds.

For more information on how to calculate interest for these types of products, see *TR 2000/2 Income tax: deductibility of interest on moneys drawn down under line of credit facilities and redraw facilities*.

Some rental property owners borrow money to buy a new home and then rent out their previous home. If there is an outstanding loan on the old home and the property is used to produce income, the interest outstanding on the loan, or part of the interest, will be deductible. However, an interest deduction cannot be claimed on the loan used to buy the new home because it is not used to produce income. This is the case whether or not the loan for the new home is secured against the former home.

Example 16: Apportionment of interest

The Hitchmans decide to use their bank's 'Mortgage breaker' account to take out a loan of $209,000 from which $170,000 is to be used to buy a rental property and $39,000 is to be used to purchase a private car. They will need to work out each year how much of their interest payments is tax deductible. The following whole-year example illustrates an appropriate method that could be used to calculate the proportion of interest that is deductible. The example assumes an interest rate of 6.75% per annum on the loan and that the property is rented from 1 July:

Interest for year 1 = $209,000 × 6.75% = $14,108

Apportionment of interest payment related to rental property:

$$\text{Total interest expense} \times \frac{\text{rental property loan}}{\text{total borrowings}} = \text{deductible interest}$$

$$\$14{,}108 \times \frac{\$170{,}000}{\$209{,}000} = \$11{,}475$$

More complicated investment loan interest payment arrangements also exist, such as 'linked' or 'split' loans which involve 2 or more loans or sub-accounts in which one is used for private purposes and the other for business purposes. Repayments are allocated to the private account and the unpaid interest on the business account is capitalised. This is designed to allow you to pay off your home loan faster while deferring payments on your rental property loan and maximises your potential interest deduction by creating interest on interest.

This can create a tax benefit because the deduction for interest actually incurred on the investment account is greater than the amount of interest that might reasonably be expected to have been allowable but for using the loan arrangement outlined above. In this case we may disallow some or all of your interest deductions. You should seek advice from your recognised tax adviser or contact us to discuss your situation. For more information, see *TD 2012/1 Income tax: can Part IVA of the Income Tax Assessment Act 1936 apply to deny a deduction for some, or all, of the interest expense incurred in respect of an 'investment loan interest payment arrangement' of the type described in this Determination?*

If you prepay interest it may not be deductible all at once; see **Prepaid expenses** on page 30.

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, then thin capitalisation rules may affect you if your debt deductions, such as interest, combined with those of your associate entities for 2022–23 are more than $2,000,000.

Companies, partnerships and trusts that have international dealings will need to complete the International Dealings Schedule (IDS). See the *International dealings schedule 2023* (NAT 73345).

For more information about the deductibility of interest, see:

- *TR 2004/4 – Income tax: deductions for interest incurred prior to the commencement of, or following the cessation of, relevant income earning activities*
- *TR 2000/2 – Income tax: deductibility of interest on moneys drawn down under line of credit facilities and redraw facilities*
- *TR 98/22 – Income tax: the taxation consequences for taxpayers entering into certain linked or split loan facilities*
- *TR 95/25 – Income tax: deductions for interest under section 8-1 of the Income Tax Assessment Act 1997 following FC of T v. Roberts, FC of T v. Smith*
- *TR 2019/2 – Income tax: whether penalty interest is deductible*
- *TD 1999/42 – Income tax: do the principles set out in TR 98/22 apply to line of credit facilities?*
- *TD 2012/1 – Income tax: can Part IVA of the Income Tax Assessment Act 1936 apply to deny a deduction for some, or all, of the interest expense incurred in respect of an 'investment loan interest payment arrangement' of the type described in this Determination?*
- *Expenses you can claim*

If you need help to calculate your interest deduction, seek advice from your recognised tax adviser or contact us to discuss your situation.

Land tax

Land tax liabilities may be deductible, depending on when the land tax liability arises. The timing of when you incur a liability to pay land tax will depend on the relevant state legislation. Your liability to pay land tax does not rely on the lodgment of a land tax return or on the taxing authority issuing a land tax assessment. In many states, the year in which the property is used for the relevant purposes determines when you are liable, even if an assessment does not issue until a later date.

When you receive land tax assessments in arrears, the amount of land tax is not deductible in the income year in which you pay the arrears. The land tax amounts are deductible in the respective income years to which the liability for the land tax relates.

If a land owner receives a land tax assessment for a year, then later in the same financial year either sells the property or starts to use it as their residence, there is no requirement to apportion the land tax deduction. We consider that the land tax liability was incurred for an income producing purpose because the liability for it was founded in the property's use for income-producing purposes.

In the event of the property being sold and there being an adjustment of the land tax, the recovered amount should be declared as rental income by the vendor.

Lease document expenses

Your share of the costs of preparing and registering a lease and the cost of stamp duty on a lease are deductible to the extent that you have used, or will use, the property to produce income. This includes any such costs associated with an assignment or surrender of a lease.

For example, freehold title cannot be obtained for properties in the Australian Capital Territory (ACT). They are commonly acquired under a 99-year crown lease. Therefore, stamp duty, preparation and registration costs you incur on the lease of an ACT property are deductible to the extent that you use the property as a rental property.

Legal expenses

Some legal expenses incurred in producing your rental income are deductible. These include the costs of:

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

Most legal expenses, however, are of a capital nature and are therefore not deductible. These include costs of:

- purchasing or selling your property
- resisting land resumption
- defending your title to the property.

> For more information, see *Rental properties – Expenses you can claim*.

Non-deductible legal expenses which are capital in nature may, however, form part of the cost base of your property for capital gains tax purposes.

> For more information, see **Capital gains tax** on page 32. You can also go to ato.gov.au and read *Guide to capital gains tax 2023*.

Example 17: Deductible legal expenses

In September 2022, the Hitchmans' tenants moved out, owing 6 weeks rent. The Hitchmans retained the bond money and took the tenants to court to terminate the lease and recover the balance of the rent. The legal expenses they incurred doing this are fully deductible. The Hitchmans were seeking to recover rental income, and they wished to continue earning income from the property. The Hitchmans must include the retained bond money and the recovered rent in their rental income in the year of receipt.

Mortgage discharge expenses

Mortgage discharge expenses are the costs involved in discharging a mortgage other than payments of principal and interest. These costs are deductible in the year they are incurred to the extent that you took out the mortgage as security for the repayment of money you borrowed to use to produce your rental income.

For example, if you used a property to produce rental income for half the time you held it and as your holiday home for the other half of the time, 50% of the costs of discharging the mortgage are deductible.

Mortgage discharge expenses may also include penalty interest payments. Penalty interest payments are amounts paid to a lender, such as a bank, to agree to accept early repayment of a loan, including a loan on a rental property. The amounts are commonly calculated by reference to the number of months that interest payments would have been made had the premature repayment not been made.

Penalty interest payments on a loan relating to a rental property are deductible if:

- the loan moneys borrowed are secured by a mortgage over the property and the payment effects the discharge of the mortgage, or
- payment is made in order to rid the taxpayer of a recurring obligation to pay interest on the loan.

For more information, see *TR 2019/2 Income tax: whether penalty interest is deductible*.

Property agents fees or commissions

You can claim the cost of fees, such as regular management fees or commissions you pay to a property agent or real estate agent for managing, inspecting or collecting rent for a rental property on your behalf.

You are unable to claim the cost of:

- commissions or other costs paid to a real estate agent or other person for the sale or disposal of a rental property
- buyer's agent fees paid to any entity or person you engage to find you a suitable rental property to purchase.

> These costs may form part of the cost base of your property for capital gains purposes.

Repairs and maintenance

Expenditure for repairs you make to the property may be deductible. However, generally the repairs must relate directly to wear and tear or other damage that occurred as a result of your renting out the property.

Repairs generally involve a replacement or renewal of a worn out or broken part, for example, replacing worn or damaged curtains, blinds or carpets between tenants. Maintenance generally involves keeping the property in a tenantable condition, for example repainting faded or damaged interior walls.

However, expenses which are capital, or of a capital nature are not deductible as repairs or maintenance. The following are examples of expenses which are capital or of a capital nature:

- replacement of an entire structure or unit of property (such as a complete fence or building, a stove, kitchen cupboards or refrigerator)
- improvements, renovations, extensions and alterations, and
- initial repairs, for example, in remedying defects, damage or deterioration that existed at the date you acquired the property.

Replacing an entire structure or unit of property that is a depreciating asset, for example a stove or refrigerator, may trigger a balancing adjustment event. You may also claim a decline in value for replacing a depreciating asset. For more information, see *Guide to depreciating assets 2023*.

You may be able to claim some construction expenses as capital works deductions where the expenses are capital or of a capital nature. For more information, see **Capital works deductions** on page 26.

Expenses of a capital nature may form part of the cost base of the property for capital gains tax purposes (but not generally to the extent that capital works deductions have been or can be claimed for them). For more information, see the *Guide to capital gains tax 2023*.

See also **Cost base adjustments for capital works deductions** on page 29.

Example 18: Repairs prior to renting out the property

The Hitchmans needed to do some repairs to their newly acquired rental property before the first tenants moved in. They paid an interior decorator to repaint dirty walls, replace broken light fittings and repair doors on 2 bedrooms.

They also discovered white ants in some of the floorboards. This required white ant treatment and replacement of some of the boards.

These expenses were incurred to make the property suitable to be rented out and did not arise from the Hitchmans' use of the property to generate rental income. The expenses are capital in nature and the Hitchmans are not able to claim a deduction for these expenses.

Repairs to a rental property will generally be deductible if:

- the property continues to be rented on an ongoing basis, or
- the property remains genuinely available for rental 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.

Expenditure for repairs you make to the property may also be deductible where the expenditure is incurred in a year of income that the property is held for income producing purposes, even though the property has previously been held by you for private purposes, and some or all of the damage is attributable to when the property was held for private purposes.

If you no longer rent the property, the cost of repairs may still be deductible provided:

- the need for the repairs is related to the period in which the property was used by you to produce income, and
- the property was income-producing during the income year in which you incurred the cost of repairs.

Example 19: Repairs when the property is no longer rented out

After the last tenants moved out in September 2022, the Hitchmans discovered that the stove did not work, kitchen tiles were cracked and the toilet window was broken. They also discovered a hole in a bedroom wall that had been covered with a poster. In October 2022 the Hitchmans paid for this damage to be repaired so they could sell the property.

As the tenants were no longer in the property, the Hitchmans were not using the property to produce rental income. However, they could still claim a deduction for repairs to the property because the repairs related to the period when their tenants were living in the property and the repairs were completed before the end of the income year in which the property ceased to be used to produce income.

Examples of **repairs** for which you can claim deductions are:

- replacing broken windows
- maintaining plumbing
- repairing electrical appliances.

Examples of **improvements** for which you cannot claim deductions are:

- landscaping
- insulating the house
- adding on another room.

For more information, see:

- **Capital gains tax** *on page 32*
- *Expenses you can claim now at* ato.gov.au
- *Guide to capital gains tax 2023*
- *Guide to depreciating assets 2023*
- *TR 97/23 Income tax: deductions for repairs.*

Travel and car expenses

Travel expenses relating to a residential rental property are generally not deductible.

You may be entitled to claim a deduction for travel expenses you incur relating to your rental property if:

- you are an excluded entity, or
- you are using the property in carrying on a business (including a business of letting rental properties), or
- the property is not a residential rental property.

For the meaning of 'excluded entity' and 'residential rental property', see **Definitions** on page 35.

Travel expenses include the costs of travel to inspect, maintain or collect rent for the property.

If you are entitled to claim a deduction for a travel expense relating to your rental property, claim as follows:

- You are allowed a full deduction where the sole purpose of the trip relates to the rental property. However, in other circumstances you may not be able to claim a deduction or you may be entitled to only a partial deduction.
- If you fly to inspect your rental property, stay overnight, and return home on the following day, all of the airfare and accommodation expenses would generally be allowed as a deduction provided the sole purpose of your trip was to inspect your rental property.

Example 20: Travel and vehicle expenses

In 2022–23, Mr Hitchman owned a residential rental property in North Harbour and a commercial property in East Village.

Mr Hitchman visited the residential rental property a number of times after the tenants moved in to carry out inspections and maintenance work. Mr Hitchman cannot claim deductions for the cost of his travel to inspect and maintain the property.

Mr Hitchman also visited the commercial property a number of times after the tenants moved in, to carry out minor repairs. He travelled 162 kilometres during the course of these visits. The property is a commercial property, so Mr Hitchman can claim the following deduction:

Distance travelled	×	rate per km	=	deductible amount
162 km	×	78 cents per km	=	$126

On his way to golf each Saturday, Mr Hitchman drove past the property to 'keep an eye on things'. These motor vehicle expenses are not deductible as they are incidental to the private purpose of the journey.

For the appropriate rates, see *Individual tax return instructions* or *Work-related car expenses*.

Apportionment of travel expenses

Where travel related to your commercial rental property or to your residential rental property used in carrying on a business of letting rental properties is combined with a holiday or other private activities, you may need to apportion the expenses.

If you travel to inspect the property and combine this with a holiday, you need to take into account the reasons for your trip. If the main purpose of your trip is to have a holiday and the inspection of the property is incidental to that main purpose, you cannot claim a deduction for the cost of the travel. However, you may be able to claim local expenses directly related to the property inspection and a proportion of accommodation expenses.

You may also need to apportion your travel expenses if they relate to your commercial rental property or residential rental property used in carrying on a business of letting rental properties, and residential rental property not used in carrying on a business of letting rental properties. For more information, see *LCR 2018/7 – Residential premises deductions: travel expenditure relating to rental investment properties.*

Example 21: Apportionment of travel expenses

Mr and Mrs Hinton own a residential rental property and a commercial rental property in a resort town on the north coast of Queensland. They spent $1,000 on airfares and $1,500 on accommodation (including meals) when they travelled from their home in Perth to the resort town, mainly for the purpose of holidaying, but also to inspect both properties. They also spent $50 on taxi fares for the return trip from the hotel to the commercial rental property, and $100 on taxi fares for a return trip from the hotel to the residential rental property. The Hintons spent one day on matters relating to the commercial rental property, another day on matters relating to the residential rental property, and 8 days swimming and sightseeing.

No deduction can be claimed for any part of the $1,000 airfares.

No deduction can be claimed for any part of the $100 taxi fare as it is a travel expense related to residential rental property.

However, the Hintons can claim a deduction for the $50 taxi fare which was incurred in relation to the commercial rental property.

A deduction for 10% of the accommodation (including meals) expenses (10% of $1,500 = $150) would be considered reasonable in the circumstances given the Hintons spent one full day on matters relating to their commercial property. The total travel expenses the Hintons can claim are therefore $200 ($50 taxi fare plus $150 accommodation). Accordingly, Mr and Mrs Hinton can each claim a deduction of $100.

For more information, see *Rental properties – claiming travel expense deductions* at ato.gov.au

Local government expenses

You can claim a deduction for local government rates and levies for the period your property is rented or is genuinely available for rent.

Where you fail to pay local government rates and charges for the property by the due dates and you become liable to pay interest charges under the relevant state law, you can claim the late interest charges as a tax deduction. It is not excluded by penalty provisions of the tax law. We consider the imposition of interest in these circumstances is not a pecuniary punishment for a breach of the Local Government Act but an administrative charge recognising the time value of money. The use of a time factor in the calculation is designed to compensate the local government for the full amount of rates not having been paid by the due date. The interest payment is accordingly deductible to the taxpayer in the year in which it is incurred.

If the local council in which your rental property is located imposes an annual emergency services levy, you can claim a deduction for that amount. An emergency service levy is a charge imposed by a local council on property owners to meet some of the costs for the provision of emergency services by the Country Fire Authority, the Metropolitan Fire Authority, the Police Force and other agencies. It is calculated based on the value of the land and charged annually. We consider it is an ongoing expense incurred in the course of earning your rental income and is therefore a deductible expense.

Expenses deductible over several income years

There are 3 types of expenses you may incur for your rental property that may be claimed over several income years:

- borrowing expenses
- amounts for decline in value of depreciating assets (allowed only in certain circumstances)
- capital works deductions.

Each of these categories is discussed in detail in the following pages.

Borrowing expenses

These are expenses directly incurred in taking out a loan for the property. They include:

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

The following are not borrowing expenses:

- insurance policy premiums on a policy that provides for your loan on the property to be paid out in the event that you die or become disabled or unemployed
- interest expenses
- stamp duty charged on the transfer of the property
- stamp duty incurred to acquire a leasehold interest in property (such as an ACT 99-year Crown lease).

If your total borrowing expenses are more than $100, the deduction is spread over 5 years or the term of the loan, whichever is less. If the total deductible borrowing expenses are $100 or less, they are fully deductible in the income year they are incurred.

If you repay the loan early and in less than 5 years, you can claim a deduction for the balance of the borrowing expenses in the year the loan is repaid in full.

If you obtained 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 that you had the loan.

Example 22: Apportionment of borrowing expenses

In order 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 Hitchmans paid a total of $1,670 in establishment fees, valuation fees and stamp duty on the loan. As the Hitchmans' borrowing expenses are more than $100, they must be apportioned over 5 years, or the period of the loan, whichever is the lesser. Also, because the loan was to be used for both income-producing and non-income producing purposes, only the income-producing portion of the borrowing expenses is deductible. As they obtained the loan on 17 July 2022, they would work out the borrowing expense deduction for the first year as follows:

	Borrowing expenses	×	number of relevant days in year / number of days in the 5-year period	=	maximum amount for the income year	×	rental property loan / total borrowings	=	deduction for year
Year 1	$1,670.00	×	349 days / 1,826 days	=	$319.18	×	$170,000 / $209,000	=	$259.62

Their borrowing expense deductions for subsequent years would be worked out as shown in the table below:

	Borrowing expenses remaining	×	number of relevant days in year / remaining number of days in the 5-year period	=	maximum amount for the income year	×	rental property loan / total borrowings	=	deduction for year
Year 2 (leap year)	$1,350.82	×	366 days / 1,477 days	=	$334.73	×	$170,000 / $209,000	=	$272.27
Year 3	$1,016.09	×	365 days / 1,111 days	=	$333.82	×	$170,000 / $209,000	=	$271.53
Year 4	$682.27	×	365 days / 746 days	=	$333.82	×	$170,000 / $209,000	=	$271.53
Year 5	$348.45	×	365 days / 381 days	=	$333.82	×	$170,000 / $209,000	=	$271.53
Year 6	$14.63	×	16 days / 16 days	=	$14.63	×	$170,000 / $209,000	=	$11.90

Deduction for decline in value of depreciating assets

You can deduct an amount equal to the decline in value in 2022–23 of a depreciating asset that you held for any time during the year. However, your deduction is reduced to the extent you use the asset for a purpose other than a taxable purpose. From 1 July 2017, your deduction is also reduced by the extent you installed or used the asset in your residential rental property to derive rental income and the asset was a second-hand depreciating asset (unless an exception applies).

For more information, see **Limit on deductions for decline in value of second-hand depreciating assets** on page 20.

When you purchase a rental property, you are generally treated for tax purposes as having bought a building, plus various separate items of 'plant'. Items of plant are depreciating assets, such as air conditioners, stoves and other items. The purchase price accordingly needs to be allocated between the 'building' and various depreciating assets. For more information about 'plant', see **Definitions** on page 34.

Some items found in a rental property are regarded as part of the setting for the rent-producing activity and are not treated as separate assets in their own right. If your depreciating asset is not plant, and it is fixed to, or otherwise part of, a building or structural improvement, your expenditure will generally be construction expenditure for capital works and only a capital works deduction may be available for those items.

For more information, see **Capital works deductions** on page 26.

Limit on deductions for decline in value of second-hand depreciating assets

There are different rules for the decline in value of certain second-hand depreciating assets purchased with your residential rental property after 1 July 2017. If you use these assets to produce rental income from your residential rental property, you cannot claim a deduction for their decline in value unless you are using the property in carrying on a business (including a business of letting rental properties), or you are an excluded entity. For the meaning of 'residential rental property' and 'excluded entity', see **Definitions** on page 35.

Second-hand depreciating assets are depreciating assets previously installed ready for use or used:

- by another entity (except as trading stock)
- in your private residence or
- for a non-taxable purpose, unless that use was occasional (for example, staying at the property for one evening while carrying out maintenance activities would be considered an occasional use).

These rules apply to the depreciating assets that you:

- entered into a contract to acquire, or otherwise acquired, after 7:30 pm on 9 May 2017, or
- used or had installed ready for use for any private purpose in 2016–17 or earlier income years, for which you were not entitled to a deduction for a decline in value in 2016–17 (for example, depreciating assets in a property that was your home in 2016–17 that you turned into your residential rental property in 2017–18).

There are no changes to the rules about deductions for decline in value of new depreciating assets in your residential rental property. Similarly, there are no changes to the rules about deductions for decline in value of depreciating assets in your residential rental property that you installed or used for a taxable purpose other than the purpose of deriving rental income.

Example 23: New and second-hand depreciating assets

On 20 August 2022, Donna acquired a 2-year old apartment that she offered for residential rental accommodation. Depreciating assets in it included carpet installed by the previous owner in July 2020. Donna installed the following depreciating assets in the apartment before renting it out:

- new curtains that she bought from Curtains Ltd,
- a used television set that she bought from a friend, and
- an old clothes dryer she previously used in her house.

Donna uses the assets to derive rental income from residential rental property.

Donna cannot claim deductions for the decline in value of the carpet, television set and clothes dryer as they are second-hand depreciating assets. However, she can claim a decline in value deduction for the curtains as they were new when installed.

Example 24: Established residential rental property purchase

Saania bought a one year old residential rental property for $500,000 on 1 July 2022 and rents it out. The property contains various depreciating assets that were used by its previous owner. Since Saania bought the property after 9 May 2017, she cannot claim deductions for the decline in value of any existing depreciating assets in the property.

Assets in new residential rental properties

If you acquire a newly built residential property from a developer, or buy a residential property that has been substantially renovated, you can claim a deduction for a decline in value of a depreciating asset in the property (or its common area) if:

- no one was previously entitled to a deduction for the asset, and:
- either
  - no one resided in the property before you acquired it, or
  - the asset was installed for use or used at this property and you acquired the property within 6 months of it being built or substantially renovated.

Substantial renovations of a building are renovations in which all, or substantially all, of a building is removed or is replaced. The renovations may, but do not necessarily have to, involve the removal or replacement of foundations, external walls, interior supporting walls, floors, roof or staircases. For more information, see *GSTR 2003/3 Goods and services tax: when is a sale of real property a sale of new residential premises?*

Example 25: Bought new apartments – one already tenanted, one vacant

On 10 December 2022, Tim purchased 2 apartments from a developer 4 months after they were built. At the time of purchase, one apartment was rented out by the developer and the other was vacant.

Both of the apartments contain depreciating assets, such as curtains and furniture. The assets were installed before Tim purchased the apartments. There are also shared areas in the apartment complex. The shared areas have a range of new depreciating assets that are joint property of all the apartment owners.

No taxpayer was entitled to a deduction for decline in value of the depreciating assets in the apartments and the shared areas before Tim purchased the apartments. This is because:

- the apartments and the depreciating assets are part of the developer's trading stock, and
- the tenant does not hold the depreciating assets.

For the vacant apartment and its shared areas, Tim is entitled to claim deductions for decline in value of the depreciating assets.

For the tenanted apartment and its shared areas, Tim is entitled to claim deductions for decline in value of the depreciating assets (although they have been used for 4 months) because:

- no one was entitled to a deduction for a decline in value of these depreciating assets, and
- the apartment was supplied to Tim within 6 months of it being built.

Tim can deduct only his share of the decline in value of the depreciating assets installed in the shared areas of the apartment complex.

If Tim sells the apartments, the next owner will not be allowed deductions on the decline in value of the existing depreciating assets, neither in the apartment nor in the shared areas.

How do you work out your deduction?

You work out your deduction for the decline in value of a depreciating asset using either the **diminishing value method** or the **prime cost method**. Both methods are based on the **effective life** of the asset. You can work out your deductions using the *Depreciation and Capital Allowances Tool (DCAT)* on our website. Go to ato.gov.au and search for 'DCAT'. You can use this tool during the year to progressively enter amounts.

Diminishing value method

The diminishing value method assumes that the decline in value each year is a constant proportion of the remaining value and produces a progressively smaller decline over time.

For depreciating assets you started to hold on or after 10 May 2006, you generally use the following formula for working out decline in value using the diminishing value method:

$$\text{base value}^* \times \frac{\text{days held}^\dagger}{365} \times \frac{200\%}{\text{asset's effective life}}$$

* For the income year in which an asset is first used or installed ready for use for any purpose, the **base value** is the asset's cost. For a later income year, the base value is the asset's opening adjustable value plus any amounts included in the asset's second element of cost for that year.

† Days held can be 366 in a leap year.

This formula does not apply in some cases, such as if you dispose of and reacquire an asset just so the decline in value of the asset can be worked out using this formula.

For depreciating assets you started to hold prior to 10 May 2006, the formula for working out decline in value using the diminishing value method is:

$$\text{base value}^* \times \frac{\text{days held}^\dagger}{365} \times \frac{150\%}{\text{asset's effective life}}$$

* For the income year in which an asset is first used or installed ready for use for any purpose, the **base value** is the asset's cost. For a later income year, the base value is the asset's opening adjustable value plus any amounts included in the asset's second element of cost for that year.

† Days held can be 366 in a leap year.

An asset's cost has 2 elements. The first element of cost is, generally, amounts you are taken to have paid to hold the asset, such as the purchase price. The second element of cost is, generally, the amount you are taken to have paid to bring the asset to its present condition, such as the cost of capital improvements to the asset. If more than one person holds a depreciating asset, each holder works out their deduction for the decline in value of the asset based on their interest in the asset and not on the cost of the asset itself.

The adjustable value of a depreciating asset is its cost (first and second elements) less its decline in value up to that time. Adjustable value is similar to the concept of undeducted cost used in the former depreciation provisions. The opening adjustable value of an asset for an income year is generally the same as its adjustable value at the end of the previous income year.

Prime cost method

The prime cost method assumes that the value of a depreciating asset decreases uniformly over its effective life. The formula for working out decline in value using the prime cost method is:

$$\text{asset's cost} \times \frac{\text{days held}^\dagger}{365} \times \frac{100\%}{\text{asset's effective life}}$$

† Days held can be 366 in a leap year.

The formula under the prime cost method may have to be adjusted if the cost, effective life or adjustable value of the asset is modified. For more information, see *Guide to depreciating assets 2023*.

Under the diminishing value method, the decline in value of an asset for a particular income year cannot amount to more than its base value for that income year.

Under the prime cost method, the general rule is that the decline in value of an asset for a particular income year cannot exceed its opening adjustable value for that year and any amount included in the second element of its cost for that year. For an income year in which the asset start time occurs, the decline in value of an asset cannot exceed its cost.

If you use a depreciating asset for other than a taxable purpose (for example, you use the same lawn mower at both your rental property and your private residence) you are allowed only a partial deduction for the asset's decline in value, based on the percentage of the asset's total use that was for a taxable purpose.

If the asset is a second-hand depreciating asset you use to derive rental income from your residential rental property, you may not be able to claim a deduction for its decline in value. See **Limit on deductions for decline in value of second-hand depreciating assets** on page 20.

Effective life

Generally, the effective life of a depreciating asset is how long it can be used to produce income:

- having regard to the wear and tear you reasonably expect from your expected circumstances of use
- assuming that it will be maintained in reasonably good order and condition, and
- having regard to the period within which it is likely to be scrapped, sold for no more than scrap value or abandoned.

Effective life can be expressed in whole years. It is not rounded to the nearest whole year.

For most depreciating assets you can choose to work out the effective life yourself or to use an effective life determined by the Commissioner of Taxation.

The sort of information you could use to make an estimate of effective life of an asset is listed in the *Guide to depreciating assets 2023*.

In making his determination, the Commissioner assumes the depreciating asset is new, and has regard to general industry circumstances of use.

> The Commissioner issues yearly Taxation Rulings on how to determine the effective life of depreciating assets.

Because the Commissioner often reviews the determinations of effective life, the determined effective life may change from the beginning of, or during, an income year. You need to work out which Taxation Ruling, or which schedule accompanying the relevant Taxation Ruling, to use for a particular asset's determined effective life.

As a general rule, use the ruling or schedule that is in force at the time you:

- entered into a contract to acquire the depreciating asset
- otherwise acquired it, or
- started to construct it.

> For more information, go to ato.gov.au and search for 'Effective life taxation rulings'.

Immediate deduction for certain non-business depreciating assets costing $300 or less

The decline in value of certain depreciating assets costing $300 or less is their cost. This means you get an immediate deduction for the cost of the asset to the extent that you use it to produce assessable income, including rental income, during the income year in which the deduction is available.

The immediate deduction is available if all of the following tests are met in relation to the asset:

- it cost $300 or less
- you used it mainly for the purpose of producing assessable income that was not income from carrying on a business (for example, rental income where your rental activities did not amount to the carrying on of a business of letting rental properties)
- it was not part of a set of assets costing more than $300 that you started to hold in the income year, and
- it was not one of a number of identical, or substantially identical, assets that you started to hold in the income year that together cost more than $300.

If you hold an asset jointly with others and the cost of your interest in the asset is $300 or less, you can claim the immediate deduction even though the total cost of the asset was more than $300; see **Partners carrying on a business of letting rental properties** on page 4.

Example 26: Immediate deduction

In November 2022, Terry purchased a new toaster for his rental property at a cost of $70. He can claim an immediate deduction as he uses the toaster to produce rental income, provided he is not carrying on a business of letting rental properties.

Example 27: No immediate deduction

Paula is buying a set of 4 new identical dining room chairs costing $90 each for her rental property. She cannot claim an immediate deduction for any of these because they are part of a set of assets, and the total cost is more than $300.

The amount of an immediate deduction may also need to be reduced if the asset is used for purposes other than taxable purposes (see subsection 40-25(2) of the ITAA 1997). For more information, see **Limit on deductions for decline in value of second-hand depreciating assets** on page 20.

For more information about immediate deductions for depreciating assets costing $300 or less, see *Guide to depreciating assets 2023*.

If you are carrying on a business of letting rental properties, or you let commercial properties, you may be entitled to an immediate deduction for the full cost of an asset that you start to hold, and first use (or have installed ready for use) for a taxable purpose any time between 7:30 pm AEDT 6 October 2020 and 30 June 2023.

For more information, see *Guide to depreciating assets 2023*.

Low-value pooling

You can allocate low-cost assets and low-value assets relating to your rental activity to a low-value pool.

A **low-cost asset** is a depreciating asset that costs less than $1,000 as at the end of the income year in which you start to use it, or have it installed ready for use, for a taxable purpose.

A **low-value asset** is a depreciating asset that is not a low-cost asset but which on 1 July 2022 (or 1 July of the relevant income year) had an opening adjustable value of less than $1,000 under the diminishing value method.

If you hold an asset jointly and the cost of your interest in the asset or the opening adjustable value of your interest is less than $1,000, you can allocate your interest in the asset to your low-value pool.

Once you choose to create a low-value pool and allocate a low-cost asset to it, you must pool all other low-cost assets you start to hold from that time on. However, this does not apply to low-value assets. You can decide whether to allocate low-value assets to the pool on an asset-by-asset basis.

Once you have allocated an asset to the pool, it remains in the pool.

Once an asset is allocated to a low-value pool it is not necessary to work out its adjustable value or decline in value separately. Only one annual calculation for the decline in value for all of the depreciating assets in the pool is required.

You work out the deduction for the decline in value of depreciating assets in a low-value pool using a diminishing value rate of 37.5%.

For the income year you allocate a low-cost asset to the pool, you work out its decline in value at a rate of 18.75%, or half the pool rate. Halving the rate recognises that assets may be allocated to the pool throughout the income year and eliminates the need to make separate calculations for each asset based on the date it was allocated to the pool.

When you first allocate a depreciating asset to a low-value pool, you must make a reasonable estimate of the percentage that you will use the asset for a taxable purpose over its effective life (for a low-cost asset) or its remaining effective life (for a low-value asset). This percentage is known as the asset's **taxable use percentage**.

From 1 July 2017, include the taxable purpose of using the asset to produce rental income from residential rental property if you would be entitled to claim a deduction for the decline in value of that asset. See Limit on deductions for decline in value of second-hand depreciating assets. For the meaning of 'excluded entity' and 'residential rental property', see **Definitions** on page 35.

It is this taxable use percentage of the cost or opening adjustable value that is written off through the low-value pool.

For more information about low-value pooling, and on how to treat assets used only partly to produce assessable income, including rental income, and how to treat the disposal of assets from a low-value pool, see *Guide to depreciating assets 2023*. You can work out your deductions for assets you allocate to a low-value pool using the *Depreciation and Capital Allowances Tool (DCAT)* on our website. Go to ato.gov.au and search for 'DCAT'. You can use this tool for each income year to calculate decline in value deduction amounts.

If you are an individual who owns or jointly owns a rental property, you claim your low-value pool deduction for rental assets as a 'Low-value pool deduction' in your tax return, and you do not take this deduction into account in the amount you show at 'Rent' in your tax return.

What happens if you no longer hold or use a depreciating asset?

If you cease to hold or use a depreciating asset, a balancing adjustment event will occur. If there is a balancing adjustment event, you need to work out a balancing adjustment amount to include in your assessable income or to claim as a deduction.

A balancing adjustment event occurs for a depreciating asset if:

- you stop holding it, for example, if the asset is sold, lost or destroyed
- you stop using it and expect never to use it again
- you stop having it installed ready for use and you expect never to install it ready for use again
- you have not used it and decide never to use it, or
- a change occurs in the holding or interests in an asset which was or is to become a partnership asset.

You work out the balancing adjustment amount by comparing the asset's termination value (such as the proceeds from the sale of the asset) and its adjustable value at the time of the balancing adjustment event. If the termination value is greater than the adjustable value, you include the excess in your assessable income. If you are an individual who owns or has co-ownership of a rental property, you show the assessable amount as **Other income** in your tax return and do not take it into account in the amount you show at **Rent**.

If the termination value is less than the adjustable value, you can deduct the difference.

> For more information about balancing adjustments, see the *Guide to depreciating assets 2023*.

If a balancing adjustment event happens to a depreciating asset that you used at some time other than for income-producing purposes (for example, privately) then a capital gain or capital loss might arise to the extent that you so used the asset.

From 1 July 2017, if a balancing adjustment event happens to a depreciating asset to which the rules about deductions for decline in value of second-hand depreciating assets in residential rental properties apply, then a capital gain or capital loss might arise.

You can work out balancing adjustments using the *Depreciation and Capital Allowances Tool (DCAT)* available at ato.gov.au

> For more information about capital gains tax and depreciating assets see *Guide to capital gains tax 2023*.

Purchase and valuation of second-hand assets

Where you pay an amount for a depreciating asset and something else, only that part that is reasonably attributable to the depreciating asset is treated as being paid for.

Where you purchase a rental property from an unrelated party, one objective means of establishing your cost of depreciating assets acquired with the property is to have their value, as agreed between the contracting parties, specified in the sale agreement. The values need to be reasonable. If the sale agreement for your property does not specify separate values for the depreciating assets, you will need to work out a reasonable cost for the assets to determine your claim for depreciation.

You can do this yourself or you may wish to use a qualified valuer. Any valuation methodology used to work out the cost of the depreciating assets must be able to demonstrate a reasonable basis for that value. For more information about valuing depreciating assets go to ato.gov.au and search for *Market value for tax purposes*.

Apportionment of values between various assets affects the cost base of the property which is subject to capital gains tax. Amounts allocated to the cost of depreciating assets on the purchase of the rental property are subtracted from the purchase price, in order to arrive at the CGT cost base of the rental property.

Example 28: Second-hand residential rental property purchase

On 1 October 2022, the Sullivans purchased a 2-year-old residential property for $500,000. The property was rented out before, and the Sullivans continued to rent it out after they bought it. The Sullivans did not purchase any new depreciating assets for the property. They used the existing depreciating assets in the property to derive rental income from the property. The Sullivans did not carry on a business of letting rental properties.

The Sullivans do not need to identify separate depreciating assets in the property as they are not entitled to a deduction for a decline in value of any previously used depreciating assets in the property.

The Sullivans may need to hire a qualified professional to estimate construction costs of the property in order to determine whether they are entitled to any capital works deductions. See Estimating construction costs.

Working out your deductions for decline in value of depreciating assets

Following are 2 examples of how to work out decline in value deductions for new assets in newly built residential rental properties.

The *Guide to depreciating assets 2023* has 2 worksheets:

- **Worksheet 1: Depreciating assets**
- **Worksheet 2: Low-value pool**.

Use these to work out your deductions for decline in value of depreciating assets. You can also work out your deductions using the depreciation and capital allowances tool (DCAT).

Example 29: Working out decline in value deductions

The Hitchmans bought a newly built rental property on 19 July 2022. They obtained a report from a professional that identified the depreciating assets in the rental property and their cost.

The Hitchmans use the report to work out the cost of their individual interests in the assets. They can each claim deductions for decline in value for 346 days of 2022–23. If the Hitchmans use the assets wholly to produce rental income, the deduction for each asset using the diminishing value method is worked out below.

Decline in value calculation using the diminishing value method

Description	Cost of the interest in the asset	Base value	No. of days held, divided by 365	200% divided by effective life (years)	Deduction for decline in value	Adjustable value at end of 2022–23
Furniture	$2,000	$2,000	346 divided by 365	200% divided by 13⅓	$284.45	$1,715.55
Carpets	$1,200	$1,200	346 divided by 365	200% divided by 8	$284.38	$915.62
Curtains	$1,000	$1,000	346 divided by 365	200% divided by 6	$315.98	$684.02
Totals	**$4,200**	**$4,200**			**$884.81**	**$3,315.19**

As the adjustable values of the curtains and the carpets at the end of 2022–23 are less than $1,000, either or both of the Hitchmans can choose to transfer their interest in the curtains and the carpets to their low-value pool for (2023–24).

Example 30: Decline in value deductions, low-value pool

In 2022–23 the Hitchmans' daughter, Leonie, who owns a rental property in Adelaide, allocated to a low-value pool some new depreciating assets she acquired in that year. The low-value pool already comprised various low-value assets. Leonie expects to use the assets solely to produce rental income.

	Taxable use percentage of cost or opening adjustable value	Low-value pool rate	Deduction for decline in value in 2022–23
Low-value assets decline in value calculation:			
Various	$1,679	37.5%	$630
Low-cost assets decline in value calculation:			
Television set (purchased 11/11/2022)	$747	18.75%	$140
Gas heater (purchased 28/2/2023)	$303	18.75%	$57
Total low-cost assets	$1,050	18.75%	$197
Total deduction for decline in value for 2022–23			**$827**
Total deduction for decline in value for 2022–23 is $827 ($630 plus $197).			

Closing pool balance for 2022–23			
Low-value assets:	$1,679 – $630	=	$1,049
Low-cost assets:	$1,050 – $197	=	$853
Closing pool balance for 2022–23 is $1,902 ($1,049 plus $853)			

Capital works deductions

You can deduct certain kinds of construction expenditure. In the case of residential rental properties, the deductions would generally be spread over a period of 25 or 40 years. These are referred to as capital works deductions. Your total capital works deductions cannot exceed the construction expenditure. No deduction is available until the construction is complete.

Deductions based on construction expenditure apply to capital works such as:

- a building or an extension, for example, adding a room, garage, patio or pergola
- alterations, such as removing or adding an internal wall, or
- structural improvements to the property, for example, adding a gazebo, carport, sealed driveway, retaining wall or fence.

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

Where the rental property is destroyed, for example by fire or a natural disaster event, and results in a total loss of the asset, you can deduct an amount in the income year in which the capital works are destroyed for all of your construction expenditure that has not yet been deducted. However, you must reduce this deduction by any insurance and salvage receipts.

If however, using the same example above, during an income year the building is affected by fire and the building cannot be rented or made available for rent but it is expected to be made available for rent again, then the owners cannot claim a deduction for capital works for the number of days that the building is not available for rent.

If you claimed capital works deductions based on construction expenditure, you cannot take that expenditure into account in working out any other types of deductions you claim, such as deductions for decline in value of depreciating assets.

Amount of deduction

The amount of the deduction you can claim depends on the type of construction and the date construction started.

Table 1 on the next page shows you the types of rental property construction that qualify. If the type of construction you own (or own jointly) does not appear next to the relevant 'date construction started' in the table, you cannot claim a deduction. If the type of construction qualifies, **table 2** on page 28 shows the rate of deduction available.

'Certain buildings' in **Table 1** are:

- apartment buildings in which you own or lease at least 10 apartments, units or flats, or
- a hotel, motel or guest house that has at least 10 bedrooms.

Table 1: Types of rental property construction that qualify for deduction

Date construction started	Type of construction for which deduction can be claimed
Before 22 August 1979	None
22 August 1979 to 19 July 1982	Certain buildings intended to be used on completion to provide short-term accommodation to travellers
20 July 1982 to 17 July 1985	Certain buildings intended to be used on completion to provide short-term accommodation to travellers
	Building intended to be used on completion for non-residential purposes (for example, a shop or office)
18 July 1985 to 26 February 1992	Any building intended to be used on completion for residential purposes or to produce income
27 February 1992 to 18 August 1992	Certain buildings intended to be used on completion to provide short-term accommodation to travellers
	Any other building intended to be used on completion for residential purposes or to produce income
	Structural improvements intended to be used on completion for residential purposes or to produce income
19 August 1992 to 30 June 1997	Certain buildings intended to be used on completion to provide short-term accommodation to travellers
	Any other building intended to be used on completion for residential purposes or to produce income
	Structural improvements intended to be used on completion for residential purposes or to produce income
	Environment protection earthworks intended to be used on completion for residential purposes or to produce income
After 30 June 1997	Any capital works used to produce income (even if, on completion, it was not intended that they be used for that purpose)

Table 2: Rate of deduction based on date construction started

Date construction started	Rate of deduction per income year
Before 22 August 1979	nil
22 August 1979 to 21 August 1984	2.5%
22 August 1984 to 15 September 1987	4%
After 15 September 1987	2.5%
Where construction of a building to provide short-term accommodation for travellers commenced after 26 February 1992, the rate of deduction was increased to 4%.	

For apartment buildings, the 4% rate applies to apartments, units or flats only if you own or lease 10 or more of them in the building.

The deduction can be claimed for 25 years from the date construction was completed in the case of a 4% deduction, and for 40 years from the date construction was completed in the case of a 2.5% deduction. If the construction was completed part of the way through the income year, you can claim a pro-rata deduction for that part.

Construction expenditure that can be claimed

Construction expenditure is the actual cost of constructing the building or extension. A deduction is allowed for expenditure incurred in the construction of a building if you contract a builder to construct the building on your land. This includes the component of your payments that represents the profit made by individual tradespeople, builders and architects. If you are an owner/builder, the value of your contributions to the works, for example, your labour and expertise, and any notional profit element do not form part of the construction expenditure.

If you purchase your property from a speculative builder, you cannot claim the component of your payment that represents the builder's profit margin as a capital works deduction.

Some costs that you may include in construction expenditure are:

- preliminary expenses such as architects' fees, engineering fees and the cost of foundation excavations
- payments to carpenters, bricklayers and other tradespeople for construction of the building
- payments for the construction of retaining walls, fences and in-ground swimming pools.

Construction expenditure that cannot be claimed

Some costs that are not included in construction expenditure are:

- the cost of the land on which the rental property is built
- expenditure on clearing the land prior to construction
- earthworks that are permanent, can be economically maintained and are not integral to the installation or construction of a structure
- expenditure on landscaping.

Changes in building ownership

Where ownership of the building changes, the right to claim any undeducted construction expenditure for capital works passes to the new owner. A new owner should confirm that the building was constructed during one of the appropriate periods outlined in **table 1**. To be able to claim the deduction, the new owner must continue to use the building to produce income.

If the previous owner was allowed capital works deductions, and the capital works started after 26 February 1992, they are required to give you as the new owner information that will enable you to calculate those deductions going forward. Where the property was not previously used to produce assessable income, the owner disposing of the property does not need to provide the purchaser with that information. In this situation the purchaser may obtain an estimate from a professional. For more information, see **Estimating construction costs** in the next column.

For more information about providing a notice or certificate, see Subsection 262A(4AJA) of the *Income Tax Assessment Act 1936*.

Estimating construction costs

Where a new owner is unable to determine precisely the construction expenditure associated with a building, an estimate provided by an appropriately qualified person may be used. Appropriately qualified people include:

- a clerk of works, such as a project organiser for major building projects
- a supervising architect who approves payments at stages of projects
- a builder who is experienced in estimating construction costs of similar building projects
- a quantity surveyor.

Unless they are otherwise qualified, valuers, real estate agents, accountants and solicitors generally have neither the relevant qualifications nor the experience to make such an estimate.

Example 31: Estimating capital works deductions

A property acquired by Greg and Suzie (as joint tenants and not carrying on a business of letting rental properties) on 20 July 2022 was constructed in August 1991. At the time they acquired the property, it also contained the following structural improvements.

Structural improvements

Item	Construction date
Retaining wall	September 1991
Concrete driveway	January 1992
In-ground swimming pool	July 1992
Protective fencing around the pool	August 1992
Timber decking around the pool	September 1992

In a letter to Greg and Suzie, a supervising architect estimated the construction cost of the rental property for capital works deduction purposes at $115,800. This includes the cost of the house, the in-ground swimming pool, the protective fencing and the timber decking. Although the retaining wall and the concrete driveway are structural improvements, they were constructed before 27 February 1992 (in **table 1** on page 27, structural improvements qualified for deduction from 27 February 1992). Therefore, they do not form part of the construction cost for the purposes of the capital works deduction and were not included in the $115,800 estimate.

Greg and Suzie can claim a capital works deduction of 2.5% of the construction costs per year. As they acquired the property on 20 July 2022, they can claim the deduction for the 346 days from 20 July 2022 to 30 June 2023. The maximum deduction for 2022–23 would be worked out as follows:

Construction cost	×	rate	×	portion of year	=	deductible interest

$$\$115{,}800 \times 2.5\% \times \frac{346}{365} = \$2{,}744$$

The denominator is 365 days, irrespective of a leap year. The numerator can be 366 days in a leap year.

The cost of obtaining an appropriately qualified person's estimate of construction costs of a rental property is deductible in the income year it is incurred. You make your claim for the expense, or your share of the expense if you jointly incurred it, at **Cost of managing tax affairs** in your tax return.

For more information about construction expenditure and capital works deductions, see:

- *TR 97/25 – Income tax: property development: deduction for capital expenditure on construction of income producing capital works, including buildings and structural improvements*
- *Rental Properties – claiming capital works deductions.*

Cost base adjustments for capital works deductions

In working out a capital gain or capital loss from a rental property, the cost base and reduced cost base of the property may need to be reduced to the extent that it includes construction expenditure for which you have claimed or can claim a capital works deduction.

Cost base

You must exclude from the cost base of a CGT asset (including a building, structure or other capital improvement to land that is treated as a separate asset for CGT purposes*) the amount of capital works deductions you have claimed or can claim in respect of the asset if:

- you acquired the asset after 7:30 pm AEST on 13 May 1997, or
- you acquired the asset before that time and the expenditure that gave rise to the capital works deductions was incurred after 30 June 1999.

For information on when a building, structure or other capital improvement to land is treated as a CGT asset separate from the land, see chapter 1 and the section **Major capital improvements to a dwelling acquired before 20 September 1985** in *Guide to capital gains tax 2023*.

Reduced cost base

The amount of the capital works deductions you have claimed or can claim for expenditure you incurred in respect of an asset is excluded from the reduced cost base.

For more information about whether you can claim certain capital works deductions, see:

- *TD 2005/47 – Income tax: what do the words 'can deduct' mean in the context of those provisions in Division 110 of the Income Tax Assessment Act 1997 which reduce the cost base or reduced cost base of a CGT asset by amounts you 'have deducted or can deduct', and is there a fixed point in time when this must be determined?*
- *PS LA 2006/1 (GA) – Calculating cost base of CGT asset where there is insufficient information to determine any Division 43 capital works deduction.*

* For information on when a building, structure or other capital improvement to land is treated as a CGT asset separate from the land, see chapter 1 and the section **Major capital improvements to a dwelling acquired before 20 September 1985** in the *Guide to capital gains tax 2023*.

Example 32: Capital works deduction

Zoran acquired a rental property on 1 July 1998 for $200,000. Before disposing of the property on 30 June 2023, he had claimed $10,000 in capital works deductions.

At the time of disposal, the cost base of the property was $210,250. Zoran must reduce the cost base of the property by $10,000 to $200,250.

Limited recourse debt arrangements

If expenditure on a depreciating asset (which includes construction expenditure) is financed or refinanced wholly or partly by limited recourse debt (including a notional loan under certain hire purchase or instalment sale agreements of goods), you must include excessive deductions for the capital allowances as assessable income. This will occur where the limited recourse debt arrangement terminates but has not been paid in full by the debtor.

Because the debt has not been paid in full, the capital allowance deductions, including capital works deductions, allowed for the expenditure exceed the deductions that would be allowable if the unpaid amount of the debt was not counted as capital expenditure of the debtor. Special rules apply for working out whether the debt has been fully paid.

If you are not sure what constitutes a limited recourse debt or how to work out your adjustment to assessable income, contact your recognised tax adviser.

Prepaid expenses

If you prepay a rental property expense, such as insurance or interest on money borrowed, that covers a period of 12 months or less **and** the period ends on or before 30 June 2023, you can claim an immediate deduction. A prepayment that does not meet these criteria **and** is $1,000 or more may have to be spread over 2 or more years. This is also the case if you can but not choose to deduct certain prepaid business expenses immediately.

For more information, see *Deductions for prepaid expenses 2023* at ato.gov.au

Keeping rental property records

Keep records of both income and expenses relating to your rental property.

Records of rental expenses must be in English, or be readily translatable into English, and include the:

- name of the supplier
- amount of the expense
- nature of the goods or services
- date the expense was incurred
- date of the document.

If a document does not show the payment date, use independent evidence, such as a bank statement, to show the date the expense was incurred.

Keep records of your rental income and expenses for 5 years from 31 October or, if you lodge later, for 5 years from the date you lodge your tax return. If at the end of this period you are in a dispute with us that relates to your rental property, keep the relevant records until the dispute is resolved.

Do not send these records in with your tax return. Keep them in case we ask to see them.

The following list provides some examples of records you should keep to make it easier to complete your tax return:

- loan documents
- receipts for expenses, including repairs, maintenance, insurance and purchases of depreciating assets
- land tax assessments
- credit card records
- tenant leases
- bank statements
- rent records from managing agents.

Worksheet – work out your net rental income or loss

The following completed worksheet is an example of how to work out your net rental income or loss. Some of the figures have been drawn from the examples in this publication; others have been included for illustrative purposes.

A blank worksheet is also provided for you to work out your own net rental income or loss.

Example 33: Rental property worksheet

	$
Income	
Rental income	*8,500*
Other rental related income	*800*
Gross rent	*9,300*
Expenses	
Advertising for tenants	*48*
Body corporate fees and charges	*500*
Borrowing expenses	*259*
Cleaning	*100*
Council rates	*700*
Deductions for decline in value*	*796*
Gardening/lawn mowing	*350*
Insurance	*495*
Interest on loan(s)	*11,475*
Land tax	*200*
Legal expenses	*150*
Pest control	*50*
Property agent fees and commission	*800*
Repairs and maintenance	*1,000*
Capital works deductions	*2,745*
Stationery, telephone and postage	*80*
Travel expenses**	*436*
Water charges	*350*
Sundry rental expenses	*95*
Total expenses	*20,629*
Net rental income or loss *($9,300 – $20,629)*	*–11,329*

You cannot claim for items if the expenditure (for example, building insurance or lawn mowing) is already included in body corporate fees and charges.

Rental Property Worksheet

Example: Blank worksheet

	$
Income	
Rental income	
Other rental related income	
Gross rent	
Expenses	
Advertising for tenants	
Body corporate fees and charges	
Borrowing expenses	
Cleaning	
Council rates	
Deductions for decline in value*	
Gardening/lawn mowing	
Insurance	
Interest on loan(s)	
Land tax	
Legal expenses	
Pest control	
Property agent fees and commission	
Repairs and maintenance	
Capital works deductions	
Stationery, telephone and postage	
Travel expenses**	
Water charges	
Sundry rental expenses	
Total expenses	
Net rental income or loss (Gross rent less total expenses)	

You cannot claim for items if the expenditure (for example, building insurance or lawn mowing) is already included in body corporate fees and charges.

* You may not be able to claim a deduction for a decline in value of certain second-hand depreciating assets in your residential rental property. If you use these assets to produce rental income from your residential rental property, deductions are available only if an exception applies. See Limit on deductions for decline in value of second-hand depreciating assets.

Deductions for travel expenses relating to residential rental properties are allowable only if an exception applies. See **Expenses for which you cannot claim deductions on page 6.

Other tax considerations

Capital gains tax (CGT)

You may make a capital gain or capital loss when you sell (or otherwise cease to own) a rental property that you acquired after 19 September 1985.

In the case of the sale or other disposal of real estate, the time of the event is normally when you enter into the contract (generally the date on the contract), not when you settle. The fact that a contract may be subject to a condition such as finance approval, generally does not affect this date. If there is no contract, the event takes place when the change of ownership occurs.

You can also make a capital gain or capital loss from certain capital improvements made after 19 September 1985 when you sell or otherwise cease to own a property you acquired before that date.

You will make a capital gain from the sale of your rental property to the extent that the capital proceeds you receive are more than the cost base of the property. You will make a capital loss to the extent that the property's reduced cost base exceeds those capital proceeds. If you are a co-owner of an investment property, you will make a capital gain or loss in accordance with your interest in the property (see **Co-ownership of rental property** on page 3).

The cost base and reduced cost base of a property includes the amount you paid for it together with certain incidental costs associated with acquiring, holding and disposing of it (for example, legal fees, stamp duty and real estate agent's commissions). Certain amounts that you have deducted or which you can deduct are excluded from the property's cost base or reduced cost base. For example, see **Cost base adjustments for capital works deductions** on page 29. Travel expenses you incur relating to your residential rental property are also excluded from the property's cost base or reduced cost base.

Your capital gain or capital loss may be disregarded if a rollover applies, for example, if your property was destroyed or compulsorily acquired or you transferred it to your former spouse under a court order following the breakdown of your marriage.

If you were a resident of Norfolk Island on 23 October 2015 you can disregard any capital gain or loss made on a rental property located on Norfolk Island that you held at that time. CGT may however apply to rental properties located on the Australian mainland or elsewhere in the world.

CGT may also apply to any rental properties purchased on or after 24 October 2015. For more information, see:

- *Norfolk Island tax and super – Capital gains tax* at ato.gov.au
- *Guide to capital gains tax 2023*.

Record keeping

Keeping adequate records of all expenditure will help you correctly work out the amount of capital gain or capital loss you have made when a CGT event happens. You must keep records relating to your ownership and all the costs of acquiring and disposing of property. It will also help to make sure you do not pay more CGT than is necessary.

You must keep records of everything that affects your capital gains and capital losses. Penalties can apply if you do not keep the records for at least 5 years after the relevant CGT event. If you use the information from those records in a later tax return, you may have to keep records for longer. If you have applied a net capital loss, you should generally keep your records of the CGT event that resulted in the loss until the end of any period of review for the income year in which the capital loss is fully applied.

For more information, see *TD 2007/2 – Income tax: should a taxpayer who has incurred a tax loss or made a net capital loss for an income year retain records relevant to the ascertainment of that loss only for the record retention period prescribed under income tax law*?

You must keep records in English (or be readily accessible or translatable into English) that include:

- the date you acquired the asset
- the date you disposed of the asset
- the date you received anything in exchange for the asset
- the parties involved
- any amount that would form part of the cost base of the asset
- whether you have claimed an income tax deduction for an item of expenditure.

> For more information about cost base and record-keeping requirements for capital gains tax purposes, see the *Guide to capital gains tax 2023*.

Depreciating assets

If the sale of your rental property includes depreciating assets, a balancing adjustment event will happen to those assets (see **What happens if you no longer hold or use a depreciating asset?** on page 23).

You should apportion your capital proceeds between the property and the depreciating assets to determine the separate tax consequences for them.

You can make a capital loss (or in some circumstances, capital gain) when you dispose of a depreciating asset to which the new rules about deductions for decline in value second-hand depreciating assets apply. For more information, see Limit on deductions for decline in value of second-hand depreciating assets and What happens if you no longer hold or use a depreciating asset.

General value shifting regime

A loss you make on the sale of a rental property may be reduced under the value shifting rules if, at the time of sale, a continuing right to use the property was held by an associate of yours (for example, a 10-year lease granted to your associate immediately before you enter into a contract of sale). The rules can only apply if the right was originally created on non-commercial terms such that at that time, the market value of the right was greater than what you received for creating it by more than $50,000.

For more information, go to ato.gov.au and read *Guide to the general value shifting regime*.

Goods and services tax (GST)

If you are registered for GST and it was payable in relation to your rental income, do not include it in the amounts you show as income in your tax return.

Similarly, if you are registered for GST and entitled to claim input tax credits for rental expenses, you do not include the input tax credits in the amounts of expenses you claim. If you are not registered for GST, or the rental income was from residential premises, you include any GST in the amounts of rental expenses you claim.

Negative gearing

A rental property is negatively geared if it is purchased with the assistance of borrowed funds and the net rental income, after deducting other expenses, is less than the interest on the borrowings.

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

If by negatively gearing a rental property, the rental expenses you claim in your tax return would result in a tax refund, you may reduce your rate of withholding 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.

Pay as you go (PAYG) instalments

If you make a profit from renting your property, you will need to know about the PAYG instalments system.

This is a system for paying instalments towards your expected tax liability for an income year. You will generally be required to pay PAYG instalments if you earn $4,000 or more of business or investment income, such as rental income, and the debt on your income tax assessment is more than $1,000.

If you are required to pay PAYG instalments we will notify you. You will usually be required to pay the instalments at the end of each quarter. There are usually 2 options if you pay quarterly instalments:

- pay using an instalment amount or an instalment rate calculated by us (as shown on your activity statement), or
- pay an instalment amount or using an instalment rate you work out yourself.

Depending upon your circumstances, you may be eligible to pay your instalments annually. We will notify you if you are eligible to pay an annual PAYG instalment.

For more information, see *Introduction to pay as you go (PAYG) instalments* (NAT 4637).

If you receive payments that are subject to withholding (for example, salary or wages) you can contribute towards your expected tax liability for an income year by increasing your rate or amount of withholding. That way you can avoid having a tax bill on assessment, which means that you may not be required to pay PAYG instalments. To do this, you will need to arrange an upwards variation by entering into an agreement with your payer to increase the rate or amount of withholding. You and your payer will need to complete a *Withholding declaration – upwards variation form* (NAT 5367).

Residential rental property assets

Items that are commonly found in residential rental properties are in **tables 3**, **4**, **5** and **6** on pages 37–47.

The tables are based on the principles in *TR 2004/16 – Income tax: plant in residential rental properties*, set out whether an item may be eligible for a capital works deduction or a deduction for decline in value, and, for the latter, the tables include the Commissioner's determination of effective life (provided such deduction is not denied under the new rules for second-hand depreciating assets in residential rental properties, or otherwise denied). For more information, see **Which effective life can you use?** on the next page and **Limit on deductions for decline in value of second-hand depreciating assets** on page 20.

We provide these tables to give clarity and certainty about the tax treatment of items in residential rental properties. You can use them to assist you to work out which type of deduction you may be able to claim for your items.

If you have an item for your residential rental property that is not in the tables, the principles set out below may help you determine the type of deduction that may be available for it. These principles are more fully discussed in *TR 2004/16 Income tax: plant in residential rental properties*.

If you are unable to determine the type of deduction available for an item, or you consider that your circumstances are sufficiently different to warrant a different treatment, you may ask us for a private ruling.

Definitions

We use the following common terms in **tables 3**, **4**, **5** and **6** to describe how or whether items are attached to premises:

Fixed items are annexed or attached by any means, for example screws, nails, bolts, glue, adhesive, grout or cement, but not merely for temporary stability.

Freestanding items are designed to be portable or movable. Any attachment to the premises is only for the item's temporary stability.

Other than freestanding items are fixed to the premises that are not designed to be portable or movable. The test is not whether the item is removable, even if the attachment is slight, but whether the inherent design and function of the item is such that it is intended to remain in place for a substantial period of time.

Plant

The ordinary meaning of plant does not include the **setting** for income-earning activities. Residential rental properties will invariably be the setting for income-producing activities and so do not fall within the ordinary meaning of plant. Items that form part of the premises are also part of the setting, and therefore not eligible for deductions for their decline in value.

You should consider the following factors when determining whether an item is part of the premises or setting:

- whether the item appears visually to retain a separate identity
- the degree of permanence with which it is attached to the premises
- the incompleteness of the structure without it
- the extent to which it was intended to be permanent or whether it was likely to be replaced within a relatively short period.

None of these factors alone is determinative and they must all be considered together.

Examples

Wall and floor tiles are generally fixed to the premises, not freestanding, and intended to remain in place for a substantial period of time. They will generally form part of the premises. Expenditure on these items falls under capital works.

On the other hand, a freestanding item such as a bookcase may be attached to the structure only for temporary stability. It therefore does not form part of the premises and may qualify for a deduction for decline in value.

Kitchens are fixed to the premises, are intended to remain in place indefinitely and are necessary to complete the premises. Any separate visual identity they have is outweighed by the other factors. They are therefore part of the premises. Clothes hoists are also part of the premises for similar reasons.

Insulation batts, although generally not fixed, are intended to remain in place indefinitely, do not have a separate visual identity and add to the completeness of the structure. They are also part of the premises.

In addition to its ordinary meaning, plant includes articles and machinery.

Articles

Plant includes items that are articles within the ordinary meaning of that word. A curtain, a desk and a bookcase would all be considered articles. A structure attached to land, such as a clothes hoist or pergola, would not be considered an article.

If an item forms part of the premises according to the descriptions in the previous column, it is not an article. Therefore, items such as false ceiling panels and insulation batts are not articles while they are in place. However, a painting hung on a wall retains its character as an article.

Machinery

Plant also includes items that are machinery, whether or not they form part of the premises. In deciding whether something is machinery you must:

- identify the relevant unit or units based on functionality
- decide whether that unit comes within the ordinary meaning of machinery.

Identify the unit

TR 94/11 – Income tax: general investment allowance – what is a unit of property? provides guidelines to help you identify what is a unit. You need to consider whether a particular item is a unit, part of a larger unit, or whether its components are separate units. A unit will generally be an entity entire in itself; something that has an identifiable, separate function. However, it need not be self-contained or used in isolation and it may vary the performance of another unit. An item is not a unit simply because it is described as a system.

An item may be made up of several components. To determine what the relevant unit is, you need to consider the function of each component and of the larger composite item. A door handle, for example, is part of the door and not a separate unit. Similarly, a freestanding spa pool that is made up of the shell, skirt, heater, pump, filter and piping is one unit.

In other cases separate units may work in conjunction with each other to achieve a common objective. For example, a fire safety system may consist of several components such as hydrants, piping, alarms, smoke detectors and sprinklers. All these components function together to form the system. However, each component also performs its own discrete function independent of the others. In this example, each component is a separate unit.

Is the unit machinery?

Once you have identified a unit you must decide if it is machinery. The ordinary meanings of machinery and machine do not include anything that is only a reservoir or conduit, even if it is connected to something which is without doubt a machine. Devices that use minute amounts of energy in the form of electrical impulses in various processes, such as microprocessors and computers, come within the ordinary meaning of machine. Appliances for heating, such as stoves, cook tops, ovens and hot-water systems, are also included.

The components of a system that are separate units and also machinery will be plant, but any ducting, piping or wiring that may be connected to the machine or machines is generally not machinery. However, where the cost of wiring is negligible, such as in small domestic-size systems, the cost may be included in the cost of installation rather than being treated separately. The cost of wiring to connect a typical home security system, for example, may be treated as negligible.

Excluded entity

An entity is an excluded entity if, at any time during the income year the entity is:

- a corporate tax entity
- a superannuation plan that is not a self-managed superannuation fund
- a public unit trust
- a managed investment trust, or
- a unit trust or a partnership, if each of its members are entities of a type listed above at that time during the income year.

Residential rental property

Residential rental property is a residential premises used to provide residential accommodation for the purpose of producing assessable income.

Residential premises (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.

For example, a house or a unit used as residential accommodation for the purpose of producing rental income is residential rental property. A caravan or a house-boat is generally not residential rental property.

Working out the effective life yourself

Generally, the effective life of a depreciating asset is how long it can be used for the purpose of producing income:

- having regard to the wear and tear you reasonably expect from your expected circumstances of use
- assuming that it will be maintained in reasonably good order and condition, and
- having regard to the period within which it is likely to be scrapped, sold for no more than scrap value or abandoned.

Effective life can be expressed in whole years. It is not rounded to the nearest whole year.

The sort of information you could use to make an estimate of effective life of an asset includes:

- the physical life of the asset
- engineering information
- the manufacturer's specifications
- your own experience with similar assets
- the experience of other users of similar assets
- the level of repairs and maintenance commonly adopted by users of the asset
- retention periods
- scrapping or abandonment practices.

If the asset you wish to depreciate is not listed in **table 3** below, you can use table B of *TR 2022/1* as a guide to working out the effective life of the asset, or use an effective life of an asset that is similar from **table 3** on pages 37–45.

You work out the effective life of a depreciating asset from the asset's start time, not from the time you first start claiming deductions.

Can I change an effective life I am using if the Commissioner has determined a new effective life?

No. You can choose to recalculate a depreciating asset's effective life only if the effective life you have been using is no longer accurate because of changed circumstances relating to the nature of the asset's use. A new determination of effective life by the Commissioner does not in itself change the nature of an asset's use and does not allow you to recalculate an asset's effective life.

Residential rental property items

Treatment as depreciating assets or capital works

In **tables 3**, **4**, **5** and **6**, 'own estimate' refers to the fact that, because there was no Commissioner's determination in effect. Consequently, you make your own estimate of the effective life in accordance with the principles set out in **Working out the effective life yourself** in the previous column.

You may not be able to claim a deduction for a decline in value of certain second-hand depreciating assets in your residential rental property. If you use these assets to produce rental income from your residential rental property, deductions are available only if an exception applies. See **Limit on deductions for decline in value of second-hand depreciating assets** on page 20.

Table 3

Asset	Deduction for decline in value (effective life in years)			Capital works deduction
	Assets acquired before 1 July 2004	Assets acquired from 1 July 2004 and before 1 July 2019	Assets acquired from 1 July 2019	
Assets, general:				
air conditioning assets	see **table 5** on page 46	see **table 5** on page 46	see **table 5** on page 46	
cable trays				✔
ceiling fans	own estimate	5	5	
clocks, electric	13 ⅓	10	10	
cupboards, other than freestanding				✔
DVD players	own estimate	5	5	
door closers	own estimate	10	10	
door locks and latches (excluding electronic code pads)				✔
door stops, fixed				✔
door stops, freestanding	own estimate	10	10	
electrical assets (including conduits, distribution boards, power points, safety switches, switchboards, switches and wiring)				✔
escalators (machinery and moving parts)	see **table 4** on page 45	see **table 4** on page 45	see **table 4** on page 45	
evaporative coolers	see **table 6** on page 47	see **table 6** on page 47	see **table 6** on page 47	
facade, fixed				✔
floor coverings, fixed (including cork, linoleum, parquetry, tiles and vinyl)				✔
floor coverings (removable without damage):				
carpet	10	10	8	
floating timber	own estimate	15	15	
linoleum	10	10	10	
vinyl	10	10	10	
furniture, freestanding	13 ⅓	13 ⅓	13 ⅓	
garbage bins	6 ⅔	10	10	
garbage chutes				✔
garbage compacting systems (excluding chutes)	6 ⅔	6 ⅔	6 ⅔	
generators	20	20	20	
grease traps				✔
gym assets:				
cardiovascular	own estimate	5	5	
resistance	own estimate	10	10	

Table 3 *continued*

Asset	Deduction for decline in value (effective life in years)			Capital works deduction
	Assets acquired before 1 July 2004	Assets acquired from 1 July 2004 and before 1 July 2019	Assets acquired from 1 July 2019	
hand dryers, electrical	10	10	10	
hand rails				✔
heaters:				
fixed:				
ducts, pipes, vents and wiring				✔
electric	10	15	15	
fire places (including wood heaters)				✔
gas:				
ducted central heating unit	own estimate	20	20	
other	own estimate	15	15	
freestanding	10	15	15	
home automation control assets	own estimate	own estimate	10	
hooks, robe				✔
hot-water systems (excluding piping):				
electric	20	12	12	
gas	20	12	12	
solar	20	15	15	
hot-water system piping				✔
hydronic assets – controls	own estimate	own estimate	10	
hydronic assets – water heaters	own estimate	own estimate	15	
insulation				✔
intercom system assets	own estimate	10	10	
lift wells				✔
lifts (including hydraulic and traction lifts)	see **table 4** on page 45	see **table 4** on page 45	see **table 4** on page 45	
lights:				
fittings (excluding hardwired)	20	5	5	
fittings, hardwired				✔
freestanding	own estimate	5	5	
shades, removable	own estimate	5	5	
linen	own estimate	5	5	
master antenna television (MATV) assets:				
amplifiers	own estimate	10	10	
modulators	own estimate	10	10	
power sources	own estimate	10	10	

Table 3 *continued*

Asset	Deduction for decline in value (effective life in years)			Capital works deduction
	Assets acquired before 1 July 2004	Assets acquired from 1 July 2004 and before 1 July 2019	Assets acquired from 1 July 2019	
master antenna television (MATV) assets (excluding amplifiers, modulators and power sources)				✔
mirrors, fixed				✔
mirrors, freestanding	own estimate	15	15	
radios	10	10	10	
ramps				✔
rugs	own estimate	7	7	
safes, fixed				✔
sanitary fixtures, fixed (including soap dispensers)				✔
satellite dishes				✔
screens				✔
shelving, other than freestanding				✔
shutters				✔
signs, fixed				✔
skylights				✔
skylights – controls	own estimate	own estimate	10	
skylights – motors	own estimate	own estimate	10	
solar-powered generating systems (incorporating batteries, inverters, solar panels, regulators)	own estimate	20	20	
stereo systems (incorporating amplifiers, cassette players, compact disc players, radios and speakers)	own estimate	7	7	
surround sound systems (incorporating audio-video receivers and speakers)	own estimate	10	10	
telecommunications assets:				
cordless phones	own estimate	4	4	
distribution frames				✔
PABX computerised assets	20	10	7	
telephone hand sets	own estimate	10	6	
television antennas, fixed				✔
television antennas, freestanding	own estimate	5	5	
television sets	10	10	8	
vacuum cleaners:				
ducted:				
hoses	own estimate	10	10	
motors	own estimate	10	10	
wands	own estimate	10	10	
portable	10	10	10	

Table 3 *continued*

Asset	Deduction for decline in value (effective life in years)			Capital works deduction
	Assets acquired before 1 July 2004	Assets acquired from 1 July 2004 and before 1 July 2019	Assets acquired from 1 July 2019	
vacuum cleaners, ducted (excluding hoses, motors and wands)				✔
ventilation ducting and vents				✔
ventilation fans	own estimate	20	20	
video cassette recorder systems (VCR)	own estimate	5	5	
water pumps – multi-story	20	20	20	
water pumps – rainwater tanks	20	20	5	
water pumps – single residence pressure pumps	20	20	8	
water tanks				✔
window awnings, insect screens, louvres, pelmets and tracks				✔
window blinds, internal	20	10	10	
window curtains	6⅔	6	6	
window shutters, automatic:				
controls	own estimate	10	10	
motors	own estimate	10	10	
window shutters, automatic (excluding controls and motors)				✔
Bathroom assets:				
accessories, fixed (including mirrors, rails, soap holders and toilet roll holders)				✔
accessories, freestanding (including shower caddies, soap holders, toilet brushes)	own estimate	5	3	
exhaust fans (including light/heating)	own estimate	10	10	
fixtures (including baths, bidets, tapware, toilets, vanity units and wash basins)				✔
heated towel rails, electric	own estimate	10	10	
shower assets (including doors, rods, screens and trays)				✔
shower curtains (excluding curtain rods and screens)	own estimate	2	2	
spa baths (excluding pumps)				✔
spa bath pumps	20	20	10	

Table 3 *continued*

Asset	Deduction for decline in value (effective life in years)		Capital works deduction
	Assets acquired before 1 July 2004	Assets acquired from 1 July 2004	
Bedroom assets:			
wardrobes, other than freestanding (incorporating doors, fixed fittings and mirrors)			✔
Fire control assets:			
alarms:			
heat	20	6	
smoke	20	6	
detection and alarm systems:			
alarm bells	20	12	
cabling and reticulation			✔
detectors (including addressable manual call points, heat, multi-type and smoke)	own estimate	20	
fire indicator panels	20	12	
manual call points (non-addressable)			✔
doors, fire and separation			✔
emergency warning and intercommunication systems (EWIS):			
master emergency control panels	20	12	
speakers	20	12	
strobe lights	20	12	
warden intercom phone	20	12	
extinguishers	13⅓	15	
hose cabinet and reels (excluding hoses and nozzles)			✔
hoses and nozzles	20	10	
hydrant boosters (excluding pumps)			✔
hydrants			✔
lights, exit and emergency			✔
pumps (including diesel and electric)	20	25	
sprinkler systems (excluding pumps)			✔
stair pressurisation assets:			
AC variable speed drives	own estimate	10	
pressurisation and extraction fans	own estimate	25	
sensors	own estimate	10	
water piping			✔
water tanks			✔

Table 3 *continued*

Asset	Deduction for decline in value (effective life in years)			Capital works deduction
	Assets acquired before 1 July 2004	Assets acquired from 1 July 2004 and before 1 July 2019	Assets acquired from 1 July 2019	
Kitchen assets:				
cook tops	own estimate	12	12	
crockery	own estimate	5	5	
cutlery	own estimate	5	5	
dishwashers	own estimate	10	8	
fixtures (including bench tops, cupboards, sinks, tapware and tiles)				✔
freezers	13 ⅓	12	12	
garbage disposal units	6 ⅔	10	10	
microwave ovens	6 ⅔	10	8	
ovens	own estimate	12	12	
range hoods	own estimate	12	12	
refrigerators	13 ⅓	12	12	
stoves	20	12	12	
water filters, electrical	own estimate	15	15	
water filters, fixed (attached to plumbing)				✔
Laundry assets:				
clothes dryers	own estimate	10	7	
fixtures (including tapware, tiles and tubs)				✔
ironing boards, freestanding	own estimate	7	5	
ironing boards, other than freestanding				✔
irons	own estimate	5	5	
washing machines	6 ⅔	10	8	
Outdoor assets:				
automatic garage doors:				
controls	own estimate	5	5	
motors	own estimate	10	10	
automatic garage doors (excluding controls and motors)				✔
barbecues:				
fixed:				✔
sliding trays and cookers	own estimate	10	10	
freestanding	own estimate	5	5	
boat sheds				✔
bollards, fixed				✔
car parks, sealed				✔

Table 3 *continued*

Asset	Deduction for decline in value (effective life in years)			Capital works deduction
	Assets acquired before 1 July 2004	Assets acquired from 1 July 2004 and before 1 July 2019	Assets acquired from 1 July 2019	
carports				✔
clotheslines				✔
driveways, sealed				✔
fencing				✔
floor carpet (including artificial grass and matting)	own estimate	5	5	
folding arm awnings – controls	own estimate	own estimate	10	
folding arm awnings – motors	own estimate	own estimate	10	
furniture, freestanding	13⅓	5	5	
furniture, other than freestanding				✔
garage doors (excluding motors and controls)				✔
garden awnings and shade structures, fixed				✔
gardening watering installations:				
control panels	own estimate	5	5	
pumps	20	5	5	
timing devices	own estimate	5	5	
gardening watering installations (excluding control panels, pumps and timing devices)				✔
garden lights, fixed				✔
garden lights, solar	own estimate	8	8	
garden sheds, freestanding	own estimate	15	15	
garden sheds, other than freestanding				✔
gates, electrical:				
controls	own estimate	5	5	
motors	own estimate	10	10	
gates (excluding electrical controls and motors)				✔
jetties (including boat sheds and pontoons)				✔
letterboxes				✔
operable pergola louvres:				
controls	own estimate	15	15	
motors	own estimate	15	15	
operable pergola louvres (excluding controls and motors)				✔
paths				✔
rainwater tanks – galvanised steel	own estimate	own estimate	25	
rainwater tanks – polyethylene	own estimate	own estimate	15	
roller blinds – controls	own estimate	own estimate	10	

Table 3 *continued*

Asset	Deduction for decline in value (effective life in years)			Capital works deduction
	Assets acquired before 1 July 2004	Assets acquired from 1 July 2004 and before 1 July 2019	Assets acquired from 1 July 2019	
roller blinds – motors	own estimate	own estimate	10	
retaining walls				✔
saunas (excluding heating assets)				✔
sauna heating assets	13 ⅓	15	15	
screens, fixed (including glass screens)				✔
septic tanks				✔
sewage treatment assets:				
controls	own estimate	8	8	
motors	own estimate	8	8	
sewage treatment assets (excluding controls and motors)				✔
spas:				
fixed:				✔
chlorinators	13 ⅓	12	10	
filtration (including pumps)	13 ⅓	12	10	
heaters (electric or gas)	13 ⅓	15	15	
freestanding (incorporating blowers, controls, filters, heaters and pumps)	20	17	17	
swimming pool assets:				
chlorinators	13 ⅓	12	10	
cleaning	13 ⅓	7	7	
covers (including blankets)	own estimate	own estimate	8	
filtration (including pumps)	13 ⅓	12	10	
heaters:				
electric heaters	13 ⅓	15	15	
gas heaters	13 ⅓	15	15	
solar heaters	13 ⅓	20	20	
swimming pools				✔
tennis court assets:				
cleaners	own estimate	3	3	
drag brooms	own estimate	3	3	
nets	own estimate	5	5	
rollers	own estimate	3	3	
umpire chairs	own estimate	15	15	
tennis court assets, fixed (including fences, lights, posts and surfaces)				✔

Table 3 *continued*

Asset	Deduction for decline in value (effective life in years)		Capital works deduction
	Assets acquired before 1 July 2004	Assets acquired from 1 July 2004	
Security and monitoring assets:			
access control systems:			
code pads	own estimate	5	
door controllers	own estimate	5	
proximity readers	own estimate	7	
swipe card readers	own estimate	3	
closed circuit television systems:			
cameras	6⅔	4	
monitors	6⅔	4	
digital recorders	own estimate	4	
time lapse recorders	own estimate	2	
switching units (including multiplexes)	own estimate	5	
doors and screens			✔
security systems:			
code pads	6⅔	5	
control panels	6⅔	5	
detectors (including glass, passive infrared, and vibration)	6⅔	5	
detectors – global system for mobiles (GSM) units (including glass, passive infrared, and vibration)	6⅔	5	
detector noise makers (including bells and sirens)	6⅔	5	

Table 4

Asset	Deduction for decline in value (effective life in years)		Capital works deduction
	Assets acquired before 1 January 2004	Assets acquired from 1 January 2004	
escalators (machinery and moving parts)	16⅔	20	
lifts:			
electric	16⅔	30	
hydraulic	20	30	

Table 5

Asset	Deduction for decline in value (effective life in years)		Capital works deduction
	Assets acquired before 1 July 2004	Assets acquired from 1 July 2004	
Air conditioning assets (excluding ducting, pipes and vents)			
air handling units		20	
chillers:			
absorption		25	
centrifugal		20	
volumetrics air-cooled (including reciprocating, rotary, screw, scroll)		15	
volumetrics water-cooled (including reciprocating, rotary, screw, scroll)		20	
condensing sets		15	
cooling towers		15	
damper motors (including variable air volume box controller)		10	
fan coil units (connected to condensing set)		15	
mini split systems up to 20kW (including ceiling, floor and high wall split system)		10	
packaged air conditioning units		15	
pumps		20	
room units		10	
air conditioning ducts, pipes and vents			✔
Air conditioning plant			
central type (including ducting and vents)	13⅓		
structural alterations and additions associated with the installation of this plant which forms an integral part of it	100		
room units	10		
solar-energy powered	13⅓		

Table 6

Asset	Deduction for decline in value (effective life in years)			Capital works deduction
	Assets acquired before 1 July 2004	Assets acquired from 1 July 2004 and before 1 July 2019	Assets acquired from 1 July 2019	
evaporative coolers:				
fixed (excluding ducting and vents)	own estimate	20	15	
portable	own estimate	10	10	
ducting and vents				✔

More information

To get any publication in this guide:

- go to ato.gov.au/publications, or
- phone **1300 720 092**

Website

- For more information go to ato.gov.au

Publications

Publications referred to in this guide:

- *Deductions for prepaid expenses 2023* (NAT 4170)
- *Expenses you can claim*
- *GSTR 2003/3 – Goods and services tax: when is a sale of real property a sale of new residential premises?*
- *Guide to capital gains tax 2023*
- *Guide to depreciating assets 2023* (NAT 1996)
- *Individual tax return instructions 2023*
- *International dealings schedule 2023* (NAT 73345)
- *PS LA 2006/1 (GA) – Calculating cost base of CGT asset where there is insufficient information to determine any Division 43 capital works deduction*
- *LCR 2018/7 Residential premises deductions: travel expenditure relating to rental investment properties*
- *PAYG withholding variation application* (NAT 2036)
- *PAYG withholding variation application (e-variation)*
- *TD 2012/1 – Income tax: can Part IVA of the Income Tax Assessment Act 1936 apply to deny a deduction for some, or all, of the interest expense incurred in respect of an 'investment loan interest payment arrangement' of the type described in this Determination?*
- *TD 2007/2 – Income tax: should a taxpayer who has incurred a tax loss or made a net capital loss for an income year retain records relevant to the ascertainment of that loss only for the record retention period prescribed under income tax law?*
- *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*
- *TD 2005/47 – Income tax: what do the words 'can deduct' mean in the context of those provisions in Division 110 of the Income Tax Assessment Act 1997 which reduce the cost base or reduced cost base of a CGT asset by amounts you 'have deducted or can deduct', and is there a fixed point in time when this must be determined?*
- *TD 1999/42 – Income tax: do the principles set out in TR 98/22 apply to line of credit facilities?*
- *TR 2015/3 – Income tax: matters relating to strata title bodies constituted under strata title legislation*
- *TR 2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*
- *TR 2021/3 – Income tax: effective life of depreciating assets (applicable from 1 July 2021)*
- *TR 2020/3 – Income tax: effective life of depreciating assets (applicable from 1 July 2020)*
- *TR 2019/5W – Income tax: effective life of depreciating assets (applicable from 1 July 2019)*
- *TR 2018/4W – Income tax: effective life of depreciating assets (applicable from 1 July 2018)*
- *TR 2017/2W – Income tax: effective life of depreciating assets (applicable from 1 July 2017)*
- *TR 2016/1W – Income tax: effective life of depreciating assets (applicable 1 July 2016)*
- *TR 2015/2W – Income tax: effective life of depreciating assets (applicable from 1 July 2015)*
- *TR 2014/4W – Income tax: effective life of depreciating assets (applicable from 1 July 2014)*
- *TR 2013/4W – Income tax: effective life of depreciating assets (applicable from 1 July 2013)*
- *TR 2012/2W – Income tax: effective life of depreciating assets (applicable from 1 July 2012)*
- *TR 2011/2W – Income tax: effective life of depreciating assets (applicable from 1 July 2011)*
- *TR 2010/2W – Income tax: effective life of depreciating assets (applicable from 1 July 2010)*
- *TR 2009/4W – Income tax: effective life of depreciating assets (applicable from 1 July 2009)*
- *TR 2008/4W – Income tax: effective life of depreciating assets (applicable from 1 July 2008)*
- *TR 2007/3W – Income tax: effective life of depreciating assets (applicable from 1 July 2007)*
- *TR 2006/15W – Income tax: effective life of depreciating assets (applicable from 1 January 2007)* (which replaced *TR 2006/5 – Income tax: effective life of depreciating assets* and *TR 2000/18 – Income tax: effective life of depreciating assets*)
- *TR 2004/16 – Income tax: plant in residential rental properties*
- *TR 2004/4 – Income tax: deductions for interest incurred prior to the commencement of, or following the cessation of, relevant income earning activities*
- *TR 2000/2 – Income tax: deductibility of interest on moneys drawn down under line of credit facilities and redraw facilities*
- *TR 98/22 – Income tax: the taxation consequences for taxpayers entering into certain linked or split loan facilities*
- *TR 97/25 – Income tax: property development: deduction for capital expenditure on construction of income producing capital works, including buildings and structural improvements*
- *TR 97/23 – Income tax: deductions for repairs*
- *TR 97/11 – Income tax: am I carrying on a business of primary production?*
- *Taxation Ruling TR 95/25 – Income tax: deductions for interest under section 8-1 of the Income Tax Assessment Act 1997 following FC of T v. Roberts; FC of T v. Smith*
- *Taxation Ruling TR 94/11 – Income tax: general investment allowance – what is a unit of property?*
- *TR 94/8 – Income tax: whether business is carried on in partnership (including 'husband and wife' partnerships)*
- *TR 93/32 – Income tax: rental property – division of net income or loss between co-owners*

- *TR 2019/2 – Income tax: whether penalty interest is deductible*
- *IT 2423 – Withholding tax: whether rental income constitutes proceeds of business – permanent establishment – deduction for interest*
- *IT 2316 – Income tax: distribution of partnership profits and losses*
- *IT 2167 – Income tax: rental properties – non-economic rental, holiday home, share of residence, etc. cases, family trust cases*

Phone

- **Individual 13 28 61**
  Individual income tax and general personal tax enquiries, including capital gains tax
- **Business 13 28 66**
  Information about:
  - business income tax
  - fringe benefits tax (FBT)
  - fuel tax credits
  - goods and services tax (GST)
  - pay as you go (PAYG) tax
  - activity statements, including lodgment and payment
  - accounts and business registration (including Australian business number and tax file number)
  - dividend and royalty withholding tax.
- **Superannuation 13 10 20**

Other services

If you do not speak English well and need help from the ATO, phone the Translating and Interpreting Service (TIS National) on **13 14 50**.

If you are deaf or have a hearing or speech impairment, you can phone us through the National Relay Service (NRS) on the numbers listed below, and ask for the ATO number you need:

- TTY users, phone **13 36 77**. For ATO 1800 free call numbers, phone **1800 555 677**.
- Speak and Listen (speech to speech relay) users, phone **1300 555 727**. For ATO 1800 free call numbers, phone **1800 555 727**.
- Internet relay users, connect to internet-relay.nrscall.gov.au

Rental properties 2023