



*A guide to all those expenses you may be entitled to
claim against your Rental Property Income*

Perriam & Partners Ltd
Chartered Accountants and Business Advisors

Unit 4, 35 Sir William Pickering Drive ♦ Canterbury Technology Park ♦ PO Box 20-222 ♦ Christchurch
Telephone (03) 358 3108 ♦ Facsimile (03) 358 3120 ♦ Email: firstname@perriams.co.nz

Expenditure	Analysis	Tax Treatment
Purchase of rental property	Split land, rental building and chattels to maximise depreciation claim	Land – Capitalise and do not depreciate Building – Capitalise and depreciate (3% DV) Chattels – Capitalise and depreciate (average 22% DV)
Accounting fees for setting up the business, eg investigating the viability of the business	Treated as part of the cost of the rental property	Capitalise and depreciate (3% DV)
Legal fees for the purchase of the rental property	Treated as part of the cost of the rental property	Capitalise and depreciate (3% DV)
Legal fees incurred in arranging a mortgage to finance the rental property Legal fees for preparing a tenancy agreement	Legal fees	Fully deductible expense
Cost for a registered valuer to prepare a valuation report	Valuation fees	Fully deductible expense
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 depreciate (3% DV)
Taking down a badly deteriorated wall and putting a conservatory in its place	Improvements to rental property	Capitalise as part of building and depreciate (3% DV)

Bank administration fee for the mortgage Bank Fees	Loan fee	Fully deductible expense
Interest paid on funds borrowed to acquire the property	Interest	Fully deductible expense
Mortgage principal repayments	Reduces mortgage balance	NOT deductible
Rates on rental property	Rates	Fully deductible expense
Insurance on rental property	Insurance	Fully deductible expense
Life Insurance if it is a requirement of the bank in order to obtain funding	Insurance	Fully deductible expense
Cleaning and Rubbish removal	Repairs and Maintenance	Fully deductible expense
Telephone costs if you manage the property	Telephone and Tolls	A portion of your home telephone costs and/or cellphone costs
Property and Investments Magazines and Seminars	Continuing Education	Fully deductible expense
Mortgage repayment insurance for mortgage on rental property	Insurance	Fully deductible expense
Interest on money borrowed to acquire an asset apart from the rental property, with rental property being used as security for the loan	Drawings	Private Expenditure, NOT deductible

<p>Agent's fee to collect the rent and maintain the property</p> <p>Commissions paid to agent to find tenants for the property</p>	Agent's fees & commission	Fully deductible expense
<p>Replacing broken shower head</p> <p>Plastering and painting crack in a wall</p> <p>Replacing a blown element in a hot water cylinder</p> <p>Redecorating the property to return it to the state it was in when you purchased it for use as a rental property</p>	Repairs & Maintenance	Fully deductible expense
Redecorating expenses or other maintenance, and property is therefore temporarily unavailable for letting	Repairs & Maintenance	Fully deductible expense
Advertising in newspaper to obtain tenants or tradesman	Advertising	Fully deductible expense
General expenses normally the classification given to small items of expenditure (say less than \$25) for items such as stamps stationery etc.	General Expenses	Fully deductible expense

<p>The costs of inspecting your property</p>	<p>Travel and Inspection costs.</p> <p>The costs of inspecting your property are generally tax deductible providing they are associated with the ongoing maintenance of the tenancy – as opposed to the actual sourcing of an investment property (see below).</p> <p>Costs of travel and inspection <i>when properties are being acquired</i> are not fully tax deductible. These costs are associated with the acquisition of the property and must be added to the capital cost of acquisition.</p>	<p>Fully deductible expense or treated as a capital cost.</p>
<p>Using your motor vehicle to carry out a property inspection</p> <p>Using your motor vehicle to do some repairs on the property</p>	<p>Motor Vehicle Expenses</p>	<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"> ▪ Use the IRD mileage rates for up to 5,000 km of rental activity trips: <ul style="list-style-type: none"> □ 70c per km up to 5,000 km <p>You need to record the date, distance traveled and reason, for each business trip</p> ▪ Claim a percentage of the running costs of your motor vehicle related to your rental activity, based on your log book: <p>You will need to keep a logbook for three months every three years. Just record the business trips. You will need to record the date and reason for each 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</p>
<p>Accounting fees in relation to looking at the feasibility of the purchase of the property</p>	<p>Accounting</p>	<p>Not deductible</p>

<p>Accounting fees for preparing rental income statements</p> <p>Accounting fees for preparing tax returns</p>	<p>Accounting</p>	<p>Fully deductible expense</p>
<p>Expenses incurred while property is empty. Rental property is available to be rented out.</p>	<p>Various expenses as detailed above</p>	<p>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</p>

<p>Fair and reasonable portion of the house outgoings to conduct the rental business from your home. To justify a claim for home office expenses you will need to prove that you are actively conducting the business from home. The Inland Revenue Department may be unlikely to accept that one passively held investment property justifies a claim for home office expenses.</p>	<p>Home Office Expenses</p> <p>If you have your property professionally managed then there may be some difficulty in justifying this claim.</p>	<p>If you use your home to conduct a rental business, you <u>may</u> be entitled to a partial deduction for the outgoings, which relate to the use of the home for business activities. These include:-</p> <ul style="list-style-type: none"> ▪ heating ▪ lighting ▪ rates ▪ insurance ▪ mortgage interest ▪ house and contents insurance ▪ repairs and maintenance ▪ telephone rental ▪ depreciation <p>The portion of outgoings deductible is based on the area used for the 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 absolutely necessary to set aside a specific room for business purposes, nor is it necessary for your home to be physically changed to suit the business.</p> <p>However in cases 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 <u>as well as</u> the area used.</p>
<p>Depreciation allowance for wear and tear and ageing of the building and its contents</p>	<p>Depreciation</p>	<p>Depreciation as listed throughout this table</p>

Expenses that you can't deduct for tax purposes:

For tax purposes, you cannot deduct capital or private expenses from your rental income. Capital expenses are costs you incur to increase the value of your capital asset. Private expenses are incurred for your own benefit, and are not connected with producing taxable income. All of these things are non-deductible expenses:

- Legal fees incurred as part of buying or selling the property
- The principal portion of your mortgage repayments
- Interest on money which has been borrowed for some purpose other than financing the rental property, even if you use the rental property to secure such the loan
- The cost of repairing or replacing any damaged part of the property, if the repairs or replacement make improvements to the property which increase its value
- Real estate agents fees
- The cost of making any additions or improvements to the property

However, you can capitalise the cost of the last three items and claim depreciation on them as part of the cost of the property.

Rental Income	Analysis	Tax Treatment
Rent received in advance	Rental Income	Return in the income year it is received unless a company or trust which you would apply the accruals rules
Amounts received for bond and passed on to the Tenancy Bond Centre	Received from tenant and held in trust by 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
Rent Arrears	Rental Income	Return in the income year it is received unless a company or trust which you would apply the accruals rules

Retention of Business Records

Please note that the Inland Revenue Department requires all business records to be retained for a minimum period of **seven years**.

What must be kept?

- Business records, which must be kept, include documents which provide a record of your business transactions or which enable these transactions to be traced and verified through the accounting system from start to finish.
- These include sales invoices, receipts, cash register tapes, banking records, creditors' invoices, wage records, cheque butts and cash books.

Workpapers

Workpapers are also desirable as they assist in the preparation of proper accounting records for the determination of your business's income tax liability.

Inland Revenue Department Audits

An audit is basically a check of the tax records of businesses to make sure that your returns have been filled in correctly and that you have paid the correct amount of tax. An audit can cover Income Tax, GST and PAYE returns. After an audit you may be entitled to a refund or have to pay more tax.

As part of our completing your annual financial statements and tax returns, we ensure where possible, that your exposure to any audit is minimised.

As you are in business you can expect to be audited at some stage.

Putting Your Tax Affairs Right

If you find that you've made a mistake on a return you've sent in, please contact **our office** as soon as possible. Telling Inland Revenue what is wrong with your tax affairs before they find out is called a voluntary disclosure.

The advantages of doing this are that:

- You will not be prosecuted in court
- The penalty tax charged is far lower, along with "use of money" interest charges.

You can make a voluntary disclosure any time before being told that you will be audited or investigated.

Please call us so that we can suggest how to correct any shortpaid tax, so as to minimise any resulting inquiry from the Inland Revenue Department.

When are your business Tax Returns due to be filed with the Inland Revenue Department?

The financial year ends on the 31 March. Following this date you have until 31 March the following year to have our office prepare and file your tax returns with the Inland Revenue Department. The reason for the extended time period is that you are now linked to our Inland Revenue Department agency listing and so an automatic extension of time is granted.

At the end of each financial year you should visit our website – www.perriams.co.nz and print off and complete our rental checklist plus a personal checklist for each taxpayer we are preparing the annual accounts for. The checklists have been designed to assist you in putting together the necessary information to enable us to prepare your end of year reports. The more time you attribute to completing this checklist the less time is generally required by our staff members to prepare your annual reports.

Once you have completed the checklist you should then make a time to meet with one of our staff members who will review your checklist and any other information with you.