

Repairs checklist for landlords

The following checklist summarises the type of expenditure that is (or is not) generally a deductible repair, drawing on most of the concepts outlined in TR 97/23.

Type of expenditure	Deductible repair?	
	Yes	No
1. Expenditure on property that is in need of repair (in whole or in part).	✓	
2. Expenditure undertaken solely to prevent anticipated defects to property.		✓
3. Expenditure that restores property to its original condition (i.e., original efficiency of function).	✓	
4. Expenditure that increases the efficiency of property.		✓ ¹
5. Expenditure that is expected to increase or preserve a property's value.		✓ ²
6. Expenditure that results in an alteration or addition to property.		✓ ²
7. Expenditure that renews or replaces the whole of the item of property.		✓
8. Expenditure that effectively renews or replaces the whole item of property by replacing parts of the whole, progressively over time.	✓	
9. The replacement of free-standing items such as stoves, refrigerators, furniture, etc.		✓ ³
10. Replacement of permanent fixtures, such as door locks, handles, etc.	✓ ⁴	
11. Expenditure attributable to a 'notional' repair.		✓ ⁵
12. Expenditure to control health risks from dangerous substances such as asbestos.		✓ ⁶
13. Expenditure to meet the requirements of a regulatory body.		✓ ⁶
14. Expenditure to remedy defects, damage, etc in existence at time of acquiring the property (i.e., initial repairs).		✓ ⁷
15. Expenditure to remedy defects, damage, etc arising <i>after</i> property acquired.	✓	
16. Expenditure to remedy defects, damage, etc while property <i>held</i> for income-earning purposes, but <i>before</i> income is first derived, not being an initial repair.	✓	
17. Expenditure incurred <i>after</i> the property ceases to be used for income-earning purposes, to remedy defects, damage, etc arising during the income-earning period.	✓ ⁸	
18. Expenditure to remedy defects, damage, etc to property currently used for income-earning purposes, but previously used for non-income-earning purposes.	✓	

- ❶ The ATO accepts work done to property can still be a repair, even where there is a minor or incidental improvement in efficiency caused by technological advancements and/or the use of modern materials. However, where the enhancement in efficiency is **more than** minor or incidental, the work done will constitute an improvement).
- ❷ Such expenditure will generally result in an improvement to the property and will, therefore, be capital in nature. This expenditure may be treated as follows, depending on the nature of the expenditure:
 - Where the item of property is a 'depreciating asset' and eligible for depreciation deductions under Division 40 – the expenditure may form part of the second element of the item's cost (refer to S.40-190) and depreciated accordingly; or
 - Where the item of property cannot be depreciated, the expenditure may form part of a Division 43 write-off (i.e., for capital works); or
 - The expenditure may form part of the cost base of the property for CGT purposes, where it cannot otherwise be deducted. Refer to Division 110.
- ❸ In these circumstances, the expenditure would be non-deductible capital expenditure. However, a claim would generally be allowed for depreciation under Division 40.
- ❹ This would only be a deductible repair provided it is a replacement of a worn out unit by a new unit of a similar design that simply restores its efficiency of function and is not an improvement.
- ❺ Where expenditure on an asset goes beyond a repair and is capital in nature, no deduction is allowed for the cost of 'notional' repairs (i.e., what it would have cost to simply repair the item).

However, where it can be shown that part of the expenditure was for 'repairs' and part was to improve the relevant property, an apportionment may be available. That is, where repair work is carried out at the same time as improvements, the cost of the repair work could be deductible if it can be segregated and accurately quantified from the remainder of the project.
- ❻ Such expenditure will not qualify as a repair **unless** the work:
 - remedies a defect in, damage to, or deterioration in, the relevant property; and
 - restores the efficiency of function of the property.

In addition, to qualify as a deductible repair, the expenditure must not be of a capital nature. However, where such expenditure does not qualify as a deductible repair, it may be deductible under S.40-755, where it relates to an eligible environmental protection activity.
- ❼ This expenditure is considered to be part of the cost of acquiring the relevant property and, therefore, capital in nature. However, on the basis of TD 98/19, initial repair expenditure would generally form part of the cost base of the item of property (i.e., asset) for CGT purposes.
- ❽ Refer to IT 180.

Claiming rental deductions – checklist for landlords

The following checklist summarises the more common expenses associated with a residential rental property and whether they are **generally** deductible or non-deductible. As a general rule, deductions are only available to the extent to which a property is rented or genuinely available for rent (i.e., where active and bona fide efforts are made to let the property).

Item	Deductible	Non-deductible	Comments
Accountant's fees – tax return preparation or lodgment costs, and tax advice	✓		Refer to S.25-5
Adjustments for rates/land tax (in favour of vendor) – related to purchase of property	✓		Refer to S.8-1 and <i>FCT v Morgan</i>
Advertising expenses, including AirBnB fees – looking for a tenant	✓		Refer to S.8-1
Agent fees/commission – for managing the property and collecting rent	✓		Refer to S.8-1
Bank charges – for accounts used to deposit rent receipts and to meet deductible outgoings (including interest expenses)	✓		Refer to S.8-1
Boarders' costs – where the tenant is a boarder in the domestic residence of the taxpayer, a proportion of rates, gas/electricity, food costs, etc. may be deductible. Generally, floor area is used as the basis of apportionment.	✓		Refer to S.8-1 and IT 2167
Body corporate fees: <ul style="list-style-type: none"> Administration or general purpose sinking fund contributions for general maintenance, repairs, etc. Special purpose levy contributions for improvements, initial repairs, etc. 	✓	✓	Refer to S.8-1, ATO guide 'Rental Properties' (NAT 1729, QC 55249)
Borrowing expenses – e.g., search fees, valuation fees, survey and registration fees, stamp duty, broker's commission, mortgage insurance, etc.	✓		Deductible over the shorter of five years or the term of the loan (refer to S.25-25)
Buildings and structural improvements – an annual write-off may be available for the cost of constructing: <ul style="list-style-type: none"> a rental property building; an extension, alteration or improvement to a rental property building; or a structural improvement (e.g., a sealed driveway or a fence). <p>Basically, construction must commence after 17/07/1985 (for residential buildings) or after 26/02/1992 (for structural improvements).</p>	 ✓ ✓ ✓		<p>Construction costs are generally written-off at the rate of 2.5% p.a. (or, in some cases, 4% p.a.).</p> <p>Refer to Division 43 and TR 97/25</p>

NTAA ITB 2019 e-Reference

Item	Deductible	Non-deductible	Comments
Cleaning	✓		Refer to S.8-1
Deposit bond fees		✓	Refer to ATO ID 2002/919 and ATO guide 'Rental Properties' (NAT 1729, QC 55249)
<p>Depreciation – only for assets that qualify as 'plant' or 'depreciable assets' (e.g., carpets, blinds, hot water service, air-conditioning, etc.).</p> <ul style="list-style-type: none"> • 'Previously used' assets (e.g., second-hand assets) • New assets <p>New restrictions with regards to depreciation claims for 'previously used' residential rental property assets generally apply from 1 July 2017.</p> <p>A depreciable asset used in a residential rental property is subject to the new restrictions from 1 July 2017 if it is acquired <i>after</i> 7:30pm on 9 May 2017 ('Budget night').</p> <p>In addition, assets held as at Budget night will also be subject to the new rules where it was used (or installed ready for use) for <i>any</i> purpose during the 2017 or earlier income year <u>and</u> no depreciation deduction was available during the 2017 income year.</p>	✓	✓	<p>Where deductible, cost is written-off over the effective life, in a low-value pool, or using the \$300 rule (refer to Division 40)</p> <p>Refer to S.40-27 (from 1 July 2017)</p>
Gardening/lawn mowing	✓		Refer to S.8-1
Initial repairs (i.e., repairs to problems that existed at the time the property was purchased)		✓	Refer to TR 97/23
<p>Insurance premiums:</p> <ul style="list-style-type: none"> • sickness/accident, building, fire, burglary, public liability, loss of rent • life and trauma 	✓	✓	Refer to S.8-1
<p>Interest expenses on loan, to the extent the loan is used:</p> <ul style="list-style-type: none"> • to purchase a rental property • to buy land to build a rental property • to buy plant for a rental property • for repairs to a rental property • for renovations to a rental property • for paying other rental-related expenses 	✓ ✓ ✓ ✓ ✓ ✓		Refer to S.8-1, <i>Steele v FCT</i> (99 ATC 4242) and TR 2004/4
Land tax	✓		Refer to S.8-1

NTAA ITB 2019 e-Reference

Item	Deductible	Non-deductible	Comments
Lease preparation, registration, stamping	✓		Refer to S.25-20
Legal costs for: <ul style="list-style-type: none"> recovering unpaid rent, seeking damages for breach of agency agreement, reviewing credit worthiness of proposed tenant to buy or sell the property, to defend title to the property, to oppose a neighbour's building application 	✓	✓	Refer to S.8-1 Refer to S.8-1
Mortgage discharge expenses	✓		Refer to S.25-30
Mortgage insurance – treated as borrowing expense (refer above)	✓		Refer to S.25-25
Penalty interest on early loan repayment	✓		Refer to S.8-1, S.25-30 and to TR 93/7
Pest control	✓		Refer to S.8-1
Postage and stationery	✓		Refer to S.8-1
Quantity surveyor report (cost estimate) – for Division 40 or Division 43 purposes	✓		Refer to S.25-5
Rates (council and water)	✓		Refer to S.8-1
Repairs and maintenance (excluding initial repairs)	✓		Refer to S.8-1, S.25-10, and TR 97/23
Telephone calls and rental – related to dealing with real estate agents, tenants, plumbers, and other rental property matters	✓		Refer to S.8-1
Travel expenses: <ul style="list-style-type: none"> to prepare property for incoming tenants to collect rent to inspect the property during, or at the conclusion of, a tenancy to maintain/undertake repairs to property to inspect property prior to purchase to inspect property prior to settlement to purchase property to undertake improvements to property 		✓ ✓ ✓ ✓ ✓ ✓ ✓	Refer to S.26-31 (from 1 July 2017)