RENTAL PROPERTY INFORMATION SHEET

Tax Depreciation

As a building gets older and items within it wear out, they depreciate in value. The Australian Tax Office (ATO) governs legislation that allows owners of income producing property to claim a tax deduction for this wear and tear. Capital works deductions can be claimed on the building's structure and items considered permanently fixed to the property, while depreciation can be claimed on the plant and equipment assets contained within it.

Depreciation for income producing properties defined by the ATO is claimable under two major components: Capital works deductions (div 43) and Plant and equipment depreciation (div 40).

Source: BMT Tax Depreciation

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TAX SERVICES

Year End Tax Tips

Travel

The cost of travel to inspect or maintain rental properties or to collect rent is an allowable deduction. Travel expenses can be claimed for preparing the property for new tenants (except for the first tenants), inspecting the property during or at the end of tenancy, undertaking repairs (due to damage or wear and tear) incurred while the property is rented out, maintaining the property (while it is rented) and visiting an agent to discuss the property.

Interest

Prepay interest on property investment loans to bring forward deductions by a year. If your loan account is used for both private purposes and rental property purposes, you must keep accurate documentation to calculate interest that applies to the rental property portion of the loan.

Prepaid expenses

Bring forward any expenditure, such as repairs and maintenance, that would otherwise be attended to after 30 June to claim the costs this financial year. Ensure to distinguish between what the ATO considers a 'repair' and an 'improvement' as improvements are non-deductible. Keep in

Repairs & Maintenance

Expenditure for repairs you make to the property may be deductible. However, generally the repairs must relate directly to wear and tear or other damage that occurred as a result of your renting out the property.

Repairs generally involve a replacement or renewal of a worn out or broken part, for example, replacing worn or damaged curtains, blinds or carpets between tenants. Maintenance generally involves keeping the property in a tenantable condition, for example repainting faded or damaged interior walls.

However, the following expenses are capital, or of a capital nature, and are not deductible:

- replacement of an entire structure or unit of property (such as a complete fence or building, a stove, kitchen cupboards or refrigerator)
- improvements, renovations, extensions and alterations, and
- initial repairs, for example, in remedying defects, damage or deterioration that existed at the date you acquired the property.

Source: ATO Rental Property Guide (NAT 1729-06.2016)

mind initial repairs to an established property are not deductible.

Consider pre-paying expenses such as insurance premiums, rates and levies to maximise the current financial year's deductions.

PAYG variation

Those with negatively geared investment properties can receive a significant refund upon lodging their tax return. To improve cashflow, property investors can apply for a PAYG variation which allows investors to access their end-of-year tax refund throughout the year rather than a lump sum.

Property investors can lodge an application to vary income tax withholding using a form from the ATO. To continue a PAYG variation, it is your responsibility to reapply yearly for a future variation if your circumstances require it.

Maximise depreciation deductions

A depreciation schedule prepared by a qualified quantity surveyor outlines the tax deductions available, which can help to provide a significant return. The cost of a depreciation schedule is also tax deductible. It is important to review your depreciation schedule to ensure there are no items which are no longer on hand and can be written off.

Source: Year End Strategies Newsletter 2015-2016

Capital Gains Tax

You may make a capital gain or capital loss when you sell (or otherwise cease to own) a rental property that you acquired after 19 September 1985.

In the case of the sale or other disposal of real estate, the time of the event is normally when you enter into the contract (generally the date on the contract), not when you settle. If there is no contract, the event takes place when the change of ownership occurs. The fact that a contract may be subject to a condition such as finance approval, generally does not affect this date.

You can also make a capital gain or capital loss from certain capital improvements made after 19 September 1985 when you sell or otherwise cease to own a property you acquired before that date.

You will make a capital gain from the sale of your rental property to the extent that the capital proceeds you receive are

Negative Gearing

A rental property is negatively geared if it is purchased with the assistance of borrowed funds and the net rental income, after deducting other expenses, is less than the interest on the borrowings.

The overall taxation result of a negatively geared property is that a net rental loss arises. In this case, you may be able to claim a deduction for the full amount of rental expenses against your rental and other income (such as salary, wages or business income) when you complete your tax return for the relevant income year. Where the other income is not sufficient to absorb the loss it is carried forward to the next tax year.

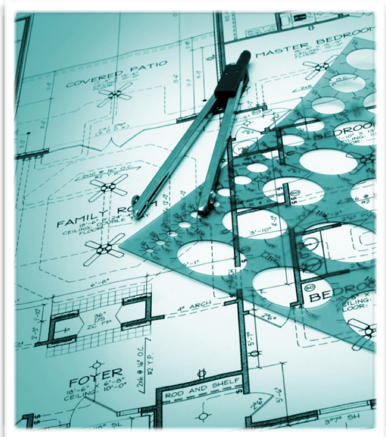
If by negatively gearing a rental property, the rental expenses you claim in your tax return would result in a tax refund, you may reduce your rate of withholding to better match your year-end tax liability.

If you believe your circumstances warrant a reduction to your rate or amount of withholding, you can apply to ATO for a variation using the PAYG income tax withholding variation (ITWV) application.

Source: ATO Rental Property Guide (NAT 1729-06.2016)

more than the cost base of the property. You will make a capital loss to the extent that the property's reduced cost base exceeds those capital proceeds. If you are a co-owner of an investment property, you will make a capital gain or loss in accordance with your interest in the property.

The cost base and reduced cost base of a property includes the amount you paid for it together with certain incidental costs associated with acquiring, holding and disposing of it (for example, legal fees, stamp duty and real estate agent's commissions). Certain amounts that you have deducted or which you can deduct are excluded from the property's cost base or reduced cost base.



Your capital gain or capital loss may be disregarded if a rollover applies, for example, if your property was destroyed or compulsorily acquired or you transferred it to your former spouse under a court order following the breakdown of your marriage.

Source: ATO Rental Property Guide (NAT 1729-06.2016)

Record Keeping

You should keep records of both income and expenses relating to your rental property.

Records of rental expenses must be in English, or be readily translatable into English, and include the:
∗name of the supplier
∗amount of the expense
∗nature of the goods or services n date the expense was incurred n date of the document.

If a document does not show the payment date you can use independent evidence, such as a bank statement, to show the date the expense was incurred.

You must keep records of your rental income and expenses for five years from 31 October or, if you lodge later, for five years from the date you lodge your tax return. If at the end of this period you are in a dispute with us that relates to your rental property, you must keep the relevant records until the dispute is resolved.

Source: ATO Rental Property Guide (NAT 1729-06.2016)