POINT
FINANCIAL SOLUTIONS

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TAX TIME TIPS FOR PROPERTY INVESTORS

A tax-time mistake can be a costly one for Australian property investors. The ATO has revealed that an audit of property investors found errors in just shy of nine out of ten returns reviewed. With the ATO set to scrutinise returns to a greater degree than prior to the start of the coronavirus pandemic, property investors can expect to come under the microscope. The following are five things property investors should keep in mind for this 30th June.

JOINT OWNERSHIP

If an investment property is jointly owned, then the rental income and expenses from the property must be divided among the co-owners according to their legal interest in the property. Make sure that your interest expense claims are correctly calculated, rental income is correctly apportioned between owners, claims for costs to repair damage and defects at the time of purchase are depreciated and that holiday homes are genuinely available for rent.

DEPRECIATION

Regardless of whether a property buyer is an owner-occupier or a landlord the importance of correct record-keeping is paramount when it comes to depreciation.
Landlords may be entitled to claim depreciation for the declining value of assets such as stoves, carpets and hot-water systems. It is important you get an ATO compliant depreciation schedule so you can claim against the income of the property.

DECLARING INCOME

When it comes to declaring taxable income, property investors need to account for more than just the amount of rent they received from tenants over the course of the financial year.

Over the last financial year many landlords lost rental income or bookings as a result of COVID restrictions. These losses can't be claimed as a tax deduction, but you can still claim your expenses, including interest on deferred loan payments.If you have received back payment of rent or an insurance payout for lost rent, this is assessable income and must be included in your tax return.

Property investors also need to account for sources of income like rental bond money they are entitled to retain if a tenant defaults on their rent or they incur maintenance costs. Short-term rental platforms also come under the ATO scrutiny with an on-going focus on checking rental deductions and matching reported income against details from real estate agents and providers such as Stayz and AirBnb.

EXPENSES AND DEDUCTION

While there are many expenses that property investors are eligible to deduct come tax time it should be remembered that residential landlords are no longer allowed travel deductions relating to inspecting, maintaining or collecting rent for a rental property.

Legal expenses are another tricky area. While costs incurred through the eviction of a non-paying tenant or disputing damages can be claimed as tax-deductible expenses, the cost of getting a solicitor to prepare any loan documents is not. If you changed the way you use your investment property during the year, you may need to adjust your deductions. You can't claim any losses or deductions for any period it wasn't available to rent, for example, if you stayed in your rental property during COVID lockdowns.

CAPITAL GAINS

While property investors will only need to navigate capital gains tax when they decide to sell, it's important to get it right. You should carefully time the disposal of appreciating assets, as this may trigger a capital gain. It is important to recognise that CGT is triggered when you enter into a contract for the sale of a CGT asset rather than on its settlement. Where the entry and settlement of a contract straddle the end of the financial year period, it may be preferable from a cash flow perspective to defer the sale of the CGT asset to the subsequent year where other relief may be available.

As a property investor it is important to get the right expertise come tax time. Be sure to engage a tax agent or accountant so that you maximise your deductions but also ensure that all income is declared.

SEEK HELP FROM US

While getting the best return out of your tax position needs advice ensuring you maximise your debt exposure also requires expert advice. Significantly for property investors the use of debt and the tax advantages applied to it enable investors to continue to grow their wealth. Here at M Point Finance we can review existing property portfolios and associated debt positions to ensure you are maximising your returns across your property portfolio.

Reach out to Andrew (**alennon@mpoint.com.au**) and we can assist with your new financing needs.

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