
Tax Tips for Property Investors - End of Financial Year - Saving tax

Planning to keep tax at a minimum is an exercise that should be carried out throughout the year and not rushed at the end.

Having said that, I note that some of the changes only come with the Federal Budget in May. So there is not much time to plan.

For property investors interest was very low during financial 2010 compared to 2009. This means net rental income may be more than previous year. Losses may be lower for those who have negatively geared property. Caution should be exercised for those who have lodged PAYG Variation to smooth out their cash flows. All this means your tax may be higher.

Below are some of the issues involved and some tax tips to help property investors save some more tax by better planning.

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Minimising tax – using timing

As the financial year comes to an end, whatever expenditure is incurred in June is considered part of that financial year and is reflected on the tax return – in this case the 2010 tax return.

Where the expenditure is tax deductible, this reduces the taxable income for that year. So the tax payable is also reduced.

Tax Tip – If you lodge your tax return early in the new financial year, then the tax saving can take effect quickly as you receive your refund. So the time taken between spending the money and getting a tax deduction is the smallest. This should help your cash flow.

Prepayment of Expenses – when should I do it?

Prepaying expenses up to 12 months ahead are allowed as a deduction in the earlier year. In this case 2010.

Prepaying expenses increases your deductions, reducing your tax.

Most people prepay the following types of expenses

- Rates – Council & water
- interest
- Strata Levies

Before prepaying deductible property expenses, it is prudent to check on how your tax return may look for that financial year.

If you have investment properties – which are negatively geared (the interest and expenses are larger than the rental income) the negative component will be offset against other income such as salary reducing your taxable income – reducing your marginal rate of tax and your tax liability.

One of my clients is likely to have about \$13k taxable income in 2010. If he were to prepay expenses – bringing the deduction forward to 2010 year instead of leaving them for 2011 – he would lose money.

Why? Because at \$13k taxable income – no tax is payable. So claiming more deductions will NOT produce more refunds. It will however lose the opportunity of claiming the deduction in 2011.

Tax Tip – review your personal circumstances before prepaying any rental expenses

Repairs & Maintenance

If you are likely to have a high taxable income then you may like to bring forward repairs and maintenance planned for the investment property into 2010 financial year instead of leaving them to 2011. This will generate a deduction and save some tax.

Tax Tip – Care should be taken in determining whether a maintenance or repair is deductible or it is considered a renovation or of a capital nature.

If the work is fixing up damage caused by wear and tear, the expense is likely to be a repair. But where new materials replaces the old, the item is likely to be depreciated.

The difference is the amount that can be claimed as a deduction and therefore tax savings.

Renovations are depreciated at 2.5% pa as building construction write-off

Lower Tax rates in 2009/10

The government has announced lower tax rates from 1 July 2009. They are very small. But tax reductions all the same.

The reductions are as follows

- The point at which the tax rates change from 15% to 30% increases by \$100 to \$35000. That means a saving of \$150 = \$1000 x (30%-15%)
- The marginal rate that applies to the income from \$80k to \$180k = \$100k will drop from 40% to 38% - a saving of \$2000 for those who have taxable income in that bracket.

Tax rates 2009-10

<i>Taxable income</i>	<i>Tax on this income</i>
\$1 – \$6,000	Nil
\$6,001 – \$35,000	15c for each \$1 over \$6,000
\$35,001 – \$80,000	\$4,350 plus 30c for each \$1 over \$35,000
\$80,001 – \$180,000	\$17,850 plus 38c for each \$1 over \$80,000
\$180,001 and over	\$55,850 plus 45c for each \$1 over \$180,000

Non-residents Tax rates 2009-10

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 – \$35,000	29c for each \$1
\$35,001 – \$80,000	\$10,150 plus 30c for each \$1 over \$35,000
\$80,001 – \$180,000	\$23,650 plus 38c for each \$1 over \$80,000
\$180,001 and over	\$61,650 plus 45c for each \$1 over \$180,000

Non-residents are not required to pay the Medicare levy.

Depreciation Schedules – Quantity Surveyor’s reports

Depreciation is the wear and tear on building and equipment. Claiming a tax deduction for this expense does not require any cash payment. You get a tax saving without paying any additional cash money.

To maximise your deductions it is prudent to get a Quantity Surveyor to produce a report for you as they are skilled cost estimators. You get a nice report which minimises your accountants time and cost in preparing your tax return.

Tax Tip – A tax deduction is available, where you pay for this before 30 June 2010 ... useful where you purchased a new property & interest expense was lower than expected.

Annual rent statement from the agent – Accountants templates

Most agents now send out Annual rent statements summarising the rental revenue collected and expenses paid on behalf of the landlord. These save a lot of time.

Make these available to your tax agent.

Take care when using these statements to prepare your 2010 tax returns. Real estate agents do not always pay for all rental expenses including land tax and insurances. Landlords usually do that. Also many landlords pay for rates.

Tax Tip – Use your accountant’s rental templates to summarise all expenses and present a complete picture of each property’s situation.

Clients of **Property Tax Specialists** get these rental templates and others as part of their year end package.

Tax Tip - Scan your original documents and send to your accountant. This ensures you have access to original documents to check on reports produced by the accountant and in case of a tax audit.

Vary your PAYG Withholding

Where you have negatively geared rental investments, the negative part offsets against your other income e.g. salary, reducing your tax payable and resulting in a large refund when your tax return is lodged.

This refund can be used to reduce your loan, pay your interest expense or help finance another investment property.

To help with cash flow, would it not be great if you were able to access this refund, throughout the year instead of waiting till the end of the year? This can help finance that extra property which has potential to pick up some capital growth between the beginning and end of year.

This can be done by lodging an application to vary the ‘Income Tax Withholding’ using a form from ATO . This can be done electronically on line or you can download the form, prepare and lodge it manually.

If you need help, contact your accountant. **Property Tax Specialists** provide this service.

www.propertytaxspecialists.com.au

Tax Tip – Depending on your personal circumstances the additional refund from negative gearing may not be substantial. If the savings are small you should consider saving the cost of preparation and claiming the deductions at year end when lodging the tax return.

To get the maximum benefits out of the cash flow savings now is the best time to prepare and lodge the Application for ITWV - because then you can get the full effect of lower tax deductions by the employer. ATO takes about 2-3 weeks to process the application.

Tax Tip – When lodging electronically ensure you keep a copy of the electronic receipt or make a record of receipt reference number. It helps when chasing up ATO.

Contribute to Superannuation

Tax can be minimised by making contributions to a super fund before 30 June 2010 ... where you are self employed or employed by your own company .

Superannuation contributions are deductible in the year that the contribution is received by the fund's trustee.

Tax Tip - Be sure to check how long your payment method takes to process – if you're paying just before the end of the financial year the payment may not be received by the Trustees until the new financial year – therefore, the deduction for the contribution **cannot** be claimed this financial year.

Where you are an employee check with your employer what salary sacrifice arrangements can be made before 30 June 2010.

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Happy Healthy & Wealthy Financial New Year

I take this opportunity to wish all clients, friends, associates and subscribers of Property Tax Specialists, a very happy healthy and wealthy **financial** New Year.

We look forward to being of Service

If we can be of service, please do not hesitate to contact us on info@propertytaxspecialists.com.au , or call Shukri on 02 9411-8133.

We also look forward to your referrals where you think we can be of help.

To improve our service we welcome all constructive comments on this newsletter and other materials.

Kind Regards
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