

Q *I am going to do some renovation on my rental property, what can I claim against my income tax?*

A It is always a good idea to undertake regular renovation to improve the rental attractiveness and capital values of your property.

Under Australian taxation rules you will always be entitled to claim any expenses incurred in renovating or improving the property either as a full income tax deduction or as a write off over a period of years as depreciation.

The main issue is to establish if the renovation is a maintenance issue or improvement.

Where you simply fix something in the property that is worn or damaged, with something of a similar nature then this would be classed as a repair.

This would include painting, gardening, broken item replacement, plumbing repairs and general maintenance.

These costs can be written off in full in the year they are incurred and reduce your income tax immediately.

Other expenses that change or improve the property will be allowed as a annual depreciation amount based upon the expected life of the item. The life expectancy is established by the Australian Taxation Office and advised each year.

This includes such items as carpets, dishwashers and even structural changes and building additions.

Some claims may be over a short period of 2 years all the way through to structural changes and additions which are claimed over a 40 year period.

In determining the merit of spending on improvements or renovation, I normally look to recoup the interest cost of any capital spent. If you cannot expect to receive additional rental to justify the expense, then it may be worth persevering with the property in its current state.

For example if the interest rate is 6%pa and you intend to spend A\$10,000 in improvements, then you would hope to expect at least an additional A\$600 per year in rent, or A\$11.54 a week over and above the current rent.

If the repairs are compulsory, in order to keep the property in a satisfactory rental state, then this rule would not apply and you should undertake the necessary costs to keep the property in order.

You would also hope to add value to your property by spending on renovations or improvements, so you may receive an additional benefit from a lift in the selling price if you are looking to sell, or equity that may be available to assist with your next property purchase.

It is always worth keeping your property in good order to ensure a happy and continual tenant so make sure you undertake all necessary repairs. The tax man will always allow a claim one way or another, so there is no excuse not to look after your property.

Steve Douglas is the co-founder and Managing Director of Australasian Taxation Services (ATS), established in Singapore in 1995. ATS provides specialist taxation services to people of any nationality investing in Australian property, as well as Australian expatriates living overseas. Areas of specialisation include the Australian taxation aspects of property investment, as well as expatriate and migration planning.