RICHARDS FINANCIAL

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RENTAL INCOME AND YOUR TAX RETURN

The income that you get from your Airbnb rent will normally be deemed assessable, given that the property is advertised to the public online. The ATO may attempt to argue you're not charging a commercial rent, particularly if you're making a loss on your Airbnb venture.

Claiming Deductions

If you're a landlord for a rental property with assessable income, you may be entitled to tax deductions for expenses incurred. These expenses fall into three categories:

- expenses directly associated with the rented area can be deducted in full
- expenses related to shared areas need to be apportioned
- expenses related to the host's private area only cannot be deducted.

Expenses that may be deductible in full include:

- depreciation of furniture used in the rented room
- commercial cleaning of the rented area
- repairs and maintenance
- food, such as breakfast provisions, made available to the guest
- professional photography for the listing
- service fees and commissions charged by Airbnb.

Partially deductible expenses

Where there are expenses that relate to the entire property, you'll need to apportion them between the rented area and the area you use privately. This is most often done based on the floor area used for renting compared to the total floor area of the property.

Some examples of expenses that relate to the entire property that may be apportioned include:

- mortgage interest or rent;
- council rates;
- utilities; and
- insurance.

Expenses relating to shared areas

Expenses that relate to shared areas can be apportioned based on access. So, if the renter and the landlord both have equal access to, say, the lounge and the kitchen, you can deduct 50% of these expenses.

Examples of expenses that relate to shared areas only include:

- depreciation on furniture and appliances located in shared areas (such as sofas, TV's, kitchen equipment)
- internet, phone and cable TV costs

Claiming losses

If rental expenses exceed rental income, you'll make a loss. The excess of rental expenses over rental income (the loss) can effectively be claimed against your other income such as salary. This is known as negative gearing.

The rent charged *must* be considered to be arm's length commercial rent – otherwise you cannot claim for negative gearing

Where you rent out a whole property, expenses are only deductible where an area of the house is either actually rented out, or available for rent. For example, where a property is *available for rent*

for 180 days a year then only the portion of rental expenses that were incurred over that 180-day period are deductible.
Where you rent out only part of the property (such as a bedroom with access to shared areas in the property where you live), you can only claim expenses for the period the room is actually rented. So, if you only rented the room for two weeks in a year, you can only claim the proportion of expenses for the rented part of the property which related to that two week period. This is to stop you claiming deductions for periods where the room might be used for private or domestic purposes, even though it was notionally available for rent.

Capital gains tax
Generally, you don't pay CGT if you sell the home you live in (under the main residence exemption). However, if you've used any part of your home to produce income – for example, by renting out part or all of it – you're generally not entitled to the full exemption.
To work out the capital gain that is not exempt, you need to take into account a number of factors, including:

- proportion of the floor area that is set aside to produce income
- period you use it for this purpose
- whether you're eligible for the 'absence' rule (see Treating a dwelling as your main residence after you move out)
- whether it was first used to produce income after 20 August 1996.

This gain will also usually qualify for the 50% Capital Gains Tax discount.
You can work out the proportion of your capital gain that is exempt from capital gains tax using the Property exemption tool on the ATO website.

GST
Good and services tax (GST) doesn't apply to residential rents, so you're not liable for GST on the rent you charge, and can't claim GST credits for associated costs. This is the case even if your turnover exceeds the GST threshold of $75,000.

<u>Business or Passive Rental income?</u>
Rental income is generally passive in nature and rental activities do not normally amount to a business under general principles regardless of whether the property is commercial or residential in nature and regardless of the platform used to rent out the property. Having said that, in some limited cases it may be possible for some taxpayers to argue that they carry on a business under general principles rather than merely deriving passive income.
The question of whether a business is carried on is a question of fact and depends on the circumstances of each case.
The courts have held that the following indicators are relevant:

- whether the activities have a significant commercial purpose or character
- the existence of a profit-making purpose and a prospect of profit
- the complexity and magnitude of the undertaking
- whether the activities involve a degree of repetition and regularity
- the size and scale of activities
- whether the activities are systematic and organised, and
- the amount of time, effort and capital employed.

Whether a business is carried on must be answered based on a wide survey and the overall impression of the activities. No one indicator is decisive. They must be considered in combination and as a whole.

In determining whether you carry on a business of letting residential properties, some of the factors that the Commissioner may consider can include:

- the total number of residential properties that are rented out
- the average number of hours per week you spend actively engaged in managing the rental properties
- the skill and expertise exercised in undertaking these activities[9], and
- whether professional records are kept and maintained in a business-like manner.

Generally, it is more difficult for an individual to demonstrate that they are carrying on a business of property investing than it is for a company. The receipt of income by an individual from the letting of property to a tenant, or multiple tenants, will not typically amount to the carrying on of a business as such activities are generally considered a form of investment rather than a business.

Business vs Passive income

Business	**Passive Income**
GST Threshold applies – must register at $75,000 turnover per annum	No GST on residential rental property
ABN required	ABN not required
Must pass other tests to claim losses against normal income	Negative gearing available
CGT Small business concessions available	No CGT small business concessions available
Depreciation – small business thresholds available	Depreciate all assets over $300 (per owner)
Second hand goods / furniture deductible	Second hand goods / furniture not deductible
Can claim travel expenses	No travel expenses
No Covid19 assistance available from state or federal government • Covid Grant (NSW) • Cashboost if pay wages • Jobkeeper to business participant	No Covid19 assistance available from state or federal government

Useful ATO links:

ATO guide to rental properties
https://www.ato.gov.au/Forms/Rental-properties-2019/?page=2#Introduction
ATO guide to record keeping for small business
https://www.ato.gov.au/General/Other-languages/In-detail/Information-in-other-languages/Record-keeping-for-small-businesses/
Renting out part of all of your home
https://www.ato.gov.au/General/Property/Your-home/Renting-out-part-or-all-of-your-home/
ATO – the sharing economy and tax
https://www.ato.gov.au/general/the-sharing-economy-and-tax/

Software for keeping track of income and expenses

- Wave – free
- Quickbooks Online
- Xero
- MYOB
- Excel spreadsheets