clifton/accountants

Fact Sheets

Rental Properties

With the growth in the property market many people have invested in rental properties in recent years. They have banked on the capital growth in the value of the property whilst gaining a tax advantage due to negative gearing creating a loss to offset against other salary & wage and investment income. The income or loss from the rental of the property is included in your return each year, whilst the growth in capital value is taxed when the property is sold.

Below we have set out information on income, deductions, capital gains, and other things to keep in mind for your tax. This is a not exhaustive but indicative list.

Assessable Income

• Rent (generally when paid)
• Reimbursements (water, repairs, rubbish removal, electricity, gas)
• Insurance recoveries (related to the property or against unpaid rent)

Deductions

• Cost of the Property - loan interest, bank fees on loan, early termination interest, borrowing costs, rates, repairs (ongoing), insurance, land tax, body corporate or strata fees, depreciation on items, depreciation on building (conditions apply), pest control, travel for inspections, travel for maintenance
• Having a Tenant - landlord insurance, agents letting fees, lease fees, lawn mowing, commission to letting agent, advertising, cleaning, rubbish removal, electricity, gas
• Administering the Property - postage, home office, accountant, stationery

Capital Gains

When a rental property is disposed of generally a capital gain or loss arises. This means that, in the case of a capital gain, the net amount received from the disposal of the property was more than the total cost of acquiring the property. In the case of a capital loss the opposite was true.

In order to determine your liability for tax on a capital gain, or the amount of loss to be offset against other gains or carried forward, Clifton's need the following information;

• Purchase cost
• Date of Purchase
• Solicitors settlement statement from Purchase

• Fees related to Purchase
• Stamp duty (if any)

• Sale amount
• Date of Sale
• Solicitors settlement statement from Sale
• Fees related to Sale (commission, charges, etc)
• Cost of improvements
• Costs of holding not previously deducted
• Depreciation already claimed

Some of this information Clifton's will already have, and we endeavour to get as much information as we can when the initial property purchase is made.

Documents

You should keep all documents received in relation to your property. This includes not only the purchase and sale, but communications in between the two.

You should also keep all documentation that relates to any of the items mentioned above. If you are not sure, keep it anyway, or you can always contact us to get our opinion. In all cases documents should be keep for 5 years from the date of the last tax return to which that information relates, which is that later of when the return was originally lodged, when it was amended, or when an objection was raised.

Other Issues

There are a number of other tax related issues in relation to rental properties that you should be aware of and take into consideration before you make an investment.

These include;
• Other taxable income
• Income splitting
• Negative gearing
• Timing of Income
• Timing of Deductions
• Land Tax
• Main Residence exemptions
• Private use of property
• Non-arms length transactions

These are all important considerations. Should you wish to discuss them with one of our professional team, please contact us to make an appointment.