Australian Government
Australian Taxation Office

Tax-smart tips

for your investment property

Being tax-smart when investing in property means more than making the right property choices. If you use your property to earn income at any time, you need to:

- keep records right from the start
- work out what expenses you can claim as deductions
- work out if you need to pay tax instalments throughout the year
- declare all rental-related income in your tax return
- consider the capital gains tax implications if you sell.

Getting record keeping right makes tax time easy

You need to keep records for the period you own the property to make sure you don't pay more tax than you need to, in case you later sell or rent out all or part of the property.

If you sell a property you use to earn income, you need the following records to work out if you are subject to capital gains tax.

Buying

- contract of purchase
- conveyancing documents
- loan documents
- costs to buy the property
- borrowing expenses

Owning

- proof of earned rental income
- all your expenses
- periods of private use by you or your friends
- periods the property is used as your main residence
- loan documents if you refinance your property
- efforts to rent the property out
- capital improvements

Selling

- contract of sale
- conveyancing documents
- sale of property fees
- calculation of capital gain or loss

Record keeping tips

- Set up an easy-to-use record-keeping system as a priority. This can be a digital record, like a spreadsheet or you can use professional software.
- Keep records of every transaction over the period you own the property. This includes contracts of purchase and sale, as well as conveyancing and loan documents.
- Scan copies of your receipts to make it easier to store and access them.

Remember, keeping proof of all your income, expenses and effort to rent out your property means you can claim everything you are entitled to.

Preparing your return

Rental property owners should remember 3 simple steps when preparing their return:

1. Include all the income you receive

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

Report income when it's paid. If rent is paid to a real estate agent or property manager, who takes out their fees before forwarding on to you – the full amount (before taking fees out) must be reported at the time your tenants pay rent to the agent.

2. Get your expenses right

- **Eligibility** – only claim expenses for the periods you can directly connect to gaining assessable income
- **Timing** – some expenses must be claimed over several years.
- **Apportionment** – apportion your claim where:
  - your property was not used as a rental property for part of the year
  - only part of your property was rented out
  - you used the property or kept it vacant for yourself
  - you rented it at below market rates.

Report your income and expenses in line with your share of the investment.

3. Keep records to prove it all

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

Selling your property

If you sell an investment property or your main residence that you rented out, remember:

- You may have to pay capital gains tax, even if you transfer the property into someone else's name.
- A capital gain is the difference between your cost base (cost of ownership) and your capital proceeds (what you receive when you sell the property or the market value when you transfer the property).
- If your costs of ownership are greater than your capital proceeds, a capital loss should be included in your return. Reporting capital losses, mean they are available to reduce future capital gains.
- If you claim a deduction for capital works or depreciation in any income year, you can't use these in your cost base.
- If you own the property for more than 12 months, and you are an Australian resident, you may be entitled to a 50% discount of the capital gains tax.

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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