DLK ADVISORY

## TAX TIME FOCUS ON RENTAL PROPERTIES


Just as with previous income years, tax time 2022 is no different, the ATO has again cited rental property income and deductions as one of the 4 key focus areas, along with record-keeping, work-related expenses, and capital gains from crypto assets/properties/shares. The focus is no surprise considering that a recent ATO Random Enquiry Program found that 9 out of 10 tax returns that reported rental income and deductions contain at least one error.

The ATO warns taxpayers that it receives rental income data from a wide range of sources including share economy flatforms, rental bond authorities of various States, property management software providers, and State and Territory revenue and land title authorities. This information will then be matched to the information provided by taxpayers on their tax returns meaning that there is no hiding income from the all seeing eye of the ATO.

One of the income categories for rental properties that may be important for this year and that many landlords may not know to include is insurance payouts. With the La Nina weather event causing flooding along large parts of the country, if you obtained insurance payments in relation to loss of rental income or repairs, that would need to be included.

For those renting out their investment property, their home, or part of their home on a short-term basis on digital sharing platforms such as AirBnB, that income will need to be included, and any expenses will need to be apportioned according to the space rented out. There may also be CGT consequences upon selling the property so taxpayers will need to be careful.

Joint owners of properties will need to ensure that their income and deductions are in line with the rental property's ownership interest, which generally depends on legal documents at the time of purchase.

As for expenses, the ATO notes that while some expenses such as rental management fees, council rates, repairs, interest on loans, and insurance premiums can be deducted in the year its incurred. Other expenses, such as borrowing costs, capital works, and some depreciating assets can only be claimed over a number of years. Capital works include replacing a roof or a new kitchen or bathroom. Depreciating assets such as dishwashers or ovens over $300 will need to be claimed over their effective life.

In addition, taxpayers should also be aware that if they redraw on a rental property loan for private expenses or to purchase a private asset, the amount of interest relating to the loan for the private expense or asset cannot be claimed as a deduction. There may also be other instances where a deduction in relation to a rental property will be denied such as when a property is advertised significantly above reasonable market rate, or where unreasonable restrictions are imposed on potential tenants.

Taxpayers that have sold a property during the 2021-22 income year will need to be cautious as capital gains is also one of ATO's focus areas for this year. Those that have rented out a part of their property may only be entitled to a partial main residence exemption depending on the amount of space rented out.

**CONTACT**

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