



Australian Taxation



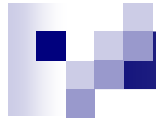
Presented by:

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Principal

GC & Associates Pty Limited

Accountants, Tax Agents & Business Advisors



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)**



As for us ...

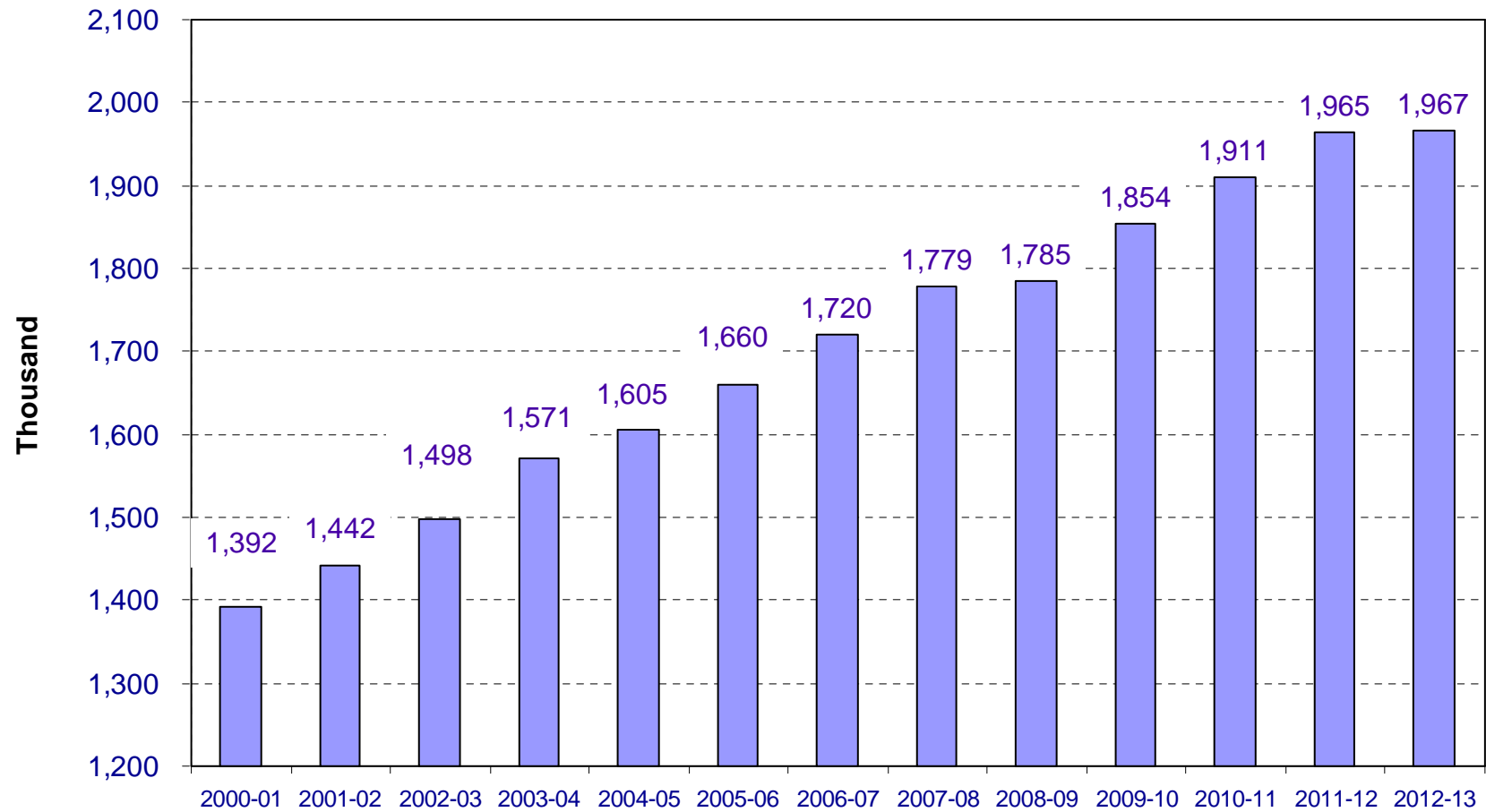
GC & Associates handles more than 3,000 income tax returns with rental properties investment.

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

Statistics

Source: ATO Taxation Statistics

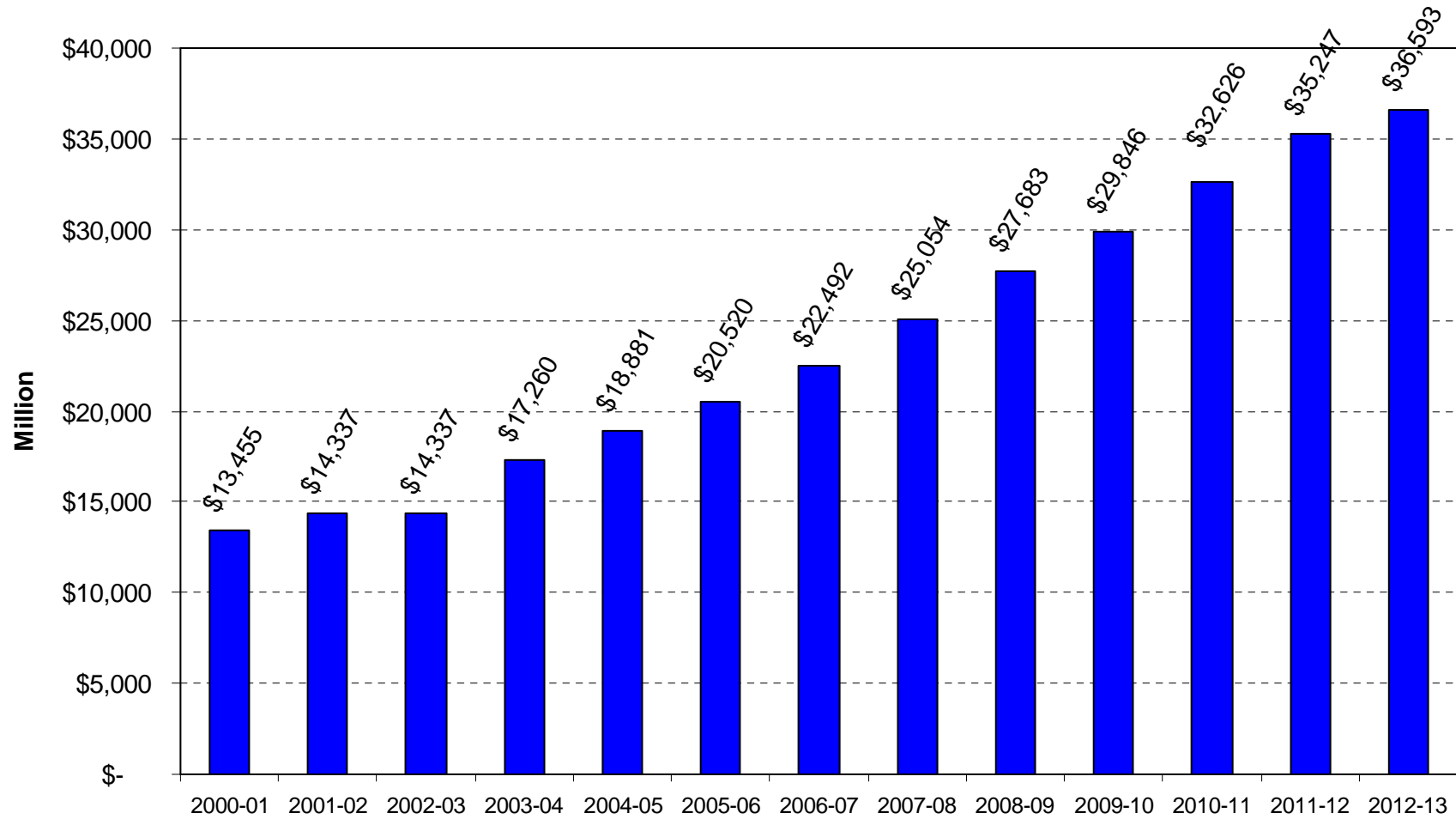
Number of Rental Property Investors



Statistics

Source: ATO Taxation Statistics

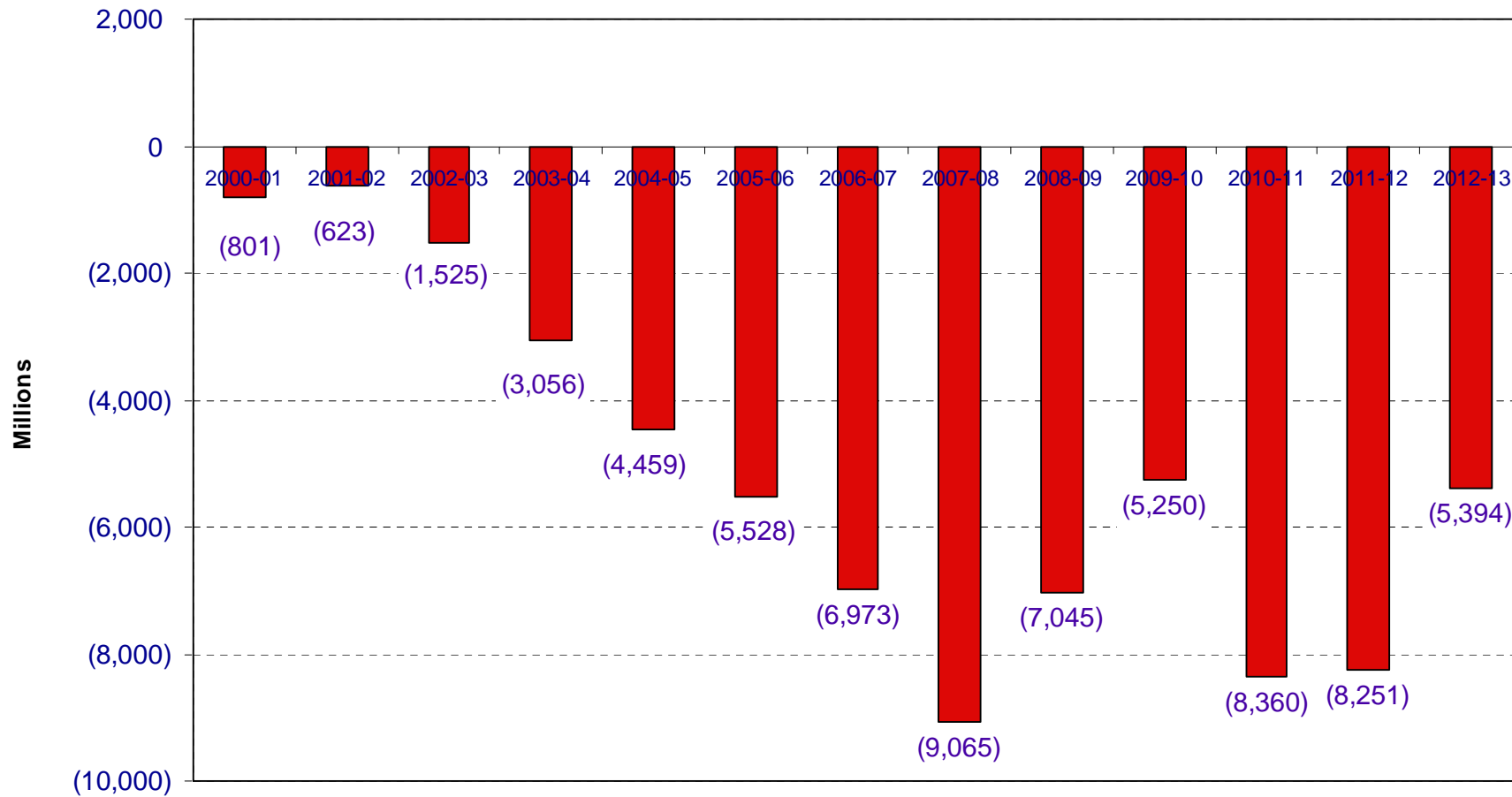
Total Gross Rental Income from Investment Properties



Statistics

Source: ATO Taxation Statistics

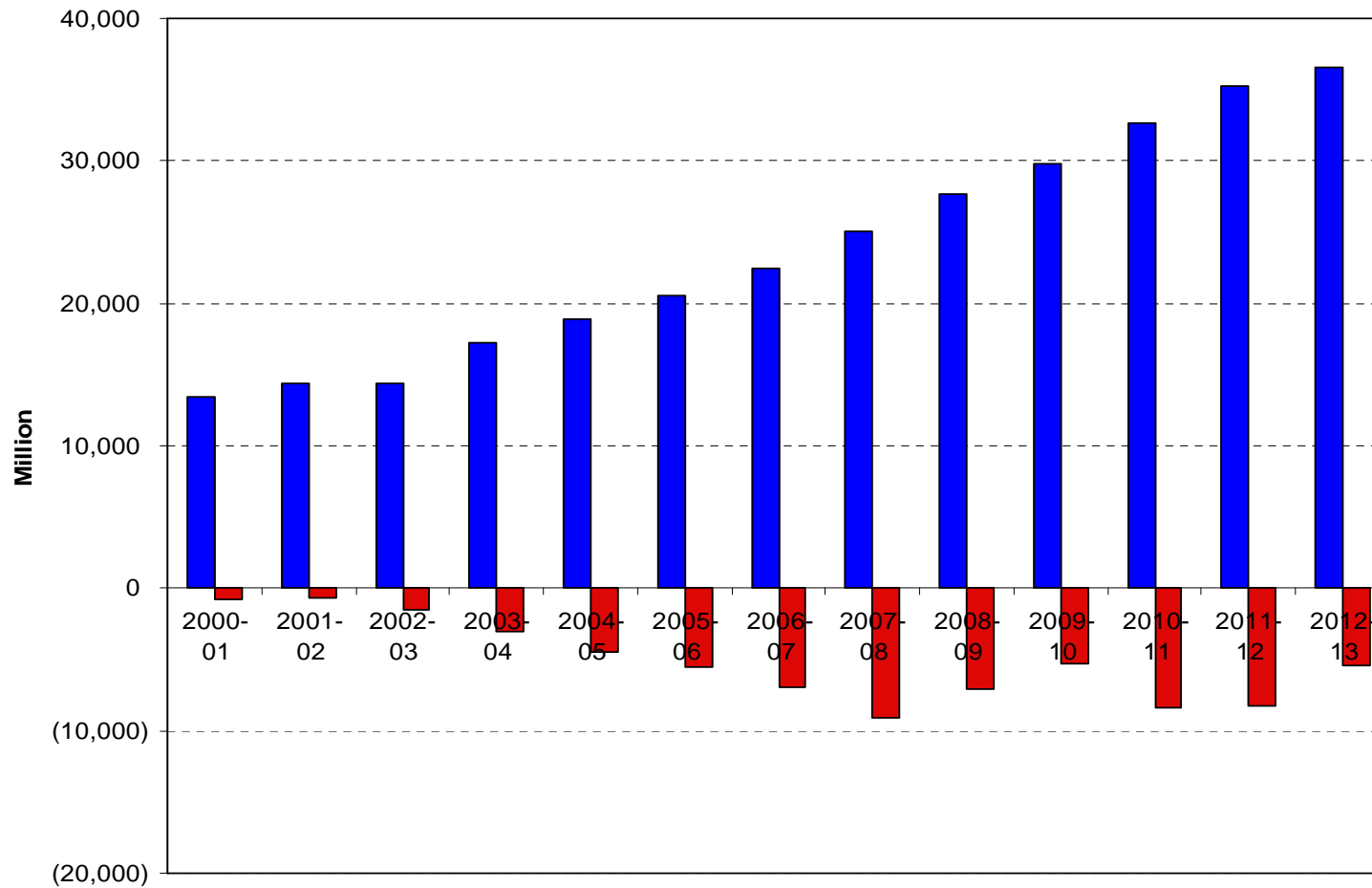
Total Net Rental Income from Investment Properties



Statistics

Source: ATO Taxation Statistics

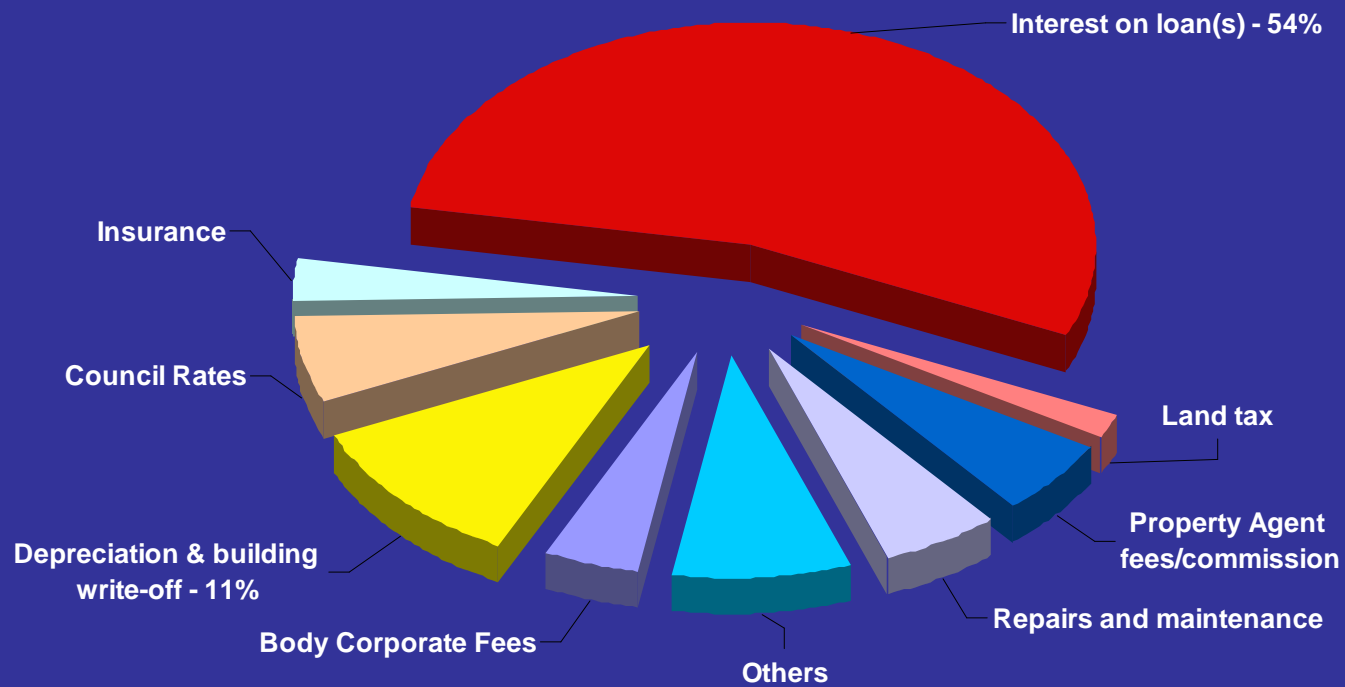
Gross Rental Income vs Net Rental Income



Statistics

Source: ATO Taxation Statistics

Rental Property Expenses (2012-13)





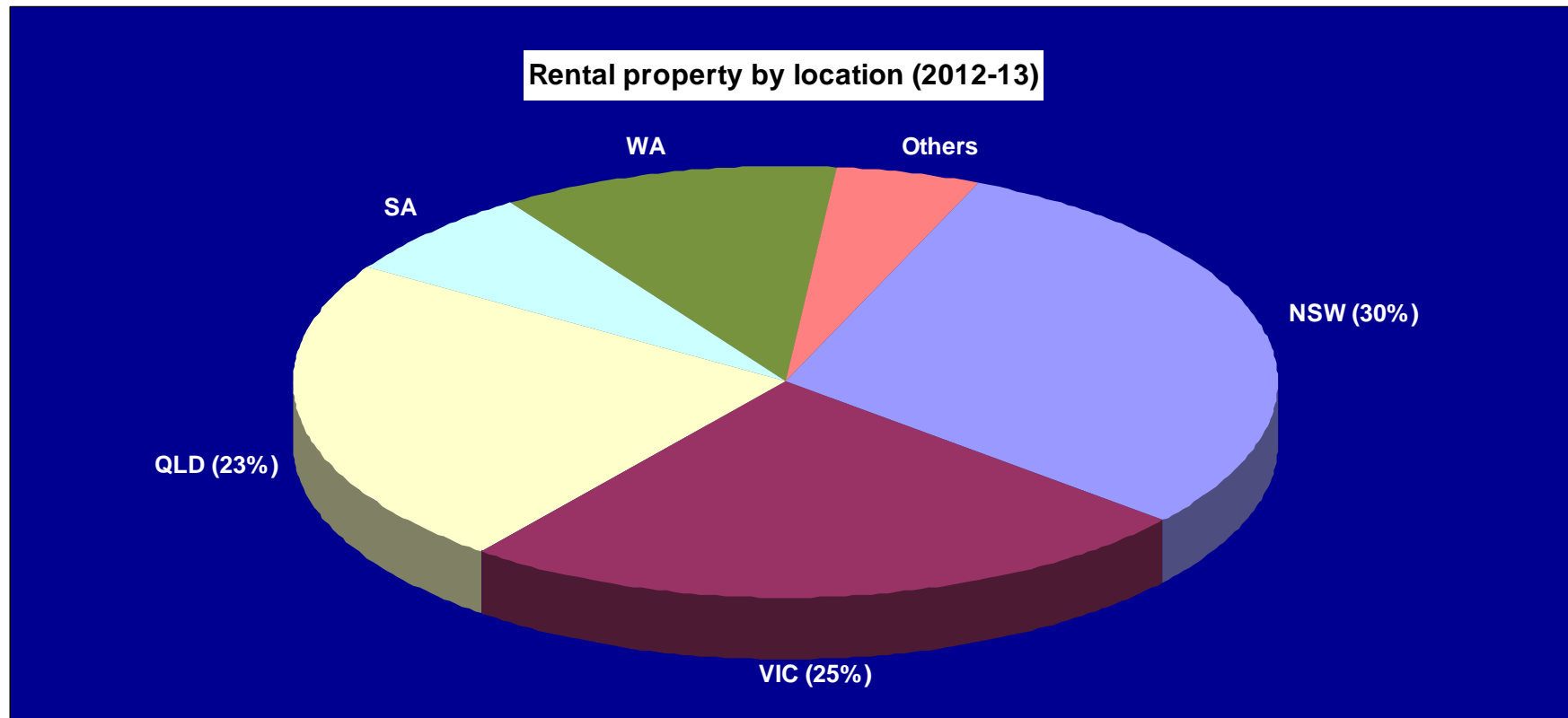
Statistics

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





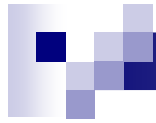
Foreign Residents

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

**Deduction assessment is based on new properties*



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



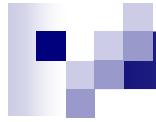
Typical plant & equipment:

- 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



Capital Work Allowance

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

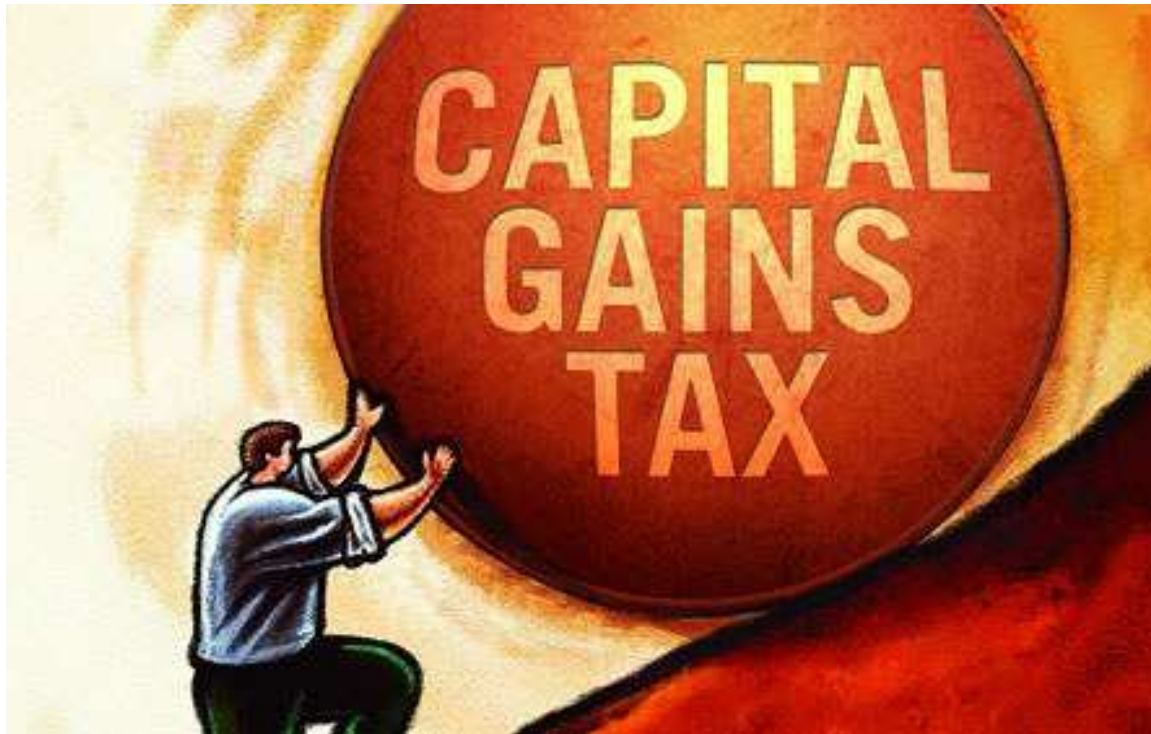


Tax Deductions

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

Changes will be introduced between
now and 1 December 2015

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

ATO expect to take over all residential land acquisition functions of FIRB by 1 December 2015



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



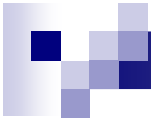
Income Tax rates

- ❖ Resident
- ❖ Foreign resident



Get started ...

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



Questions?





Thank you!!



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