



INVESTING IN REAL ESTATE
Tax Considerations for Residents

The following paragraphs provide some preliminary information regarding Australian taxation laws that affect investment in Australian property by Australian residents.

Taxation considerations which should be addressed prior to the purchase of a property include:

- Income Tax
- Land Tax
- Capital Gains Tax
- Stamp Duty

INCOME TAX

The Australian Income Tax year runs from 1 July to the following 30 June. Accordingly, where you purchase a property during the period 1 July 2008 to 30 June 2009, your first Australian Income Tax Return to include the rental schedule will be in respect of the 2009 financial year. As fully-registered tax agents, we have a lodgement programme with the Australian Taxation Office which may allow us to lodge your 2009 Income Tax Return at an extended time on/before 15 May 2010. We will advise you of your specific lodgement date after inclusion on our tax agent listing.

Property investments can be held by individuals, partnerships, joint ventures, unit or discretionary trusts and companies. The ramifications of use of each particular entity should be carefully considered to ensure that the objectives of the investor are achieved.

Rates of income tax applicable to resident individuals for the year ending 30 June 2009 are:

Taxable Income		Tax on this Income
From	To	
\$1	\$6,000	Nil
\$6,001	\$34,000	15c for each \$1 over \$6,000
\$34,001	\$80,000	\$4,200 plus 30c for each \$1 over \$34,000
\$80,001	\$180,000	\$18,000 plus 40c for each \$1 over \$80,000
\$180,001	Upwards	\$58,000 plus 45c for each \$1 over \$180,000

- *Resident minors (under 18 years of age) are taxed at penalty rates on any income exceeding \$2,667 (assuming the low income rebate applies).*
- *Partnerships and trusts are not normally taxed as separate entities. The net income is distributed to the partners or beneficiaries, who are taxed on their share of the net income at the applicable rates for individuals.*
- *Medicare of 1.5% is additional to these rates. The Medicare surcharge also applies when taxable income exceeds certain thresholds (i.e. where no private medical insurance cover is held; \$70,000 for individuals or if a member of a family and the combined taxable income for MLS purposes of you and your spouse (if you had one for the whole of 2008–09) was above the relevant family surcharge threshold shown in the table below:)*

Family surcharge threshold

Number of dependent children	Surcharge income threshold
0-1	\$140,000
2	\$141,500
3	\$143,000
4	\$144,500
More than 4 dependent children	\$144,500 plus \$1,500 for each additional child

Where a resident individual makes revenue loss (as distinct from a capital loss) for Australian income tax purposes, this loss will be carried forward until the individual makes sufficient Australian income to absorb these losses.

Sometimes the expenses associated with holding a rental property (e.g. Interest, repairs, insurances, rates, depreciation etc) are greater than the rental income received from the property. This scenario generates a tax loss and is called negative gearing. Where an individual tax payer incurs a negative gearing loss they may apply to have their PAYG instalments reduced, so the out-of-pocket costs of holding the property are reduced.

The use of companies can become quite complicated and further advice should be sought prior to using a corporate structure.

CAPITAL GAINS TAX

Capital gains or losses are recognised when you dispose of all or part of an asset acquired on or after 20th September, 1985.

These capital gains and losses are aggregated (with certain exceptions) and tax is levied on any resulting "net capital gain". A net capital loss must be carried forward and offset against capital gains in subsequent years (i.e. a capital loss cannot be set off against revenue income). The rate of the tax that applies to a capital gain depends on the amount of your other taxable income. As a result your exact circumstances need to be considered before the rate of tax that applies to the capital gain can be determined.

There are various different capital gains tax concessions that may be used to reduce or even eliminate the amount of capital gains tax that you would otherwise be required to pay. The most common concession allows for 50% of the calculated capital gain to be tax-free where the property has been held by an individual for more than twelve months. If the property is used in your business activities, more concessions may apply.

You should take positive steps to ensure that any assets you acquire are accurately recorded. This will allow you to calculate any capital gains tax on disposal.

Remember to keep records proving the following details:

- Date of acquisition and disposal of the asset (e.g. The purchase and sale contracts)

- amount paid for the asset
- Any incidental costs of acquisition or disposal of the asset such as legal fees, commission, stamp duty, advertising, etc. (e.g. Solicitors settlement letter, invoices etc).
- Date and amount of any capital improvements to the asset. (e.g. Invoices, building contracts)
- Any holding costs, such as interest, rates, land tax, insurance, etc, but only if these have not been claimed as a tax deduction. (e.g. Bank statements, invoices etc).

LAND TAX

Land Tax is annual tax levied by the Queensland State Government upon the total of the unimproved value of land owned by individuals as at midnight 30 June. For resident individuals no land tax is payable if the total unimproved value of investment property land is less than \$600,000.

INCOME TAX DEDUCTIONS – INCOME PRODUCING PROPERTY

Deductible at the time the expenses are incurred:

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|--------------------------|---------------------------------|----------------------------|
| • accountancy fees | • garden and ground maintenance | • mortgage discharge costs |
| • advertising | • insurance | • motor vehicle expenses |
| • bank charges | • interest | • pest control |
| • cleaning | • land tax | • rates |
| • commissions | • lease costs (legal's, etc) | • telephone |
| • repairs & replacements | • management fees | |
| • electricity | | |

Partly deductible each year:

- borrowing costs
- depreciable assets
- construction cost of residential buildings completed after 17/07/1985

DEPRECIATION

A deduction is available for depreciation of plant, furniture and fittings, etc that may be contained within, or form part of, a property. Buildings such as high-rises, flats and units include articles of common property that are also depreciable. These include lifts, fire sprinklers and extinguishers and pools.

BUILDING COST DEDUCTIONS

A deduction is allowable on the construction costs of certain income producing buildings. The rate of the deduction will depend on the date construction of the building began, and whether it was for residential or non-residential use. The following table shows the rates at which these construction costs can be written off for new buildings:

<u>Type of Building</u>	<u>Rate</u>
Residential	2.5%
Certain Traveller Accommodation	4%

Capital expenditure on extension, alterations or improvements is eligible on the same basis.

Note: It will be necessary to obtain a Quantity Surveyors Report to substantiate depreciation claims, and the construction cost and construction date used to calculate the taxation deduction for building claims.

INTEREST

Where the property is income producing asset as distinct from a personal use asset, interest paid on monies borrowed to acquire rental property, can be claimed as a tax deduction. No interest can be claimed on capitalised interest.

UNITED PROFESSIONALS OF AUSTRALIA

United Professionals of Australia are experienced with the income tax and land tax obligations associated with investment in Australian property, both for resident and non-resident investors.

We provide a full range of professional accountancy, taxation and advisory services to meet all your personal and business requirements. Please do not hesitate to contact us if you require clarification of any of these matters.

Important: The information is general in nature, it is not advice. Accordingly you should not act solely on the basis of the material contained in this Bulletin. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This Bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without our prior approval. The information in this Bulletin is current as at 1 July 2009.

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