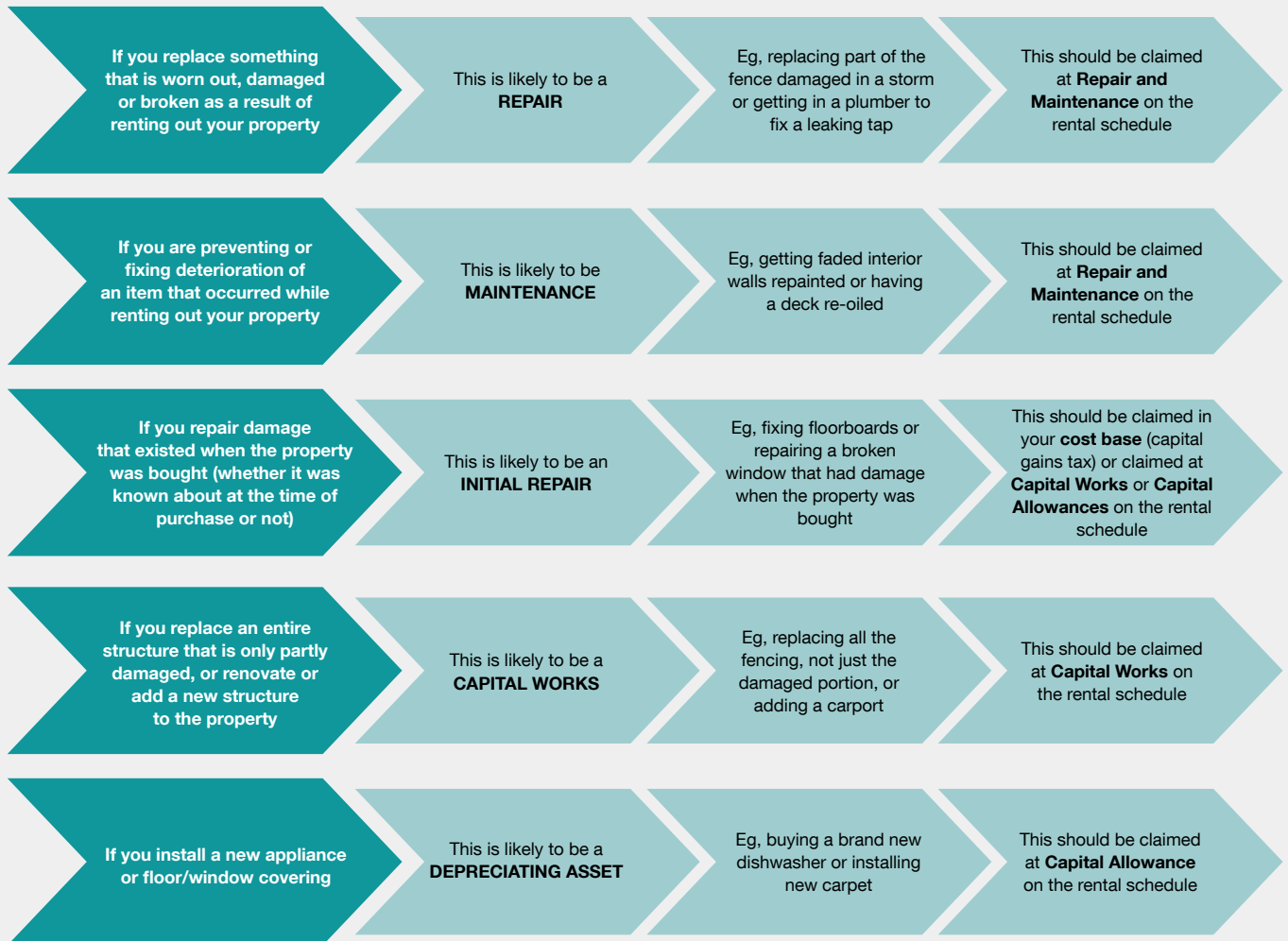




Quick reference chart



Repairs and maintenance

The cost of repairs and maintenance may be deductible in full in the year you incur them if both:

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

Repairs

Generally, repairs must relate directly to wear and tear or other damage that occurred as a result of your renting out the property.

Examples of repairs include:

- replacing broken windows

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

Maintenance

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

Examples of maintenance include:

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



Capital expenditure which may be claimable over time

Capital Allowances

Depreciable assets are those items that can be described as plant, which do not form part of the premises. These items are usually:

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

For each asset that you claim a deduction for decline in value, you can choose to use either:

- the effective life the Commissioner has determined for such assets
- your own reasonable estimate of its effective life.

Where you estimate an asset's effective life, you must keep records to show how you worked it out.

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

- floating timber flooring
- carpets
- curtains
- appliances like a washing machine or fridge
- furniture.

Capital works

Capital works is used to describe certain kinds of construction expenditure used to produce income.

The rate of deduction for these expenses is generally 2.5% per year for 40 years following construction.

Capital works include:

- building construction costs
- the cost of altering a building
- major renovations to a room
- adding a fence
- building extensions such as garages or patios
- adding structural improvements like a driveway or retaining wall.

Improvements

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

Improvements include work that:

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

Improvements can be either capital works where it is a structural improvement or capital allowances where the item is a depreciable asset. It is important to correctly categorise each expense you incur to ensure it is treated correctly for tax purposes.

Initial repairs

Costs you incur to remedy defects, damage or deterioration that existed at the time you acquired the property are considered capital in nature. These costs may form part of the cost base of the property for capital gains tax purposes (but not generally to the extent that capital works or capital allowances deductions have been or can be claimed for them). The costs to make a property suitable to be rented out are of a capital nature and not immediately

deductible. To be deductible, the necessity for repairs must have arisen from the rental activity of the person making the claim, not that of some previous owner.

However, if your new property was rented or made available for rent and has been affected by special circumstances beyond your control, such as a natural disaster or deliberate damage by tenants, you can claim a deduction for the cost of repairs incurred to restore the property to its original condition.



Example 1:

Initial repairs not deductible (existing damage)

Lisa purchased a property with the intention of renting it out. At the time of purchase Lisa knew that she would need to repair the roof (replace all roof tiles) and part of the ceiling as they were in a poor condition.

When carrying out the works, Lisa discovered that there was extra structural damage that required her immediate attention. The repair to the ceiling costs her \$2,000, the replacement of roof tiles cost her \$9,000 and the structural work cost her a total of \$15,000.

The 'initial' repair of the ceiling of \$2,000 is not deductible but it may form part of her cost base for CGT purposes, the replacement of the entire roof and the structural work can be claimed as capital works expenses.



Example 2:

Repairs cost (special circumstances beyond your control)

Dimitri purchased a property with the intention to rent. Unexpectedly, after ten weeks of the property being available for rent a heavy storm damaged the entire roof and minor parts of the ceiling.

As the property was genuinely available for rent before the storm and the expenses were undertaken to restore the property to its original condition, Dimitri will be able to claim repairs cost for the ceiling and capital works deduction for replacing the damaged roof tiles.

This is a general summary only

For more information go to ato.gov.au/rental

Watch our short videos at ato.gov.au/rentalvideos

wnload our free Rental properties guide at ato.gov.au/rentalpropertyguide

Read our Guide to capital gains at ato.gov.au/cgtguide

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