DLK ADVISORY

RENTAL PROPERTY DEDUCTIONS: WHAT CAN I CLAIM?

PART 2

Investment property owners should heed the ATO's warning that it will target mistakes with rental property deductions this tax time – especially with over-claimed interest. In our last instalment on rental deductions, we looked at the rules for purchase costs, repairs and improvements. Now, we consider expenses associated with a loan to buy the property.

The general rule is that you can deduct interest expenses on a loan you've taken out to buy the property to the extent the property is used for generating rental income. You can generally deduct these interest expenses in the year you incur them. You can also deduct interest expenses on loans to fund repairs and renovations, or to purchase depreciating assets.

But beware: traps arise when you start using the property for even minimal private purposes or you use part of the loan for private purposes (eg to buy a car). In these cases, you'll need to keep records to show the different uses and you'll only be able to claim a portion of your interest expenses.

What about other loan costs? The good news is you can deduct costs like loan establishment fees, mortgage brokerage fees and costs of other necessary services that are directly related to taking out the loan for the rental property (eg title searches).

In some cases, you'll need to carefully distinguish between costs of ***taking out the loan***, and costs of ***buying the property***:

- Legal services of preparing and lodging mortgage documents are deductible as loan costs, but conveyancing fees for purchasing the property are not.
- Similarly, any stamp duty on registered mortgage is deductible, but stamp duty on the purchase of the roperty is not.

While you can't claim any premiums for insurance you take out to pay out the loan in the event of your death, disablement or unemployment, you can deduct any lender's mortgage insurance. Watch out for special timing issues. Unless your total deductible loan costs are below $100, you'll need to claim these costs over five years (or the term of the loan, whichever is the shorter period). And as with interest expenses, you can only deduct a portion of your loan costs if the loan will also be used partly for private purposes.

Whether you're planning finance for a new investment property or already paying off an existing loan, talk to us for expert assistance in planning tax-effective rental property investments and getting your annual deductions right.

CONTACT

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