

NEWSLETTER

September 2009



Welcome to our Spring edition of MADA News for 2009.

In these times, it can be extremely difficult obtaining the right work/life balance – but we all should try (especially me)!

“Learn to enjoy every minute of your life. Be happy now. Don't wait for something outside yourself to make you happy in the future. Think how really precious is the time you have to spend, whether it's at work or with your family. Every minute should be enjoyed and savoured”. - Earl Nightingale



Caroline Poon

As so many of our clients have investment properties in their portfolios, we thought it worthwhile in this edition to re-iterate how to claim various deductions in respect of such properties.

This is especially pertinent with investment properties again being on the ATO audit hit list!

RENTAL PROPERTY TAX TIPS

When determining what you can and can't claim in relation to rental properties, it is recommended that you consider the following general tax tips.

Be able to justify your claim

Make sure you have receipts to justify the deductions you are claiming, and can justify the connection between the expense and deriving the rental income.

Interest deductions

Be careful not to overstate interest deductions where the loan is partly for private purposes e.g. claiming interest on a holiday house property where it is used (say) 1/12th or for one month by the family for holidays

Allocating total purchase price

If you purchase property with depreciable assets (eg. dishwasher, clothes dryer etc.), you must allocate the total purchase price between the property and other items on a reasonable basis. If the sale contract does allocate the purchase price, the ATO may challenge it if the amounts allocated appear unreasonable.

It would be prudent to have a quantity surveyor report prepared (the cost being tax deductible) to allocate the total purchase price between land, building and depreciable items. Note that items such as landscaping, turfing, garden beds and irrigation pipe work are added to the cost base of the property i.e. cannot be depreciated.

Part of the building

Items such as built-in wardrobes, swimming pools, electric cabling and security screens are treated as being part of the building and are not depreciable assets. Expenditure on 'capital works' (eg. the building and surrounding structures, driveways etc) is generally deductible over 40 years at 2.5 per cent. There are restrictions on claiming it on capital works already constructed when you purchased the property.

Improvements

The cost of repairs to the property that amount to an improvement, and don't merely restore it back to its original condition, is generally considered capital and not deductible. One of the common mistakes made by owners of rental properties is incorrectly claiming the cost of structural improvements as repairs instead of claiming a capital works deduction. For example, remodelling a bathroom or installing a pergola is capital in nature.

Repairing existing wear / damage

The cost of renovations or repairs to fix damage or wear in existence at the time you purchased the property is generally considered capital and not deductible. Any repairs undertaken within the first twelve months of purchase are considered capital regardless of their nature.

Body corporate fees

These fees are generally deductible. However if a component is for a special-purpose sinking fund rather than general running of the complex, it may be considered capital and not deductible.

Travel to inspect property

You can claim a deduction for the cost of travel to inspect the rental property. If there was also a private purpose to the trip (eg a holiday or to visit family or friends) then you can only deduct a portion of the travel cost and potentially none if the property inspection was merely incidental to the private purpose for the trip.

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The contents of this article are general in nature and are not advice that applies to any particular client situation. Whilst every care has been taken in preparing the article, specific advice should be obtained before proceeding with any suggestion or recommendation made