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Investment Property Tax Deductions

Investors

As the financial year end is coming up quicker than I would like, I thought it would be useful to send you an extract from a Metropole newsletter relating to property deductions that can be claimed for investors for income tax purposes.

A good accountant should know these but it helps if you are aware of them as well.

If you need a referral to an accountant, please let me know.

Property deductions

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 - [Tax](#)
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[View all articles by Ian Sheer](#)

At Chan & Naylor, as Accountants specialising in Property Investment, business and self managed super funds we are often asked how the ATO view rental income and other matters relating to property investment.

Each year the ATO sets out a list of items for which investors can claim an immediate deduction, those items which are not deductible and those items which may be deductible over a number of years.

Remember that, before you consider claiming a deduction, you must actually incur the expense and your tenant must not have paid them on your behalf.

Please note that all income and expenses must be apportioned as per the ownership of the property. Income and expenses must also be apportioned if the property was not available for rent for the whole financial year, only part of the property was available for rent or the property was not rented at commercial rates.

Property Purchase Initial Income & Deductions

Portion of Rental Income

Portion of Council Rates

Portion of Water Rates

Portion of Body Corporate

Income

Yearly Expenses

- Ø **Advertising for tenants** – this may include letting fees and tenancy checks
- Ø **Bank Charges** – if rent goes into a separate bank account
- Ø **Body Corporate Fees** – payments for Body Corporate Administration and General Purpose Sinking Funds are deductible when paid although the Special Purpose Sinking Fund payments are not deductible as they are for capital expenditure but may be written off over a period of time
- Ø **Cleaning**
 - Ø **Council rates** - as per the issued invoices
 - Ø **Electricity & Gas** – If not paid by the client
 - Ø **Gardening/lawn mowing**
 - Ø **In house Audio and Video service Charges**
- Ø **Insurance** – Building, contents, public liability, landlords insurance
- Ø **Interest on loans** – the intention of the loan is for property investment purposes only which may include building the property or for renovations and are deductible from the time the loan was taken out.
- Ø **Land tax** – You may have to lodge an initial land tax return with the state revenue office in each state (although not in Victoria)
- Ø **Lease Document expense** – The costs of preparing and registering a lease and the cost of stamp duty
- Ø **Legal fees** – the cost of evicting a tenant (most legal costs are capital in nature)
- Ø **Mortgage Discharge expenses** – this includes the mortgage discharge fees and also the penalty interest that may have been incurred.
- Ø **Pest control** – Usually the year maintenance
- Ø **Postage** – relating to the property management
- Ø **Property Agent Fees** – this will appear on the monthly/yearly real estate agent statement
- Ø **Quantity Surveyors Fees** – for the preparation of the Depreciation Schedule
- Ø **Repairs and Maintenance** – this must relate to wear and tear or other damage that has occurred as a result of tenancy.
- Ø **Secretary and bookkeeping fees** - relating to the property management
- Ø **Security Patrol Fees**
- Ø **Servicing costs** – smoke alarms servicing and maintenance of fixtures and fittings
- Ø **Stationary** - relating to the property management
- Ø **Tax Related Expenses** - relating to the property management
- Ø **Telephone calls and rental** - relating to the property management

Ø **Travel Expenses** – cost associated with travel to the property to inspect or collect rent are deductible, if the travel incorporated personal expenses you will need to apportion the expenses accordingly.

Ø **Water Charges/Rates** – as per the issued invoices

Ø **Sundry Expenses** - relating to the property management

Expenses Claimed over Period of time

- Borrowing costs – deductible over 5 years
- Capital Works Deduction (special building write off) – refer to your quantity surveyors report
- Capital Allowance Deduction (depreciation) – refer to your quantity

surveyors report

- Setup Costs – deductible over 5 years

Non-Deductible Expenses

The costs associated with the purchase of an investment property are not deductible but do form part of the cost base of the property. These non-deductible expenses include the following:

- Purchase price
- Solicitor/Conveyance Fees
- Stamp Duty on purchase price
- Advertising on sale of property
- Buyers agent fees

Special Purpose Sinking Fund payments are not deductible as they are for capital expenditure but may be written off over a period of time.

Seminars

Costs associated with attending seminars etc need to be carefully reviewed. Only those costs which specifically relate to your existing investments and income generation can be claimed. If the seminar covers other topics then the total costs need to be apportioned.

Legal Fees – these fees are usually of a capital nature and form part of the cost base which include purchasing or selling the property, resisting land resumption and defending your title to the property.

Individual income tax rates

Residents

These rates apply to individuals who:

are residents of Australia for tax purposes for the whole financial year (see *Residency - overview* for more information), and

did not leave full-time education for the first time during the financial year.

Tax rates 2008-09

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 – \$6,000	Nil
\$6,001 – \$34,000	15c for each \$1 over \$6,000
\$34,001 – \$80,000	\$4,200 plus 30c for each \$1 over \$34,000
\$80,001 – \$180,000	\$18,000 plus 40c for each \$1 over \$80,000
\$180,001 and over	\$58,000 plus 45c for each \$1 over \$180,000

The above rates **do not** include the Medicare levy of 1.5% (read *What is the Medicare levy?* for more information).

Our Service to You

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As well as providing a service to investors, we will assist you in purchasing as an owner-occupier, or upgrading to a new property, or simply looking at better pricing or structuring options for your current loans and banking or assisting seniors looking at possible reverse mortgage options.

Our business is built on referrals provided by clients, so please don't keep us a secret, feel free to forward this e-mail to family and friends interested in their own financial future. Give us a call and book an appointment to see if it makes sense for you.

If you have any questions about any of these topics, give me a call.

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