RENTAL PROPERTIES – Maximising their tax-effectiveness

Rental properties remain a hugely popular tax minimisation and wealth creation strategy in Australia – and of late have been in the spotlight as a major cause of the very high property prices in some areas. Regardless of this, it is doubtful that negative gearing is going to be eliminated as a very effective tax minimisation strategy in the future. However, like any sort of investment strategy, there are some guidelines that should be followed to get the maximum tax and wealth-creation benefit from the investment.

Don't spend too much on a rental property

After a certain point, additional money that is spent on purchasing a rental property is not going to be matched by a similarly high level of rent.

Pay attention to the age of the property

There are considerable deductions allowable for depreciation of properties constructed after a certain year (or have had significant improvements made since then). A property does not necessarily have to be a brand new one to deliver high depreciation and capital works deductions, these continue for many years after the property is constructed. Being able to claim these costs will maximise the tax refund while not actually causing the taxpayer to pay them from the rent received.

Consider carefully where you buy

The location of a rental property purchase is a hugely important decision. Often taxpayers buy properties in areas they would also like to visit for personal reasons. As long as inspections etc. are arranged for these trips generally the travel costs and a reasonable amount of accommodation costs can be claimed.

The location is also important from both a tenancy and potential investment gain perspective – a rental property without a tenant can be a huge cause of financial stress, so vacancy levels in an area under consideration have to be researched. As too does the growth in property value over time so that any potential gain can be estimated. A tax-effective rental property can be a very worthwhile investment but they need to be assessed on their own merits as an investment much as you would asses a term deposit rate of return or share dividend rate.

Contact us

If at any time you have a query or concern, please do not hesitate to contact our office. We are always willing to help and welcome your call or email.

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Total Tax and Accounting Solutions

Small Business Changes …

There has been an increase in the limit of assets that can be immediately written off for businesses that qualify as small ones. This limit is increasing from $1,000 to $20,000 so is a significant change. The limit will stay at this level until 30 June 2017.

Small businesses are also going to receive a tax break in the form of either a 1.5% tax reduction for companies or 5% discount on tax payable for small unincorporated entities (up to a maximum of $1,000) – from the 2015/16 onwards.

Businesses will be able to immediately claim the professional fees of starting a new business, where previously these had to be written off over a five year period.

These are all welcome changes but there are many taxpayers who fall just outside the limits of a small business and there are no tax concessions for them whatsoever.

Small Business Resources

We have regular articles appearing on our website blog that deal with a huge range of small business issues – have a look at:

www.totaltax.com.au

Newsletter

July

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Totaltax.com.au

and Accounting Solutions

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In this issue -

Tax Deduction Reminders

Motor Vehicle Expenses

If you are required to use your car at work you are eligible to claim motor vehicle expenses – see inside for more information on the methods of doing this. If you carry bulky tools or equipment and other conditions are satisfied, you may be eligible to claim the travel costs of getting to and from work also.

Overtime Meal Expenses

If you are paid by your employer an overtime meal allowance you should be eligible to claim the costs of meals against this allowance. The ATO sets quite a generous amount that can be claimed per meal without keeping receipts – make sure you ask us about this at tax time.

Home Office Expenses

Thanks to technology more of us are bringing work home with us. If this is something that you do on a regular basis, be sure to keep a log of hours worked and if your own internet is used to do this, bring details of the % and monthly bills incurred for us to look at for you.

ANYTHING Work Related

If in doubt, please bring the details with you and ask!

2015/16 – Regaining Confidence

It's (late) July already and we have started to see tax refunds for 2015 coming through. Many are already earmarked for particular bills or large expenses as the cost of living continues to rise. Our economy continues to struggle some eight years after the GFC.

The Government took a gentle approach to tax in the budget this year – after the shock and awe effect of the 2014 budget (although not many changes actually affected tax), they weren't going to make the same mistake twice. There is very little change across the board – including in tax. We have elaborated inside on some of the main changes.

There are very few clients who will be able to claim the medical expenses tax offset, as it winds down to an eventual phase-out by 2018/19. Only taxpayers who received some of this benefit in 2012/13 and 2013/14 can claim the offset in 2015 – others will be restricted to a much smaller variety of expenses for items such as disability aids, attendant care and aged care.

Small business has received some breaks in the form of a reduced tax rate and an immediate write-off for qualifying assets that cost up to $20,000. These measures take effect from 12 May 2015 up until June 2017. It is unfortunate that the ATO definition of a small business restricts these entities to those who have turnovers of less than two million per year but will assist to ease financial stress in some businesses.

While the majority of tax change has been quite positive, the ATO have decided to overhaul the claiming of motor vehicle expenses. The number of methods that can be used to claim these costs will be limited and the cents per kilometre will be standardised to one rate only - which is considerably less than what is able to be claimed at present. Considering ongoing rising fuel costs (and other running expenses) and the variety of engine sizes and fuel efficiencies of vehicles in general, this decision is unfortunate.

There are two tax offsets that have been scrapped in the Budget from the 2015 year onwards that will affect quite a few taxpayers. These are the Dependant Spouse Tax Offset and the Mature Aged Workers Tax Offset. These offsets were already stringently means tested so this decision will mainly impact low-income taxpayers, quite an unfair outcome.

We thank you all for your continuing support of our firm and look forward to seeing or speaking to you for tax 2015. We wish you and your families all the best for this coming year – and feel free to send any queries our way.

Cheers, Jennifer and Emily

HELP repayment thresholds & rates 2015/16

HELP INCOME	RATE
Below $54,126	Nil
$53,126 - $60,292	4%
$60,293 - $66,456	4.5%
$66,457 - $69,949	5%
$69,950 - $75,190	5.5%
$75,191 - $81,432	6%
$81,433 - $85,718	6.5%
$85,719 - $94,331	7%
$94,332 - $100,519	7.5%
$100,520 and above	8%

2015/16 Marginal Tax Rates –

Threshold	Rate
$18,201	19.0%
$37,001	32.5%
$80,001	37.0%
$180,001	47.0%

Just Jokes -

What did the tax accountant do to liven up the office party? Not show up.

What is Santa Clause's tax status? Elf-employed.

Did you hear about the cannibal accountant – she charges an arm and a leg".

Who makes the best detective – Sherlock Holmes or a tax accountant? The tax accountant, she makes more deductions.

Superannuation Update 2015/16

- Concessional Cont. cap now 30k for under 50's
- Concessional Cont. cap now 35k for over 50's
- Non-concessional cap now 180k per year
- Super guarantee remains at 9.5%

Transition to Retirement Income Stream (TRIS)

Anyone who has reached their preservation age (previously 55, now gradually increasing to 60) is eligible to start a TRIS. This involves salary sacrificing into super any amount up to the concessional cap and commencing a pension from super at the same time to replace the income going into super. Once the taxpayer is 60, the pension is tax free, but even before then drawing a pension has the effect of making any earnings your superannuation makes almost 100% tax free. Anyone approaching this age or there already should seriously look at this strategy as retirement draws nearer as it has the potential to significantly boost overall wealth.

Buying Property in Superannuation

The strategy of purchasing property in super is one which has gained in popularity in recent years. Property investment became attractive as the stock market went through considerable volatility. Currently the only way that property can be purchased (with borrowings) is in self-managed super.

Self-managed superannuation does offer more flexibility in terms of the nature of investments, and allows for the purchasing of residential or commercial property, but there are very long strings attached. Residential property purchased in super cannot be rented to a member of the fund or their associates/relatives so living in a property owned by your super fund is not allowable. Members can however lease a commercial property owned by their super fund and it is this allowance that has become particularly popular.

Self-managed superannuation is not for everyone and there is complex legislation that needs to be complied with. But if taxpayers want the ability to diversify share market holdings with property ones, it can be very effective.

Access to super for the terminally ill made easier

Until the 2015 Budget, taxpayers could only access their superannuation if terminally ill and within 12 months of death (certified by medical practitioners). This has now been increased to 2 years to allow people access to funds to potentially spend more time with their loved ones.

Motor vehicle expense changes

Currently an individual can claim work-related motor vehicle expense using one of four methods – cents per kilometre, 12% of original value, one-third of actual expenses and the log book method.

From 2015/16 the Government has scrapped the 12% original value method and the one-third of actual expenses method. The cents per kilometre method will be streamlined with one set rate replacing three for different engine sizes.

Other Developments

- **Changes to the asset threshold for access to the aged pension**

  This will significantly change the amount of pension able to be accessed by retirees and Centrelink will advise details directly to affected people.

- **Changes to Parental Leave Pay (PLP)**

  The maximum benefit is now 18 weeks at the national minimum wage.
  From 1 July 2016 taxpayers will not be able to double dip by receiving the full PLP and also maternity leave payments from employers.

And this rate of 66c per kilometer is significantly less than what has been allowed in the past. It is a very disappointing development.

Data Matching

The ATO uses extensive data matching to locate undeclared income. This includes undeclared wages, dividends, interest, government benefits and undeclared business income from online selling. They are expanding their data matching activities in the area of share trading and are now accessing share disposal records going back to the commencement of CGT in 1985.

Work-related Expenses

The ATO is paying particular attention to claims in the following areas:

- Travel expenses related to overnight travel

ATO Hotspots 2015

- Reasonable travel allowance expense claims
- Claiming work-related portions only of computers and other devices

As long as appropriate records are kept and adjustments for private use are made where needed, taxpayers have nothing to fear from any potential ATO query.

Rental Property Claims Under Scrutiny

The ATO are paying greater attention than ever to rental property expense claims and particularly in these areas:

- Claims for purchase of rental properties claimed as rental deductions
- Claiming deductions for properties that are not genuinely available for rent or are only partly available for rent (holiday homes)
-
- Claiming deductions before a rental property is rented or available for rent, e.g. being renovated prior to renting

Careful discussion with your tax agent will ensure that these deductions are claimed in compliance with tax law. And as always, keeping tracks of receipts is key for getting through an audit.

There are some good guides on this topic available on the ATO website. We also have a helpful table of the tax treatment of common rental property purchase-related costs on our website www.totaltax.com.au, along with other helpful checklists.

Private Health Ins. Rebate & Medicare Levy Surcharge

2015/16	Standard	Tier 1	Tier 2	Tier 3
Singles	$90,000 or less	$90,001 - 105,000	$105,001 - 140,000	$140,001 or more
Families	$180,000 or less	$180,001 – 210,000	$210,001 – 280,000	$280,001 or more
Rebate				
Aged under 65	27.82%	18.54%	9.27%	0%
Aged 65 - 69	32.45%	23.18%	13.91%	0%
Aged 70 +	37.09%	27.82%	18.54%	0%
Medicare Levy Surcharge				
All ages	0.0%	1.0%	1.25%	1.5%

F A Q's

FTB Changes & Cut-offs

We advise that due to the uncertainty around the Government's ability to get law in this area through parliament, it is best that taxpayers check the law in effect at the time of any query being made or claim for benefit submitted.

Please contract Centrelink or www.dss.gov.au for more information.

Can I still claim medical expenses in my tax return?

This is gradually being phased out. If you received the medical expenses offset in 2013/14 you can claim similar types of expenses in 2014/15 – and if you claim these in 2014/15 you can claim again in 2015/16. However if you did not claim medical expenses in 2013/14 you can only claim medical expenses in 2014/15 for disability aids, attendant care (services provided to someone with a disability) or aged care expenses.

If you are able to claim the medical expenses tax offset, the amount that can be claimed is:

For singles:

ATI threshold	Net Claim
$90k or less	20% over $2,218
Above $90k	10% over $5,233

For families*:

$180k or less	20% over $2,218
Above $180k	10% over $5,233

* with a spouse at 30 June 2015 or dependent child/children at any time during the year, or both. Plus $1,500 for each dependent child after the first.

This can all be confirmed at the time of preparing your return if you feel you may be able to make a claim.