

## Financial Year End Tax Planning - **Tips for Property**

### **Investors**

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

To minimise your tax position for the year taking advantage of any benefits, **NOW** is the time to start reviewing your figures over the last 10 months, estimate the next two months, then discuss with your accountant where you are likely to be at the end of the financial year 2011. But more importantly where you would like to be .... as well as to plan out strategies for the coming financial year.

While there is talk that the federal budget will be tough, it is more likely to impact on trust structures and the way distributions are made than on property investing generally. A special Budget report with highlights will be sent shortly after its release.

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 2011 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.

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## Capital Gains/Losses & Timing

### CAPITAL GAIN

Capital gains generated during the year can be minimised by offsetting it against capital losses or trading losses incurred during the same year.

**Tax Tip** – To reduce capital gain generated on sale of property or other assets during the year consider selling any assets which have lost value and their future is bleak.

**Tax Tip** – the 50% discount on capital gains is available where an asset is held for longer than 12 months. As this is a considerable saving consider the timing of any sale.

The relevant date for calculating capital gains is the CONTRACT date and not the settlement date.

### CAPITAL LOSSES

Capital losses incurred in any year are available to be carried forward to future years if there are insufficient gains to absorb it in the same year. It can be carried forward for an indefinite period.

Capital losses can not be offset against other income such as business trading income.

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## 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 2011

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 2011. If he were to prepay expenses – bringing the deduction forward to 2011 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

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## 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 2011 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

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## Lower Tax rates in 2010/11

The government has announced lower tax rates from 1 July 2011. 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 \$2000 to \$37000. That means a saving of \$300 = \$2000 x (30%-15%)
- The marginal rate that applies to the income from \$80k to \$180k = \$100k will drop from 38% to 37% - a saving of up to \$1000 for those who have taxable income in that bracket.

## Tax rates 2010-11

<i>Taxable income</i>	<i>Tax on this income</i>
\$1 – \$6,000	Nil
\$6,001 – \$37,000	15c for each \$1 over \$6,000
\$37,001 – \$80,000	\$4,650 plus 30c for each \$1 over \$37,000
\$80,001 – \$180,000	\$17,550 plus 37c for each \$1 over \$80,000
\$180,001 and over	\$54,550 plus 45c for each \$1 over \$180,000

## Non-residents Tax rates 2010-11

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 – \$37,000	29c for each \$1
\$37,001 – \$80,000	\$10,730 plus 30c for each \$1 over \$37,000
\$80,001 – \$180,000	\$23,630 plus 38c for each \$1 over \$80,000
\$180,001 and over	\$60,630 plus 45c for each \$1 over \$180,000

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

Low income tax offset will be increased from \$1,350 to \$1500 from 1 July 2010

## 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 2011 ... 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 2011 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.

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## 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](http://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.

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## Contribute to Superannuation

Tax can be minimised by making contributions to a super fund before 30 June 2011 ... 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 2011. Because ATO wants these arrangements in advance of the sacrifice being made, this is a good time to plan for sacrificing income for the 2012 financial year.

The superannuation (**super**) **co-contribution** is a government initiative to help eligible individuals boost their super savings for the future.

**Tax Tip** – The government will match your after tax contribution to a super fund - by up to \$1000. To receive the maximum \$1000 your taxable income has to be below \$31,920. A sliding scale applies until your taxable income reaches \$61,920 where no government contribution is received.

For more information - <http://financialspectrum.com.au/public/ebooks/super-government-co-contributions-1.pdf>

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## Tax Planning as part of Financial Planning

Tax planning should ideally form part of your overall financial planning, as it may well have an impact on your overall financial situation.

You should be proactive with your tax planning – and discuss it as part of your broader financial situation with a licensed, or appropriately authorised, financial adviser. We recommend Brenton Tong and the Financial Spectrum team <http://financialspectrum.com.au/> Phone 02 8238 0888

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### **Help available**

To make the compilation & reporting task for tax returns easier, clients of **Property Tax Specialists** received checklists and templates to facilitate the process ... **saving them time and money** ... the 'write' way is having clear **documentation**. ATO way means time/money wastage with possible audit investigation.

If you need help contact Shukri Barbara at Property Tax Specialists at  
**Shukri@propertytaxspecialists.com.au**

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*We look forward to being of Service – helping you towards  
Prosperity & Peace of Mind*

Please do not hesitate to contact us if you would like to review & discuss your current property & tax situation, your asset protection strategy, structuring your next investment property, planning to legally minimise your tax position or just to prepare your next tax return.

We look forward to being of service. We also look forward to your referrals.

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

For help contact **Shukri Barbara** at Property Tax Specialists at [Shukri@propertytaxspecialists.com.au](mailto:Shukri@propertytaxspecialists.com.au)

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### **Disclaimer**

The material and contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If expert assistance is required, professional advice should be obtained.

Acknowledgement - parts of this newsletter have been taken from Knowledge Shop Pty Ltd client newsletters. Barbara & co – Property Tax Specialists is a member of the Knowledge Shop and Hayes Knight Network

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Kind Regards  
Shukri Barbara

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