

Lenders Mortgage Insurance fee

Local government expenses

You can claim a deduction for local government rates and levies for the period your property is rented or is available for rent.

Where you fail to pay local government rates and charges for the property by the due dates and you become liable to pay interest charges under the relevant state law, you can claim the late interest charges as a tax deduction. It is not excluded by penalty provisions of the tax law. We consider the imposition of interest in these circumstances is not a pecuniary punishment for a breach of the Local Government Act but an administrative charge recognising the time value of money. The use of a time factor in the calculation is designed to compensate the local government for the full amount of rates not having been paid by the due date. The interest payment is accordingly deductible to the taxpayer in the year in which it is incurred.

If the local council in which your rental property is located imposes an annual emergency services levy, you can claim a deduction for that amount. An emergency service levy is a charge imposed by a local council on property owners to meet some of the costs for the provision of emergency services by the Country Fire Authority, the Metropolitan Fire Authority, the Police Force and other agencies. It is calculated based on the value of the land and charged annually. We consider it is an ongoing expense incurred in the course of earning your rental income and is therefore a deductible expense.

EXPENSES DEDUCTIBLE OVER A NUMBER OF INCOME YEARS

There are three types of expenses you may incur for your rental property that may be claimed over a number of income years:

- borrowing expenses
- amounts for decline in value of depreciating assets
- capital works deductions.

Each of these categories is discussed in detail in the following pages.

Borrowing expenses

These are expenses directly incurred in taking out a loan for the property. They include:

- loan establishment fees
- title search fees charged by your lender
- costs for preparing and filing mortgage documents
- mortgage broker fees
- stamp duty charged on the mortgage
- fees for a valuation required for loan approval
- lender's mortgage insurance billed to the borrower.

The following are not borrowing expenses:

- insurance policy premiums on a policy that provides for your loan on the property to be paid out in the event that you die or become disabled or unemployed
- interest expenses
- stamp duty charged on the transfer of the property
- stamp duty incurred to acquire a leasehold interest in property (such as an ACT 99-year Crown lease).

If your total borrowing expenses are more than \$100, the deduction is spread over five years or the term of the loan, whichever is less. If the total deductible borrowing expenses are \$100 or less, they are fully deductible in the income year they are incurred.

If you repay the loan early and in less than five years, you can claim a deduction for the balance of the borrowing expenses in the year of repayment.

If you obtained the loan part way through the income year, the deduction for the first year will be apportioned according to the number of days in the year that you had the loan.