

Fact sheet: Rental Property deductibility table — Residential

Expenditure	Analysis	Tax Treatment	Reference
Purchase of rental property	Split land, rental building and chattels to utilise available depreciation claims	Land — Capitalise and do not depreciate Building – Capitalise and do not depreciate Chattels — Capitalise and depreciate (default 40% DV)	MTG ¶13-410
Accounting fees for setting up the business, eg investigating the viability of the business	May be treated as part of the cost of the rental property	Capitalise and do not depreciate	MTG ¶15-178
Legal fees for buying and selling a rental property	Legal fees	If total annual legal expenses are less than \$10,000, then conveyancing cost is deductible, otherwise capitalise and do not depreciate. Note the \$10,000 concession only applies where legal costs are incurred in deriving assessable income or in the course of carrying on a business for the purpose of deriving assessable income. Where a vendor only has one rental property in their portfolio, the sale of that property may not meet these requirements for the concession to apply.	MTG ¶10-680
Legal fees incurred in arranging a mortgage to finance the rental property Legal fees for preparing a tenancy agreement	Legal fees	Deductible expense	MTG ¶10-680
Cost for a registered valuer to prepare a valuation report	Valuation fees	Deductible expense	MTG ¶10-182
Expenditure on a rundown property to improve it substantially and make it fit for renting out	May be treated as dilapidation expenses and therefore as part of the cost of the rental property	Capitalise and do not depreciate	MTG ¶13-410
Expenditure on residential property to meet Healthy Homes standards	Either repairs or improvements to rental property	Deductible if repairs or minor additions or alterations that do not change the character of the building. Capitalise and do not depreciate for costs that are part of the building or improve the building.	MTG ¶13-410
Taking down a badly deteriorated wall and putting a conservatory in its place	Improvements to rental property	Capitalise as part of the building and do not depreciate	MTG ¶13-410
Bank administration fee for the mortgage	Loan fee	Deductible expense	
Mortgage principal repayments	Reduces mortgage balance	NOT deductible	
Rates on rental property	Rates	Deductible expense	MTG ¶7-500
Insurance on rental property	Insurance	Deductible expense	MTG ¶7-500
Mortgage repayment insurance for mortgage on rental property	Insurance	Deductible expense	MTG ¶10-182

Interest paid on funds borrowed to acquire the property	Interest	Deductible expense until end September 2021 From 1 October 2021 property owners will not be able to claim interest on residential investment property acquired on or after 27 March 2021. Interest deductions for residential investment property acquired before 27 March 2021 will be phased out over the following 4 income years. Note some exemptions including for "new builds" and "build to rent" large scale developments do apply.	MTG ¶7-521 MTG ¶7-367
Interest on money borrowed to acquire a private asset apart from the rental property, with rental property being used as security for the loan	Drawings	Private Expenditure, NOT deductible	MTG ¶7-521
Accounting fees for preparing rental income statements Accounting fees for preparing tax returns	Accounting	Deductible expense	MTG ¶10-920
Agent's fee to collect the rent and maintain the property Commissions paid to agent to find tenants for the property	Agent's fees & commission	Deductible expense	
Amounts received for bond and passed on to the Tenancy Bond Centre	Received from tenants and held in trust by the Tenancy Bond Centre per rental agreement	NOT Income	
Amounts received from the Tenancy Bond Centre for payment of damages and rent	Rental Income	Return in the income year it is received from the Tenancy Bond Centre	
Depreciation allowance for wear and tear and ageing of the building and its contents	Depreciation	Depreciation as listed throughout this table (note a depreciation claim is not available for residential buildings).	MTG ¶13-410
Expenses incurred while the property is empty. Rental property is available to be rented out.	Various expenses as detailed above	You may be required to prove the property has been advertised as available to be rented. In most cases, these expenses will be fully deductible	MTG ¶13-044
Fair and reasonable portion of the house outgoings to conduct the rental business from your home	Home Office Expenses	If you use your home to conduct a rental business, you may be entitled to a partial deduction for outgoings which relate to the use of the home for business activities. These include — <ul style="list-style-type: none"> • heating • lighting • rates • insurance • mortgage interest • house and contents insurance • repairs and maintenance • telephone rental, and • depreciation. 	MTG ¶10-530

		<p>The portion of outgoings deductible is based on the area used for business, expressed as a percentage of the total area of the home —</p> $\frac{\text{Area used for business purposes}}{\text{Total area of home}}$ <p>It is not necessary to set aside a specific room for business purposes, or for your home to be physically changed to suit the business.</p> <p>However, where a separate room is not set aside, it may be appropriate to apportion the outgoings based on criteria such as the amount of time spent on income-earning activities at home as well as the area used.</p> <p>Where a separate area is set aside for business, taxpayers can choose to use the square metre rate method.</p>	
Redecorating expenses or other maintenance, and the property is therefore temporarily unavailable for letting	Repairs & Maintenance	Deductible expense	MTG ¶13-044
Rent received in advance	Rental Income	Return in the income year it is received	MTG ¶15-232
Replacing a broken shower head Plastering and painting crack in a wall Replacing a blown element in a hot water cylinder Redecorating the property to return it to the state it was in when you purchased it for use as a rental property	Repairs & Maintenance	Deductible expense	MTG ¶10-840
Using your motor vehicle to carry out a property inspection Using your motor vehicle to do some repairs on the property	Motor Vehicle Expenses	<p>If you use your own vehicle, you may be able to claim some vehicle running costs. There are two options for claiming your motor vehicle expenses:</p> <ul style="list-style-type: none"> • you can either use Inland Revenue's kilometre rates, or • claim the percentage of total running costs and depreciation related to your rental activity, based on your logbook. <p>If using the kilometre rates, you need to record the date, distance travelled and reason for each business trip.</p> <p>If claiming the percentage of total running costs and depreciation, keep a logbook for three months</p>	MTG ¶10-710

	every three years. Record the date and reason for each business trip in the logbook. You can use the difference between the odometer reading at the start and end of the three months to work out the percentage of vehicle expenses claimable.	
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