

What's deductible & What's not for Property Investors?

Below is a list of items which you can claim as a deduction against rental income for this year. Further below is a list of items which are not deductible, usually questioned by ATO or deductible over a number of years. I trust this will help you compile your information and make it easier to prepare your income tax return and improve your decisions in relation to managing your rental properties.

DEDUCTIBLE - immediately

- ✓ Property management & maintenance expenses
 - Advertising for tenants – directly by you or where the agent charged you
 - Body corporate fees or Strata Title fees and charges
 - Cleaning
 - Gardening/Lawn Mowing
 - Pest control
 - Security patrol fees
- ✓ Rates & Taxes
 - Water rates, charges & usage
 - Council rates
 - Land tax – first time owners have to lodge an initial land tax return with the Office of State Revenue in each state – YOU have to initiate this. They will not chase you up but they will penalise you for late lodgement
- ✓ Property Agent
 - Fees/commissions – including GST
 - Postage & petties,
 - Statement fees and
 - Bank charges/fees
 - Lease document expenses
 - Letting fees
- ✓ Administration expenses including
 - Stationery used to maintain your rental records etc
 - Postage on documents relating to property management
 - Telephone calls relating to property management
 - Legal expenses relating to debt collection or tenant problems
 - Electricity & gas – where not covered by tenant
- ✓ Insurance
 - Landlords
 - Building
 - Contents
 - Public liability
- ✓ On acquisition – from the solicitor's settlement letter
 - Balance of council rates

- Balance of water rates
- Balance of body corporate fees

- ✓ **Repairs & Maintenance** – relating to wear & tear or damage as a result of renting out the property. The idea is that an expense is considered a repair when the functionality is being restored. Generally repairs include
 - Plumbing
 - Electrical
 - Handyman
 - Etc.

ATO is particularly vigilant to catch people who are claiming expenses described as repairs when they are considered to be improvements – see example below

- ✓ **Interest** & loan a/c fees on loans to finance investment properties.
 - For the interest to be to be deductible the loan must have been applied to acquire an income producing asset e.g rental property
- ✓ **Travel expenses** to –
 - Inspect property
 - Maintain property
 - Collect rents

A full deduction can only be claimed if the sole purpose of the trip relates to the property.

- Where the inspection is combined with a holiday, expenses must be apportioned,
- ✓ Cost of preparing a **Quantity Surveyor's report** showing depreciation expenses and Special Building Writeoff
- ✓ Seminars – cost of attending property investment seminars – only to the extent that they relate to operating or maximising the return on currently owned properties

Deductible – OVER a NUMBER of YEARS

- Borrowing Expenses – deductible over the period of the loan where the loan is less than five years. Otherwise deductible over five years. Expenses deductible include:
 - Loan Application fee
 - Lenders legal fees
 - Title search fees
 - Lenders mortgage insurance
 - Stamp duty on mortgage
 - Mortgage registration fees
- Depreciation on Plant & Equipment– ATO calls it Decline in Value of depreciating assets
- Depreciation on the building construction – ATO calls it Capital Works deduction
- Cost of installing any plant & equipment such Hot Water Systems – are considered part of the cost of system – to be depreciated
- Set of assets e.g. dining table and 6 chairs – is to be depreciated in accordance with their effective life
 - Each item can not be separately deducted for being under \$300

NOT Deductible

The following items are either not deductible or considered to be of a capital or private nature by ATO

- On Purchase
 - Purchase price
 - Stamp duty on purchase
 - Legal/conveyancing fees
 - Pest & Property inspection
 - Sourcing Fee
 - Renovations immediately after purchase
 - Repairs immediately after purchase
- On Sale of a property
 - Legal/conveyancing
 - Advertising
 - Agent fees
- Pre-Purchase expenses including (especially if property was not purchased)
 - Attending seminars to acquire more property
 - Cost of reports on property prior to purchase
 - Travel to inspect property prior to purchase
- Where the property was not available for rent, then all the expenses described above are not deductible
 - Particularly relevant where the property is used as your personal holiday accommodation.

Individual tax rates

- As announced in the recent Federal Budget, new individual tax rates and thresholds apply from 1 July 2010 to 30 June 2011.

2010/2011 Income Tax Thresholds (\$)	Tax Rate %
0 – 6,000	0
6,001 – 37,000	15
37,001 – 80,000	30
80,001 – 180,000	37
180,001 +	45

- When you incur a rental expense, the tax savings is not the total amount but the amount multiplied by your marginal tax rate as shown above.

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

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

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 KnowledgeShop Pty Ltd client newsletters. Barbara & co – Property Tax Specialists is a member of the Knowledge Shop and Hayes Knight Network

Kind Regards
Shukri Barbara

Property Tax Specialists – [Prosperity & Peace of Mind](#)
Barbara & Co cpa

phone 02 9411 8133
fax 02 9412 2833
mobile 0410 588 305
post: P.O.Box 665 Chatswood NSW 2057
office
Level 5

suite 509, 71-73 Archer Street
Chatswood NSW 2067
website www.propertytaxspecialists.com.au <<http://www.propertytaxspecialists.com.au>>

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