



**THE PROPERTY
OWNER'S GUIDE
TO RENTING.**

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Guide to Renting out a Property

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Disclaimer

The information provided in this publication is of a general nature only and is provided solely on the basis that you are responsible for making your own verification and assessment of it. It is not advice. If necessary, you should obtain your own independent advice (including accounting, taxation and legal advice) in relation to your own particular circumstances. Gooding Partners disclaims all liability, responsibility and negligence for direct or indirect loss or damage suffered by any person arising from the use of this general information presented in this publication.

This guide has been created for property owners looking to make the leap into becoming a landlord, as well as existing landlords looking to make the most from their rental properties.

This publication covers areas such as: what to do before you first rent out your property, factors to consider when deciding who will manage the property, which party is responsible for what once there are tenants in place and so much more.

To Consider when First Renting Property

You will need to get an appraisal of the market value of the property as close to the date as possible for renting the property for the first time. This value will be used in the future in regards to capital gains tax purposes. It is advantageous to have a recent market value for this purpose as compared to the purchase price of the property as this will most likely lower your capital gain if you decide to sell.

Legislation

Renting in Western Australia is governed by a set of laws called the Residential Tenancies Act 1987 (the Act) and the Residential Tenancies Regulations 1989 (the Regulations) (both are available online to view). It is important that you gain an understanding of the Act and the Regulations to learn the rights and responsibilities of being a lessor, especially if you decide to do it yourself.

Rental Income

When renting out your residential property, the rent money you receive will generally be regarded as assessable income. This means the following:

- You will need to declare your rental income in your income tax return.
- You will be able to claim deductions for the associated expenses.
- You may not be entitled to the full main residence exemption from capital gains tax when you sell the property (see the relevant section later on).
- If the property was purchased by more than one person, the income and expenses of the property will need to be divided amongst the co-owners in line with their legal interest in the property.

Any income derived or expenses incurred whilst renting your residential property will not be subject to GST.

If you earn large amounts of income from the renting of your property, you may need to start paying Pay as You Go Instalments to the Australian Taxation Office. These will be estimates of tax payable of your non-employment income that are made payable quarterly throughout the year instead of being an annual payment amount upon lodgement of your income tax return.

Home Loan

Interest on the mortgage that was taken up to purchase the property is now deductible as this is necessarily incurred to derive the rental income. However there are some important details to consider.

Interest is deductible for the portion of the loan that is used to:

- purchase a rental property
- purchase a depreciating asset for the rental property (for example, to purchase an air conditioner for the rental property)
- make repairs to the rental property (for example, roof repairs due to storm damage)
- finance renovations on the rental property, which is currently rented out, or which you intend to rent out (for example, to add a deck to the rear of the rental property)
- purchase land on which to build a rental property.

You cannot claim interest:

- you incur before or after you use the property for rental purposes
- on the portion of the loan you use for private purposes (for example, money you use to purchase a new car or other personal items)
- on a loan you used to buy a new home if you do not use the new home to produce income.

If a portion of the loan as mentioned above is for private purposes, you will need to keep an accurate record and all deposits and withdrawals and the nature of each to determine the private loan balance. This will determine the component of the loan that interest is deductible for. We are able to prepare schedules that aid in this.

Capital Allowance Report

You can obtain a Capital Allowance Report (depreciation schedule) for your property. This will be a report you purchase from a business specialising in producing these reports. The report shows you the amount you are able to claim as a deduction against your income each year for the property in regards to the property itself and all assets that belong to it. Depreciation/capital works deduction is a deemed expense for the decline in value overtime for a capital item (such as a house, or air conditioner) as the outright purchase of these items is not an immediate deduction for tax purposes. The deduction allowable each year over time should outweigh the initial cost of preparing the report.

Landlord Insurance

Landlord insurance provides cover for any accidental loss or damage to buildings and contents that make up your rental property. This also covers for tenant defaults on rental payments and if your property is uninhabitable for a certain period of time. This insurance is very important to protect your property and source of income, and should definitely be taken up when renting out your property.

Rates, Utilities, Insurance and Owners Corporation Fees

Water – If the property has its own meter, the tenant must pay for water consumption. However in relation to the water supply, the landlord must pay these charges.

Electricity and Gas – The landlord must pay all installation and initial connection costs for the supply. If there is a separate meter, the tenant must pay unless otherwise agreed.

Telephone and Internet – Tenants are responsible for paying for the installation of a fixed telephone line for phone and broadband use, unless it states otherwise in the lease agreement.

Council Rates and Other Taxes – You must reimburse the tenant for any rates or taxes paid that are not part of consumption charges for services (unless the tenant has a fixed period of more than one year and this is set in lease agreement).

Urgent Repairs

Under the Regulations, essential services must be provided including repairs to (including timeframe to fix):

- A burst water service - 24 hours
- Gas leaks - 24 hours
- Broken hot water system - 24 hours
- Sewerage leaks or issues - 24 hours
- Dangerous electrical faults - 24 hours
- If anything else that might cause damage to the premises, injure a person or cause undue hardship or inconvenience to the tenant – 48 hours

If the tenant is unable to contact you (or the agent) within 24 – 48 hours depending on conditions above, the tenant is able to arrange for the repairs to be carried out by a suitably qualified repairer to the minimum extent necessary. You are required to reimburse the tenant for any reasonable expense the tenant was required to arrange for repairs to be carried out and paying for those repairs.

Security Bond

This is a payment made in advance by the tenant to cover costs that the tenant may be liable for upon the end of their tenancy (unpaid rent, outstanding charges, damage to property). You do not need to do this, however it is wise to do so as disputes can arise upon the end of the lease in regards to payments a tenant is liable for.

The limit on the bond monies is four times the weekly rent. If more than one person has paid money as part of the bond, it is important that the names of all the parties appear on the lodgement form, to protect each person's share.

If you allow your tenant to keep a pet (cats, rates, birds or dogs, etc.) on the property, you can request an additional amount of no more than \$260 regardless of the number of pets as a pet bond to meet the cost of fumigation at the end of the tenancy.

If you receive a bond from a tenant, you must immediately issue a receipt. The receipt must show:

- The name of the person(s) who paid
- The amount paid
- The date of payment
- Address of the rental premises

All security bonds must be lodged with the Bond Administrator (a section of the Department of Commerce) as soon as practicable within 14 days of receiving it. The Bond Administrator will send you and the tenant a record of the payment. Penalties can apply for not complying with this requirement.

Capital Gains Considerations - Main Residence Exemption

When you dispose of a capital asset, such as your property, it is subject to capital gains tax. If you sell the property that you use as your main residence, this will be exempt from capital gains tax under the main residence exemption rule.

However, once you move out from your property, as a general rule, the property is no longer your main residence. However, there are circumstances where it still can be:

- If you use the dwelling to produce income (such as renting out your property), you are able to treat the property as your main residence for up to six years after you cease living in it.
- If you rent out the dwelling for more than six years, the 'home first used to produce income rule' may apply, which means you are taken to have acquired the property at market value at the time you first derived rent. The property is no longer considered your main residence.
- If you return to your property and treat it as your residence within the six years, and later move out and rent the property again, the later period of absence is separate from the previous and allows for another six years you are able to claim as a main residence while deriving income from the property.

If your property is subject to capital gains tax, the gain on your property will be taxable. This is determined from the date the disposal contract is entered into, and the gain is calculated on the capital proceeds from the sale, less the assets cost base. (When first renting your property, if you no longer treat the residence as your main residence, the cost base of the property will be the market value from when you first derived income).

As mentioned above, if the property is considered a main residence, it is exempt from this tax. If you no longer consider the property as your main residence, you are able to apportion exemption to the period of ownership, for example the property was treated as your main residence for 8 out of the 10 years held, and you are able to claim an exemption on 8/10ths of the gain.

There are many other exceptions and rules in relation to capital gains tax, so it is important that you realise that when you are looking to dispose of the property, there is a possibility of tax to pay on the proceeds of the sale. You should consult your accountant when considering the sale to best plan to take advantage of the exemptions available to minimise your tax liability.

Property Manager (Agent) Versus DIY

Agent

Make sure that you consult more than one agent in the area, and compare overall services that they are able to provide alongside a schedule with their fees or costs.

Price – An agent will charge you a management fee, however this is not the only fee they will charge you. Each time a new tenant is processed, leasing fee will be charged by the agent which can be a lump sum cost. Make sure to obtain a list of all expected and unexpected costs that could be incurred with the agent. Keep in mind that all fees and expenses are negotiable, and must be recorded on the contract between you and the agent. The types of fees and charges that are generally incurred by agents are listed below:

Types of Fees / Charges

- **Letting (or Leasing) Fee** – Initial set-up costs for vetting and placing a tenant, the cost is negotiable and is usually charged at the beginning of each tenancy agreement. Some agents may also charge a re-leasing fee if current tenants sign a new tenancy agreement.
- **Management Fee** – An ongoing fee deducted from rent each time it is paid. This can be a variable fee, or fixed to a percentage of rent earned. This is for the ongoing management of the property the agent undertakes.
- **Marketing Expenses** – These costs may be incurred when the agent advertises your rental property. These will vary depending on the advertising medium chosen.
- **Other Expenses** – These can be statement fees, administrative or postage fees.

Tenant Agreement – Consider the agreement the agent will put in place with the number of days the agreement is able to be terminated within. The larger the number of days, the longer it will take to remove a tenant, this can be an issue in particular if the property is currently rented to bad tenants, in which you would like to terminate the agreement as soon as possible. These days to terminate the agreement can range from 30 days to 120 days.

Agents Authority – Your agreement with the agent will allow them authority to make decisions on your behalf in regards to items such as repairs and maintenance for the property. They will have up to an authorised limit where they are able to act on your behalf without notifying, for example anything below \$1,000.00 they can pay on your behalf and on charge back to you, however if the amount exceeds \$1,000.00 they will need your authority. When establishing your agreement with the agent, keep this limit in mind, as you may even wish to have the agent run all items by you and for you to obtain your own quotes. The authorisation will not cover you for emergency repairs if they are unable to contact you within a reasonable timeframe.

The same goes for advertisement of your property, you may wish to approve how they advertise your property, in regards to quality of pictures, etc. Further, you may wish to make the decision on which tenants take up residence in your property. You may not wish to give the authority to the agent to be able to make this decision on your behalf.

Do it Yourself

All of the above is important to consider, as you must take on these roles by yourself. You will need to familiarise yourself with the Act and Regulations, as these will be the governing rules for you to be able to rent your property. Further, some tasks will require greater effort on your behalf such as:

Choosing Tenants – The ideal tenant will:

- Pay on time
- Take good care of your property

To assist in finding your ideal tenants, you should ask your applicants to provide references from employment and personal, as well as photo identification and check these. You will want to meet your tenants and discuss their references and the premises. Using an agent in this circumstance can allow you to check the tenant's previous rental history.

Property Condition Report (PCR) – This report is important in avoiding potential disagreements about damage to the property. Tenancy law required you to prepare PCR at the start and end of a tenancy. There are requirements to fulfil a basic PCR available from the department of commerce. The form allows you to list all contents and identify if items are clean, undamaged or working. Make sure to include the outside of the property as well in the report, including gardens/reticulation system. You must provide a copy of this to the tenant within 7 days of them moving into the property.

Inspections – Before you enter the premises you must provide appropriate notice, usually around 14 days' notice. No more than four routine inspections are allowed in any 12-month period. The routine inspections allow you to inspect the property and can help to determine what is 'fair wear and tear' and what is 'damage'. A reasonable time to enter as defined by the Act is between 8am – 6pm on a weekday, and 9am and 5pm on a Saturday, or any other time negotiated with the tenant.

Rent Increase – The Act requires you to provide a form Notice to Tenant of Rent Increase (Form 10) from the Department of Commerce and at least 60 days' notice before the rent increase takes effect.

Compliance - If you were to use an agent, the agent should cover the following as part of their services, however if you wish to do it yourself, take note of the following:

Documents and information you must give to the tenant you must give the tenant:

- A copy of the prescribed Residential Tenancy Agreement (Form 1AA) (if using a written Residential Tenancy Agreement):
 - o when the tenant signs it; and
 - o within 14 days of all parties signing the agreement.
- A copy of the Information for tenant (Form 1AC):
 - o If there is a written tenancy agreement, the Form 1AC is to be provided at time of entering into agreement.
 - o If there is a verbal tenancy agreement, the Form 1AD must be provided within 14 days after the tenant takes possession of the premises.
- Two copies of a completed Property Condition Report (Form 1, as detailed above).
- If the tenant is paying a security bond, you should provide them with a Bond Lodgement (Form 2) to sign so it can be lodged with the Bond Administrator.

- A receipt for the security bond must also be provided showing the date, amount, who paid and the address of the premises.
- Your full name and address. If the property is managed by a real estate agent, they will provide your name but their address.

Before tenants move in

Before your tenants move in, there are things you must do to the property which comply with the Act and things you should do which are good business practices.

What you must do:

- Make certain the rental premises are vacant on the day and time at which it is agreed the tenant will move in.
- Ensure the property and contents are in a clean and habitable condition.
- Ensure the property has minimum levels of security in place.
- Ensure the condition of the property complies with all laws relating to buildings, health and safety, such as residual current devices, curtain and blind cords, smoke alarms and pool fences.

What you should do:

- Consider obtaining landlord's insurance, which can cover lost rental income or rebuilding (refer to product disclosure statements to check your coverage).
- Make sure carpets and windows are clean.
- Mow lawns, trim edges and make any garden beds neat and tidy. If the home and garden is in neat condition when your tenants take possession, you stand a much better chance that they will keep it that way.

Further to the above:

Minimum Levels of Security

The residential tenancy laws in Western Australia require lessors to provide and maintain locks or other devices to ensure rental premises are 'reasonably secure'.

Security measures should include the following:

- main entry door – either a deadlock or a key-lockable screen door to Australian Standard AS5039-2008.
- all other external doors (excluding balcony doors where there is no access to the balcony except from inside the premises) – a deadlock or, if a deadlock cannot be fitted, a patio bolt lock or a key lockable security screen to Australian Standard AS5039-2008.
- exterior windows (excluding windows fitted with security grilles to Australian standard AS5039-2008, windows on, or above the second floor of the building and where the window is not easily accessible from outside the premises) – must be fitted with a lock that prevents the window from being opened from outside. Does not have to be a key lock.
- main entry light – an electrical light that can illuminate the main entry to the premises must be fitted to or near the exterior of the premises and be operable from inside the premises.

Residual Current Devices

You must ensure at least two residual current devices (also known as safety switches or RCD's) are professionally installed to protect all power point and lighting circuits in your rental property before they are leased. Penalties can apply up to \$15,000 if not complied with.

Smoke Alarms

You must ensure the rental property has smoke alarms as required by law. Where mains-powered (hard-wired) smoke alarms cannot be fitted, you must then use approved battery-powered smoke alarms which must be fitted before any new tenancy agreement commences. A smoke alarm must be replaced when it reaches its expiry date, or, if there is not one, when it is ten years from installation. The tenant can reasonably be expected to change the batteries every year; however the overall responsibility for ensuring working alarms is on the lessor.

Swimming Pools and Spas

Unless the written agreement states otherwise, the tenant is responsible for keeping the pool or spa and any associated equipment in a properly treated and clean condition and for observing all legal requirements relating to pools or spas during the period of tenancy. You should provide the necessary tools and equipment for day to day maintenance of the pool/spa.

The lessor is ultimately responsible for ensuring the pool is child safe and complies with pool safety standards.

Curtains and Blind Cords

Mandatory requirements are in place for corded internal window coverings due to the risk of strangulation to small children through some curtain and blind cord fittings.

The National Product Safety website provides information on standards for particular products at: www.productsafety.gov.au.

Keys

The keys provided to the tenant should allow access to any door, window, garage or letterbox for the property.

You should only hand over the keys once all bond and rent in advance has been paid and the relevant documents signed.

You cannot charge tenants for a deposit for keys, but can charge them for the actual cost of replacement.

Who is Responsible for What?

Maintenance Inside

The lessor must keep the premises in a reasonable state of repair during the tenancy and comply with building, health and safety laws. Further, you are responsible for the upkeep of the property, for example plumbing or the maintenance of contents provided like stoves or washing machines.

The tenant is responsible for basic household maintenance like replacing light globes, vacuuming, cleaning windows, dusting and removing cobwebs inside and out.

Maintenance Outside

The lessor is responsible for major tree lopping, cutting back overhanging branches and maintaining fire breaks. Further, the lessor is responsible for normal maintenance to garden reticulation, however, if there is issue the tenant may be responsible for hand watering the garden where it is reasonable to do so.

The tenant is responsible for garden maintenance, such as mowing and edging lawns, weeding and pruning. You should provide them with the necessary hoses and sprinklers to do so. The tenant should advise of any obvious water leaks, once you have been told of the leak, the lessor is liable for the cost. If the tenant does not advise you of an obvious water leak within a reasonable timeframe, they can be liable for the additional damages caused by not notifying.

Neglectful damage versus wear and tear

The lessor is responsible for costs arising from 'fair wear and tear'. This can be difficult in some circumstances to determine. Examples such as the following can assist with the difference:

- *Wear and Tear (lessor liable)*
 - o Carpet wear in corridors or other areas used frequently.
 - o Curtains faded from years of exposure to light.

- *Neglectful Damage (tenant liable)*
 - o Stains or burns from things dropped or placed on carpets.
 - o The tenant's pet tears the curtains.

Damages

If the tenant causes damage, he or she is liable and responsible for the necessary repairs.

If the property is damaged by a third person not directly connected with your tenant, or who was not invited to the premises by the tenant, or if any damage is caused by an event outside of the tenant's control, it is your responsibility to arrange and pay for the necessary repairs.

The lessor is not responsible for damage or loss to your tenant's own possessions unless the damage was caused by a problem with your property – such as the roof collapses and from this damage to tenant's property occurs.

Records to Keep

You will need to keep records of the following:

- Documents of your ownership of the property and all the costs of acquiring / purchasing it.
- The rental income you receive and the deductible expenses you pay.

Further Resources

Tax – <https://www.ato.gov.au/uploadedFiles/Content/MEI/downloads/Rental-properties-2015.pdf>

A PDF copy of the Australian Taxation Office's guide for rental property owners for rental properties for the 2015 financial year.

Resources/Tips - <https://www.commerce.wa.gov.au/consumer-protection/renting-home>

The department of commerce provides great resource for what is required as being a lessor and tips on renting a property.

<http://www.commerce.wa.gov.au/sites/default/files/atoms/files/lessorsguide.pdf>

A PDF guide from the department of commerce that provides insight into requirements of being a lessor.

Forms and Notices - <http://www.commerce.wa.gov.au/consumer-protection/rental-forms-and-notice>

A list of all the required forms, especially important if you wish to do it yourself.