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CAPITAL CITY SUBURBS

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HOW TO PREPARE
FOR THE WORST

CASE STUDIES
INVESTOR BUILDS \$6.7M
PORTFOLIO DESPITE THE ODDS

DATA
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The experts



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How to save thousands on your 2015 tax bills

June 30 is looming and it is once again time for tax planning. To help get your affairs in order regarding your investment property, here are the top tax-saving tips from our trusted tax expert, Eddie Chung of BDO (Qld)

01 Leave your tenants alone As long as tenants have not paid rent to you or your property agent by 30 June 2014, the rent will not be assessable for income tax until you receive it in the next financial year. It is the time of year when you don't actually want to chase your tenants for rent.

02 Don't pay tax on prepaid rent If you have an obligation under the lease to refund a tenant's prepaid rent that is received by you on or before 30 June 2014, until the period to which the rent is attributable in the next financial year has elapsed, you do not need to include the prepaid rent as income until the next financial year.

03 Look out for the contract date If you are thinking of selling your property, be aware that the time of sale for capital gains tax (CGT) purposes is the date on the sale contract. If the contract is signed after 30 June 2014, the CGT event happens in the year ending 30 June 2015, which means you have effectively deferred the CGT for 12 months.

04 Don't forget to claim expenses in settlement adjustments This is applicable if the expenses were adjusted in the other party's favour. Likewise, if the expenses were adjusted in your favour, the amounts will need to be included in your assessable income. Check the settlement statement issued

by your conveyancing lawyer for these details.

05 Spend big for a change But only do so on expenses that are not 'capital' in nature, with a few exceptions. Generally, capital expenditure relates to costs of something that provides an enduring benefit, as opposed to having been 'consumed'. Examples that are not capital in nature include repairs and maintenance, cleaning, gardening, pest control, tax advisor's fees, etc. Once incurred, these costs are immediately tax deductible. The only exceptions are depreciating assets that cost \$300 (GST inclusive) or less – you can claim these up front as well.

06 Prepay non-capital costs If you own an investment property in your own name as an individual and as a passive asset, you can claim a tax deduction on prepaid expenses related to the property, as long as the prepayment covers a period of no longer than 12 months.

The most common prepayment is prepaid interest on borrowings to acquire the property. Prepayments of less than \$1,000 will still be immediately tax deductible.

07 Claim a tax deduction on costs before you pay them This applies if you have 'incurred' non-capital costs that are related to your investment property and you do not carry on a business that returns income on a cash basis. 'Incurred' usually requires a definitive commitment to the expense.

A good example is land tax. If you become liable for land tax at a certain time of the year based on the land tax law in your state or territory, you can claim the land tax liability as a tax deduction for the year, regardless of whether you have paid it or even received an assessment.

08 Order a capital works and depreciation report Ensure that you engage a qualified quantity surveyor. Provided that you incurred the cost of the report on or before 30 June 2014, you can also claim the cost of the report as a tax deduction for the year, in addition to the actual capital works and depreciation deductions.

09 Don't forget to claim penalty interest If you have repaid a fixed loan on an investment property early and have incurred penalty interest (otherwise known as 'economic cost'), the penalty interest is tax deductible.

TAX TIP

Claim a tax deduction on costs before you pay them

10 Don't redraw for private purposes Once a loan repayment is made on an income-producing loan, don't access it. This is because any redraw from the loan will take on a different character, rather than being related to the original purchase of the investment property.

If the redrawn funds are used for non-income-producing purposes, the interest attributable to these funds will no longer be tax deductible.

11 Don't forget to claim the interest on a loan associated with a sold property

Whether or not the original loan has been refinanced or kept on foot, you are still allowed to claim the interest on the loan, even though the related property has been sold, as long as the reason for keeping the loan on foot or refinancing the loan is related to the original income-producing purpose of the loan. The most common scenario is if you sell the property and there are insufficient proceeds to pay off the loan.

12 Don't buy into 'split loan' arrangements

Even though some financiers allow you to apply your loan repayments on the split loan (which comprises both private and income-producing loan accounts) solely to the private loan account, this allows the interest on the income-producing loan to be capitalised, creating a scenario in which the capitalised interest gives rise to further interest in the future.

The tax office has challenged the tax deductibility of the interest on the capitalised interest in this type of arrangement, which should be avoided.

13 Inspect your property before year-end

Any travelling expenses you incur for the purpose of inspecting an investment property that you already own will be tax deductible. However, you cannot claim a tax deduction on any property that you have not yet bought or that is not available for rent.

14 Delay initial repairs

If you incur repair costs not long after you have bought an investment property, these constitute 'initial repairs'. They are usually included in the cost base of the property for future CGT purposes and are not tax deductible.

Delay the repairs until after the property has been tenanted for some time, which should strengthen your argument that the repairs are associated with the wear and tear caused by the

tenant, meaning that the associated costs are therefore tax deductible.

15 Claim home office costs

If you use a home office to manage your property, you can claim the running costs (eg electricity, heating) associated with your home office, but not occupancy costs such as interest on your mortgage, council rates, etc. You need to apportion the costs to reflect the portion of the costs that relate to managing your

claim on the private-use portion of the expenses, or include market rate as assessable income for the period during which you used the property privately (and claim 100% of the expenses).

19 Make a written trust distribution resolution

If you have a discretionary trust, you need to ensure that the trustee has made a trust distribution resolution on or before 30 June 2014. Otherwise,

TAX TIP

Order a capital works and depreciation report

investment property (or other income-producing assets for that matter, eg share portfolio).

16 Make concessional superannuation contributions

If you need to reduce your taxable income, you can make contributions to your super. However, ensure that the total contributions made on your behalf for the year do not exceed your contribution cap. Also, you are only eligible to claim the deduction if you are self-employed or substantially self-employed.

17 Keep the property available for rent

Even though your property may be vacant, you can still claim all the tax-deductible expenses that are attributable to the vacant period, as long as the property is available for rent. To show evidence that the property is available for rent, keep advertising the property for rent and maintain records of the advertisements.

18 Adjust for private use

If you have used your investment property for private purposes, which is common in short-term holiday accommodation, you need to either apportion the expenses associated with the property to exclude a tax deduction

the trustee will be taxed on the undistributed income of the trust at the highest marginal tax rate of 46.5%.

If you consult your accountant to put the resolution together as part of year-end tax planning, the accountant's fees will also be tax deductible. Ask them to issue a bill on or before 30 June 2014 to ensure that the tax deduction is not deferred until the next financial year.

20 Keep documentary evidence

You need to keep your documents for five years from the date you lodge a tax return, just in case the tax office carries out a tax audit or review of your affairs. Special rules apply to depreciating assets – you should keep records of these assets for five years from the date of your last depreciation claim.

If you acquire a CGT asset (eg an investment property), you need to retain the purchase records indefinitely or, if the asset is sold, until after five years from the time the asset is sold. Electronic records are acceptable, provided that the electronic copy is a true and clear reproduction of the original document.

Last but not least, work with your accountant, who is best placed to provide you with trusted advice, as they are most likely the only person who knows your affairs inside out.

How to maximise cash flow through depreciation

A smart property investment strategy is not just about capital growth and high rental yields; it's also about improving cash flow. Tyron Hyde, from Washington Brown Quantity Surveyors, outlines his top depreciation tips for maximising cash flow

Claiming depreciation on your property is one of the most important steps in any successful investor's journey. It's the only deduction that can be subjective. All other expenses, including interest, strata fees, etc., must equal the precise amount paid out. Here are my top tax depreciation tips for property investors:

21 Maximise the cost of construction

When calculating the depreciation on an investment property, the original construction cost must be used.

Due to the current economic climate, many of our clients are now buying properties at dramatically reduced prices, nearer to the original building cost. So the tip is to make the most of the current market conditions and search for properties where the actual construction cost is close to the current purchase price.

By way of example, we had a client that recently bought a property in Cairns for \$120,000. It was a 12-year-old, two-bedroom unit.

Guess what? We still used the original construction cost, which came in at close to \$100,000, as the basis for the incoming property investor.

Not only has the new purchaser therefore paid less stamp duty and increased their chance of a capital gain, but their depreciation deduction

relative to the purchase price has also increased. And this property will be cash flow positive; or cash flow neutral in the worst-case scenario.

22 Don't assume that you can't get depreciation benefit because of the age of your property

Even properties built before 1985 (when the building allowance kicked in) are worth depreciating. The purchase price of your property includes the land, building and plant and equipment.

As a quantity surveyor, part of our role is to apportion or break down those categories for you. In roughly 99% of cases, we find enough plant and equipment items to more than justify the tax-deductible expense of engaging our firm.

23 When it comes to depreciation, the taller the building, the more you can claim

Taller buildings attract higher plant and equipment allowances. The higher the plant and equipment, the higher the depreciation.

'Plant and equipment' refers to necessary services within the building, as well as items within the property itself.

Some of the services required as buildings increase in height are

obvious, such as a lift (transportation service). Other services are less obvious, with fire-hose reels and intercoms all being depreciable under this category.

The other reason tall buildings have a higher ratio of plant and equipment has to do with the amenities the developer provides. For instance, some high-rise buildings have swimming pools, gyms and even mini cinemas.

Let's look at the numbers. The first thing to do is to look at a rough ratio of plant and equipment relative to construction cost, then take a look at how this translates into deductions (see 'Tip 23' table).

These allowances all relate to a \$400,000 property in a capital city, and are very approximate for illustrative purposes only.

As you can see, the taller the building, the more you can depreciate. But keep in mind that a tall building doesn't necessarily make a better investment.

It often means there'll be higher levies and additional expenses, and you own less land as well. But at the end of the day, it's up to you to weigh the pros and cons and make that final decision!

24 Claim small items and low-value pooling immediately

A dollar today is worth more than a dollar tomorrow, so deduct items as quickly as possible. Individual items under \$300 can be written off immediately.

An important thing to remember here is that provided your portion is under \$300 you can write it off.

For instance, say an electric motor for the garage door cost an apartment block \$2,000. If there were 50 units in the block, your portion would be \$40.

You can claim that \$40 outright, as your portion is under \$300.

You can also try to buy items that depreciate faster. Items between \$300 and \$1,000 fall into the 'low pool' category and attract a higher depreciation rate. For instance, a \$1,200 television attracts a 20% deduction, while a \$950 television deducts at 37.5% per annum.

TIP 23 – WHEN IT COMES TO DEPRECIATION, THE TALLER THE BUILDING, THE MORE YOU CAN CLAIM

Type of dwelling	Percentage					
Free-standing house	8–10%					
Unit <4 floors	10–12%					
Unit 4–8 floors	20–25%					
Unit >8 floors	20–25%					

Type	Year 1	Year 2	Year 3	Year 4	Year 5	Total
House	\$7,000	\$5,000	\$4,000	\$3,500	\$3,250	\$150,000
Unit <4 floors	\$8,500	\$7,000	\$5,500	\$4,750	\$4,250	\$175,000
Unit 4–8 floors	\$10,000	\$8,000	\$7,000	\$6,000	\$5,000	\$200,000
Unit >8 floors	\$12,500	\$10,000	\$8,000	\$7,000	\$6,000	\$225,000

25 Use an experienced quantity surveyor

For starters, let's put this issue in perspective. You have just paid hundreds of thousands of dollars for a property – do you really want to save a couple of hundred tax-deductible dollars on the only tax break available to you that can be open to interpretation and skill?

The ATO has identified quantity surveyors as appropriately qualified to estimate the original construction costs in cases where that figure is unknown. I suggest you engage a firm that has been around for at least 10 years. They will have the necessary experience to analyse your property correctly. The laws have also changed frequently over the years and each building is unique, so it pays to get expert advice. The ATO requires all companies who prepare tax depreciation schedules to be registered tax agents.

26 Avoid properties with a 4% building allowance

Residential properties built between 18 July 1985 and 15 September 1987 attract a 4% building depreciation rate over 25 years. Everything built since then attracts a 2.5% rate over 40 years.

Therefore, if you buy a property that commenced construction during the 1985 to 1987 period, you can claim on the building allowance until 15 September 2012. However, if you buy a property that commenced construction in 1992, for example, you still have 20 years in which to depreciate the property, at 2.5%. That's 50% of the original construction still left to claim!

27 Furnish your property

Furnishing your property is another way to increase your depreciation deductions as it attracts higher depreciation rates. For example, a \$20,000 furniture package supplied by a developer can result in an additional \$10,000 deduction in the first year alone.

But remember, furnishing your investment isn't necessarily the best option for all properties and locations. It's better suited to smaller one- or two-bedroom apartments in transient areas that attract short-term tenants and holiday rentals.

28 Claim the residual value write-off

I believe millions of dollars will be missed over the coming years in tax depreciation claims due to changes in what can be defined as 'plant and equipment'.

When I first started preparing depreciation reports, there were several factors that determined what made the list. These included whether the item was absolutely necessary in order to make the property available to be rented out.

For instance, a kitchen was an absolute necessity but a microwave was not. So if you are renovating a kitchen

or bathroom on a property built after 1985, get a quantity surveyor in before you demolish so that they can assess what the residual value of these items is.

That value can still be claimed as an outright deduction and can generate huge savings in the first year. For instance, a rental property with a 20-year-old \$10,000 kitchen attracts an immediate deduction of around \$5,000.

29 Don't bother with DIY depreciation

As an expert in the market, I am baffled at the number of companies offering a 'do-it-yourself' option. I personally think there are some legal anomalies here, but, more importantly, I think you will be missing out on major deductions.

Here's one example. The DIY options in the marketplace give you a tick sheet and ask you to take your own measurements. Now let's say you measure from one bedroom wall to the other. If you do that all around the house, you will reduce the property by 10% in gross area.

Merely measuring off inside surfaces fails to include the surface area occupied by all internal and external walls. At approximately \$1,500 per square metre to build, you will miss out on something like \$15,000 worth of tax deductions!

30 Calculate estimated depreciation deduction when comparing properties

If you're considering buying a five-year-old property but are concerned that the depreciation deductions won't be as high as a brand-new property, you can now compare the two using online depreciation calculators such as the one hosted on our website. It's a free calculator that allows you to compare apples with apples and uses real-life data collated from every inspection we do on behalf of our clients.

TAX TIP

Don't bother with DIY depreciation

How to avoid the tax traps that could get you audited by the ATO

There are not many things as nerve-wracking and stressful as when the ATO comes knocking and demanding to see your books. To prepare you for such an event, Angelo Panagopoulos lists some practical and time-tested strategies



31 Be meticulous with your record-keeping

Keeping good records, as well as keeping your accountant's fees to a minimum, will minimise your risk if there is an ATO audit, especially if you can substantiate and verify all your income tax deductions and assessable income.

Also, as capital gains tax may apply if you sell your investment property, it is prudent to keep records of all the costs and transactions associated with the property, such as contracts of purchase and sale, conveyancing invoices and settlement statements, loan records and documentation, documentation relating to capital improvements and initial repairs, and so on.

32 Claim borrowing expenses the right way

The correct way to claim borrowing expenses of more than \$100 is to amortise (similar to depreciation) the income tax deduction over a five-year period. If the borrowing expenses are less than \$100 for the year, you can claim the full tax deduction in the income year when it was incurred.

If you claim your borrowing expenses as an income tax deduction, you cannot include them in your cost base for capital gains tax purposes when you dispose of the property. If the loan is less than five years, you can claim the unamortised portion in the income year when the loan is settled and finalised. A common

mistake is to claim all the deductible borrowing expenses in the first year they are incurred.

When claiming initial repairs and capital improvements, keep the following in mind. Initial repairs to rectify damage, defects or deterioration that existed at the time of purchasing a property are capital expenditure and may be claimed as capital works deductions over either 25 or 40 years, depending on when the repairs were carried out. Capital improvements, such as renovating a kitchen, bathroom or adding a pergola, should also be claimed as capital works deductions. A common mistake is to claim initial repairs or capital improvements as immediate deductions.

33 Know which expenses can be claimed legally

Legal expenses such as conveyancing expenses incurred on the purchase and sale of your property are not deductible. Rather, legal fees and conveyancing expenses form part of the cost base for capital gains tax purposes.

34 The purpose of your loan determines whether you can claim interest rate expenses or not

Regardless of which property you use as security to obtain the loan (for example, your principal place of residence or your investment properties or a combination of both), if the purpose of the loan is not for investment purposes (for example, you may use an investment property as security to purchase your newly upgraded principal place of residence, but the purpose of this loan is private in nature as the loan is being used to fund your private home), then although an investment property is used as security, the interest on the loan in this example is not deductible.

Also, if you use a loan facility for both investing and private purposes, apportionment of the interest expense as a tax deduction must be calculated because you cannot claim the interest expense on the private portion of the loan. Please note: if you use a loan facility for mixed purposes, it is very important that you have very good record-keeping in this area.

35 Be careful when claiming travel expenses

Where travel related to your investment property is combined with a holiday or other private incidental activities, you must apportion the travel expenses directly related to inspecting/visiting your investment property.

For example, if you are travelling interstate to inspect your interstate investment property for one day and then spend a further four days on a holiday, then you must apportion and claim 20% (one day divided by five days) of your travel costs, accommodation, etc.

A common mistake is to claim a deduction for the cost of travel when the main purpose of the trip is to have a holiday and the inspection of the property is incidental to that.

TAX TIP

You may not be able to claim the full value of scrapping

Additionally, it is prudent to keep a travel diary to further substantiate your travel claims as tax deductions.

36 You may not be able to claim the full value of scrapping

If you intend to renovate a kitchen, bathroom, bedrooms and so on in your investment property, you may be able to claim a scrapping value on your old bathroom, kitchen, bedroom, etc., provided they have already been used for income-producing purposes.

However, further apportionment is required and you must know the investment property's prior history of use by previous owners, especially if any part of the prior use of the property was for private purposes. Just because your investment property has been used (while you have been the owner of the property) for income-producing purposes prior to scrapping does not necessarily mean you can claim the full value of the scrapping as a tax deduction.

37 Be clear about ownership interests

A common mistake occurs when a property is purchased by a husband and wife as co-owners (or alternatively as unit holders in a unit trust and/or as common shareholders in a company) and the income and expenses are not shared in line with their respective legal interest in the property.

38 Capital gains tax concessions

The 50% capital gains tax discount concession (if the property is held in individual names and/or a trust) only applies if you have held the property for at least 12 months.

A common mistake investors make is to assume this applies from

the settlement date. The 12-month holding period rule applies to contract dates, so caution must be used in this area.

39 Beware of the downsides of a trust structure

Due to asset protection and estate planning purposes, many property investors hold their properties in trust structures. If the incorrect type of trust structure holds the property, then the tax losses are locked in the trust itself and cannot be utilised by the individual taxpayer.

40 Be clear about your profit intention

If you intend to purchase a property to improve and then resell it as a profit-making venture, then this is a business venture and, along with the fact that GST may be applicable, there is no entitlement to the 50% capital gains tax discount concession either.

41 Property seminars

Educational property seminars and/or courses offered by buyers' agents and/or property experts are not tax deductible. Advice on how to purchase an investment property is not tax deductible, even if they say that it is. Only tax advice from a registered tax agent is generally tax deductible.

42 Stamp duty

Stamp duty incurred when you purchase a property is not an allowable tax deduction. This forms part of the cost base of the property and can be factored in when calculating your capital gains tax position when you sell your investment property in the future.

Capital gains tax pitfalls that could get you in trouble

Capital gains tax, or CGT, is one of the most popular topics for *Your Investment Property* readers, and also one of the most widely misunderstood concepts. WSC Group director *David Shaw* explains the most common traps to avoid

One of the most important CGT issues you need to be aware of is that a capital gain is always generated on the date of exchange. Therefore, a property owner should take this into consideration when selling so that a capital gain does not fall into a year when they may not need it because they have significant other assessable income.

The following areas are equally important and worth noting:

INVESTMENT PROPERTIES

43 Reduction of the cost base of the assets for the amount of depreciation claimed

The CGT legislation allows for the depreciation that is claimed over the life of the property to be deducted from the cost base of the asset when calculating the capital gain.

The cost base is the purchase price plus or minus additional capital expenditure or depreciation claimed.

For properties built after March 1997 there is legislation that specifically requires building depreciation to be deducted from the cost base of the asset.

WSC Group reviews work performed by other accountants where investment properties have been sold, and the mistake regularly identified is that the purchase price of the property includes

the actual purchase price plus legal costs and stamp duty, with no reduction of the cost base due to depreciation when making the CGT calculation.

Property investors need to be aware of this, as the longer the property is owned the larger the mistakes that can be made.

44 Apportioning land and building value

In the event of a sale, not only must the depreciation be adjusted but the taxpayer (property owner) is required to commission a valuation to work out the land and building components of the sale.

As the building content of the property is often depreciated beyond its market value, property owners could have a situation in which the written down value of the building is less than its market value. This portion of the capital gain is not on the capital account and therefore becomes fully assessable. The capital gain on the land is still subject to the 50% discount but may not form the largest portion of the gain.

45 Moving into the property after purchase

It is important for a purchaser to move into their principal place of residence (PPOR) as soon as possible after a

purchase, in order to qualify for the CGT exemption on a PPOR. If there is a current tenant at the time of purchase, it may be better to release the tenant from the lease prior to settlement.

There have been court decisions in which the owner of a property has been liable for CGT on a property that was rented for only a few weeks prior to the owners moving in, because the court declared that they did not move into the property as soon as practical after settlement of the property. In fact, the taxpayer would have to apportion the capital gain in this circumstance on the days the property was a PPOR and the days the property was not a PPOR.

46 Six-year absence rule

This rule can only be exercised when the taxpayer can demonstrate that the property was their PPOR. Property owners can use this method if they qualify, which allows owners to rent their property out for six years with no CGT consequences.

If the property is sold within that six-year period and the owner has not elected another PPOR during this time, they can exercise this exemption. In fact, if a taxpayer moves back into the property within that six-year period, then the six-year period can be restarted if they move back out again at a later date; therefore, living in the property initially may produce a vastly superior result in the event of a capital gain.

47 Market value rule

The market value method can only be used if property owners (the taxpayer) can demonstrate that the property was initially a PPOR. This method allows the owner to value their PPOR when the property ceases to be their PPOR, and this forms the cost base of the asset rather than the cost base being based on the initial purchase price.

This rule also can be applied when the property is sold, if both new and old PPORs are involved. There is an opportunity to defer capital gains to a future point in time if the old PPOR is elected as the main residence. Although this will result in more CGT to pay once the new PPOR is sold, that could be many years down the track.

48 Daily apportionment method

If a taxpayer does not live in the property initially, there will be no

entitlement to use the six-year absence rule or the market rule. Property owners will, however, be entitled to use the daily apportionment rule, which will entitle them to apportion a capital gain based on the number of days the property was a PPOR and the number of days the property was generating an income. For example, if a property was only a PPOR for half of the ownership period, this will entitle the taxpayer to reduce the capital gain by 50% before any additional discounts are applied.

49 Two-hectare rule The two-hectare rule allows a taxpayer to have their entire plot of land covered by a PPOR exemption, but be aware that if the land a PPOR is contracted on is more than two hectares, then the whole property will not be subject to a CGT PPOR exemption.

The portion of the land value over two hectares will need to be excluded from the PPOR exemption in the event of a sale. The portion of land between the house and the first two hectares will be exempt from CGT. For example, on a four-hectare lot a capital gain of up to 50% may be taxable. The portion of the gain relating to the two hectares with the house on it can be deducted from the capital gain, and then the 50% discount can still be applied if the asset was held for more than 12 months.

50 Part usage rules Taxpayers often overlook the fact that if they run a business from their property, the whole property will not be covered by the PPOR exemption. They can, however, if eligible (this is an additional area outside the scope of this article) utilise the CGT and small business exemptions to reduce the capital gain, so not all is lost.

HOLIDAY HOUSE

51 Adding costs not deducted to the cost base of the asset Taxpayers should note that if deductions are not claimed either in part or at all, these can be added on to the capital cost of the asset in calculating a future capital gain. Therefore it is important that all relevant documentation is kept so that the cost base of the asset can be easily calculated.

Examples of such costs include council rates, water rates and insurance policies.

RENOVATION OF PROPERTIES

52 A profit-making scheme is not always capital

Often property owners (taxpayers) have the mistaken belief that if they purchase a property, renovate this property and then hold the property for just over a year, any sale will then be on the capital account and the taxpayer will be entitled to a 50% discount.

The ATO, however, views these transactions very differently as they look at the intention of the transaction. That is, if the property was purchased with the intention of selling, the ATO will be of the view that when this property is sold the gain on sale will be on the revenue account and hence be fully assessable in the taxpayer's income.

To clarify, the taxpayer will not be entitled to the 50% CGT discount; however, they will only be assessed on

entitled to an additional 50% discount on the remaining capital gain (active asset discount), resulting effectively in a 75% discount. The remaining capital gain is also eligible for the retirement exemption (lifetime limit of \$500,000) allowing the capital gain to be deposited into a superannuation if the taxpayer is over 55. Afterwards the taxpayer can receive this portion of the CGT free.

There may also be an opportunity to roll over the last 25% of the capital gain into another business, providing this is done within two years of the capital gain being incurred. Be careful, however, to get the correct advice as to the eligibility of the active asset discount, as the property must have been used in the business for at least half of the ownership period, or at least 7.5 years if the property has been owned for more than 15 years in total.

These exemptions are generous, but compliance is strict, so seek professional advice when applying for these discounts.

TAX TIP

Move into your PPOR as soon as possible after purchase

the profit when the property settles as opposed to on the exchange date, which would apply in the event of a capital gain.

Taxpayers who are also builders employed in the building industry, or who have a history of regular transactions in the development or refurbishment of properties, may be less likely to qualify for having the transaction on the capital account. The ATO has the benefit of history and access to property sale records, so if you are in a risk category, get the right advice to make sure the property transaction is structured on the capital account.

PROPERTIES USED IN THE FAMILY BUSINESS

53 Extra CGT benefits Since the CGT small business exemptions were introduced in 1999, properties used in a taxpayer's business have qualified for further concessions in addition to the 50% CGT discount. The taxpayer (property owner) may be

INHERITANCE OF PROPERTIES

54 Issues with the family home as opposed to the investment property

Property owners should be aware of the history of the property inherited, as the tax consequences in the event of a sale could have a huge impact on future finances. A PPOR or a pre-CGT property (purchased before September 1985) will be inherited at market value as at the date of death, and family members have two years from the date of death to sell the property with no CGT consequences.

With an investment property, it is an entirely different story. The investment property is inherited by the beneficiaries at the same cost base as when the deceased purchased the property. If the property has been depreciated over many years, the cost base could be very low, and hence a huge capital gain could accrue in the event of a sale, even if the sale is between family members as a full or partial sale.