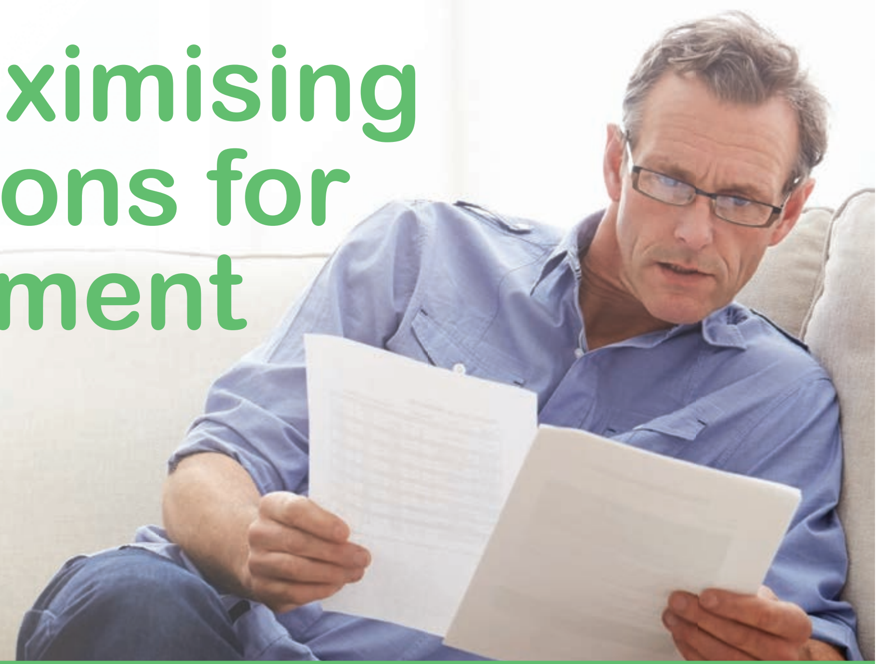
Are you maximising tax deductions for your investment property?



According to the ATO there are around 1.9 million property investors in Australia and 2.7 million rental investment properties[1]. Surprisingly, many landlords fail to claim all allowable tax deductions simply because they are unaware of all the expenses they can claim as a tax deduction.

There are two types of investment property strategies – positively geared or negatively geared.

Positively geared properties – where rental income is higher than interest payments and tax deductible outgoings. Tax is likely to be paid on the net income.

Negatively geared properties – where rental income is less than interest payments and tax deductible outgoings. The loss can be offset against other income earnings, reducing assessable income and therefore your tax payable.

The strategy most suited to you will be dependent on your individual circumstances and your long term investment goals and objectives.

More recently, proposed tax changes to negative gearing has been a political hot potato. Let's face it - nobody likes the goal posts shifted half way through the match! Whatever the outcome, property investment is likely to continue being a popular path to wealth creation for Australians – even if the scales tip in favour of positively geared property investment.

So… If YOU have an investment property are you sure you are claiming all possible deductions?

Regardless of the property investment strategy you adopt all investors will see benefits in claiming all possible deductions. As a starting point review the lists below and ensure you have paperwork for the expenses you have incurred.

Initial borrowing expenses

- ☐ stamp duty charged on the mortgage
- ☐ loan establishment fees
- ☐ title search fees charged by your lender
- ☐ costs for preparing and filing mortgage documents
- ☐ mortgage broker fees
- ☐ fees for a valuation required for loan approval
- ☐ lender's mortgage insurance – this is insurance taken out by the lender and billed to you

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Interest

Interest is usually the largest tax deduction, particularly in a negative gearing arrangement. You can claim the interest charged on the loan used to:

- ☐ purchase a rental property or land to build a rental property
- ☐ purchase a depreciating asset for the rental property (eg an air conditioner)
- ☐ make repairs to the rental property
- ☐ finance renovations on the rental property

Other expenses

- ☐ advertising for tenants
- ☐ bank charges
- ☐ body corporate fees
- ☐ council rates
- ☐ gardening and lawn mowing
- ☐ insurance
- ☐ land tax
- ☐ legal expenses for preparing a lease or evicting a non-paying tenant
- ☐ pest control
- ☐ property agent fees or commissions
- ☐ repairs and maintenance
- ☐ water charges (if not paid by the tenant)

Capital works

You may be able to claim a deduction (usually at the rate of 2.5% per year in the 40 years following construction) for the construction cost of:

- ☐ buildings
- ☐ structural extensions such as a garage or patio
- ☐ structural alterations such as adding an internal wall
- ☐ structural improvements such as a gazebo, carport, sealed driveway, retaining wall or fence

Depreciation

The plant and appliances in your property reduce in value over time as a result of normal wear and tear. The ATO allows you to claim deductions for this reduction in value each year.

In order to substantiate these deductions you should consider getting a professional quantity surveyor's report for applicable capital works and depreciation deductions during the life of your property.

Most importantly... make sure you keep all receipts as no receipt = no deduction.

1. ABS Census 2011

The above checklist should get you started. For more information...

Ask us to send you the ATO 'Guide for rental property owners – Rental properties 2015'. This explains how to treat rental income and expenses for more than 230 residential rental property items!

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