Property

- https://www.ato.gov.au/General/Property/
- Last modified: 16 Oct 2017
- QC 23614

Your home is generally exempt from tax. But if you have an investment property, build or renovate for profit (for example, through 'property flipping'), deal in land, or use a property in running a business, there may be implications for income tax, capital gains tax (CGT) and goods and services tax (GST).

Find out about:

- Your home
- Inheriting property
- Residential rental properties
- Land – vacant land and subdividing
- Property development, building and renovating
- Property used in running a business

See also:

- If you own or are thinking about obtaining a rental property, you can watch our rental property video series to help you understand your record-keeping and tax obligations.

Your home

- https://www.ato.gov.au/General/Property/Your-home/
- Last modified: 01 Nov 2016
- QC 23615

While your home is generally exempt from tax, if you rent out part or all of it (or otherwise use it to produce income) you must include the income in your tax return (and you can claim the associated expenses) and you may have to pay capital gains tax when you sell it.

You should keep all the records relating to your home so that if circumstances change (you start to rent it out for example) you don't pay more tax than necessary.

If you work at home you may be able to claim a deduction for some of the expenses relating to the area you use.

Find out about:

- Buying and selling your home
- Renting out part or all of your home
- Building or renovating your home
- Working from home

The information in this section (Your home) applies to dwellings owned or rented out by individuals, but not to dwellings owned or rented by companies or trusts.

Buying and selling your home

- https://www.ato.gov.au/General/Property/Your-home/Buying-and-selling-your-home/
- Last modified: 08 Nov 2017
- QC 23617

Generally, you don't pay capital gains tax (CGT) if you sell the home you live in (under the main residence exemption). You also can't claim income tax deductions for costs associated with buying or selling your home.

But you should keep all the records relating to your home so that if things change – for example, you start to rent it out or otherwise use it to produce income (such as flipping the property) – you don't pay more tax than necessary.

A second property, such as a holiday house or hobby farm, is subject to CGT.

Similarly, you're not liable for goods and services tax (GST) when you sell your home and you can't claim GST credits on any costs associated with buying or selling it (except in some circumstances where you're in the business of building or renovating properties).

Some states charge stamp duty when you buy a property, including a home. Some states also levy land tax on land that exceeds a certain value, though the property you live in is usually exempt.

Business.gov.au has links to more information about stamp duty and land tax in the various states and territories. Find out more about:

- stamp duty

- land tax

See also:

- Capital gains tax - Selling your home

Renting out part or all of your home

- https://www.ato.gov.au/General/Property/Your-home/Renting-out-part-or-all-of-your-home/
- Last modified: 15 Aug 2018
- QC 23622

If you rent out part or all of your home, the rent money you receive is generally regarded as assessable income. This means:

- you must declare your rental income in your income tax return, and you can claim deductions for the associated expenses, such as part or all of the interest on your home loan
- you may not be entitled to the full main residence exemption from capital gains tax (CGT), which means you'll have to pay CGT on part of any capital gain made when you sell your home.

Good and services tax (GST) doesn't apply to residential rents, so you're not liable for GST on the rent you charge, and can't claim GST credits for associated costs.

On this page:

- Income and expenses
- Capital gains

Income and expenses

If you rent out part or all of your home at normal commercial rates, the tax treatment of income and expenses is the same as for any residential rental property. This means you must include the rental income in your income tax return, and you can claim income tax deductions for associated expenses, such as the interest on your home loan.

If you are only renting part of your home, for example a single room, you can only claim expenses related to renting out that part of the house. This means you cannot claim the total amount of the expenses – you need to apportion the expenses.

As a general guide, you should apportion expenses on a floor-area basis based on the area solely occupied by the renter (user), and add that to a reasonable amount based on their access to common areas.

You can only claim expenses for when the room was rented to a client. If you use the room in any capacity, for example for storage or as an office when you do not have guests staying, then you cannot claim deductions for expenses when the room is not occupied.

If you rent out part or all of your home at less than normal commercial rates – for example, to a relative – this may limit the deductions you can claim.

Note that payments from a family member for board or lodging are considered to be domestic arrangements and are not rental income. In these situations, you also can't claim income tax deductions.

See also:

- Taxation Ruling IT 2167 – Income tax: rental properties – non-economic rental, holiday home, share of residence, etc. cases, family trust cases for information about situations involving non-commercial rental and renting to related parties.
- I am renting out all or part of my house through the sharing economy.

Capital gains tax

Generally, you don't pay CGT if you sell the home you live in (under the main residence exemption).

However, if you've used any part of your home to produce income – for example, by renting out part or all of it – you're generally not entitled to the full exemption.

To work out the capital gain that is not exempt, you need to take into account a number of factors, including:

- proportion of the floor area that is set aside to produce income
- period you use it for this purpose
- whether you're eligible for the 'absence' rule (see Treating a dwelling as your main residence after you move out)
- whether it was first used to produce income after 20 August 1996.

You can work out the proportion of your capital gain that is exempt from capital gains tax using the Property exemption tool.

See also:

- Selling a rental property
- Your home and other real estate
- Using your home to produce income
- Capital gains tax – Selling your home

Building or renovating your home

- https://www.ato.gov.au/General/Property/Your-home/Building-or-renovating-your-home/
- Last modified: 03 Aug 2017
- QC 23623

Generally, there are no direct tax implications (for income or capital gains tax) if you build or renovate your own home.

If the dwelling is your main residence and you use any improvements as part of your home, they're exempt from capital gains tax if you sell it. This includes improvements on land adjacent to the dwelling (such as installing a swimming pool) if the total area, including that on which the home stands, is two hectares or less.

Similarly, you're not liable for GST if you sell your family home. GST is only imposed on sales of new residential dwellings by enterprises. You're not considered to be carrying on an enterprise if your property transactions are for private purposes. (GST is generally included in the price of the goods and services you purchase to build or renovate your home, but because these purchases are for a private purpose, you're not entitled to GST credits.)

See also:

- Major capital improvements to a dwelling

Buying to renovate for profit

You're likely to be entering into a profit-making activity if you acquire a property with the intention of renovating and selling it at a profit, and go about it in a business-like way. This process is also known as 'house flipping', 'property flipping' or buying to flip'. This could have implications for the way the profits are taxed (as income or capital) and for GST.

See also:

- Property development, building and renovating

Working from home

- https://www.ato.gov.au/General/Property/Your-home/Working-from-home/
- Last modified: 13 May 2015
- QC 23624

If you work from home you may be able to claim a deduction for some of your expenses relating to the area you use.

In general, the deductions you can claim depend on whether:

- you have a work area – a room such as a study or spare room is set aside primarily or exclusively for work activities but your home isn't your principal place of business – for example, you may have an office elsewhere, but work at home after hours
- you don't have a work area – your principal place of business is not at home, nor do you have an area or room primarily or exclusively set aside for work, but you do some work at home – for example, you might work for a few hours in the lounge room
- your home is the principal place of business – a business is run from home and a room is set aside exclusively for business activities. If this is your situation, see Running your business from home.

The following table set out the deductions you may be able to claim if your home is not your principal place of business.

Deductions you may be able to claim	You do have a work area	You don't have a work area
Cost of using a room's utilities such as gas and electricity	Yes	Yes
Work-related phone costs	Yes	Yes
Decline in value (depreciation) of office plant and equipment such as desks, chairs and computers	Yes	Yes
Decline in value (depreciation) of curtains, carpets and light fittings	Yes	No
Occupancy expenses such as rent, mortgage interest, insurance and rates	No	No

Capital gains tax implications

Irrespective of whether or not you have a work area set aside, if you own the home and are entitled to the main residence exemption from capital gains tax, this is not affected provided your home is not your principal place of business.

See also:

- Home office expenses

Inheriting property

- https://www.ato.gov.au/General/Property/Inheriting-property/
- Last modified: 13 May 2015
- QC 23625

When someone dies, a capital gain or loss is generally disregarded when a property passes:

- to the deceased person's executor or other legal personal representative
- to the deceased person's beneficiary — such as next of kin or a person named in the will
- from the deceased person's legal personal representative to a beneficiary.

But this exception doesn't apply if the property passes from the deceased to a tax-advantaged entity (such as a charity) or foreign resident.

If you inherit a dwelling or other property after CGT started on 20 September 1985 and later sell or otherwise dispose of it, capital gains tax may then apply.

Similarly, capital gains tax may apply if the deceased person's legal personal representative sells a property as part of winding up their estate.

See also:

- Deceased estate and capital gains tax
- Inheriting a dwelling

Residential rental properties

- https://www.ato.gov.au/General/Property/Residential-rental-properties/
- Last modified: 15 Aug 2018
- QC 23626

If you invest in a rental property or rent out your current property, you'll need to keep records right from the start, work out what expenses you can claim as deductions, and declare all your rental-related income in your tax return.

Any capital gain you make when selling or otherwise disposing of the property will be subject to capital gains tax (CGT) except in some circumstances where you rent out the home you've been living in.

If you have an investment property that is not rented or available for rent – such as a holiday home, hobby farm, or another dwelling you choose not to rent:

- the property is subject to CGT in the same way as a rental property
- you generally can't claim income tax deductions for the costs of owning the property because it doesn't generate rental income
- you may be able to include your costs of ownership in the property's cost base,

which would reduce any capital gains tax liability when you sell it.

Find out about:

- Obtaining and owning a rental property
- Income you must declare
- Expenses you can claim
- Expenses deductible immediately – management and maintenance including interest
- Expenses deductible over several years – borrowing, depreciation, capital works
- Selling a rental property
- Apartments in commercial residential properties

See also:

- Renting out part or all of your home
- Holiday homes
- Asbestos-affected rental properties
- Rental property video series

Obtaining and owning a rental property

- https://www.ato.gov.au/General/Property/Residential-rental-properties/Obtaining-and-owning-a-rental-property/
- Last modified: 15 Dec 2017
- QC 23627

On this page:

- Keep records from the start
- Co-ownership of rental property
- Pay as you go instalments and withholding

When investing in a rental property, you'll need to keep records right from the start and work out what you can and can’t claim as a deduction.

If you buy the property with someone else, you'll also need to work out how to divide the income and expenses.

If you make a net profit from renting your property, you may need to make pay as you go (PAYG) instalments towards your expected tax liability.

Generally, you only declare the income you earn from a property and claim related expenses if your name is on the title deed.

If you buy a property, the date you enter into the contract – not the settlement date

– is your date of purchase for capital gains tax purposes.

Apart from buying, you can obtain a property by inheriting it, receiving it as a prize or gift, or having it transferred to you as a result of a marriage breakdown.

Keep records from the start

With an investment property, it's important to keep records right from the start. You'll want proof of all your expenses so you can claim everything you're entitled to. You'll also need records of the date and costs of buying the property so you can work out any capital gain (or capital loss) when you dispose of it.

While owning the property you need to keep track of any related income and expenses. You also need to keep track of any significant changes – for example, if you carry out repairs or improvements or subdivide and sell part or all of it.

Remember to keep the costs of repairs or improvements separate from depreciation costs (the decline in value of depreciating assets). This is necessary to work out your deductions correctly and any capital gain or loss when you sell the property.

What records do you need to keep?

You need to keep proper records in order to make a claim, whether you use a tax agent to prepare your tax return or you do it yourself. You must keep records of:

- the rental income you receive and the deductible expenses you pay – keep these records for five years from 31 October or, if you lodge later, for five years from the date your tax return is lodged
- your ownership of the property and all the costs of purchasing or otherwise acquiring it and selling or otherwise disposing of it – keep these records for five years from the date you sell or dispose of your rental property.

As capital gains tax may apply if you sell your rental property, we recommend you keep records of every transaction over the period of ownership of the property. This would include contracts of purchase and sale, and conveyance and loan documentation. Keeping these records will help you work out your capital gain or loss correctly and ensure you do not pay more tax than you need to.

Co-ownership of rental property

Rental property activities are generally considered a form of investment rather than a business. This means that where a rental property is owned jointly, rental income and expenses are divided among the co-owners according to their legal interest in the property. This is despite any written or oral agreement between co-owners stating otherwise.

However, where partners carry on a rental property business, the net rental income or loss is divided among them according to the partnership agreement.

Co-owners of an investment property – not in business

A person who simply co-owns one or more investment properties is usually regarded as an investor rather than being engaged in a rental property business 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.

As investors, the co-owners must divide the property's income and expenses 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, even if there is an agreement between co-owners, either oral or in writing, stating otherwise.

Partners carrying on a rental property business

Most rental activities are a form of investment and don't amount to carrying on a business. But where you are carrying on a rental property business in partnership with others, you must divide the net rental income or loss according to the partnership agreement. If you don't have a partnership agreement, you should divide your net rental income or loss between the partners equally.

See also:

- Rental properties
- Taxation Ruling TR 93/32 - Income tax: rental property - division of net income or loss between co-owners

Pay as you go instalments and withholding

PAYG instalments

If you make a net profit from renting your property, you may need to make pay as you go (PAYG) instalments towards your expected tax liability for an income year.

An individual is generally required to pay PAYG instalments if they have gross business or investment income (including rental income) of $4,000 or more (or $1 for foreign residents) in their most recent income tax return and the tax outstanding on their income tax assessment is more than $1,000.

If you're required to pay PAYG instalments we'll notify you.

See also:

- PAYG instalments

PAYG withholding

If your property is negatively geared you may be able to reduce the rate at which tax is deducted from your salary or wages (the PAYG withholding rate) 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.

See also:

- PAYG withholding - varying your PAYG withholding

Income you must declare

- https://www.ato.gov.au/General/Property/Residential-rental-properties/Income-you-must-declare/
- Last modified: 02 Jul 2018
- QC 23632

You must include in your tax return the full amount of rent and any other rental-related income you receive (or become entitled to) when you rent out your property – whether paid to you or your agent.

Rental-related income includes:

- rental bond money you become entitled to retain – such as when a tenant defaults on the rent, or damage to your rental property requires repairs or maintenance
- insurance payouts in some circumstances – such as where you receive an insurance payment to compensate for damage to your property or for lost rent
- letting and booking fees you receive
- associated payments 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 these payments are in the form of goods and services you'll need to work out their monetary value)
- reimbursement or recoupment for deductible expenditure – for example:
    - if you receive an amount from a tenant to cover the cost of repairing damage to 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
    - if you receive 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 (see Taxation Determination TD 2006/31)
- any excessive deductions for capital allowances involving your rental property where a limited recourse debt is terminated without you paying it in full.
- Lump sum payment, where the nature of the payment is a substitute for or prepayment of rental income (and thus ordinary income).

Duration 1m:33s. A transcript of [Income from renting your property]() is also available.

Goods and services tax

GST doesn't apply to rent on residential premises. If you rent out residential accommodation, you're not liable for GST on the rent you charge.

Expenses deductible immediately – management, maintenance, interest

- https://www.ato.gov.au/General/Property/Residential-rental-properties/Expenses-deductible-immediately---management,-maintenance,-interest/
- Last modified: 09 Aug 2018
- QC 23635

You can generally claim an immediate deduction (that is, against your current year's income) for your expenses related to the management and maintenance of the property, including interest on loans.

If your property is negatively geared you may be able to deduct the full amount of rental expenses against your rental and other income, such as salary and wages and business income.

To claim deductions for expenses, your property must include a dwelling that is rented or available for rent – for example, advertised for rent. If you're building a rental dwelling, you can claim deductions for the land while you are building.

Expenses for which you may be entitled to claim an immediate deduction include:

- advertising for tenants
- body corporate fees and charges
- council rates
- water charges
- land tax
- cleaning
- gardening and lawn mowing
- pest control
- insurance (building, contents, public liability)
- interest expenses
- property agent's fees and commission
- repairs and maintenance
- some legal expenses.

Repairs and maintenance

Learn about the types of repairs and maintenance expenses you can claim as income tax deductions.

Claiming repairs and maintenance for your rental property. This video lasts for 2 minutes and 25 seconds. Select the play button on the image to view or read the transcript.

What can you claim immediately?

You can claim an income tax deduction for your costs in repairing and maintaining your rental property in the year you pay them.

When we say 'repairs', we mean work to make good or remedy defects in, damage to or deterioration of the property.

For example:

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

When we say 'maintenance', we mean work to prevent deterioration or fix existing deterioration. For example:

- painting a rental property
- oiling, brushing or cleaning something that is otherwise in good working condition
- maintaining plumbing.

If you receive income other than rent for your rental property (for example, an insurance payout for the cost of repairs) you must include this amount as income on your tax return.

What are you unable to claim immediately?

You cannot claim the total costs of repairs and maintenance in the year you paid them if they did not relate directly to wear and tear or other damage occurring due to renting out your property. These are capital expenses you may be able to claim over a number of years as capital works deductions or deductions for decline in value.

See also:

- Capital works expenditure

Improvements

You cannot claim a deduction for the total cost of improvements to your rental property in the year you incur them.

Capital improvements (such as remodelling a bathroom or adding a pergola) should be claimed as capital works deductions.

When we say 'improvement' we mean work that:

- provides something new
- generally furthers the income-producing ability or expected life of the property
- generally changes the character of the item you have improved
- goes beyond just restoring the efficient functioning of the property.

Example

Tim replaced a fibre cement sheeting wall inside his property because it was damaged by tenants. He replaced the old wall with a brick feature wall.

The new wall is an improvement because Tim did more than just restore the efficient function of the wall. This means Tim cannot claim the cost of the new wall as a repair, but he can claim it as capital works expenditure.

However, had Tim replaced the fibro with a current equivalent, such as plasterboard, he could have claimed his costs as a repair. This is because it would have merely restored the efficient function of the wall without changing its character, even though a different material was used.

See also:

- Capital works expenditure

Repairs vs improvements

If you conduct a project that includes both repairs and improvements to your property, you can only claim an income tax deduction for the cost of your repairs if you can separate the cost of the repairs from the cost of the improvements.

If you hire a builder or other professional to carry out these works for you, we recommend you ask for an itemised invoice to help work out your claim.

Example

Caitlin has modernised her rental property by hiring tradespeople to render and paint the external walls. She also asked the painter to paint the internal walls, which had deteriorated during the time she rented out the property.

As Caitlin requested an itemised invoice from the painter, she could separate the cost of the internal and external painting, and rendering. Due to this, she could claim an income tax deduction for the cost of painting the internal walls as a repair. She could claim the costs for the external walls as capital works expenditure.

See also:

- [Capital works expenditure]

Interest expenses

What can you claim?

You can claim the interest charged on the loan you used to:

- purchase a rental property
- purchase a depreciating asset for the rental property (for example, to purchase an air conditioner for the rental property)
- make repairs to the rental property (for example, roof repairs due to storm damage)
- finance renovations on the rental property, which is currently rented out, or which you intend to rent out (for example, to add a deck to the rear of the rental property)
- purchase land on which to build a rental property.

You can also claim interest you have pre-paid up to 12 months in advance.

What are you unable to claim?

You cannot claim interest:

- you incur after you start using the rental property for private purposes
- on the portion of the loan you use for private purposes (for example, money you use to purchase a new car or invest in a super fund)
- on a loan you used to buy a new home if you do not use the new home to produce income.

Example: Claiming all interest incurred

Kosta and Jenny take out an investment loan for $350,000 to purchase an apartment they hold as joint tenants.

They rent out the property for the whole of the year from July 1. They incur interest of $30,000 for the year.

Kosta and Jenny can each make an interest claim of $15,000 on their respective tax returns for the first year of the property.

Example: Claiming part of the interest incurred

Yoko takes out a loan of $400,000 from which $380,000 is to be used to buy a rental property and $20,000 is to be used to buy a new car.

Yoko's property is rented for the whole year from 1 July. Her total interest expense on the $400,000 loan is $35,000.

To work out how much interest she can claim as a tax deduction, Yoko must do the following calculation:

Total interest expenses	x	rental property loan total borrowings	=	deductible interest

That is:

$35,000	x	$380,000 $400,000	=	$33,250

Yoko works out she can claim $33,250 as an allowable deduction.

If you have a loan account that has a fluctuating balance due to a variety of deposits and withdrawals and is used for both private purposes and rental property expenses, you must keep accurate records to enable you to calculate the interest that applies to the rental property portion of the loan. You must separate the interest that relates to the rental property from any interest that relates to the private use of the fund.

Example: Interest incurred on a mortgage for a new home

Zac and Lucy take out a $400,000 loan secured against their existing property to purchase a new home.

Rather than sell their existing home they decide to rent it out.

They have a mortgage of $25,000 remaining on their existing home which is added to the $400,000 loan under a loan facility with sub-accounts - that is, the two loans are managed separately but are secured by the one property.

Zac and Lucy can claim an interest deduction against the $25,000 loan for their original home, as it is now rented out.

They cannot claim an interest deduction against the $400,000 loan used to purchase their new home as it is not being used to produce income even though the loan is secured against their rental property.

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, the thin capitalisation rules may apply if your debt deductions, such as interest (combined with those of your associate entities) for 2017–18 are more than $2,000,000.

See also:

- Thin capitalisation

Legal expenses

What can you claim?

You can claim the cost of the following as income tax deductions:

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

What are you unable to claim?

You cannot claim the cost of the following as income tax deductions:

- solicitor's fees for the purchase of the property (these are a capital expense)
- solicitor's fees for the preparation of loan documents (these can be claimed as borrowing expenses)
- legal costs associated with resisting land resumption (these are a capital expense)
- legal costs associated with defending your title to the property (for example, defending an action by the mortgagee to take possession of the property where you have defaulted under the loan - these are a capital expense).

Find out about:

- Capital expenses
- Borrowing expenses

Deductible expenses

- https://www.ato.gov.au/General/Property/Residential-rental-properties/Expenses-deductible-over-several-years---borrowing,-depreciation,-capital-works/
- Last modified: 13 Aug 2018
- QC 23636

The following expenses for your rental property may be deducted over a number of income years:

- depreciation (decline in value of depreciating assets such as carpet, furniture and appliances)
- capital works expenditure
- borrowing expenses (not including interest, which can be deducted immediately).

Depreciation

When you purchase a rental property, for tax purposes, you are treated as having bought a building, plus various separate depreciating assets, such as air conditioners, stoves and other items.

Some items found in a rental property are not treated as separate assets, and are depreciable, in their own right. An asset that is fixed to, or otherwise part of, a building or structural improvement, will generally be construction expenditure for capital works and only a capital works deduction may be available.

When you purchase a rental property, each depreciating asset can be attributed a cost to enable a claim for decline in value, or 'depreciation'. In many cases at the time of purchase of the rental property, a quantity surveyor will prepare a report that creates a depreciation schedule for these claims.

The decline in value of a depreciating asset starts when you first use it, or install it ready for use – it doesn't matter whether it is for a private purpose or to earn assessable income. For instance if you purchased an asset halfway through the financial year, eg on 1 January, and used it only for a taxable purpose, you can claim half of the first income year's decline in value, as long as the asset has remaining effective life.

Your deduction needs to be reduced for any personal use of the asset.

For assets costing $300 or less, you can claim an immediate deduction for the entire cost (to the extent you use it at a rental property). You can't do this if the asset is one of a set of assets that together cost more than $300 – for example, if you buy four dining chairs each costing $250, you can't treat them as separate assets to claim an immediate deduction.

Methods of calculating depreciation deductions

To work out your deduction for depreciation, use either the:

- diminishing value method – the decline in value each year is a constant proportion of the remaining value or
- prime cost method – the decline in value each year is a constant amount of the original value.

Depreciating assets valued at less than $1,000 can be grouped in a low-value asset pool and depreciated together.

Example

Laura purchased a new hot water system for her rental property on 1 July 2017 for $1,500. It has an effective life of five years. She can choose to use either the diminishing value or prime cost method.

Diminishing value method

The formula for the annual decline in value using the diminishing value method is:

asset's cost × (days held ÷ 365) × (200% ÷ asset's effective life)

The decline in value for 2017–18 is $600, worked out as follows:

1,500 × (365 ÷ 365) × (200% ÷ 5)

Laura is entitled to a depreciation deduction of $600. The adjustable value of the asset on 30 June 2018 is $900. This is the cost of the asset ($1,500) less its decline in value to 30 June 2018 ($600).

Prime cost method

The formula for the annual decline in value using the prime cost method is:

asset's cost × (days held ÷ 365) × (100% ÷ asset's effective life)

The decline in value for 2017–18 is $300, worked out as follows:

1500 × (365 ÷ 365) × (100% ÷ 5)

Laura is entitled to a deduction equal to the decline in value. The adjustable value of the asset at 30 June 2018 is $1,200. This is the cost of the asset ($1,500) less its decline in value to 30 June 2018 ($300).

See also:

- Working out decline in value

Depreciating assets you can claim

New

You can claim for assets that are new, that is, not second-hand or used.

This includes where you purchase a newly built property, or purchase a property that has been substantially renovated, if no one was previously entitled to depreciation deductions, and:

- no one resided at the property before you acquired it, or
- the depreciating assets were installed for use, or used at this property, and you acquired the property within six months of it being newly built or

substantially renovated.

Example

Kerrie purchases an apartment off-the-plan from a developer as an investment. That is, it was new and no one lived in it prior to that.

Kerrie also purchased a residential investment property from another developer four months after completion. It was already tenanted when Kerrie purchased it.

Both of the properties incorporate depreciating assets such as curtains and furniture installed prior to settlement and the transfer of title to Kerrie.

For the apartment, Kerrie is entitled to claim deductions for decline in value of the depreciating assets because no one has lived in it before she purchased it.

For the tenanted property, Kerrie is still entitled to claim deductions for decline in value of the depreciating assets (although they have been used by the tenants) because:

- no one claimed any deductions for decline in value of the depreciating assets
- the property was supplied to Kerrie within six months of being built.

Example

On 10 May 2017, Julie entered into a contract to purchase a residential property from a developer to rent it out, which was newly built by the developer less than six months ago. It was already rented out by the developer to a couple. So the depreciating assets were previously used when Julie entered into this contract. The developer told Julie that he was not entitled to claim depreciation deductions on the assets at the property because they were his trading stock.

Therefore, Julie can claim depreciation deductions for decline in value of the depreciating assets that were already in it because:

- no one was previously entitled to claim depreciation deductions on those assets
- even though people lived in the property after it was newly built, she entered into a contract to acquire it within six months (of the property being built or renovated).

If Julie had entered into the contract to buy this property after six months of it being newly built, she would not have been entitled to claim depreciation deductions for any of the assets that were already in it at that time.

Second-hand

You can claim deductions for second-hand or used depreciating assets if you:

- purchased the asset before 7.30pm on 9 May 2017
- installed it into your rental property before 1 July 2017.

Example

Sharon owns a residential property she has been renting out since September 2015. In March 2017, Sharon purchased a second-hand fridge to replace the fridge that had broken down.

Because Sharon purchased the second-hand fridge for her rental property before 7.30pm on 9 May 2017, she can claim depreciation deductions for any remaining effective life of the asset.

Example

Sue purchased her house in 2009. In October 2017, she listed her house for sale. While it was advertised, she moved out and then replaced the carpet. No one lived in the house while it was advertised. The house was then sold to Tim. After purchasing the property, Tim rented it out immediately.

Tim can't claim depreciation deductions for any of the depreciating assets in the property because they are all previously used. Also, he cannot claim depreciation deductions for the carpets because he did not own the asset when it was first installed ready for use.

Example

Don purchased a second-hand clothes dryer and installed it in his residential rental property on 8 May 2017. Assuming the dryer had five years of remaining effective life, Don can claim deductions for its decline in value for five years because he had purchased it before 9 May 2017. It doesn't matter whether the dryer was brand new or previously used.

Home turned into a rental property before 1 July 2017

You can claim depreciation deductions in respect of assets in a home used for private purposes and turned into a rental property if you:

- purchased your home before 7.30pm on 9 May 2017
- turned your home into your rental property before 1 July 2017.

Example

At the start of 2016, Marty purchased a home as his main place of residence. In June 2017, Marty moved out and rented out the property fully furnished, which included the furniture and fittings he had been using while living there.

As Marty rented out his home before 1 July 2017, and he purchased it before 7.30pm on 9 May 2017, he can claim depreciation deductions for any remaining effective life of the used depreciating assets in it.

However, from the 2018 year, Marty cannot claim depreciation deductions for any second-hand depreciating asset that he purchases for this property on or after 7.30pm on 9 May 2017.

If Marty's home was made available for rent on or after 1 July 2017, he would not have been able to claim depreciation deductions for any remaining effective life of the used depreciating assets in it.

Marty can claim depreciation deductions for the new depreciating assets that he purchases for his rental property.

Example

Eliza purchased a dishwasher in July 2015 and used it for private purposes at her main residence. In July 2017, she installed this dishwasher in her residential rental property. Eliza can't claim deductions for the dishwasher's decline in value because:

- she had previously used it privately
- she installed it in her rental property after 30 June 2017.

See also:

- Guide to depreciating assets
- Rental properties (includes list of deductible rental property assets and their effective life).

Depreciating assets you cannot claim

Existing rental property purchased on or after 7.30pm (AEST) on 9 May 2017

You cannot claim depreciation deductions for the assets in an existing rental property if you entered into a contract to purchase that property on or after 7.30pm (AEST) on 9 May 2017.

Example

In August 2017, Donna purchased a two-year old apartment and immediately rented it out. A year before Donna purchased the apartment, the previous owner installed new carpet and, upon purchasing the property, Donna installed a second-hand television.

Donna can't claim depreciation for the decline in value of the carpet and the television because they have both been previously used.

Home turned into a rental property on or after 1 July 2017

You can't claim depreciation deductions for assets that were in your home. You can claim depreciation deductions for any new depreciating assets that you purchase for your rental property.

Example

At the start of 2016, Kendrick purchased a home as his main place of residence. In August 2017, Kendrick moved out and rented out the property fully furnished, which included the furniture and fittings he had been using while living there.

As Kendrick's home was made available for rent on or after 1 July 2017, he is not able to claim depreciation deductions for any remaining effective life of the used depreciating assets in it.

Kendrick can claim depreciation deductions for the new depreciating assets that he purchases for his rental property.

These rules preventing a depreciation deduction do not apply if:

- you are carrying on a business of property investing
- you purchased a second-hand depreciating asset for your rental property before 7.30pm (AEST) on 9 May 2017 and it has not been used privately
- you used a depreciating asset that you acquired before 7.30pm (AEST) on 9 May 2017 and then, before 1 July 2017, you installed it at your rental property
- your property is not used to provide residential accommodation, for example it is let out for commercial purposes (such as a doctor’s surgery)
- the entity owning the rental property is a corporate tax entity, a superannuation plan (except self-managed superannuation funds), a public unit trust, a managed investment trust, or a partnership or unit trust if each of its members are listed here
- the income generating activities at your rental property are unrelated to providing residential accommodation (for example, solar panels used in generating income from the sale of electricity).

Carrying on a business of property investing

The receipt of income by you from the letting of property to a tenant, or multiple tenants, will not typically amount to the carrying on of a business as such activities are generally considered a form of investment rather than a business.

Whether a business is carried on must be answered based on a wide survey and your involvement in the activities. No one indicator is decisive. They must be considered in combination and as a whole.

Some of the factors considered in determining whether you carry on a business of letting properties are:

- total number of residential properties that are rented out
- average number of hours per week you spend actively engaged in managing the rental properties
- skill and expertise exercised in undertaking these activities
- Whether professional records are kept and maintained in a business-like manner.

Example

Saania owns 16 rental properties, 14 of which are managed by real estate agents. Saania frequently attends personally to rental property matters, such as collecting rent and arranging for repairs to be done, She also undertakes regular analysis to measure the financial performance of her rental properties.

Saania is not carrying on a business of property investing because the activities are no more than letting properties.

Example

Mr and Mrs Smith own a number of rental properties either as joint tenants or equal tenants in common. They own eight houses and three apartment blocks. Each block comprises six residential units. Hence, they own a total of 26 rental properties. The Smiths actively manage all of the properties. They devote a significant amount of time to these activities, that is, an average of 25 hours per week each. They undertake all financial planning and decision making in relation to the properties. They interview all prospective tenants and conduct all of the rent collections. 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.

The Smiths are carrying on a rental property business. This is indicated by the following factors:

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

Substantial renovations

Substantial renovations of a rental property are renovations in which all, or substantially all, of a building is removed or is replaced. This could include the removal or replacement of foundations, external walls, interior supporting walls, floors, roof or staircases.

For renovations to be substantial, they must directly affect most rooms in a building. The removal and replacement of the exterior walls, the removal of some internal walls, and the replacement of the flooring and the kitchen in a house are considered collectively to amount to substantial renovations.

Example

Jake bought a four bedroom residential property in October 2017 with the intent of it being a rental property. Three months before selling, the previous owners removed a wall between two bedrooms and turned the space into a large bedroom with an ensuite. They also repainted and recarpeted the room.

Even though Jake acquired the property within six months of the renovations being completed, the renovations only impacted a part of the house, and aren't classified as being substantial renovations. In this case, Jake can't claim depreciation deductions for the decline in value of the depreciating assets in the property.

However, if Jake buys any brand new depreciating assets for the property, he will be able to claim depreciation deductions for its decline in value.

Capital works expenditure

Deductions for construction expenditure (capital works deductions) on residential rental properties are generally spread over a period of 40 years.

You can claim a deduction if construction began after:

- 17 July 1985 and the property is used for residential accommodation or to produce income
- 19 July 1982 and the property is not used for residential accommodation (for example a shop)
- 21 August 1979, the property is used to provide short-term accommodation for travellers and it meets certain other criteria.

A deduction may also be available for structural improvements made to parts of the property other than the building if work began after 26 February 1992. Examples include sealed driveways, fences and retaining walls.

The deduction is at the rate of 2.5% or 4% (adjusted for part-year claims) depending on the date the capital works began. Your total capital works deductions can't exceed the construction expenditure. No deduction is available until construction is complete.

Deductions for 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
- structural improvements – such as adding a gazebo, carport, sealed driveway, retaining wall or fence.

You can only claim deductions for the period in which the property is rented or is available for rent.

If you have claimed, or could have claimed, a capital works deduction for construction expenditure:

- you can't claim it as a deduction for decline in value of a depreciating asset
- the amount already claimed must be excluded from the cost base of the asset.

See also:

- Rental properties – capital works deductions
- Calculating the cost base of real estate
- Capital gains tax

Repairs on a newly-acquired rental property

Initial repairs to rectify damage, defects or deterioration that existed at the time of purchasing a property are capital expenditure and may be claimed as capital works deductions.

Replacing capital equipment

If you have to replace something identifiable as a separate item of capital equipment (such as a complete fence or building, a stove, kitchen cupboards or a refrigerator), you may be able to claim the cost as a capital works deduction or a deduction for decline in value.

Example

Janet has owned and rented out a residential property since 12 January 1983. Recently, she replaced the old kitchen fixtures, including the cupboards and appliances. The old cupboards had deteriorated through water damage and wear and tear.

The kitchen cupboards are separately identifiable capital items with their own function. This means the cost of completely replacing them is a capital cost. Because of this, Janet can claim:

- a capital works deduction for the construction cost of this work
- a deduction for the decline in value of the kitchen appliances.

This is the case regardless of whether or not any of the following apply:

- new fittings are of a similar size, design and quality as the originals
- new cupboards are made from a modern equivalent of the material used in the originals
- layout and design of the new kitchen may be substantially the same as the original.

Borrowing expenses

You can claim a deduction for borrowing expenses associated with purchasing your property, such as loan establishment fees, title search fees, and costs of preparing and filing mortgage documents. Interest on the loan is not a borrowing expense, and can be claimed immediately.

If your total borrowing expenses are more than $100, the deduction is spread over five years or the term of the loan, whichever is less.

If the total borrowing expenses are $100 or less, you can claim a full deduction in the income year they are incurred.

What can you claim?

You can claim all of the following as borrowing expenses:

- stamp duty charged on the mortgage
- loan establishment fees
- title search fees charged by your lender
- costs (including solicitors' fees) for preparing and filing mortgage documents
- mortgage broker fees
- fees for a valuation required for loan approval
- lender's mortgage insurance, which is insurance taken out by the lender and billed to you.

What are you unable to claim?

You cannot claim any of the following as borrowing expenses:

- loan balances for the property
- stamp duty charged by your state or territory government on the transfer (purchase) of the property title
- legal expenses including solicitors' fees for the purchase of the property (these are capital expenses)
- stamp duty you incur when you acquire a leasehold interest in property such as an Australian Capital Territory 99-year crown lease (you may be able to claim this as a lease document expense)

- insurance premiums where, under the policy, your loan will be paid out in the event that you die, become disabled or unemployed (this is a private expense)
- borrowing expenses on any portion of the loan you use for private purposes (for example, money you use to invest in a super fund).

Stamp duty and legal expenses may be included in calculating the 'cost base' of the property for capital gains tax (CGT) purposes as they are capital expenses.

If you repay the loan early and in less than five years, you can claim a deduction for the balance of the borrowing expenses in the year of repayment.

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 you had the loan.

On 3 July 2010, Peter took out a 25-year loan of $300,000 to purchase a rental property. Peter's deductible borrowing expenses were:

- $800 stamp duty on the mortgage
- $500 loan establishment fees
- $300 valuation fees required for loan.

Peter also paid $1,200 stamp duty on the transfer of the property title. He cannot claim a tax deduction for this expense but it will form part of the ‘cost base’ of the property for capital gains tax (CGT) purposes when he sells the property.

As Peter's borrowing expenses are more than $100, he must claim them over five years from the date he took out his loan for the property. He would work out the borrowing expense deduction for the first year as follows:

2010–11 (363 days)

Borrowing expenses	×	$\frac{\text{Number of relevant days in year}}{\text{number of days in 5 years}}$	=	deduction for year

$1,600	×	$\frac{363}{1,826}$	=	$318 deduction on his 2011 tax return

The borrowing expense deductions for each other year would be worked out as follows:

Borrowing expenses remaining	×	$\frac{\text{Number of relevant days in year}}{\text{remaining number of days in 5 years}}$	=	deduction for year

2011–12 (year 2 – leap year)

$1,282 (that is, $1,600 − $318)	×	$\frac{366}{1,463}$	=	$320 deduction on his 2012 tax return

2012–13 (year 3)

$962 (that is, $1,282 − $320) × $\frac{365}{1,097}$ = $321 on his 2013 tax return

2013–14 (year 4)

$641 (that is, $962 − $321) × $\frac{365}{732}$ = $320 deduction on his 2014 tax return

2014–15 (year 5)

$321 (that is, $641 − $320) × $\frac{365}{367}$ = $319 deduction on his 2015 tax return

2015–16 (year 6)

$2 (that is, $321 − $319) × $\frac{2}{2}$ = $2 deduction on his 2016 tax return

Duration 3m5s. A transcript of [Claiming mortgage and interest expenses for your rental property]() is also available.

Selling a rental property

- https://www.ato.gov.au/General/Property/Residential-rental-properties/Selling-a-rental-property/
- Last modified: 02 Aug 2018
- QC 23637

You're likely to make a capital gain or capital loss when you sell or otherwise dispose of a rental property. If you make a net capital gain in an income year, you'll generally be liable for capital gains tax (CGT). If you make a net capital loss you can carry it forward and deduct it from your capital gains in later years.

A capital gain, or capital loss, is the difference between what it cost you to obtain and improve the property (the cost base), and what you receive when you dispose of it. Amounts that you've claimed as a tax deduction, or that you can claim, are excluded from the property's cost base. The cost base of a capital gains tax (CGT) asset is generally the cost of the asset when you bought it. It also includes certain other costs associated with purchasing or acquiring, holding and selling or disposing of the asset.

If you acquired the property before CGT came into effect on 20 September 1985, you disregard any capital gain or capital loss. However, you may make a capital gain or capital loss from capital improvements made since 20 September 1985, even if you acquired the property before that date.

Example

Karl and Louisa bought a residential rental property in November 2012 for a purchase price of $750,000.

They incur costs of purchase, including stamp duty and legal fees of $30,000.

After purchase they improved the property by constructing a fence for $6,000.

Over the five years of ownership of the property, they claimed $25,000 (average $5,000 per year) in decline in value deductions and $35,000 (average $7,000 per year) in capital works deductions.

In November 2017 they sold the property for $900,000. Their costs of sale, including legal fees, were $10,000.

The capital gains outcomes are:

- Proceeds $900,000
- Less CGT cost base, comprising
  $750,000 + $30,000 + $6,000 – $25,000 – $35,000 + $10,000 = $736,000
- Capital gain = $164,000.

As the property has been owned for more than a year, the discount capital gain rules reduce the capital gain to $82,000.

Karl and Louisa owned the property jointly. This means that they each have a capital gain of $41,000 which they will need to put in their tax return for the year in which the contract to sell the property was made, being the 2018 year.

Capital expenses

You may be able to include capital expenses when calculating the 'cost base' of your property. This can help you reduce the amount of CGT you pay when you sell your property. Expenses you incur when purchasing or acquiring and selling or disposing of your rental property are capital expenses.

Capital expenses include:

- conveyancing costs paid to a conveyancer or solicitor

- title search fees
- valuation fees (when it is a private valuation conducted by your solicitor)
- stamp duty on the transfer of the property.

Example

Stephen needed to do some repairs to a rental property he recently purchased before the first tenants moved in. He paid tradespeople to repaint dirty walls, replace broken light fittings and repair doors on two bedrooms. He also had to have the house treated for damage by white ants.

Because Stephen incurred these expenses to make the property suitable for rental, not while he was using the property to generate rental income, the expenses are capital expenses.

Duration 2m:47s. A transcript of [Selling your rental property] is also available.

Duration 3m:18s. A transcript of [Selling a rental property that was your home] is also available.

Goods and services tax

You're not liable for goods and services tax (GST) when you sell a rental property and you can't claim GST credits on any costs associated with buying or selling it, as the sale of existing residential premises is generally input taxed.

However, if you build new residential premises for sale, you may be liable for GST on the sale and entitled to GST credits on construction and sale costs, even if the premises have been rented for a period before being sold.

See also:

- [Building and construction – residential premises]

Holiday Apartments in commercial residential properties

- https://www.ato.gov.au/General/Property/Residential-rental-properties/Holiday-apartments-in-commercial-residential-properties/
- Last modified: 01 Nov 2016

- QC 23638

If you have an apartment that's part of commercial residential premises, it's treated like other residential rental properties. You're not liable for GST on related income and can't claim GST credits for related purchases.

While commercial residential premises are generally subject to GST, an individual apartment doesn't, by itself, have the characteristics of commercial residential premises.

Leasing

If you lease your apartment to either a guest or a management company (to use as part of commercial residential premises), you make an input taxed supply of residential premises. This means you:

- are not liable for GST on the income
- can't claim GST credits for anything you purchase or import to lease the premises.

As with any rental property, you must declare the income you receive in your income tax return, and you can claim tax deductions for many of the associated expenses.

Example: Leasing out your apartment to a management company

Aiko owns a strata-titled apartment. When she leases her apartment to Mink Management Services (MMS) the supply is input taxed.

MMS will group Aiko's apartment with other apartments in a complex and let them out as serviced apartments.

Even though Aiko's apartment is located within commercial residential premises, her apartment doesn't, by itself, have the characteristics of commercial residential premises – it is residential.

This means Aiko:

- is not liable for GST on the income
- can't claim GST credits for anything she purchases or imports to lease the premises.

Selling

If you sell your apartment it's considered residential premises and is input taxed, regardless of whether it's located within commercial residential premises. This means you:

- are not liable for GST on the income

- can't claim GST credits for anything you purchase or import to make the sale.

If you make a capital gain when you sell your apartment, you may need to pay capital gains tax, just as you would when selling any rental property.

See also:

- Commercial residential premises and GST

Expenses you can claim

- https://www.ato.gov.au/General/Property/Residential-rental-properties/Expenses-you-can-claim/
- Last modified: 15 Aug 2018
- QC 23633

You can claim a deduction for your related expenses for the period your property is rented or is available for rent.

- management and maintenance costs, including interest on loans, can generally be claimed immediately (that is, deducted against your current year's income).
- borrowing expenses, depreciation and capital works spending can be deducted over a number of years.

You can't claim:

- expenses not actually paid by you, such as water or electricity charges paid by your tenants
- acquisition and disposal costs, including the purchase cost, conveyancing and advertising costs and stamp duty* on the title transfer – instead, these are usually included in the property's cost base, which would reduce any capital gains tax when you sell the property
- GST credits for anything you purchase to lease the premises – GST doesn't apply to residential rental properties. However, when claiming the expense as a deduction, you claim the total amount you've paid (inclusive of GST, if applicable).

*Unlike stamp duty on the transfer of freehold title, stamp duty on the transfer of a property under the ACT's leasehold system is generally deductible (see Expenses for which you can claim an immediate deduction, 'Lease document expenses').

Property genuinely available for rent

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, giving it broad exposure to potential tenants

- considering all the circumstances, tenants are reasonably likely to rent the property.

The absence of these factors generally indicates the owner doesn't have a genuine intention to make income from the property. 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 of the property, mean 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 and having conditions like "no children" and "no pets".
- you refuse to rent out the property to interested people without adequate reasons.

Apportioning expenses

You'll need to apportion your expenses to determine the deductible amounts if:

- your property is available for rent for only part of the year
- only part of your property is used to earn rent
- you rent your property at non-commercial rates.

If you prepay an expense, such as insurance or interest, that covers a period of more than 12 months, you may need to spread your deduction over two or more years.

Property available for part-year rental

If you use your property for both private and income-producing purposes, you can only claim a deduction for the portion of any expenditure that relates to the income-producing use.

For example, with holiday homes and time-share units, you can't claim a deduction for any expenditure related to those periods when the home or unit was used by you, your relatives or your friends for private purposes.

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 your expenses that relates to the rental income.

As a general guide, apportion your expenses on a floor-area basis – that is, based on the area solely occupied by the tenant, together with a reasonable figure for their access to the general living areas, including garage and outdoor areas if applicable.

Example

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 six 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. Using the floor-area basis for apportioning these expenses, one-third – that is, $3,000 – applies to the flat. However, as Michael used the flat to produce assessable 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 net rent from his property as:

Gross rent	$2,600	(26 weeks × $100)
Less expenses	$1,500	($3,000 × 50%)
Net rent	$1,100	

Non-commercial rental

Letting a property, or part of a property, at less than normal commercial rates – for example, renting to a family member at a reduced rate – may limit the amount of deductions you can claim.

See also:

- Holiday homes
- Taxation ruling IT 2167 – Income tax: rental properties - non-economic rental, holiday home, share of residence, etc. cases, family trust cases

Pre-paid expenses

Pre-paid expenses are those that provide for services extending beyond the current income year, such as payment of an insurance premium on 1 January that provides cover for the entire calendar year.

You can generally claim an immediate deduction in the current income year for:

- pre-paid expenses of less than $1,000
- expenses of $1,000 or more where the service period is 12 months or less (such as payment of an annual insurance premium part way through an income year).

A prepayment that doesn't meet these criteria may have to be spread over two or more years.

See also:

- Deductions for prepaid expenses

Negative gearing

A rental property is said to be 'negatively geared' where the deductible expenses (including interest on the loan borrowed to finance the property) exceed the income earned from the property.

The overall tax result of a negatively geared property is a net rental loss. 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's carried forward to the next income year.

You will need to show the total net rental property loss at label IT6 on your tax return. The amount of the loss is included in your adjusted taxable income and may be used in calculating various tax obligations, tax offsets and entitlement to other tax related concessions.

Land – vacant land and subdividing

- https://www.ato.gov.au/General/Property/Land---vacant-land-and-subdividing/
- Last modified: 14 Sep 2016
- QC 45084

The tax treatment of land and the proceeds from selling it generally depends on whether it's considered a capital asset or the subject of a business or commercial transaction (such as where it's considered the trading stock of a business dealing in land).

Vacant land is usually considered a capital asset subject to CGT.

However, when land transactions are undertaken as part of a business activity, sale proceeds may be considered ordinary income and be subject to GST.

Find out about:

- Vacant land
- Subdividing land

Vacant land

- https://www.ato.gov.au/General/Property/Land---vacant-land-and-subdividing/Vacant-land/
- Last modified: 29 Jan 2018
- QC 23639

If you've acquired vacant land (either for private purposes or as an investment) it's usually considered a capital asset which is subject to capital gains tax (CGT) when you sell the land. But if you purchase land for use in a business or profit making activity that deals in land, any sale proceeds are treated as ordinary income, and you may need to register for goods and services tax (GST).

If you buy vacant land with the intent to build a rental property on it, you may be able to claim tax deductions for expenses incurred in holding the land.

On this page:

- Land as a capital asset
- Building a rental property on vacant land
- Land as trading stock
- GST treatment of land in property transactions

Land as a capital asset

Vacant land that is held as a capital asset is subject to the same capital gains tax rules as other properties.

Keep records of the date and cost of obtaining the land, and your ongoing expenses, such as council rates and loan interest. These expenses can't be claimed as an income tax deduction because the land does not generate income. Instead these expenses can be added to the cost base of the land for the purposes of calculating your capital gain or capital loss when you sell it.

Building a rental property on vacant land

If you buy vacant land with the intention of building a dwelling to rent, you may be able to claim tax deductions for expenses such as loan interest, council rates and other ongoing holding costs.

To be entitled to these deductions, you must demonstrate that active and genuine steps have (and are) been undertaken to build the dwelling and make it available for rent as soon as it's completed. It is expected that you make continuing efforts within normal timeframes relevant to the industry. We accept there are times where delays may occur. Where these delays are beyond your control, you may still be entitled to claim tax deductions.

If you decide to sell your vacant land or your intention to build a residential dwelling to rent changes, you must cease claiming deductions immediately. Ensure you keep records of expenses claimed as the remaining costs may form part of your cost base when calculating your capital gain or capital loss.

Find out about:

- Taking active and genuine steps
- Delays beyond your control
- Unacceptable delays

Taking active and genuine steps

Examples of taking active and genuine steps may include:

- seeking finance for the development from a financial institution or disposing of other investments to fund the development
- engaging with builders to understand the construction process and obtain building cost estimates
- engaging with architects to design a suitable house plan
- researching council development plans or possible covenants over the property
- meeting with local real estate agents to determine expected rental returns.

Delays beyond your control

Examples of delays beyond your control may include:

- disputes in the approval process with local council or neighbours
- your builder going into liquidation
- the property has been impacted by a natural disaster.

Example: Delays beyond your control

Tony purchases a block of land with the intention to build a residential dwelling to rent. He immediately begins engaging with various builders and visiting display homes to obtain a suitable house plan and estimates of building costs. During this time, Tony also meets with his mortgage broker to acquire a loan to finance construction of the dwelling.

Upon finalising the house plans, Tony submits them to the local council for approval. However, after a few months the council rejects Tony's plans as they don't meet certain regulations. This dispute takes a number of months to resolve before Tony is able to re-submit plans. Construction of the dwelling commences following council approval and the building is let once it is completed.

As Tony has demonstrated that he made continuing efforts within normal industry timeframes to derive rental income, he can deduct his interest, council rates and water expenses. The delays in the development were beyond his control.

Unacceptable delays

Examples of unacceptable delays may include:

- inability to build your desired house due to lack of affordability
- holding onto the land, due to a downturn in the real estate market, or to generate capital growth – even if you may consider developing the land in the future.

If a venture becomes dormant and the holding of the land is passive, you will not be able to claim deductions even if there is an intention to revive that venture at some point in the future. These expenses may be included within your cost base.

Example: Unacceptable delays

Emily seeks finance from her bank to purchase a block of land. She doesn't discuss any proposed plans to build a dwelling with her broker and it is not factored in to the loan application. Emily undertakes some initial enquires with various builders and visits some display homes during this time, but doesn't sign any contracts to construct a dwelling. Over the subsequent years, Emily's employment changes which means that she is unable to commit further to the development.

Emily is seeing that land values are rising in the area and developers are buying blocks close by for development. Although it is now no longer financially viable for Emily to build the rental property she decides that she can still afford to keep making the interest payments on the vacant land purchase until she gets an offer to buy her land by a property developer. Emily is no longer making active and genuine steps to construct the rental property and cannot claim interest deductions.

As Emily can't demonstrate that she undertook active steps to develop the property she will not be allowed to claim any deductions relating to the property.

If Emily undertakes steps to build a dwelling to rent in the future, she may be able to claim associated deductions but only from the time she progresses on her intention. Where Emily claimed a deduction for holding costs, she will not be able to include those expenses in her cost base.

See also:

- Taxation Ruling TR 2004/4 *Income tax: deductions for interest incurred prior to the commencement of, or following the cessation of, relevant income earning activities*
- Capital gains tax – working out your capital gain or loss

Land as trading stock

If you sell land that was trading stock the sales proceeds are assessable income. Land may be treated as trading stock for income tax purposes if either:

- you carry on a business activity that involves dealing in land
- you hold the land for the purpose of resale.

Business activities that involve dealing in land include either:

- acquiring land to develop or subdivide and sell
- acquiring land for the purpose of building a dwelling or commercial property and selling the developed property.

This can be the case even for a one-off transaction that is undertaken in a business-like or commercial manner. For example, if you purchase a block of land for the purpose of development, subdivision and sale. This would lead to the land being treated as a revenue asset rather than a capital asset.

The business activity is taken to have begun when you embark on a definite and continuous cycle of operations designed to lead to the sale of the land.

For vacant land that is trading stock, the proceeds from the land are treated as ordinary income (not a capital gain) and associated costs are deductible.

GST treatment of land in property transactions

If you are dealing with property, including one-off transactions, you may be considered to be carrying on a business or a commercial venture and need to register for GST.

Once registered, you need to include the GST in the price of the goods you sell, including vacant land, commercial and commercial residential premises and new residential premises. You'll be able to claim credits for the GST included in the price of most of your business purchases, subject to normal GST rules. You'll also need to report these transactions by completing a business activity statement.

If you buy vacant land with the intent to build a residential rental property on it, you are not liable for GST on the rent you charge and you will not be able to claim credits for the GST included in anything you purchase.

See also:

- Registering for GST
- Property development, building and renovating
- GST and property
- Residential premises

Subdividing land

- https://www.ato.gov.au/General/Property/Land---vacant-land-and-subdividing/Subdividing-land/
- Last modified: 01 Nov 2016
- QC 23640

The profit from selling subdivided land may be a capital gain or ordinary income, depending on the circumstances.

If you subdivide a block of land – such as the land on which you live – and sell the newly created block, any profit is generally treated as a capital gain subject to capital gains tax.

However, any profit is treated as ordinary income (not a capital gain) if both of the following apply:

- your intention or purpose in entering into the transaction was to make a profit or gain
- you entered into the transaction, and the profit was made, in the course of carrying on a business or carrying out a business operation or commercial transaction.

In this case you'll probably have GST obligations and entitlements.

You don't need to be in business for this tax treatment to apply – it's enough that there is a profit motive and the transaction has the character of a business operation or commercial transaction. It could apply even for a one-off transaction, such as:

- a subdivision by a non-business taxpayer
- a transaction by a business taxpayer that is outside the ordinary course of their business.

See also:

- Taxation Ruling TR 92/3 - Income tax: whether profits on isolated transactions are income

Capital gains tax on subdivided land

If you subdivide a block of land, each block that results is registered with a separate title. For capital gains tax purposes, the original land parcel is divided into two or more separate assets.

Subdividing the land doesn't in itself result in a CGT event if you retain ownership of the subdivided blocks, meaning you don't make a capital gain or a capital loss at the time of the subdivision. You make a capital gain or capital loss only when you sell the subdivided blocks.

For the purposes of working out your capital gain or capital loss, the date you acquired the subdivided blocks is the date you acquired the original parcel of land and the cost base of the original land is divided between the subdivided blocks on a reasonable basis.

See also:

- Subdividing and amalgamating land

When your home is affected

If you sell any land separately from your home, the land is not exempt from capital gains tax under the main residence exemption. It's only exempt when sold with the home that is your main residence.

Land is adjacent to your home if it is close to, near, adjoining or neighbouring it.

See also:

- Capital gains tax - Selling your home

GST treatment of subdividing

You may have GST obligations and entitlements if you subdivide and sell land with the intention of profit and in the course of carrying on a business or as a business or commercial transaction. Even with a one-off transaction, you may still be required to register for GST because your one-off property transaction may have the characteristics of a business deal.

Once registered for GST, you need to include GST in the price of goods you sell, including land that you've subdivided. You'll be able to claim credits for the GST included in the price of most of your business purchases (subject to the normal GST rules). You also need to report these transactions by completing an activity statement.

If you're unsure whether your subdivision transaction is a profit-making activity, a business, a commercial transaction or something else, write to us and request a private ruling to determine your tax position.

See also:

- Property development, building and renovating

Property development, building and renovating

- https://www.ato.gov.au/General/Property/Property-development,-building-and-renovating/
- Last modified: 03 Aug 2017
- QC 23643

If you're renovating one or more properties you need to work out if you are a personal property investor, engaged in a profit-making activity of property renovations, or carrying on a business of renovating properties. If you are 'property flipping' or 'renovating for profit' there could be tax implications.

If you build new residential premises for sale, you're liable for GST on the sale, and you can generally claim GST credits for your construction costs and purchases related to the sale.

Businesses in the building and construction industry need to report to the ATO each year the total payments they make to each contractor for building and construction services.

Find out about:

- Renovating properties
- Building and construction – residential premises

See also:

- Taxable payments reporting - building and construction industry

Renovating properties

- https://www.ato.gov.au/General/Property/Property-development,-building-and-renovating/Renovating-properties/
- Last modified: 03 Aug 2017
- QC 23644

If you're renovating one or more properties you need to work out if you are:

- a personal property investor
- engaged in a profit-making activity of property renovations
- carrying on a business of renovating properties.

Personal property investor

If you're considered a personal property investor, your net gain or loss from the renovation (proceeds from the sale of the property less the purchase and other costs associated with buying, renovating and selling it) is treated as a capital gain or capital loss respectively.

CGT concessions such as the CGT discount and the main residence exemption may reduce your capital gain.

You're not conducting an enterprise of property renovation for GST purposes and are not required to register for GST. But if you're registered in some other business capacity you don’t pay GST on the proceeds from the sale of the property or claim GST credits for related purchases.

The following example illustrates the characteristics of personal property investing.

Example: Personal investor

Doug is a sales representative. He obtains an investment loan and purchases a property that he intends to rent out. He would not consider selling the property unless the price appreciated markedly.

The property requires renovation to attract desirable tenants. Doug renovates the property after work and on weekends. Over the period of the renovation, the real estate market booms and Doug decides to sell the property.

Doug would not be considered to be in the business of property renovation because:

- his intention when he bought the property was to gain rental income rather than make a profit from buying, renovating and selling it
- Doug didn't rely on the income to meet regular expenses because he has income from his job
- his renovation activities were not carried on in a business-like manner
- Doug did not buy the property with a view to selling it at a profit, and did not carry out a one-off profit-making activity.

So, Doug is regarded as a personal investor.

However, if Doug, because of his success with this renovation (either in his own right or with another or others) was to then undertake another renovation similar to the first with a view to achieving the same profit levels, he will be regarded as being in the business of property renovation.

Profit-making activity of property renovations

If you're carrying out a profit-making activity of property renovations also known as 'property flipping', you report in your income tax return your net profit or loss from the renovation (proceeds from the sale of the property less the purchase and other costs associated with buying, holding, renovating and selling it).

You're entitled to an Australian business number (ABN) and you may be required to register for GST if the renovations are substantial.

The following example illustrates the characteristics of a profit-making activity of property renovations.

Example: Renovation as a profit-making activity

Fred and Sally are married with two children. They renovated their home, substantially increasing its value. After watching many of the home improvement shows and seeing how other people have bought, renovated and sold properties for a significant profit, they decide to investigate the purchase of another property to renovate and make a profit.

They consider many properties, costing out the renovations, the costs of buying and selling and timeframes to complete the renovations. Their research shows that they could also make a significant profit.

Fred and Sally sell their current home and purchase a new property, which they move into while completing the renovations. They plan out the renovation in stages, including the costs and any contractors needed to complete the work. The renovation runs to schedule and, when completed, they list the property for sale and it sells for a profit.

Because the property renovation activities were planned, organised and carried on in a business-like manner, the purpose of buying the property was to renovate it and make a profit, and the renovations were carried on in a similar manner to other property renovation businesses, Fred and Sally have entered into a one-off profit-making activity.

Business of renovating properties

If you're carrying on a business of renovating properties or 'flipping' properties, the purchased properties are regarded as trading stock (even if you live in one for a short period) and the costs associated with buying and renovating them form part of the cost of your trading stock until they're sold.

You calculate your business's annual profit or loss in the same way as any business with trading stock.

CGT doesn't apply to assets held as trading stock, and CGT concessions such as the CGT discount, small business concessions and main residence exemption don't apply to any income from the sale of the properties.

You're entitled to an Australian business number (ABN) and you may be required to register for GST if the renovations are substantial.

The following example illustrates the characteristics of a business of renovating properties.

Example: Renovation business

Tony is a carpenter. After reading the Investors Club News, he decides to purchase a property. He thoroughly researches the real estate market, attends investment seminars and records the information he has found.

The property Tony purchases is in a good location but he pays a reduced price because it needs extensive renovation. Using his knowledge and contacts within the building industry, Tony quickly completes the renovations.

He then sells the property and makes a generous profit.

Using the proceeds from the sale of the first property, Tony purchases two more houses that require renovation.

Tony sets up an office in one of the rooms in his house. He has a computer and access to the internet so he can monitor the property market. Tony's objective is to identify properties that will increase in value over a short time once he has improved them. He leaves his job so he can spend more time on his research and renovations.

Tony's activities show all the factors that would be expected from a person carrying on a business. His property renovating operation demonstrates a profit-making intention; there is repetition and regularity to his activities. Tony's activities are organised in a business-like manner.

Therefore, Tony is regarded as being in the business of property renovation.

See also:

- Are you in the business of renovating properties?
- Miscellaneous Tax Ruling MT 2006/1 *The New Tax System: the meaning of entity carrying on an enterprise for the purposes of entitlement to an Australian Business Number*

Building and construction – residential premises

- https://www.ato.gov.au/General/Property/Property-development,-building-and-renovating/Building-and-construction---residential-premises/
- Last modified: 01 Nov 2016
- QC 23645

If you build new residential premises for sale:

- you're liable for GST on the sale
- you can claim GST credits for your construction costs and any purchases you make related to the sale (subject to the normal rules on GST credits).

If GST applies, you generally pay GST of one-eleventh of the sale price. But if eligible, you can work out your GST liability using the margin scheme, under which your GST liability is one-eleventh of the margin on the sale of the property, rather than one-eleventh of the total selling price.

Residential premises include houses, units and flats that are occupied or can be occupied as residences. It does not include vacant land. Residential premises are new when any of the following apply:

- they have not been sold as residential premises before.
- they have been created through substantial renovations.
- new buildings replace demolished buildings on the same land.

However, residential premises are generally no longer new residential premises if they have been continuously rented for five years after first becoming new residential premises. In this case, the sale of the property after being rented out is input taxed.

If you claimed GST credits on the construction costs and related purchases, you may have to make one or more adjustments that effectively reverse these credits, as you are not entitled to GST credits for things purchased to make input taxed supplies.

New residential premises rented out continuously for five years or more may still be considered new residential premises if they have been held for the dual purpose of sale and rent.

If you rent out the new premises while you are planning to sell them, you'll need to adjust part of the GST credits you claimed. You must show you intend to sell the premises. Actively marketing the premises for sale is one way of showing this.

See also:

- Selling new residential property that has been rented within five years of construction
- Change in use of new residential premises

New residential premises off-the-plan

An off-the-plan purchase occurs when the buyer enters into a contract to purchase new residential premises before construction is completed. At this stage the buyer is purchasing a contractual right to have the premises built.

Generally, the buyer pays a deposit and signs a contract with the developer, paying the balance of the purchase price on settlement. On settlement, the buyer is purchasing new residential premises and the purchase price includes GST.

However, if you as the 'buyer' sell the contractual right before settlement you're not selling new residential premises, and GST will apply if the sale of the contractual right is made in the course of your GST registered business.

The sale of an off-the-plan property may be an enterprise in its own right and may form part of the seller's GST registration turnover threshold.

See also:

- GST and property
- GSTR 2009/4 Goods and services tax: new residential premises and adjustments for changes in extent of creditable purpose
- GSTR 2003/3 Goods and services tax: when is a sale of real property a sale of new residential premises?
- GSTR 2000/24 Goods and services tax: Division 129 - making adjustments for changes in extent of creditable purpose

Property used in running a business

- https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/
- Last modified: 14 Sep 2016
- QC 23646

If you own, lease or rent property used for business purposes – whether commercial premises like a shop or office, or even your own home – you:

- must include any rental income in your tax return
- can claim income tax deductions for some property expenses
- will be liable for capital gains tax on any capital gain if you sell the property.

You may also have GST obligations and entitlements when you buy, sell, lease or rent commercial premises.

If you're dealing with property, including one-off transactions (for example, you buy, sell, lease or develop), you may be considered to be conducting an enterprise. If your turnover from these activities is more than the GST registration turnover threshold, you may be required to register for GST.

Find out about:

- Buying commercial premises
- Selling commercial premises
- Leasing and renting commercial premises
- Running your business from home
- Working farms
- Commercial residential premises and GST
- Retirement villages and GST

Buying commercial premises

- https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/Buying-commercial-premises/
- Last modified: 13 May 2015
- QC 23647

When you buy or otherwise obtain a commercial property – such as a shop, factory or office – it's important to keep records right from the start.

Commercial properties used in the running of a business are subject to capital gains tax. You'll need records of the date and costs of obtaining the premises so that you can work out your capital gain (or capital loss) when you sell it.

Income tax deductions

If your property is used to run a business or is available to rent for that purpose, you can claim tax deductions for expenses associated with owning it, such as interest on a loan to buy the property and maintenance expenses. Keep records of your expenses from the start, so you can claim everything you're entitled to.

See also:

- Claiming business deductions

GST

If you buy commercial premises, you may be eligible to claim a credit for the GST included in the purchase price.

You may also be able to claim GST on other expenses that relate to buying the property – such as the GST included in solicitors' fees and on-going running expenses.

You can't claim GST credits if:

- the seller used the margin scheme to work out the GST included in the price
- you purchase property from someone who is not registered or required to be

registered for GST
- you purchase the property as a GST-free supply, or
- you're not registered for GST.

Selling commercial premises

- https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/Selling-commercial-premises/
- Last modified: 13 May 2015
- QC 23648

When you sell (or otherwise cease to own) a commercial property, you're likely to make a capital gain or capital loss. Capital gains are subject to capital gains tax (CGT), with a discount for individuals and trusts, and concessions for small businesses.

You're also generally liable for GST on the sale price and can claim GST credits on related purchases. To work out the GST you may be eligible to use the margin scheme, under which your GST liability is one-eleventh of the margin on the sale of the property, rather than one-eleventh of the total selling price.

GST doesn't apply to property when it's being sold as part of a GST-free sale of a going concern.

On this page:

- Capital gains
- GST
- Selling a business as a going concern

Capital gains

You're likely to make a capital gain or capital loss when you sell (or otherwise cease to own) a commercial property. If you make a net capital gain in an income year, you'll generally be liable for capital gains tax (CGT). If you make a net capital loss you can carry it forward and deduct it from your capital gains in later income years.

A capital gain, or capital loss, is the difference between what it cost you to obtain and improve the property (the cost base), and what you receive when you dispose of it. Amounts that you've claimed (or could have claimed) as a tax deduction are excluded from the property's cost base.

If you acquired the property before CGT came into effect on 20 September 1985, any capital gain or capital loss is disregarded. However, capital gains or capital losses from capital improvements made since 20 September 1985 are subject to CGT, even if you acquired the property before that date.

See also:

- [Capital gains tax]

Discounts and concessions

If you own the property as an individual (including as a partner in a partnership), and you've owned it for at least 12 months, you may be eligible to discount your capital gain by 50%. This discount is also available to trusts, but not to companies.

If you are a small business entity and the property you sell is your business premises, you may be able to reduce the capital gain using one of four small business concessions:

- 15-year exemption: If your business has owned the premises for 15 years and you're 55 or over and are retiring, or are permanently incapacitated, you won't have an assessable capital gain when you sell.
- 50% active asset reduction: You can reduce the capital gain on your premises by 50%.
- Retirement exemption: Capital gains from the sale of your premises are exempt up to a lifetime limit of $500,000. If you're under 55, the exempt amount must be paid into a complying superannuation fund or retirement savings account.
- Rollover: You can defer your capital gain until another event happens that crystallises the gain. For example, if you sell your existing business premises and buy different premises for your business within a certain period, you can defer your capital gain until the new premises are sold.

See also:

- [Capital gains tax (CGT) concessions for small business - overview]

GST

If you sell commercial premises, such as shops, factories or offices, you're generally liable for GST on the sale price. This means you:

- pay GST of one-eleventh of the sale price
- can claim GST credits on your purchases that relate to selling the property (subject to the normal rules on GST credits) – such as the GST included in a real estate agent's fees.

But if your commercial property is being leased when you sell it, you may be able to treat your sale as a [GST-free supply of a going concern].

Margin scheme

You may be eligible to use the margin scheme to work out the GST on the sale of commercial premises (or new residential premises). Under this scheme, your GST liability is one-eleventh of the margin on the sale of the property, rather than one-eleventh of the total selling price. You can only apply the margin scheme if the sale is taxable.

The margin is generally the difference between the sale price and either:

- the amount you paid for the property, or
- an appropriate property valuation.

Whether you can use the margin scheme depends on how and when you purchased the property.

If you sell the property using the margin scheme any GST charged can't be claimed by the purchaser.

See also:

- [GST and the margin scheme]

Registering for GST

If you are dealing with property, including one-off transactions (for example, you buy, sell, lease or develop), you may be considered to be conducting an enterprise. If so, you may be required to register for GST if your turnover from these activities exceeds the GST registration turnover threshold.

Selling a business as a going concern

If you sell property as part of a GST-free sale of a going concern:

- you're not liable for GST on the sale
- the seller and the purchaser may be able to claim GST on other expenses that relate to selling and buying the property – such as the GST in solicitors' fees.

A sale of a going concern is GST-free if all of the following apply:

- payment is made for the supply
- the purchaser is registered (or required to be registered) for GST
- the buyer and seller have agreed in writing that the sale is of a going concern
- the supplier supplies all things necessary for the continued operation of the business
- the supplier carries on the business until the day of supply.

Property that is part of a sale of a going concern can include:

- the premises, together with the assets and operating structure of the business
- a fully tenanted building, where the property and all leases, agreements and covenants are included in the sale
- the sale of a partially tenanted building, where both of the following apply
  - the vacant part of the building is either being actively marketed for lease or undergoing repairs or refurbishment
  - all leases, agreements and covenants are included in the sale.

See also:

- Sale of a business as a going concern – checklist

Leasing and renting commercial premises

- https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/Leasing-and-renting-commercial-premises/
- Last modified: 13 May 2015
- QC 23653

This section has information for:

- the lessor, or owner of the premises
- the renter, or tenant of the premises.

Leasing (as owner)

Income tax

If you lease commercial premises to others you must include the full amount of rent you earn in your income tax return.

You can claim a deduction for your related expenses for the period your property is rented or available for rent:

- generally, you can claim an immediate deduction for expenses relating to the management and maintenance of the property, including interest on loans.
- some expenses are claimed over a number of years, including depreciation costs (decline in value of depreciating assets such as carpet, furniture and appliances), and certain construction expenditure.

You can't claim:

- acquisition and disposal costs of the property – these are usually included in the property's cost base for capital gains tax purposes
- expenses not actually paid by you, such as water or electricity charges paid by your tenants
- expenses not related to the rental of the property.

See also:

- Residential rental properties

GST

You're liable for GST on the rent you charge on commercial premises if you're registered, or required to be registered, for GST.

You may be required to register for GST if you're dealing with property, including one-off transactions such as buying, selling, leasing and developing (that may constitute conducting an enterprise) and your turnover from these activities exceeds the GST registration turnover threshold.

You can claim GST credits on your purchases that relate to renting out your property (subject to the normal rules on GST credits) – such as the GST included in the managing agent's fees.

Renting (as tenant)

If you rent a commercial property as your business premises, the rent is tax deductible.

As the renter (tenant), you may be able to claim GST credits for the GST included in the rent if you and the lessor are registered, or required to be registered, for GST.

Working farms

- https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/Working-farms/
- Last modified: 14 Sep 2016
- QC 23655

Capital gains

You're likely to make a capital gain or capital loss when you sell (or otherwise cease to own) a working farm. Capital gains are subject to capital gains tax, with a discount for individuals and trusts, and concessions for small businesses.

If your home is part of the working farm, you may be eligible for a partial main residence exemption.

See also:

- Capital gains

GST

Farmland you sell is GST-free if both of the following apply:

- the land was used for a farming business for at least five years immediately before the sale
- the buyer intends to use it for a farming business.

A lease by an Australian government agency or a long-term lease of farmland is also GST-free if the above conditions are met. A long-term lease is a lease for 50 or more years or a lease that is likely to continue for at least 50 years because of renewals or extensions provided for in the lease.

The sale of subdivided land used for a farming business for at least five years is GST-free if both of the following apply:

- it's permissible to use the land for residential purposes
- the supply is made to an associate of the supplier – such as a relative or a closely connected company or trust – for less than market value.

If you sell farmland and you don't meet the above conditions, the sale is taxable and you're liable for GST on the price.

See also:

- Selling a business as a going concern
- Subdividing land

Commercial residential premises and GST

- https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/Commercial-residential-premises-and-GST/
- Last modified: 01 Nov 2016
- QC 23656

The sale and lease of commercial residential premises is subject to goods and services tax (GST).

Commercial residential premises include:

- hotels, motels, inns
- hostels, boarding houses
- caravan parks, camping grounds
- establishments that provide residential premises similar to hotels, motels, inns, hostels and boarding houses.

Retirement villages are not commercial residential premises for GST purposes.

On this page:

- Buying and selling commercial residential premises
- Leasing commercial accommodation

Buying and selling commercial residential premises

If you sell commercial residential premises (such as hotels, motels, inns, hostels or boarding houses), you're generally liable for GST on the sale price. This means you:

- pay GST of one-eleventh of the sale price
- can claim GST credits on your purchases that relate to selling the property (subject to the normal rules on GST credits) – such as the GST included in a real estate agent's fees.

GST applies differently if you sell commercial residential premises under the margin scheme or as a going concern.

If you purchase commercial residential premises, you can claim a credit for the GST included in the purchase price if either:

- the seller did not use the margin scheme to work out the GST included in the price
- the sale was not a GST-free sale of a going concern to you, and the seller was registered, or required to be registered, for GST.

You may also be able to claim a GST credit on other expenses, such as solicitor's fees, that relate to buying the property.

Leasing commercial accommodation

If you're registered, or required to be registered, for GST, you're generally liable for GST on commercial accommodation you lease to others. Commercial accommodation is accommodation in commercial residential premises, such as hotels, motels, inns, hostels or boarding houses.

Your GST liability depends on whether you provide short-term, long-term or predominantly long-term accommodation.

You provide:

- short-term accommodation – when a guest stays for less than 28 continuous days, in which case you're liable for GST of one-eleventh of the price you charge for the accommodation
- long-term accommodation – when a guest stays for 28 or more continuous days, in which case concessionary GST treatment applies
- predominantly long-term accommodation – if at least 70% of the individuals to whom you provide commercial accommodation stay for 28 or more continuous days, in which case concessionary GST treatment applies.

See also:

- Apartments in commercial residential premises

Retirement villages and GST

- https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/Retirement-villages-and-GST/
- Last modified: 14 Sep 2016
- QC 23659

If you provide accommodation in a GST retirement village you're generally making an input taxed supply and you don't charge GST.

A GST retirement village is residential premises in which:

- the accommodation is intended for people at least 55 or older
- there are communal facilities for the residents to use.

A GST retirement village is not considered to be commercial residential premises for GST purposes.

Under certain conditions, the supply of accommodation in a serviced apartment in a village is GST-free when the resident of the apartment is also provided with certain care services.

Where the village is operated by an endorsed charity, the provision of accommodation in the entire village is GST-free.

See also:

- Retirement villages
- GSTR 2012/3 Goods and services tax: GST treatment of care services and accommodation in retirement villages and privately funded nursing homes and hostels
- GSTR 2004/09 Goods and services tax: GST consequences of the assumption of vendor liabilities by the purchaser of an enterprise – Addendum
- GSTR 2011/1 Goods and services tax: development, lease and disposal of a retirement village tenanted under a 'loan-lease' arrangement

Running your business from home

- https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/Running-your-business-from-home/
- Last modified: 01 Nov 2016
- QC 23654

The information in this section applies where your home is also your principal place of business – that is, you run your business from home, and a room is set aside exclusively for business activities. Examples include:

- a small business operator whose main office is in their home
- a tradesperson or craftsperson who has their workshop at home
- a doctor or dentist who has their surgery or consulting room at home.

If you do only some business or work from home, in either a designated work area or another part of your home, refer instead to Working from home.

On this page:

- Deductions you can claim
- Capital gains and the main residence exemption

Deductions you can claim

Where your home is also your place of business, you can claim deductions if you carry out income-producing work at home and incur expenses in using your home for that purpose.

You can claim a deduction for the following:

- the cost of using a room's utilities, such as gas and electricity – which must be apportioned between business and private use, based on actual usage.
- business phone costs – if a telephone is used exclusively for business, you can claim for the rental and calls, but not the installation costs. If the telephone is used for both business and private calls, you can claim a deduction for business calls.
- decline in value (depreciation) of office plant and equipment, such as desks, chairs, computers. If equipment such as a computer is also used for non-business purposes, your claim must be apportioned between business and private use.
- decline in value (depreciation) of curtains, carpets and light fittings.
- occupancy expenses (such as rent, mortgage interest, insurance, rates). You can claim the portion of these costs that relates to the room or workshop you use as a place of business. A common method of working out how much to claim is the floor area (as a proportion of the floor area in your whole home).

If your employer has an office in the city or town where you live, your home office will not be a place of business, even if your work requires you to work outside normal business hours.

If your income includes personal services income (PSI), you may not be able to claim a deduction for occupancy expenses.

Capital gains and the main residence exemption

Generally, you can ignore a capital gain or loss you make when you sell your home or main residence (under the main residence exemption).

However, you don't get the full main residence exemption if your home is your principal place of business, although you're probably entitled to a partial exemption.

To work out the capital gain that is not exempt, you need to take into account a number of factors including:

- proportion of the floor area of your home that is set aside to produce income
- period you use it for this purpose
- whether you're eligible for the 'absence' rule (see Treating a dwelling as your main residence after you move out)

- whether it was first used to produce income after 20 August 1996.

If you first used your home as your place of business after 20 August 1996, the period before you first used your home to produce income is not taken into account in working out the amount of any capital gain or capital loss. Instead, you use the market value of your home at the time you first used it to produce income.

It's a good idea to get a valuation of your home at the time you first use it as your place of business, so that when you come to sell it you don't pay more capital gains tax than necessary.

See also:

- Using your home to produce income