2021

Tax Time Toolkit

Investors

Australian Government
Australian Taxation Office

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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
Individuals and Intermediaries
Australian Taxation Office

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

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Rental property – Damaged or destroyed

Types of income

Insurance payouts

Insurance payouts for loss of rental income and repairs need to be included in your income.

Disaster assistance payments

Most one-off assistance payments you receive from the government, charities or community groups are tax-free. To understand the types of payments and how they affect your tax, check with us at: ato.gov.au/Assistance

Replacing depreciable assets

If the insurance payout you received for your depreciating asset is more than its written down value you need to include the balance as income. Where the payout is less you can claim a deduction for the difference.

Expenses

If you use an assistance payment or money from a relief fund to purchase items for your rental property, the normal conditions for deductibility apply.

Event	Classification	Example	Claim: old asset (destroyed)	Calculation for expenditure
Replacing an entire structure that was fully or partially damaged or destroyed	Likely to be **CAPITAL WORKS**	Replacing **ALL** the fence, not just the damaged portion or replacing all kitchen cupboards	This may result in a capital gain or loss. See **ato.gov.au/Involuntary-disposal**	New asset generally deductible at 2.5% over 40 years
Fixing something that is damaged or broken	Likely to be a **REPAIR**	Fixing a leaking tap, or **PART** of the fence damaged in the storm	Not applicable	Amounts for **REPAIRS AND MAINTENANCE** are claimed fully in the year the expense is paid
Installing a brand new appliance or floor or window coverings	Likely to be a **DEPRECIATING ASSET**	Buying a brand new dishwasher or installing new carpet	If claiming the original item as **CAPITAL ALLOWANCES**, claim a deduction for the remaining balance (adjustable value) less any compensation received	Claim a deduction over the effective life of the asset (Decline in value)

Go to rental properties repairs, maintenance and capital expenditure for more information.

What happens if my rental property can't be lived in?

If your property is unable to be lived in, and no longer earning rental income, you can claim a deduction for some costs you incur while doing repairs or renovations. For example, council rates or interest charged on your mortgage. **You cannot claim a deduction for your own labour.**

However, the repairs or renovations need to be completed in a reasonable timeframe, and the property must have been rented or available for rent immediately before it was damaged or destroyed.

If the property is demolished and you're holding vacant land as a result of the damage, you can claim a deduction for holding costs (for example, land taxes and council rates) if the exceptional circumstances exemption applies.

There is a limit of three years from the date of the exceptional circumstances to continue to claim deductions using this exemption. See ato.gov.au/Exceptions-vacantland

Capital gains tax (CGT) implications for damaged or destroyed assets

If you receive an insurance payout, it may need to be taken into account when calculating your capital gain or loss. A capital gain will arise if the insurance payout is more than the asset's cost base, if the insurance payout is less than the reduced cost base you will have a capital loss.

You choose to rebuild or replace your rental property

You may be entitled to roll over any capital gain you make and delay paying the gain until a later point in time.

To defer the gain you must incur expenditure within one year after the end of the income year the property/asset was destroyed. For more information on involuntary disposal of a CGT asset, see ato.gov.au/Involuntary-disposal

You choose not to rebuild your rental property

You will need to calculate your capital gain or loss.

Any insurance payout you receive will be counted as capital proceeds when calculating your gain or loss.

If you don't receive an insurance payout there are no capital gains tax consequences until the property is sold. The CGT event will occur when the property is sold at a future date.

Main residence exemption

If the property was previously your main residence you can treat it as your main residence for up to six years after you move out, even if the property is destroyed. Your main residence is exempt from CGT, however you can't treat any other property as your main residence for the same period.

Important things to remember

Timing of a CGT event

If your CGT asset is lost or destroyed, a CGT event happens on the date you receive compensation for the loss or destruction.

If you don't receive any compensation, the CGT event happens when the loss is discovered or the destruction occurred.

Get record keeping right

Keep records of every transaction including insurance payout documents, receipts for any new purchases, or repairs. If you borrow for these amounts retain all loan documents and statements.

Note: Before and after photos of destroyed assets may be helpful but they aren't substantiation on their own.

Examples

Deduction for repairs while property was unoccupied

Ben's rental property was tenanted when it was severely damaged by a cyclone. Due to the damage, the tenants had to move out. Ben carried out repairs within a reasonable time and then advertised the property for rent. Even though the property was not available for rent while being repaired, he is able to claim for the repairs because it was rented immediately before the damage occurred.

Deduction for replacement of depreciable items

Josh's rental property was covered in smoke and ash from recent bushfires. He had the home thoroughly cleaned and needed to replace all of the carpets and curtains. Josh can claim a deduction for the:

- cleaning
- remaining value of the pre-existing carpet and curtains
- decline in value of the new carpet and curtains.

If Josh had decided to repair the damaged carpet and curtains instead of replacing them, he would claim the immediate deduction as a repair.

No capital works deduction

Zahli owns a rental property that was damaged in a severe hailstorm. As a result of the storm damage Zahli's insurance company replaced the entire roof.

Zahli is not entitled to a capital works deduction for the new roof which was carried out by the insurer.

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

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