Holmans.

INVESTMENT PROPERTY CHECKLIST
FINANCIAL YEAR – 1 JULY 2021 TO 30 JUNE 2022

INVESTMENT PROPERTIES

- Details of new assets (e.g. Furniture and Fittings) purchased for the investment property during the year (including the Date, Cost and Description)
- Details of any investment property assets scrapped or sold during the year
- Details including invoices of any significant repairs to the rental property - these may require depreciating over a number of years, instead of deducting immediately
- Copies of quantity surveyor reports you have obtained to claim a capital works deduction
- Copies of the loan statements for the full tax year 1 July to 30 June, showing the interest expense tax deduction claimable
- Details of any privately paid expenses not recorded by your property manager (such as Council Rates, Insurance, Body Corporate, Water Rates, etc)
- Copies of the purchase and/or sale contracts for the investment property

By providing this information, you will enable Holmans to prepare the income tax returns efficiently and cost effectively.

Further information on the tax deductions to which a landlord may be entitled is provided below.

RENTAL EXPENSES

Expenses For Which You May Claim an Immediate Deduction

In the income year in which you incurred the expense you may claim the following:

- Advertising for tenants
- Body corporate fees and charges (in most cases)
- Cleaning
- Council rates & Water rates
- Electricity and gas
- Gardening and lawn mowing
- In-house audio/video service charges
- Insurance
- Interest on loans (see below)
- Land tax
- Pest control
- Property agent fees and commission
- Quantity surveyor fees
- Repairs and maintenance
- Secretarial and bookkeeping fees
- Security patrol fees
- Stationery and postage
- Telephone calls and rental
- Assets costing less than $300

Expenses Deductible over a Number of Income Years

There are three main types of expenses which are deductible over a number of income years:

- **Borrowing expenses –** These are your loan application fees, stamp duty on the loan, and so-on. These are normally deductible over 5 years.

- **Depreciation** or amounts for decline in value of depreciating assets – The upfront cost of an asset over $300, such as furniture, is not a tax deduction. However, a proportion of the purchase price is claimable each year as a depreciation deduction. You must be the first owner for any fixtures and fittings.

- **Capital Works** and/or Building Write Off deductions (see below) – This is similar to depreciation but relates to the structural component of a property.

Capital Works Deduction

Certain types of construction expenditure are deductible.

In the case of residential rental properties, the deductions would generally be spread over a period of 25 years (or 40 years in some cases). The amount of the deduction you can claim depends on the type of construction and the date construction commenced.

If the property is less than 20 years old, we recommend you get a quantity surveyor to complete a report outlining which deductions you are entitled to claim, even if you did not construct the building. We recommend companies such as MCG Quantity Surveyors or BMT Tax Depreciation.

Note: That a capital works deduction will cause the cost base of the property to decrease, and therefore may result in a higher capital gain upon future disposal.

Expenses Which Are Not Deductible

Expenses you may incur on your rental property that are not deductible include:

- Stamp Duty on the purchase of the property
- Legal fees on purchase or sale
- Agent's commission on sale
- Any other acquisition costs or sale costs
- Expenses incurred when you are using the property privately

These costs are considered capital and are added to the overall cost of the property for capital gains tax purposes upon disposal.

In addition to the above, under tax law Travel Expenses are no longer claimable as a deduction, nor are they allowed to be added to the cost base.

Common Misconceptions

Provided below are a few misconceptions in relation to investment properties and your entitlement to deductions.

If you have any concerns, contact our office to discuss your particular circumstances.

Private Use

Expenses incurred on your investment property will only be claimable to the extent they are incurred in deriving assessable income.

Accordingly, when you use the property privately, the expenses incurred will not be deductible. The costs (including interest, rates, insurance, laundry and so-on) will be apportioned based on the time the property was available for rent to the general public and the time it was used by you personally.

The ATO is also using extensive sophisticated data matching to compare investment properties against other holiday rentals in the same area for audit activity, including the use of data from online rental platforms and rental bond agencies.

Interest Expense

Interest expense on a loan used to acquire the property can be claimed as a tax deduction against the rental income. However, it is only the interest component of your repayments that is deductible, not the principal component of the loan repayments.

For the interest to be tax deductible, the loan must be for the investment property only. Where a loan is used for partially private purposes (i.e. Line of Credit), only the proportion related to the property is claimable. This includes redraw amounts used for private purposes.

In addition, the interest is claimable based on the ownership percentage of the property. Meaning that, where an investment loan is in one spouse's name, but the property is owned by both spouses, the interest deduction will be split 50/50 based on the ownership percentage, regardless of the persons listed on the loan statement

Inspection & Travel Costs

Are no longer available to claim under tax law.

<u>Property & Capital Gains Tax</u>

Once a property has earned rental income, it is highly likely the property will be subject to capital gains tax (CGT) upon disposal. This is regardless of whether you use the property as your home just prior to sale.

If you have ever earned income from your property, either as a business or as a rental property, you should seek advice from our office to determine whether it is subject to capital gains tax and to what extent. Capital gains tax is not a separate tax as the name suggests but is the additional tax you pay at your marginal tax rate as a result of the Net Capital Gain calculated on your property.

The Net Capital Gain calculation can be complex, but in simple cases is calculated as the difference between the property purchase price (plus other acquisition costs such as stamp duty and legal costs on purchase), and the property sale price (less agent's commission on sale and legal costs). The gain may then be eligible for a 50% general discount (reduction in the capital gain) where property has been held for more than 12 months, if owned by an Australian resident individual or trust.

The Net Capital Gain is then added to your other assessable income in the year of disposal and taxed at your marginal income tax rates.

<u>Property, Capital Gains Tax & Common Misconceptions</u>

- The net capital gain will be assessed in the tax year of the **<u>contract date</u>** (not the settlement date). Accordingly, it is vital you contact Holmans before 30 June in the financial year you <u>sign the contract</u> so that you can consider all available options to reduce any tax payable.

- Properties that are situated on greater than 2 hectares (approx. 5 acres / 20,000m^2) will also be subject to capital gains tax (in some proportion), even when the property was used solely as your home during the whole ownership period.

<u>Capital Gains Tax for Non-Residents</u>

Non-Residents are no longer eligible for the 50% general discount on properties held for more than 12 months. The discount applied (if any) will depend on the purchase date of the property and whether transitional rules can be applied. Non-Residents should seek specific advice from our office.

In addition, foreign resident vendors may have amounts withheld from the property sale proceeds under the new *capital gains tax withholding regime*. These amounts may be claimed back (in full or in part depending on the amount of the actual tax payable) as a credit from the Australian Taxation Office upon lodgement of the Australian Income Tax Return.

Note: The above information is provided as a guide only.

You should seek advice from our office regarding your particular circumstances.