

TAX DEDUCTIONS FOR PROPERTY INVESTORS

A QUICK GUIDE



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Before you get started

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Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

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Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library

This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step

Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

Wealth Adviser Library

Introduction

We have all heard the old saying about death and taxes being the only two certainties in life. That may indeed be the case, what should be added is that you should make sure that you are not taxed to death!

One way of doing this as a property investor is to make sure that you claim all the allowable tax deductions associated with the investment property.

'Claim all the allowable tax deductions' may sound easy and straightforward. However, the problem is that tax law is complicated and constantly changing. It is therefore the case that many property investors 'under claim', with obvious implications for their 'bottom line', or they claim for ineligible expenses, leading to lots of hassle and maybe even formal investigations of their tax affairs.

The purpose of this short overview is to help you strike just the right balance. It should be noted that the information contained herein is for informational purposes only and not meant as specific advice for your particular situation. Please speak to a qualified tax professional if you need detailed advice about your specific circumstances.

This overview is divided between items that:

- you can deduct immediately (i.e. you can include it in your next tax return)
- you can deduct over a certain time period
- you cannot deduct.

Expenses that can be deducted immediately

There are several categories of expenses that are deductible immediately. The common denominator between them is that they all relate in some way to day-to-day running of your property business, with business being the operative word!

You should in all cases be able to convince the Australian Taxation Office (ATO) that the things that you claim for represent

legitimate business expenses. It should therefore go without saying that you should maintain very reliable 'paper trails' whenever you incur a business expense. This will save you a great deal of time and money when the time to submit your tax return rolls around.

The following is a description of the major categories for which you can claim tax deductions immediately:

Property management and ongoing maintenance expenses

This category includes some of the recurring running expenses associated with managing your business. You can claim for:

- **Advertising costs** –This refers to the cost of finding tenants, and persuading them to come and stay in your properties. Both direct (i.e. where you placed ads yourself), and indirect (i.e. where an agent advertised on your behalf) advertising costs are eligible.
- **Building/property fees** –This can include body corporate fees or strata management fees and charges.
- **Miscellaneous costs** –Costs related to maintaining a safe, clean and pleasant environment. Examples include cleaning costs, gardening and/or lawn mowing expenses, pest control costs and security patrol fees.

Rates and taxes

This refers to any regular bills related to your properties that you are directly responsible for. Most common among them are:

- **Water rates, charges and usage**
- **Council rates**
- **Land tax** –This is a tax administered by the Office of State or Territory Revenue of each state or territory. When you first own a property, you should lodge an initial tax return with your local state or territory revenue office. You should ensure

that you do this as soon as possible as no reminders will be sent. Penalties apply for late lodgement.

- Electricity and gas bills –On occasion, you as the landlord have direct responsibility for the gas and electricity bills, either due to a vacancy or because of a specific arrangement with tenants. You can claim a tax deduction when this is the case.

Property agency costs

You can claim for bona fide expenses related to the appointment of a property agent to let and/or manage a property on your behalf.

- Agent fees and/or commissions –You can claim on both the fees, and the Goods and Services Tax (GST) payable on it.
- Postage and petty expenses
- Statement fees
- Bank charges
- Expenses related to the drawing up of lease documents
- Letting fees.

Administrative expenses

This category relates to any direct expenses arising from the administration of your property business. You should keep careful records of all legitimate administrative expenses as this is an area where most landlords spend quite a bit of money.

- Stationery, postage and other minor expenses
- Telephone and communication costs
- Legal expenses –Especially expenses arising from debt collection and dealing with problem tenants.

Insurance costs

The cost of insurance that covers against the risks you face in running your business can be included in your tax return. The following types of insurance are regarded

as eligible for tax deduction by the ATO:

- Comprehensive landlord's insurance
- Building insurance
- Contents insurance
- Public liability insurance.

Costs payable at acquisition

It is sometimes the case that you are liable for certain costs when acquiring a property. These costs will be spelled out in the settlement letter you receive from your solicitor and can be claimed as a deduction. The most common examples of such costs are:

- The balance payable on council rates
- The balance payable on water rates
- The balance payable on body corporate fees.

Repair costs

As a landlord, one of your primary tasks is to provide a comfortable and safe environment for your tenants. Costs related to the maintenance of such an environment can be deducted.

There is obviously a fine line between repairing and improving a property and the ATO pays special attention to claims for repairs in order to determine whether what is described is not, in fact, improvements. In general, a claim for repairs will be successful if it can be proved that the functionality of the building was restored to a previous level.

This is an area where a good paper trail can be a great asset. You should ensure that tradespeople prepare detailed quotes and/or work reports.

This will greatly assist you in proving the exact nature of the work that was undertaken.

Repairs can include:

- Plumbing repairs
- Electrical repairs
- General repairs.

Interest and loan account fees

You can deduct the interest and account fees on loans, provided that you can prove that the loan was entered into to acquire an income generating asset (i.e. a rental property).

Travel expenses

Travel expenses may be tax deductible for travel directly related to the day-to-day running and management of your business. This can include trips to:

- Inspect property
- Maintain property
- Collect rent.

There have been some significant changes that apply from 1 July 2017 that restrict who can claim travel expenses as a tax deduction and the type of investment property that these travel expenses apply. These are discussed later in this eBook, however, travel expenses from this date, can generally not be claimed as a tax deduction by individuals and self-managed superannuation funds.

To claim a full deduction, it must be able to be proven that an entire trip was undertaken for the sole purpose of attending to the properties. If a particular trip had a combined business/personal purpose this may not be fully tax deductible.

Quantity surveyor costs

It may sometimes be necessary to engage the services of a quantity surveyor when calculating depreciation expenses and/or the value added by capital projects (e.g. building an extension) works. There fees for drawing up a report can be claimed as a deduction.

Training seminars

You can deduct the cost of attending some property investment seminars. However, you should be able to prove that the topics that were discussed were in some way related to management and/or revenue optimisation of properties that you currently own. This means that you cannot claim for seminars that focus on teaching you how to expand your property portfolio.

Expenses that can be deducted over a number of years

There are certain types of deductions where you cannot deduct the full amount in your next tax return, but where you are allowed to include the deductions in a number of consecutive tax returns. This is an area that you should study closely since including timed deductions can save you quite a bit of money over the long-term.

Borrowing expenses

Borrowing expenses can be deducted over the period of a loan when the loan term is less than five years. For loans with terms longer than five years the deduction period is five years. The following expenses can be deducted:

- Loan application fees
- Lenders legal fees
- Title search fees
- Lenders mortgage insurance
- Stamp duty on mortgages
- Mortgage registration fees.

Depreciation on plant and equipment

This deduction is called 'Decline in value of depreciating assets' by the ATO. It defines a depreciating asset as: '...an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used.'

Examples relevant to a property investor may include electrical equipment, carpets and furnishings.

There are different methods of calculating eligible deductions and you should therefore do a bit of homework before you lodge your tax return.

In general, the following principles apply:

1. The cost of installing equipment and plant (e.g. hot water systems) should be added to the total asset value that will be used to calculate depreciation.

2. Movable assets (i.e. furniture, appliances etc.) should be depreciated according to their effective life. The ATO website gives the correct formulas according to which calculations should be made.
3. Only items costing more than \$300 should be included in your depreciation claims. The full costs for eligible items under \$300 can be claimed as a direct deduction.

Construction costs

You may be able to deduct costs associated with constructing a building or extension.

This deduction is referred to as 'capital works deduction'. This is normally spread over 40 years at 2.5% depending on the type of construction and the date construction commenced.

Examples of eligible constructions include:

1. A building or extension, such as adding a room, garage, or pergola
2. Alterations, such as removing or adding an internal wall, or
3. Structural improvements to the property, such as adding a carport, sealed driveway, or fence.

It is important to note that you can only claim capital works deduction for periods when a property is rented or is available for rent.

Expenses that cannot be deducted

Up to now it has been almost all good news, however, there are several forms of expenditure that are either not deductible or are considered to be of a private nature by the ATO. The most important among these are:

Purchase costs

The cost of purchasing a property, as well as certain directly related expenses, cannot be claimed as a tax deduction. This means that the following types of expenditure cannot be claimed as a tax deduction:

- Purchase price

- Stamp duty on purchase
- Legal and conveyancing fees
- Pest and property inspection
- Sourcing fees
- Renovations immediately after purchase
- Repairs immediately after purchase.

Costs related to the sale of properties

The following sale related costs cannot be claimed:

- Legal and conveyancing fees
- Advertising
- Agent fees.

However, purchase costs and costs related to the sale of the investment property are considered capital costs and may be included in the cost base of the property. Therefore, when the property is sold, the amount of assessable gain would be less.

Travel expenses

From 1 July 2017, the travel expenses in gaining assessable income from a residential property are no longer tax deductible. This includes travel expenses incurred in inspecting, maintaining, or collecting rent in regard to the residential property. This restriction applies to individuals and trustees of self-managed superannuation funds that own residential property. In addition, travel expenses cannot be included in the cost base of the property.

However, if the residential property is owned by a company, then the company may still be able to claim travel expenses as a tax deduction.

Second hand plant and equipment

From 7:30pm (Australian Eastern Standard Time) on 9 May 2017 a tax deduction for depreciating second hand or used plant and equipment used in a residential investment property is not tax deductible from 1 July 2017. Further, any plant or equipment installed on or after 1 July 2017 is not tax deductible if it has been used by you for private purposes.

As with changes to travel expenses, this change does not apply to residential property owned by a company. Further, if you owned a rental property, or entered into a contract to purchase the rental property before 7.30pm on 9 May 2017, a tax deduction can continue to be claimed on the depreciating assets that were already in the property before 9 May 2017.

Pre-purchase expenses

This section includes costs incurred while investigating new avenues of investment, or specific properties, especially if no property purchase took place in the end!

You should therefore take care not to include any of the following in your tax return:

- Fees for seminars focussing on the expansion of your property portfolio
- Property sourcing fees (e.g. cost of reports on properties prior to purchase)
- Cost of travel to inspect properties prior to purchase.
- Costs incurred at a time when a property was not available for rent

It is very important to note that if a property was removed from the rental market for a time, expenses arising from this period are not tax deductible. You should therefore be very careful not to include times when you made personal use of a property (i.e. as a holiday home) in your tax return.

Conclusion

It should be clear from this overview that a great deal of money can be saved by consistently claiming all allowable tax deductions. You should grab this opportunity to improve the financial footing of your property business with both hands. In this way you will make sure that you 'render unto Caesar what is his', but not a single cent more!

Take the next step

We trust you enjoyed this publication and found it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

We now invite you to take the next step and meet with an adviser to discuss what it was you were hoping to achieve when you downloaded this handbook and to establish if we can help you achieve your goals and objectives.

Next you will find details on how to book an appointment with an adviser.

We look forward to meeting you soon.

Appointment booking request form

About the Adviser

Please complete the Appointment Booking Request below and scan and email to:

Appointments are available Monday-to-Friday.

Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Our services

Preferred appointment day and time

Day

Date

Time am/pm

Contact details

If you would like us to contact you via email to confirm your appointment or to answer any questions you have, please provide a valid email address for our records.

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Reader Notes



Reader Notes



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Wealth Adviser

Wealth Adviser is a division of WT Financial Group Limited
Head Office: Level 5, 95 Pitt Street Sydney NSW 2000
Telephone: 02 9248 0422