Claimable Expenses

For Landlords

Landlords: What expenses can you claim?

Many landlords aren't aware of the claims they can make on Property Management fees and other expenses associated with owning an investment property.

We've put together this list of expenses that can be claimed for in order to help you gain the best return from your investment.

Expenses you can claim

Insurance and rates

You can claim back the full cost of insuring your rental property and the council rates associated with the ownership of the property.

Interest

You can claim the interest charged on money you've borrowed to buy your rental property. However, if you borrowed part of the money for another purpose, or topped up the mortgage for another purpose, e.g. to consolidate debt or to buy the house you live in, you can only claim the interest that relates directly to the rental.

Fees and commission

You can claim 100% of the fees or commission paid to property managers who collect the rent, maintain your rental, or find tenants for you.

Fees paid to an accountant

You can claim the fees charged by an accountant for:

- Your accounts to be managed
- Tax returns to be prepared
- Advice

But not for any costs involved in the initial setting up of your rental property.

Repair and maintenance costs

You can claim back the costs for any repairs to the property or general maintenance. However, if you're doing the work yourself you can only claim for materials and not your own time.

If the work is more of an improvement to the property rather than a repair, then you can't claim the cost as an expense. The distinction between repairs and improvements can be tricky, so if you're unsure whether work done on your property is repairs or maintenance we suggest you talk to a Chartered Accountant.

Other

Other costs you may be able to claim for include:

- Body Corporate Fees
- Valuation Fees
- Water Rates (only if paid for by the landlord)
- Gifts for tenants
- Travel associated with managing your property
- Legal fees under $10,000 in any given year

You can't claim deductions for capital expenses, private expenses, or expenses that do not relate directly to your rental property.

Expenses you can't claim

You can't claim deductions for capital expenses, private expenses, or expenses that do not relate directly to your rental property.

Capital expenses are the costs of buying a capital asset or increasing its value, for example the cost of buying the property and making improvements.

Private expenses are things you buy or pay for that are for your own benefit, rather than to generate rental income.

Expenses you can't deduct from your rental income in your tax return:

- The purchase price of a rental property
- Any capital portion of mortgage repayments
- Interest on money you borrow for any purpose other than financing a rental property
- Costs associated with any additions or improvements to the property
- Costs associated with repairing or replacing any damaged part of the property, if that work increases the property's value

Legal fees

You can't claim legal fees charged as part of buying or selling the property over $10,000 in any given year, with the only exception being if you are in the business of renting properties. To find out if you are in the business of renting properties, please contact your tax agent.

Goods and Services Tax (GST)

GST is not charged on residential rent and this means you don't show rental income in your GST return.

Depreciation

Depreciation is an allowance you can claim to cover the costs of wear and tear and general ageing of furniture and fittings you've bought for your rental property. You can combine assets worth less than $5,000 rather than depreciating them separately.

You cannot claim depreciation on the properties' land or buildings. However, this wasn't always the case.

Before April 2011, you could claim depreciation on the buildings. If you did this, and you sell the rental for more than its depreciated value, the depreciation you claimed for is taxable. This is a complex area, so we recommend you talk to a tax agent.

Other exceptions

If the property isn't rented for the full year, isn't occupied by tenants, isn't available to be rented out at any stage during the year, or is only available for rent for part of the year then you can't claim the full year's ongoing costs (such as rates, insurance and interest).

What about insulation?

In July 2016 new minimum standards around insulation in rental properties came into force, however, as a landlord do you know for sure if you can claim back the expenses incurred by complying with these new standards?

The Inland Revenue Department (IRD) have confirmed that any new insulation would still be considered a capital expense and therefore not tax deductible. However, they added that the tax treatment for a property where existing insulation needs to be upgraded to meet new standards should be considered on a case by case basis, considering the following points:

- Where a building already has insulation and, in order to meet the minimum standards, the owner is required to 'top-up' the insulation provided, where this 'top-up' uses the same or similar standard of material as is already being used, then the 'top-up' is likely to be deductible as repairs and maintenance.
- If, while doing this 'top-up' the owner takes the opportunity to install new insulation into another part of the building (e.g. adds insulation under the floor and the same time as topping up the insulation in the ceiling), the cost of the "top-up" would likely be deductible as repairs and maintenance. However, the new insulation constitutes an improvement and there would be no deduction allowed for the cost of installing the new material.
- If a building owner elects to use an improved standard of insulation – say to change from 'Batts' to a blanket type of insulation – then it is possible the new insulation in the ceiling will not be a repair but a new asset and part of the building. However if the insulation initially used in the ceiling was no longer available, and was topped up with material that is reasonably similar (or a more modern equivalent), then perhaps the 'top-up' may be likely regarded as repairs and maintenance.

If the distinction between what insulation you can or cannot claim for is still a grey area after reading the points above, we suggest you talk to a Chartered Accountant to ensure you comply with your IRD requirements.

The information contained in this document is of a general nature and has been designed as a guide for landlords.
All information is correct at the time of printing (September 2017), however, Ray White (Real Estate) Limited recommend that all investors seek the advice of a Chartered Accountant to ensure they receive the most up to date information regarding their investment portfolio.

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