



APPLICATION FOR VARIATION OF PAYG WITHHOLDING

Overview and Procedure

The following provides some preliminary information regarding applying for PAYG Variation as a result of investment in Australian residential rental property by Australian residents under the Australian taxation laws.

OVERVIEW OF PAYG VARIATION

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 2009 to 30 June 2010, your first Australian Income Tax Return to include the rental schedule will be in respect of the 2010 financial year. (NB: The date of purchase is the contract date NOT the settlement date). As fully-registered tax agents, we are able to assist you in preparing an application for Variation of PAYG Withholding for the year ended 30 June 2011.

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.

This entails:

- Calculating your projected annual assessable income from wages, interest, dividends, rental property rent and any other assessable sources, and
- Calculating your projected annual allowable deductions for work related expenses, interest and dividend expenses, rental property expenses including borrowing costs and depreciation claims and any other allowable deduction, and
- Reporting the above to the Australian Taxation Office in the prescribed form

It is very important that the calculation of the projected taxable income reduction be accurate, otherwise the Australian Taxation Office will penalise the taxpayer for lodging an incorrect variation. Similarly, it is very important that the Australian Taxation Office be advised of any change of taxpayer income or expenses which may have occurred after lodging the Application for Variation of PAYG Withholding so that penalties do not apply. It is for these reasons that we recommend you engage a qualified professional to assist in the preparation of the Application for Variation of PAYG Withholding.

Rates of income tax applicable to resident individuals for the year ending 30 June 2011 are as follows:

Taxable Income		Tax on this Income
From	To	
\$1	\$6,000	Nil
\$6,001	\$35,000	15c for each \$1 over \$6,000
\$35,001	\$80,000	\$4,350 plus 30c for each \$1 over \$35,000
\$80,001	\$180,000	\$17,850 plus 38c for each \$1 over \$80,000
\$180,001	Upwards	\$55,000 plus 45c for each \$1 over \$180,000

- Resident minors (under 18 years of age) are taxed at penalty rates on any income exceeding \$3,000 (assuming the low income rebate applies).
- 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; \$73,000 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	\$146,000
2	\$147,500
3	\$149,000
4	\$150,500
More than 4 dependent children	\$150,500 plus \$1,500 for each additional child

Where a resident individual makes a rental property loss for Australian income tax purposes, this loss may be offset against other Australian sourced income. Accordingly the benefit of the income tax reduction will depend on what marginal income tax rate the taxpayer is currently paying based on other assessable income less allowable deductions. If there is no other taxable income to absorb these losses, then the rental losses may carry forward to be offset against future taxable income.

TIMING OF THE LODGEMENT OF A PAYG VARIATION

The PAYG variation period ends each 30 June. Accordingly your first application will most likely be for a part-financial-year. Each year thereafter, your application will cover the coming full-financial-year commencing 1 July and ending 30 June.

In the first year, we will lodge your application for PAYG variation either shortly after settling on the land acquisition or shortly before commencing to rent the investment property depending on your specific circumstances.

In the second year and each year thereafter, we will prepare your application for PAYG variation in April, to be reviewed by you prior to lodging with the Australian Taxation Office in May, with the commencement date for reduction from your salary being 1 July.

HOW DOES MY EMPLOYER KNOW TO TAKE LESS TAX OUT OF MY PAY

Once we have lodged the application with the Australian Taxation Office and it has been processed, the Australian Taxation Office will advise your employer of the new varied % tax rate at which to deduct PAYG withholding tax from your gross salary. The Australian Taxation Office will also advise us of this new varied % tax rate and we will pass this information onto you. You should budget for a delay of 28 days from date of lodgement to date of ATO advice to your employer of the new % tax rate.

WHAT WE NEED TO APPLY FOR A PAYG VARIATION

In order to assist you in preparing an Application for PAYG Variation we will ask you for the following information relating to the financial year for which we are preparing the variation:

- Copies of your two latest payslips
- Estimate of your annual wages, overtime or other benefits you are paid/receive by your employer
- Details of your investment income and deductions (interest, dividend income)
- Details of the weekly rental income you will receive from your investment rental property (your rental agent will be able to assist us in this regard)
- We will discuss the rental expenses you may claim against your rental income (your real estate agent or solicitor will be able to assist us in relation to some of these matters which will be documented during the property contract and conveyancing process)
- Details of any other income or expenses which will be included in your Australian income tax return

If you do not know any of the relevant information we require, we can assist you in providing guidance as to where it may be obtained.

Our aim is to make the process as stress-free for you as possible.

UNITED PROFESSIONALS OF AUSTRALIA

United Professionals of Australia are experienced with income 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 2010.