Investment property ownership

Important issues to think about

- Impact of Capital Gains Tax
- How does Negative Gearing work
- Eligible Tax Deductions
- Check out Stamp Duty, Land Tax and Income Tax rates

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Who should own the property?
This is not as simple as it seems

When purchasing an investment property, careful consideration needs to be given to the legal ownership. There are different ramifications for 'joint tenants' and 'tenants in common'. This also has flow on effects for Estate planning, taxation and risk implications. Saward Dawson has specialist advisors who can assist in determining the appropriate strategy for you.

Capital Gains Tax
Purchased an investment property or holiday home after 19 September 1985?

The calculation of Capital Gains Tax (CGT) depends on many factors. CGT applies to the realised capital gain (difference between the purchase cost and net selling price).

You will be entitled to a 50% discount of the capital gain if the property has been held for greater than twelve months. Non-residents are unable to apply the 50% discount from realised capital gains arising after 8 May 2012. It is imperative that non-residents obtain a market valuation of their property as at 8 May 2012.

Once the capital gain has been calculated, it is then included in your taxable income and taxed at your marginal tax rate as follows (Rates applicable to 2016/17 year):

Taxable income	%	Tax on this income
$0 - 18,200	0	Nil
$18,201 - 37,000	19	19 cents for each $1 over $18,200
$37,001 - 87,000	32.5	$3,572 plus 32.5 cents for each $1 over $37,000
$87,001 - 180,000	37	$19,882 plus 37 cents for each $1 over $87,000
$180,001 +	47 *	$54,547 plus 45 cents for each $1 over $180,000

* Includes the 2% Deficit Levy for individuals with taxable income above $180,000.

The rates above exclude the Medicare Levy of 2%.

Non-residents are subject to pay tax at a rate of 32.5% on the first $80,000 of taxable income.

Negative Gearing
Worth considering but not always the best option

An investment property is negatively geared if the rental expenses and interest costs exceed the rental income. This is often the case if the property has been purchased with borrowed funds.

The loss incurred from a negatively geared rental property can be used to offset your other income, such as employment or business income. Many investors purchase an investment property to take advantage of this tax incentive. Investors are often willing to accept a net rental loss due to the expectant capital growth of the underlying asset. You are only ahead if the capital growth over the holding period exceeds the net rental loss over that period after tax. However, other factors also need to be considered, such as, will you have sufficient funds to meet the cash shortfall?

Consider applying for an Income Tax Withholding Variation. The variation will reduce the rate of tax that is being withheld on your employment income. This will allow you to access the cash benefit of negative gearing throughout the year, rather than waiting for your annual tax refund.

Rental Deductions
What rental deductions can be claimed?

If you are renting out a property, tax deductions can be claimed for expenses such as municipal and water rates, interest paid on loans, body corporate fees etc. The tax deductibility of rental expenses are reduced for any private use. Some costs will also need to be apportioned to take into account when the property is not available for rent.

Where a loan is used for both private and rental purposes the interest must be apportioned. Interest on funds borrowed for private purposes, but secured against an investment property will not be tax deductible.

Repairs & Maintenance Costs
Be careful of the traps

The expenses incurred due to wear and tear from renting the property are tax deductible. Initial repairs at the time of acquisition to fix up the property are not tax deductible, but form part of the cost base to reduce CGT. Expenses incurred to improve or renovate the property are not immediately deductible, but may be depreciated or written off for tax purposes over a number of years.

Depreciation
An additional tax deduction - make the most of it

Obtaining an independent depreciation report at the time of purchasing an investment property may entitle you to claim depreciation on the building and other depreciable assets, including fixtures and fittings to maximise your tax benefit. The cost of this report is also tax deductible. Saward Dawson can arrange for a report to be prepared. The following table shows how assets can be claimed, immediately or over a period.

Asset value	
less than $300	Write off at time of purchase
$300 - $1000	Depreciate using accelerated rates
$1,000 +	Depreciate using standard rates

Building Write-off
What is building write-off?

Depreciation can be claimed on construction costs of the property including buildings and structural improvements. A quantity surveyor's report is required if actual construction costs are unknown. For properties purchased after 15 September 1987, the rate of claim is 2.5% a year of eligible costs. Prior to this, different rules apply.

Property Development
There are all sorts of tax implications to consider

Property development is a complex area. Careful consideration must be given before deciding to sub-divide or develop existing properties. There may be GST, stamp duty and other income tax implications. We recommend you contact Saward Dawson to seek our tax advice for your circumstances.

Goods & Services Tax (GST)
Do you need to consider GST?

Residential properties: GST is not charged on residential rent. GST cannot be claimed back on expenses relating to residential properties.

Commercial/industrial: GST may apply. For those registered for GST, GST will be added to rent and GST can be claimed on eligible expenses. Income threshold for compulsory GST registration is $75,000pa.

Property development: You should obtain expert advice before proceeding. There are complex rules and GST may apply.

Victorian Stamp Duty
Factor this into your calculations!

This duty applies on the transfer of real estate.

Property value	Rate
$0 - $25,000	1.4% of the value
$25,001 - $130,000	$350 plus 2.4% of the value over $25,000
$130,001 - $960,000	$2,870 plus 6% of the value over $130,000
$960,001+	5.5% of the value

Note: Stamp duty concessions are available for first home buyers, subject to eligibility

Victorian Land Tax
Another cost to be aware of

(For land held at 31 December 2013).
Your main residence is exempt from land tax and is excluded from the thresholds below.

Land value	Rate
Up to $249,999	Nil
$250,000 to $599,999	$275 plus 0.2% for amount over $250,000
$600,000 to $999,999	$975 plus 0.5% for amount over $600,000
$1,000,000 to $1,799,999	$2,975 plus 0.8% for amount over $1,000,000
$1,800,000 to $2,999,999	$9,375 plus 1.3% for amount over $1,800,000
$3,000,000+	$24,975 plus 2.25% for amount over $3,000,000

Note: Higher rates apply to land held by a trust

Your need to consider the potential land tax costs when deciding in whose name the property should be purchased.

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Check out our website or contact our property tax specialist Simon Dinér for further information.

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