Australian Government
Australian Taxation Office

# Rental properties
## Damaged or destroyed property

## Types of income

### Insurance payouts

Insurance payouts for loss of rental income and repairs need to be included in your income.

### Disaster assistance payments

Most one-off assistance payments you receive from the government, charities or community groups are tax-free. To understand the types of payments and how they affect your tax, check with us at: **ato.gov.au/Assistance**

### Replacing depreciable assets

If the insurance payout you received for your depreciating asset is more than its written down value you need to include the balance as income. Where the payout is less you can claim a deduction for the difference.

## Expenses

If you use an assistance payment or money from a relief fund to purchase items for your rental property, the normal conditions for deductibility apply.

| Event | Classification | Example | Claim: old asset (destroyed) | Calculation for expenditure |
|---|---|---|---|---|
| Replacing an entire structure that was fully or partially damaged or destroyed | Likely to be **CAPITAL WORKS** | Replacing **ALL** the fence, not just the damaged portion or replacing all kitchen cupboards | This may result in a capital gain or loss. See **ato.gov.au/Involuntary-disposal** | New asset generally deductible at 2.5% over 40 years |
| Fixing something that is damaged or broken | Likely to be a **REPAIR** | Fixing a leaking tap, or **PART** of the fence damaged in the storm | Not applicable | Amounts for **REPAIRS AND MAINTENANCE** are claimed fully in the year the expense is paid |
| Installing a brand new appliance or floor or window coverings | Likely to be a **DEPRECIATING ASSET** | Buying a brand new dishwasher or installing new carpet | If claiming the original item as **CAPITAL ALLOWANCES**, claim a deduction for the remaining balance (adjustable value) less any compensation received | Claim a deduction over the effective life of the asset (Decline in value) |

Go to **rental properties repairs, maintenance and capital expenditure** for more information.

## What happens if my rental property can't be lived in?

If your property is unable to be lived in, and no longer earning rental income, you can claim a deduction for some costs you incur while doing repairs or renovations. For example, council rates or interest charged on your mortgage. **You cannot claim a deduction for your own labour**.

However, the repairs or renovations need to be completed in a reasonable timeframe, and the property must have been rented or available for rent immediately before it was damaged or destroyed.

If the property is demolished and you're holding vacant land as a result of the damage, you can claim a deduction for holding costs (for example, land taxes and council rates) if the exceptional circumstances exemption applies.

There is a limit of three years from the date of the exceptional circumstances to continue to claim deductions using this exemption. See **ato.gov.au/Exceptions-vacantland**

## Capital gains tax (CGT) implications for damaged or destroyed assets

If you receive an insurance payout, it may need to be taken into account when calculating your capital gain or loss. A capital gain will arise if the insurance payout is more than the asset's cost base, if the insurance payout is less than the reduced cost base you will have a capital loss.

### You choose to rebuild or replace your rental property

You may be entitled to roll over any capital gain you make and delay paying the gain until a later point in time.

To defer the gain you must incur expenditure within one year after the end of the income year the property/asset was destroyed. For more information on involuntary disposal of a CGT asset, see **ato.gov.au/Involuntary-disposal**

### You choose not to rebuild your rental property

You will need to calculate your capital gain or loss.

Any insurance payout you receive will be counted as capital proceeds when calculating your gain or loss.

If you don't receive an insurance payout there are no capital gains tax consequences until the property is sold. The CGT event will occur when the property is sold at a future date.

### Main residence exemption

If the property was previously your main residence you can treat it as your main residence for up to six years after you move out, even if the property is destroyed. Your main residence is exempt from CGT, however you can't treat any other property as your main residence for the same period.

## Important things to remember

### Timing of a CGT event

If your CGT asset is lost or destroyed, a CGT event happens on the date you receive compensation for the loss or destruction.

If you don't receive any compensation, the CGT event happens when the loss is discovered or the destruction occurred.

### Get record keeping right

Keep records of every transaction including insurance payout documents, receipts for any new purchases, or repairs.  If you borrow for these amounts retain all loan documents and statements.

**Note:** Before and after photos of destroyed assets may be helpful but they aren't substantiation on their own.

## Examples

### Deduction for repairs while property was unoccupied

Ben's rental property was tenanted when it was severely damaged by a cyclone. Due to the damage, the tenants had to move out. Ben carried out repairs within a reasonable time and then advertised the property for rent. Even though the property was not available for rent while being repaired, he is able to claim for the repairs because it was rented immediately before the damage occurred.

### Deduction for replacement of depreciable items

Josh's rental property was covered in smoke and ash from recent bushfires. He had the home thoroughly cleaned and needed to replace all of the carpets and curtains. Josh can claim a deduction for the:

- cleaning
- remaining value of the pre-existing carpet and curtains
- decline in value of the new carpet and curtains.

If Josh had decided to repair the damaged carpet and curtains instead of replacing them, he would claim the immediate deduction as a repair.

### Determining the date of your CGT event

Laurie owned a rental property that was destroyed by a cyclone in February 2019. He received a payment under an insurance policy in April 2019. The CGT event happened in April 2019 when he received the insurance payment.

Christine owned a rental property that was damaged by a flood in January 2019. Her local council deemed the property uninhabitable in May 2019. The property was demolished in October 2019 and Christine didn't receive any compensation. The CGT event occurred in January 2019 when the damage happened.

## This is a general summary only

For more information go to **ato.gov.au/rental** · Watch our short videos at **ato.gov.au/rentalvideos**
Download our free Rental properties guide at **ato.gov.au/rentalpropertyguide**
Read our Guide to capital gains at **ato.gov.au/cgtguide**

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