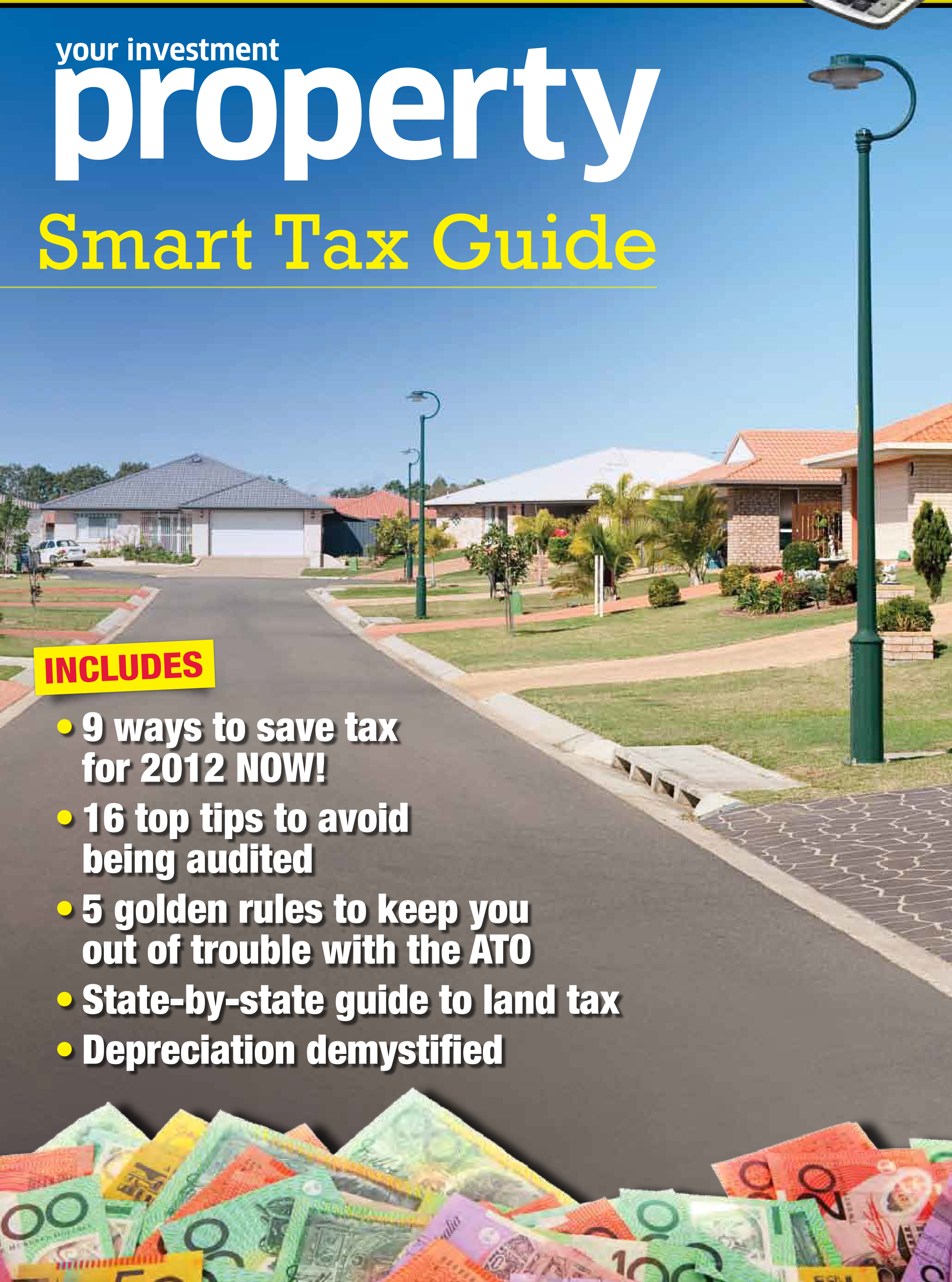
FREE TAX GUIDE!

SAVE $1,000s OF TAX $s

your investment

property

Smart Tax Guide



INCLUDES

- 9 ways to save tax for 2012 NOW!
- 16 top tips to avoid being audited
- 5 golden rules to keep you out of trouble with the ATO
- State-by-state guide to land tax
- Depreciation demystified

Council rates
Council rates are imposed on land owners to help fund the cost of community infrastructure and services to the local municipality. Councils generally offer a one-off annual payment or a payment plan of quarterly instalments, and all payments are tax deductible.

Decline in value of depreciating assets (also known as 'depreciation')
To maximise your tax deductions you can obtain a quantity surveyor's report which shows, in detail, the value of the deduction to which you are entitled based on the assets you own in the investment property. Alternatively, you will need to supply your accountant with information to support the purchase date and purchase price of each asset. Depreciating assets produce a partial tax deduction as these assets decline in value over time, usually over more than one year. Depreciating assets commonly found in residential rental properties include: airconditioning units, carpets, curtains and blinds, dishwashers, furniture, heaters, hot water systems, refrigerators and freezers, stoves, cooktops and rangehoods, swimming pool filtration and cleaning systems, television sets and washing machines.

Gardening and lawn mowing
This is deductible and includes dump fees, mower expenses, tree lopping, replacement garden tools, fertilisers, sprays and replacement plants.

Insurance
Insurance can be purchased to protect your investment properties. Insurance cover is tax deductible and can protect you against circumstances including loss of rent, rent default, theft by a tenant, building damage and public liability claims. Mortgage insurance is not immediately claimable but is amortised/depreciated over time as part of borrowing expenses.

Interest expenses
Interest charges on a loan are tax deductible. Principal or capital repayments are not tax deductible. Only the interest component directly related to your property is tax deductible. If you are paying principal and interest on your loan then you will need to calculate the interest component for the year. Locate the bank loan statements for each investment property to ascertain the interest paid for the income year.

Land tax
Land tax is tax deductible. Land tax is a tax levied on the owners of land and it is based on the value of land. Once you've completed a land tax registration form, you will be sent an assessment notice showing the land tax payable on the land you own. You will be liable for land tax if you own, or part-own: vacant land, a holiday home, an investment property, a company title unit, or a retail, commercial or industrial unit.

Legal expenses
Legal expenses are generally incurred during the sale or purchase of an investment property.

Depreciation: Truths and myths

MYTH **You can only depreciate new properties**

The truth is old properties depreciate too because the purchase price of your property includes the land, building, and plant and equipment. This means even properties built before 1985 (when the building allowance kicked in) are worth depreciating.

TRUTH **Taller buildings get higher depreciation**

Taller buildings attract higher plant and equipment allowances and the higher the plant and equipment, the higher the depreciation. Some of the services required as buildings increase in height are obvious, such as a lift (transport 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.

MYTH **More expensive items get higher depreciation**

The truth is that items costing between $300 and $1,000 fall into the Low Pool Category and attract a higher depreciation rate.

TRUTH **You can claim depreciation on renovations before embarking on the project**

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

TRUTH **Furnishing can boost your depreciation claims**

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.

MYTH **Accountants can prepare depreciation schedules**

The truth is your accountant, real estate agent and property valuer are not qualified to make this assessment in accordance with the ATO. The ATO has identified quantity surveyors as appropriately qualified to estimate the original construction costs in cases where that figure is unknown.

Source: Tyron Hyde, director, Washington Brown (www.washingtonbrown.com.au)

9 smart ways to save tax for next year

1. Realise capital losses to reduce capital gains tax. To save on capital gains tax (CGT) and free up money for more suitable investments, you could consider selling poor performing assets that no longer suit your circumstances. Doing this allows you to use the capital loss you have incurred to offset a realised capital gain from another asset in the same financial year.
2. Defer income. If you believe that you will be in the same or lower tax bracket next year, you should consider deferring some income until the following year. You could save yourself from being pushed into a higher income tax bracket and getting hit with a bigger tax bill.
3. Update your financial records regularly. Do this at least once a month.
4. Undertake a risk assessment review to identify areas that could potentially trigger a problem, and a possible audit. Enlist a professional accountant and/or tax advisor to help you.
5. Plan your superannuation and charitable contributions so as to maximise your deductions
6. Start your tax planning on 1 July, not the last week of June
7. Have investments in the name of lower-earning spouses
8. Put an extra $1,000 into super and get the government co-contribution if you earn less than $31,000
9. Utilise super as the best tax-investment vehicle, ie, contribute maximum into super based on age