PREPARING FOR TAX TIME

Investment Properties

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Investment Properties are a favourite investment for many Australians and for a good reason. Looking at the Australian Bureau of Statistics Residential Property Price Index the Australian residential property market has has been a great investment.

	Residential Property (Gross growth plus an assumed 3.5% rental yield)	Australian Listed Property (Indexed)	Australian Shares (Indexed)	International Shares (Indexed and Hedged)
1 Year	8.47%	8.08%	12.18%	23.13%
3 Year	10.58%	7.46%	7.31%	13.1%
5 Year	11.08%	11.75%	9.07%	15.31%
10 Year	8.52%	3.62%	5.29%	9.13%

These rates of return however also do not take into account any tax benefits that the property may also be providing. For many property investors part of the appeal of investing in property is it's ability reduce your taxable income while owning an asset that experiences long term capital growth. Unfortunately, however, there have been a few changes over the past 12 months that may impact what you are able to claim preparing your tax for the 2017-18 financial year. Continual government change can make this more complicated so I am going to run through the main things to check off when doing your tax as an investment property owner.

Tax and Investment Properties

Generally, deductions may be claimed for most expenses relevant and incidental to the production of rental income derived by a landlord/lessor. These expenses normally are able to be claimed from the time the property is listed for rental with an estate agent. There are two main forms of expenses which will not be tax deductible:

1. The expenses are determined to be of a personal/domestic nature (i.e. not actually used in relation to producing an income)
2. The expenses are capital in nature (ie relate to the acquisition of an asset which will provide a benefit for more than one financial year.

Capital expenses either form part of the cost base of your property and considered when determining any capital gains or the decline in value (depreciation) of the asset is able to be claimed each year so there is still a tax benefit however the benefit is deferred.

Deductions Checklist

While there may be some expenses where there is a question as to their deductibility there are many expenses where it will be clearly deductible which include:

- Interest on funds borrowed to purchase a rental property. (Where you construct a new property this includes interest during the construction period)
- Legal expenses
- Advertising expenses
- Agent's fees
- Admin expenses
- Insurance
- Council rates
- Water Rates
- Land Tax
- Strata and body corporate fees
- Repairs and maintenance (where it is not substantially replacing or improving an existing asset)
- Costs of education/ attending seminars to the extent they relate to operating/maximising rent of current rental properties

In addition to these expenses you are able claim the decline in value of a depreciating asset (Depreciation). For investment properties held prior to 9 May 2017, you will be able to claim for all of the depreciating assets within a property including things such as Floor coverings, heaters, hot water systems etc. The ATO provides a *Depreciation and capital allowances tool* which can help you calculate the amount you can claim for each asset however if you have not had a depreciation schedule completed before this can be a very worthwhile investment.

Unfortunately for investors in residential property the Government has sought to crack down on some of the deductions that investors can claim.

Housing Tax Integrity Act 2017

Travel Expenses

As part of the Governments proposed budget measures for Housing Affordability they have disallowed any travel expenses for individual tax payers as a deduction where they relate to residential properties. These costs are also not allowed to be included in the cost base for capital gains tax purposes.

Second Hand Depreciating Assets in residential rental properties

As per the budget papers for assets acquired after 7:30pm (AEST) on the 9th of May 2017 the deduction that can be claimed for depreciation assets is reduced to the extent that the asset was previously used by another entity. The impact of this is that depreciation will only be claimable for assets acquired as new. This will also impact owner-occupiers who subsequently rent out their property.

This does not impact assets or properties held prior to this so depreciation will continue to be able to be claimed for properties held before this. There is also an exemption for properties purchased from a developer provided no one has lived in the property or claimed depreciation for the assets

Peter Gehlert is the Principal Financial Adviser at Hart Wealth Management and a Registered Tax Financial Adviser. He specialises in providing strategic and holistic financial advice. It is important to note that this information is intended to be general in nature and it has not taken into account your current financial position, needs or objectives. If you have any questions about your own finances or how these changes may impact on you fell free to contact Peter
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