Claiming tax deductions on your travel costs

Michael Quinn explains what you can and cannot claim when it comes to travel expenses

Purchasing and maintaining an investment property is an extremely big decision. It not only costs a considerable amount of your hard earned money but it also takes a lot of work in order to maximise your return on the property and make the decision worthwhile.

Most investment property owners are aware that they can claim a tax deduction for a number of items in relation to the purchase and ongoing maintenance of their investment. But it is highly likely that only a small percentage of investment property owners are actually claiming the maximum amount that they are eligible for. The rest of the investors are left lining the tax man's pockets, simply because they do not know that they are missing out on claiming a range of expenses.

The most commonly known rental expenses that can be claimed include repairs and maintenance, rates, strata and management fees and interest on any loans taken out to purchase the property. What is not so widely known is that you, as the owner, can usually also claim travel costs in relation to your rental properties.

Travel costs are incurred by the property owner when they travel to inspect or maintain a rental property. As with most tax deductions, when it comes to travel expenses, there are some instances where you are able to claim the full amount of the expense. In some cases, the cost must be apportioned, and in others you may not be able to claim anything at all.

Generally speaking, you will be able to claim the entire travel costs incurred when inspecting your property if the sole purpose of the trip is in relation to the rental property. If you fly to another city to inspect your property, stay there for that night and fly home the next day, you are able to claim the entire cost of the trip as a tax deduction.

If the rental property is in the same town, or within reasonable driving distance, you can claim the cost of driving to the property for inspections or to carry out minor repairs.

How much can you claim?

The most common way to calculate the deduction amount for travel using a car is using a cents-per-kilometre basis. The number of cents that can be claimed for each kilometre varies depending on the type and size of your car. Regardless of the rate, the calculation is performed the same way. For ordinary cars, the applicable rates for the 2008-09 financial year are:

Engine capacity	Cents per kilometre
1600cc (1.6 litre) or less	63 cents
1601cc – 2600cc (1.601 litre – 2.6 litre)	74 cents
2601cc (2.601 litre) and over	75 cents

For example, over the course of the financial year, John travelled a total of 187 kilometres over a number of visits to inspect and repair his rental property in his 2.6 litre car. The usual rate for a car of that size is 74 cents per kilometre.

The amount that John is eligible to claim is calculated as follows:

Distance travelled × rate per km = deductible amount
so: 187km × 74 cents per km = $138.38

Important considerations

It is important to note that for trips when the owner simply drives past on their way to somewhere else, just to 'keep an eye on things', a deduction cannot be claimed. Similarly, travel expenses for regular visits to the property for general maintenance cannot be claimed. However, if the owner is required to regularly visit the property to collect rental payments, then the costs of these journeys can be claimed using the cents-per-kilometre basis as demonstrated above.

Often a rental property owner may choose to combine a personal trip with an inspection. In this case, the costs of the trip would need to be apportioned as necessary, to reflect the amount of time that is spent in relation to the property compared to the holiday. Usually, you cannot claim the total cost of travel and accommodation, but you may be able to claim local expenses that are directly related to the property inspection.

For example, Jessica resides in Sydney and owns a rental property in Melbourne. She has decided to visit some friends for the week and can inspect her property while she is there.

The costs for Jessica's trip to Melbourne are:

- **Flights** – $500
- **Accommodation** – $1,200
- **Return taxi fare to inspect property** – $80

Jessica was in Melbourne for six days. Five of those days were spent shopping and meeting her friends and one day was spent travelling to and inspecting the rental property.

As the main purpose of the trip was personal in nature, she is unable to claim any of the flight costs. However, she is able to claim a deduction for the taxi fare to the property, and it is considered reasonable to claim 16.66% of the accommodation costs as this is equivalent to one out of the total six nights spent in Melbourne.

Therefore, the total amount of expenses that Jessica can claim for this trip total $280.

16.66% of accommodation + taxi,
so: 16.66% x $1,200 + $80 = $280

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Staying within the legal limits

The tax office is extremely wary of investors claiming the total costs of trips when they should only be claiming a portion, so it is important that you get professional advice when it comes to your deductions. This will ensure that you get the maximum return that is due to you, but also that you are legally compliant with all items that are being claimed.

Additionally, the tax office is also quite meticulous in their monitoring of the number of trips that investors are claiming each financial year. As a general rule, if the taxpayer uses a real estate agent to manage their property it is considered reasonable for them to claim the cost of one or two trips to the property per year. If the taxpayer attempts to claim more than two trips per year, it is likely that this will attract the attention of the ATO and may initiate further investigation or may even result in an audit. As with all tax matters, common sense should be used here. If you attempt to exploit or take advantage of the situation by making an unreasonable amount of claims, you cannot expect to get away with it for very long.

Getting the right advice when it comes to claiming tax deductions on your rental property can see you significantly improve your tax return at the end of the year. Depending on how your investments are structured, this may mean that you are able to reduce the amount of tax that you are liable to pay – and you may even get a greater return at the end of the year. ■

Michael Quinn, director of The Quinn Group, is an experienced lawyer, accountant and educator. If you would like further information or assistance, Michael and the team of legal and accounting professionals at The Quinn Group can be contacted by calling 1300 QUINNS or visiting the website www.quinns.com.au

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