property

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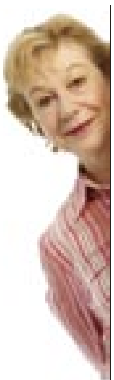
Breaks dancing

A rental property tax-break check is well worth your time



HAVE YOU SEEN ADVERTISEMENTS for real estate that try to entice you by saying something like "Let the taxman pay for your investment property"? Now is the time for property investors to see if they can turn this promise into reality.

So how do you do it legitimately? Well, first you need to be aware of just what you can claim as a landlord. And if you are to stand up in the event of a tax audit, what you cannot. The tax office website at www.ato.gov.au is a great help.

Depreciation allowances can yield big tax breaks. If you do not have a schedule for your investment property, get one prepared now. Most people realise that new properties benefit from these allowances, but some do not know that older properties can also yield good tax breaks, says Tyron Hyde, a director of depreciation specialists Washington Brown.

"With a brand-new high-rise unit costing $300,000 you can perhaps claim up to $10,000 in depreciation in the first year," Hyde says. "But a unit built in 1972 can also be worth $1500 to $2000 in tax breaks."

> "Some don't know that older properties can also yield good tax breaks"

Even if you have owned your property for a few years, you can get a schedule backdated to when you bought and amend your previous tax returns, Hyde says.

Since you don't have to submit your tax return until October 31, or by the end of March 2007 if you use a tax accountant, you have time to get one so you can claim for the 2005-06 year.

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The cost of a schedule, around $330 for new property and $550 to $750 for an older asset, is also claimable in the year it's done.

For many investors the interest on the loan to buy the investment property will be their biggest claim. For example, borrow $250,000 interest-only for 20 years at a rate of 7.07% and your yearly interest bill of about $17,700 is a fully deductible expense.

Investors can also claim interest costs if they borrow money to repair or renovate their rental properties.

Genuine repairs are also deductible, so if your property needs some broken windows replaced or some worn-out plumbing renewed, do it before the end of the year and claim your tax deduction immediately.

But remember, renovations are not claimable. So, for example, you cannot get a deduction if you landscape or add an additional room to the property.

Many of the everyday expenses associated with owning a property, such as agent's fees, body corporate fees and lease fees are claimable each year. See the ATO website for a comprehensive list.

Insurance is also claimable. And with the ATO increasingly auditing property investors, Terri Scheer Insurance Brokers has added a new feature to help cover the possible costs of this to its landlord policy.

This covers landlords for up to $2000 in accounting fees related to their investment property if audited by the ATO. The policy also covers malicious and accidental damage, legal liability and loss of rent. The annual premium ranges for $205 in Tasmania to $325 in NSW.

It all adds up

How the taxman can help pay for your investment property

Income and expenses, $300,000 new unit, rented at $250pw

Rental income	$13,000
Interest on loan	$17,700
Depreciation	$10,000
Insurance, rates & other expenses	$5300
Total expenses	$33,000
Loss	$20,000

First year cash position

You can deduct this $20,000 from other income to lower your tax. If you earn $70,000 a week this could cut your tax from $16,350 to $10,350 under the rates that will apply from July 1.

	Without property	With property
Income	$70,000	$83,000
Outgoings	-	$23,000
Tax	$16,350	$10,350
Cash	$53,650	$49,650

Your cash position is $4000 less but you have maintained the apartment for a year. In the longer term, your equity should grow with the market.