CBSW
TAX & BUSINESS ADVISORS

Providing you professional direction

Monthly Information Newsletter – Tax & Super

August 2022

ATO focus on rental property income and deductions

Income and tax deductions from rental properties is one of the four key areas that the ATO is focusing on this Tax Time.

The ATO is urging rental property owners to ensure they carefully review their records before declaring income or claiming deductions this Tax Time, and for registered tax agents such as us to ask a few extra questions of our clients who own rental properties.

As your registered tax agent, we can only work with the information we gather from our clients, and we know some clients won't know everything they need to tell us (which is understandable).

Include all rental income

The ATO receives rental income data from a range of sources including sharing economy platforms, rental bond authorities, property management software providers, and state and territory revenue and land title authorities. The amount of data the ATO accesses grows each year, making it easier and faster for them to spot any rental income that you have charged your tenants, but haven't declared (even unintentionally). When preparing tax returns, all rental income must be included, such as from short-term rental arrangements, renting part of a home, and other rental-related income like insurance payouts and rental bond money retained.

Further, income and deductions must be in line with a rental property owner's ownership interest, which should generally mirror the legal documents.

Getting your expenses right

Not all expenses are the same – some can be claimed straight away, such as rental management fees, council rates, repairs, interest on loans and insurance premiums. Other expenses such as borrowing expenses and capital works need to be claimed over a number of years. Capital works can include replacing a roof, or a new kitchen renovation. Depreciating assets such as a new dishwasher or new oven costing over $300 are claimed over their effective life.
Refinancing or redrawing on a rental property loan for private expenses such as holidays or a new car, means that the amount of interest relating to the loan for that private expense can't be claimed as a deduction.

If income from a rental property in a holiday location is earnt, it needs to be included in tax returns.

Keep good records to prove it all

Records of rental income and expenses should be kept for five years from the date of tax return lodgments or five years after the disposal of an asset, whichever is longer. Adequate records should demonstrate how the expense was incurred for the rental property and the extent to which it relates to producing rental income. Records must include the name of the supplier, amount of the expense, the nature of the goods or services, the date the expense was incurred, and the date of the document.