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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Top 10 tips
to help rental property owners avoid common tax mistakes

RENTAL PROPERTY

Whether you use a tax agent or choose to lodge your tax return yourself, avoiding these common mistakes will save you time and money.

1. Apportioning expenses and income for co-owned properties

If you own a rental property with someone else, you must declare rental income and claim expenses according to your legal ownership of the property. As joint tenants your legal interest will be an equal split, and as tenants in common you may have different ownership interests.

2. Make sure your property is genuinely available for rent

Your property must be genuinely available for rent to claim a tax deduction. This means:

- you must be able to show a clear intention to rent the property
- advertising the property so that someone is likely to rent it and set the rent in line with similar properties in the area
- avoiding unreasonable rental conditions.

3. Getting initial repairs and capital improvements right

Ongoing repairs that relate directly to wear and tear or other damage that happened as a result of you renting out the property can be claimed in full in the same year you incurred the expense. For example, repairing the hot water system or part of a damaged roof can be deducted immediately.

Initial repairs for damage that existed when the property was purchased, such as replacing broken light fittings and repairing damaged floorboards are not immediately deductible but a deduction may be claimed over a number of years as a capital works deduction. These costs are also used to work out your capital gain or capital loss when you sell the property.

Replacing an entire structure like a roof when only part of it is damaged or renovating a bathroom is classified as an improvement and not immediately deductible. These are building costs which you can claim at 2.5% each year for 40 years from the date of completion.

If you completely replace a damaged item that is detachable from the house and it costs more than $300 (eg replacing the entire hot water system) the cost must be depreciated over a number of years.

4. Claiming borrowing expenses

If your borrowing expenses are over $100, the deduction is spread over five years. If they are $100 or less, you can claim the full amount in the same income year you incurred the expense. Borrowing expenses include loan establishment fees, title search fees and costs of preparing and filing mortgage documents.

5. Claiming purchase costs

You can't claim any deductions for the costs of buying your property. These include conveyancing fees and stamp duty (for properties outside the ACT). If you sell your property, these costs are then used when working out whether you need to pay capital gains tax.

6. Claiming interest on your loan

You can claim interest as a deduction if you take out a loan for your rental property. If you use some of the loan money for personal use such as buying a boat or going on a holiday, you can't claim the interest on that part of the loan. You can only claim the part of the interest that relates to the rental property.

7. Getting construction costs right

You can claim certain building costs, including extensions, alterations and structural improvements as capital works deductions. As a general rule, you can claim a capital works deduction at 2.5% of the construction cost for 40 years from the date the construction was completed.

Where your property was owned by someone else previously, and they claimed capital works deductions, ask them to provide you with the details so you can correctly calculate the deduction you're entitled to claim. If you can't obtain those details from the previous owner, you can use the services of a qualified professional who can estimate previous construction costs.

8. Claiming the right portion of your expenses

If your rental property is rented out to family or friends below market rate, you can only claim a deduction for that period up to the amount of rent you received. You can't claim deductions when your family or friends stay free of charge, or for periods of personal use.

9. Keeping the right records

You must have evidence of your income and expenses so you can claim everything you are entitled to. Capital gains tax may apply when you sell your rental property. So keep records over the period you own the property and for five years from the date you sell the property.

10. Getting your capital gains right when selling

When you sell your rental property, you may make either a capital gain or a capital loss. Generally, this is the difference between what it cost you to buy and improve the property, and what you receive when you sell it. Your costs must not include amounts already claimed as a deduction against rental income earned from the property, including depreciation and capital works. If you make a capital gain, you will need to include the gain in your tax return for that income year. If you make a capital loss, you can carry the loss forward and deduct it from capital gains in later years.

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 tax at **ato.gov.au/cgtguide**

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