

# Australian Taxation



*Presented by:*

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## Property Investments ... Tax Smart



## **Australian properties**

Very popular with local and overseas investors

First home

Second investment ahead of shares



## **Australian properties**

Offers many attractions

- less volatile than shares
  - easy to gear

Good potential

- Capital Growth
- Rental Income

Tax Benefits

## Facts ...

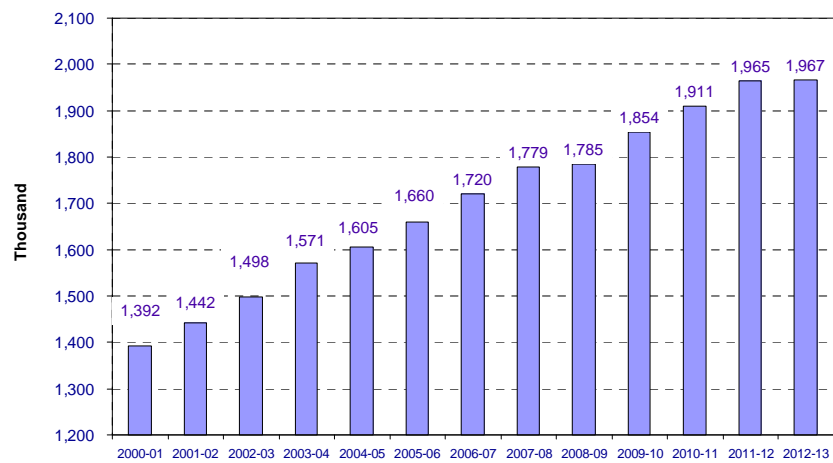
According to Australian Taxation Office ...  
in 2012-13:

- Approx. 2 million property investors
- Over \$36 billion rental income reported
- Approx. \$41 billion rental deductions claimed
- Net rental income is approx. **\$5 billion (LOSS)**

## Statistics

Source: ATO Taxation Statistics

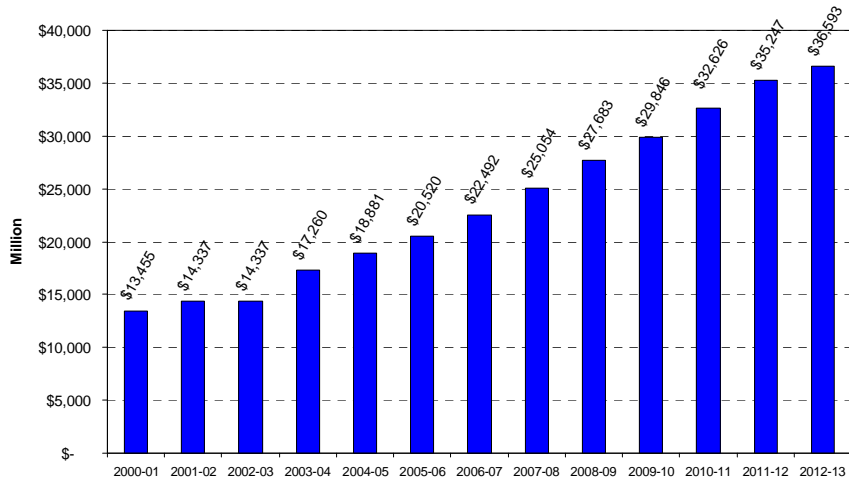
Number of Rental Property Investors



# Statistics

Source: ATO Taxation Statistics

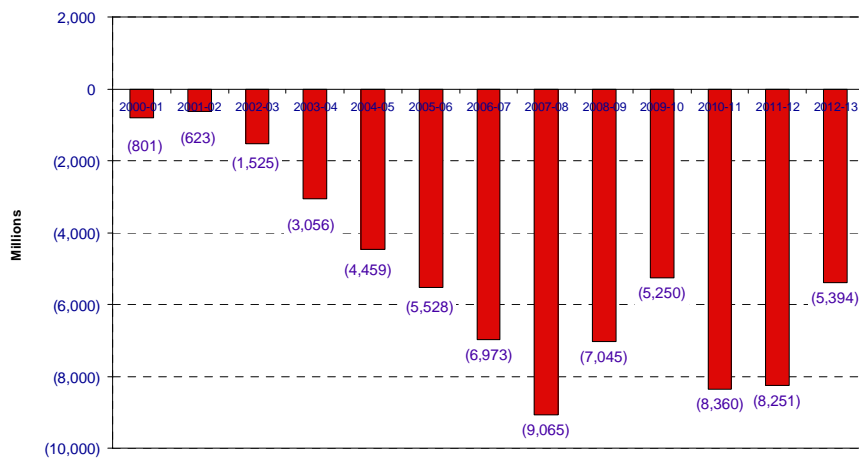
Total Gross Rental Income from Investment Properties



# Statistics

Source: ATO Taxation Statistics

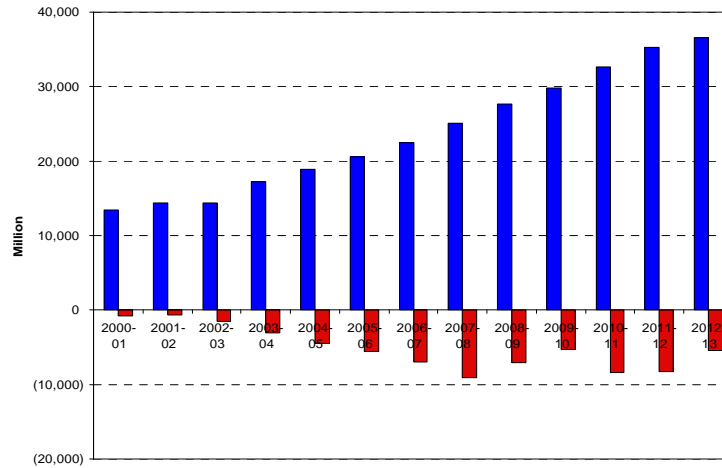
Total Net Rental Income from Investment Properties



# Statistics

Source: ATO Taxation Statistics

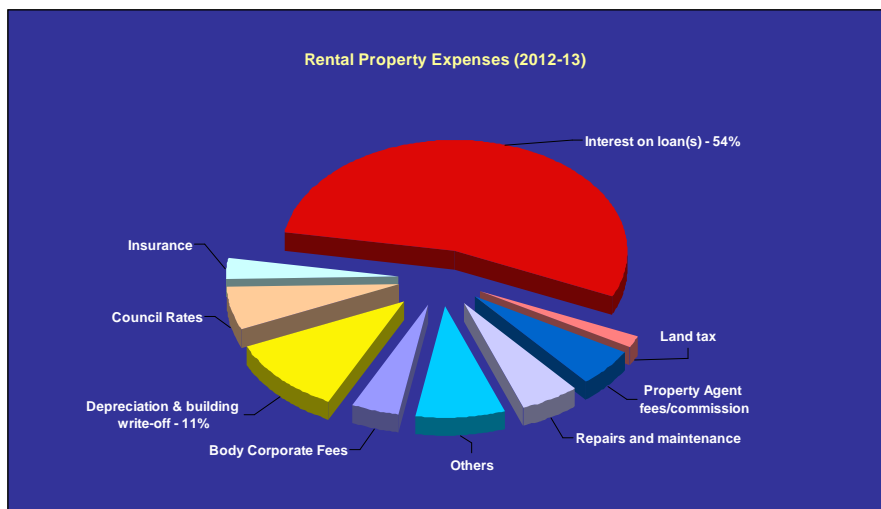
Gross Rental Income vs Net Rental Income



# Statistics

Source: ATO Taxation Statistics

Rental Property Expenses (2012-13)



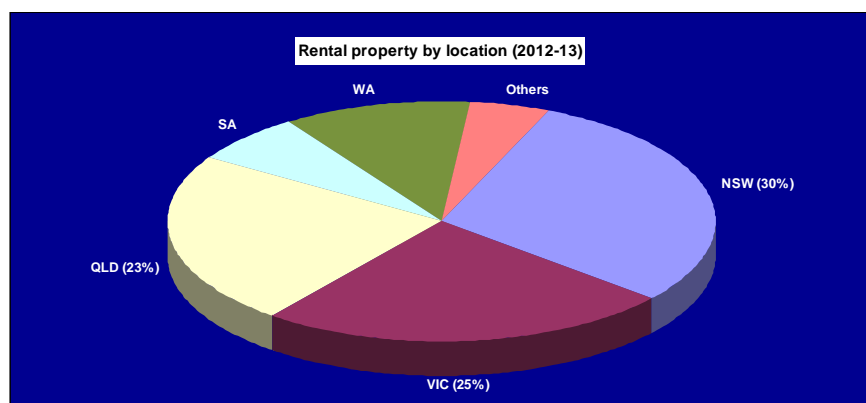
# Statistics

Source: ATO Taxation Statistics

Body Corporate Fees	\$	1,834,794,334	4%
Depreciation & building write-off	\$	4,583,492,896	11%
Council Rates	\$	2,617,377,773	6%
Insurance	\$	1,247,615,987	3%
Interest on loan(s)	\$	22,289,213,967	54%
Land tax	\$	767,161,601	2%
Property Agent fees/commission	\$	2,264,444,045	5%
Repairs and maintenance	\$	2,259,576,503	5%
Others	\$	3,471,003,348	8%
	\$	41,334,680,454	100%

# Statistics

Source: ATO Taxation Statistics



## **As for us ...**

GC & Associates handles more than 3,000 income tax returns with rental properties investment.

Each of our clients have average of three (3) rental properties.

## **Foreign Residents**

Tax on Australian source income only

- Rental properties income
- Salaries & Wages

Withholding tax

- Interest – 10%
- Dividend - Franked (tax paid 30%)
- Dividend - Unfranked 15%

# Negative Gearing



# Negative Gearing

- Borrowing to invest
- Costs of investing > return (earnings)
- With an investment property:
  - Annual net rental income
  - LESS THAN
  - loan interest + deductible expenses



## Negative Gearing

- Reduce your overall income (same group)
- Positive incomes offset against negative incomes
- Saving as high as 45 cents in a dollar

## Tax Deductions





# Tax Deductions

## What I can claim straight away

- Interest on loan
- Costs of repairs and maintenance
- Tenancy cost (agent's fees, legal cost on lease agreement)



## Typically:

- Advertising for tenant
- Bank fees & charges
- Body corporate fees & charges
- Cleaning
- Council rates
- Electricity & gas
- Gardening and lawn mowing
- Insurance (building, contents & public liability)
- Interest on loans

- Lease documents expenses (preparation, registration & stamp duty)
- Legal expenses
- Property agent's fees & commission
- Quantity surveyor's fees
- Repairs & maintenance
- Secretarial & bookkeeping fees
- Security expenses
- Stationery & postage
- Telephone
- Water charges

## Tax Deductions

### What I can claim over a number of years

- Cost of depreciating assets (plant & equipment, fixture & fitting, etc)
- Cost of building construction
- Borrowing costs (stamp duty on mortgage, bank loan approval fees, etc.

### BMT deduction assessment

Property type	Purchase price	First year deductions	Five years cumulative
One bed apartment	\$450,000	\$14,200	\$56,900
Two bed apartment	\$550,000	\$15,400	\$61,950
Three bed apartment	\$700,000	\$16,300	\$67,600
Townhouse	\$500,000	\$10,250	\$47,200
Townhouse	\$600,000	\$11,200	\$48,850
Residential house	\$500,000	\$10,100	\$46,800
Residential house	\$600,000	\$10,950	\$48,200

2014\_TACT

*\*Deduction assessment is based on new properties*

## Capital Work Allowance

- 25 or 40 years
- Total deductions cannot exceed the construction expenditure
- Typical construction expenditures:
  - ⇒ Building or extension
  - ⇒ Alterations
  - ⇒ Structural improvements

## Depreciation & Write Off

Property owner can claim

- write off in plant and equipment
- capital work allowance

Involves writing off the cost of the item over a number of years or the effective life of the asset

### Typical plant & equipment:

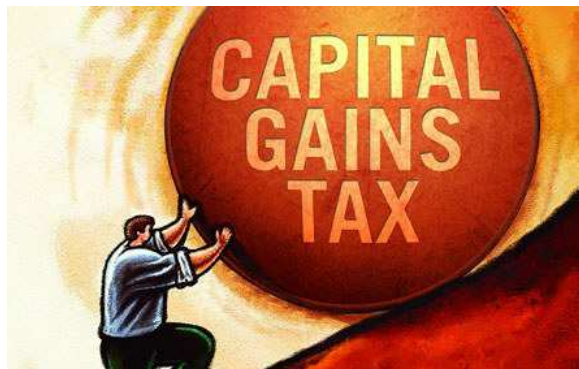
- hot water service
- ceiling fans
- dishwasher
- carpet
- blinds
- exhaust fans
- washing machines
- cooktops
- ovens
- rangehood
- smoke alarms
- air conditioner
- light shades
- microwaves
- floating timber floors
- microwaves
- vinyl
- furniture package
- clothes dryer
- freestanding spa
- curtains
- security systems

# Tax Deductions

What I cannot claim

- Expenses deem private
- Land costs

# Capital Gain Tax





# Capital Gain Tax

## Basics

... tax on capital gain arises from the disposal (sale) of an asset

... including investment property acquired after 19 September 1985



# Capital Gain Tax

## Exemption

- Pre-20 September 1985 property
- Property for private use (family home)
  - Principal Place of Residence (PPR)
- Others

## Capital Gain Tax

Your **net capital gain** is

total capital gains for the year

**minus**

total capital loss plus prior year  
net capital losses

**minus**

any CGT discount

## Capital Gain Tax

### **Non-Residents**

- No longer eligible for 50% CGT discount on capital gains earned after 7 May 2012
- Still entitled to a discount on capital gains accrued before 8 May 2012, provided they obtain a market valuation
- Law passed on Friday, 28 June 2013



## Capital Gain Tax

### Example

- John is a non-resident for tax purpose of Australia.
- On 1 August 2006, John purchased an apartment in Melbourne for \$400,000.
- John obtains a market valuation of the apartment on 9 May 2012. The market valuation is \$500,000.
- John sells his apartment on 1 June 2017 for \$650,000.
- John makes a total capital gain of \$250,000. Capital gain attributable to the period prior to 8 May 2012 is \$100,000.

## Capital Gain Tax

### Under the old law

John can apply 50% CGT Discounts in respect to all capital gains.

John's assessable capital gain is \$125,000 (50% of \$250,000).

## Capital Gain Tax

### Under the new law

John can only apply 50% CGT Discount in respect to \$100,000 as it is attributable to the period prior to 8 May 2012.

John's assessable capital gain is \$200,000 (50% of \$100,000 + 100% of \$150,000).

## Capital Gain Tax

### **Selling of property**

- Use of carried forward loss (rental) to offset future capital gains
- DON'T SELL! Property is long term investments.
- Re-invest using equity of pay-off properties
- Time your selling



**Update**



## **FIRB Changes**

Foreign Investment Review Board  
changes

Tightening of foreign investment rules  
with emphasis on residential and  
agricultural sectors

## Reporting

Australian Taxation Office (ATO) will process foreign investment data in relation to residential real estate

1 December 2015, ATO taken over all residential land acquisition functions of FIRB

## Reporting

ATO better resourced to access information through data matching with various state and federal agencies, immigration and tax records

**Wider implication than just FIRB approval**

# Application Fees

## Residential properties

1. \$5,000 for a property valued < \$1 mil.
2. \$10,000 for a property > \$1 mil., then a \$10,000 incremental fee increase per additional \$1 mil.

Business \$10,000 - \$100,000

Agriculture \$5,000 - \$100,000

# Tax Filing





# **Income Tax lodgement**

- ❖ Financial year: 1 July – 30 June
- ❖ Due date for individual income tax
  - 31 October
  - Tax Agent's EOT



# **Income Tax rates**

- ❖ Resident
- ❖ Foreign resident

## Get started ...

- ❖ Tax File Number
- ❖ Tax information ... checklist
- ❖ Tax Depreciation Schedule
- ❖ Frequently Asked Question

**Questions?**



# Thank you!!



## **GC & Associates Pty Limited**

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