

2021

Tax Time Toolkit

Investors



Australian Government
Australian Taxation Office

The 2021 Tax Time Toolkit for Investors

We encourage you to share this information with your staff, clients, members and networks.

Our investors toolkit is a great resource for anyone earning money from their investments, whether you invest in property or cryptocurrency.

While things look different this year, what hasn't changed is our commitment to provide further support for all investors to lodge their returns accurately. The resources in the toolkit provide information to help investors keep the records they need to prepare their returns now and in the future. Getting your return right avoids costly follow up, and rework down the track.

In addition to our rental property fact sheets we have expanded the topics to include information on:

- cryptocurrency
- pay as you go instalments
- capital gains tax for
 - marriage or relationship breakdowns and real estate transfers
 - inherited property
 - sale of a rental property.

While we provide help and support, we also focus on ensuring the integrity of the system and take actions to ensure all taxpayers are paying their fair share. This means we will continue to review returns where we have indicators the claims are incorrect, or income has been omitted. We will also deal with those who choose to do the wrong thing, which may include application of penalties and prosecution.

Whilst this year has still had its challenges, your tax return doesn't need to be challenging. This toolkit has been designed to help investors and their agents understand their obligations and avoid costly mistakes in their returns. I encourage all investors and their agents to refer to this toolkit as they complete their returns. You can access other products we have available to assist, such as videos and our rental property guide at ato.gov.au/property

Adam O'Grady

Assistant Commissioner
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A helpful directory for tax time

The ATO has a range of information, tools and services available to help Australians prepare and lodge their tax return every year:

- **Tax time essentials** – an overview of the essential information individuals need to know for their tax return this year
- **Dealing with disasters** – specific advice for those affected by natural disasters
- **COVID-19** – specific advice for those affected by COVID-19
- **What's new for individuals** – changes to be aware of before you complete your tax return
- **Do you need to lodge a tax return?** – an easy tool to find out if you need to lodge a tax return this year
- **How to lodge your tax return** – lodge using myTax or a registered tax agent. If you are going to lodge your own return, myTax is the quickest and easiest way to lodge.
- **Rental properties (COVID-19)** – specific advice for rental property owners affected by COVID-19
- **Residential rental properties** – find out what you need to declare and what you can claim for your investment property
- **Deductions you can claim** – it pays to know what you can claim at tax time
- **Occupation and industry specific guides** – guides from specific industries and occupations to help you correctly claim the work-related expenses you are entitled to
- **myDeductions** – a useful way to keep track of records throughout the year to make tax time easier
- **Income you must declare** – find out what income you must declare in your tax return
- **Calculators and tools** – a range of popular calculators and tools to help you work out the answers to questions unique to your tax and super circumstances
- **Correct (amend) your tax return** – fix a mistake or amend your return
- **Online services** – access a range of tax and super services in one place, including lodging your tax return, tracking the progress of your return and making a payment or entering a payment arrangement
- **ATO Community** – ask your tax and super related questions over on the ATO's online community forum
- **Join the discussion online** – keep up to date with the latest tax and super information on the go! Follow the ATO to get tax tips and updates in seconds, share information and stay informed
- **Tax Time Toolkits** – full list of resources



Rental properties

Borrowing expenses

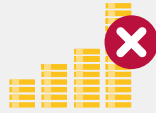


What are borrowing expenses?

These are expenses directly incurred in taking out a loan for the purchase of your rental property.

They include:

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



What is not included in borrowing expenses?

Borrowing expenses don't include:

- ✗ the amount you borrow for the property
- ✗ loan balances for the property
- ✗ interest expenses (these are claimed separately)
- ✗ repayments of principal against the loan balance
- ✗ stamp duty charged by your state/territory government on the transfer (purchase) of the property title (this is a capital expense)
- ✗ legal expenses, including solicitors' and conveyancers' fees for the purchase of the property (this is a capital expense)
- ✗ stamp duty you incur when you acquire a leasehold interest in a 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 buy a car).

Rental property owners should remember three simple steps when preparing their return:



1. Include all the income you receive

This includes income from short term rental arrangements (eg a holiday home), sharing part of your home, and other rental-related income such as insurance payouts and rental bond money you retain.



2. Get your expenses right

- Eligibility – Claim only for expenses incurred for the period your property was rented or when you were actively trying to rent the property on commercial terms.
- Timing – Some expenses must be claimed over a number of years.
- Apportionment – Apportion your claim where your property was rented out for part of the year or only part of your property was rented out, where you used the property yourself or rented it below market rates. You must also apportion in line with your ownership interest.



3. Keep records to prove it all

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



Claiming borrowing expenses

- ✓ 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.

If you repay the loan early and in less than five years from the time you took it out, you can claim a deduction for the balance of the borrowing expenses in the final 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.

Example:

Apportionment of borrowing expenses

To secure a 20-year loan of \$209,000 to purchase a rental property for \$170,000 and a private motor vehicle for \$39,000, the Hitchmans paid a total of \$1,670 in establishment fees, valuation fees and stamp duty on the loan. As the Hitchmans' borrowing expenses are more than \$100, they must be apportioned over five years, or the period of the loan, whichever is the lesser.

Also, because the loan was for both income-producing and personal purposes, only the income-producing portion of the borrowing expenses is deductible. As they obtained the loan on 17 July 2017, they would work out the borrowing expense deduction for the first year as follows:

	Borrowing expenses	×	$\frac{\text{number of relevant days in year}}{\text{number of days in the 5-year period}}$	=	maximum amount for the income year	×	$\frac{\text{rental property loan}}{\text{total borrowings}}$	=	deduction for year
Year 1	\$1,670	×	$\frac{349 \text{ days}}{1,826 \text{ days}}$	=	\$319	×	$\frac{\$170,000}{\$209,000}$	=	\$260

Their borrowing expense deductions for subsequent years should be worked out as follows:

	Borrowing expenses remaining	×	$\frac{\text{number of relevant days in year}}{\text{remaining number of days in the 5-year period}}$	=	maximum amount for the income year	×	$\frac{\text{rental property loan}}{\text{total borrowings}}$	=	deduction for year
Year 2	\$1,351	×	$\frac{365 \text{ days}}{1,477 \text{ days}}$	=	\$334	×	$\frac{\$170,000}{\$209,000}$	=	\$272
Year 3 (leap year)	\$1,017	×	$\frac{366 \text{ days}}{1,112 \text{ days}}$	=	\$335	×	$\frac{\$170,000}{\$209,000}$	=	\$272
Year 4	\$682	×	$\frac{365 \text{ days}}{746 \text{ days}}$	=	\$334	×	$\frac{\$170,000}{\$209,000}$	=	\$271
Year 5	\$348	×	$\frac{365 \text{ days}}{381 \text{ days}}$	=	\$333	×	$\frac{\$170,000}{\$209,000}$	=	\$271
Year 6	\$15	×	$\frac{16 \text{ days}}{16 \text{ days}}$	=	\$15	×	$\frac{\$170,000}{\$209,000}$	=	\$12

This is a general summary only

For more information go to ato.gov.au/rental · Watch our short videos at ato.gov.au/rentalvideos

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

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