

PALFREYMAN

CHARTERED ACCOUNTANT

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Newsletter

WE UNDERSTAND LIFE IS ABOUT MORE THAN TAX.
WHY NOT LET US MAKE YOUR LIFE EASIER?

IN THIS ISSUE – RENTAL PROPERTIES &
GOVERNMENT INCENTIVES

Planning on Buying a Rental Property?

We often get asked about the tax benefits of having a rental property. This is quite a difficult question as it really depends on your individual circumstances.

Rental properties are popular as they can save you tax now and the capital growth (increase in sale price) can help increase your wealth in the future. The tax benefits of having a rental property really depend on:

- ⇒ Your marginal tax rate
- ⇒ Amount borrowed
- ⇒ Interest rate on your property loan
- ⇒ Rental return
- ⇒ Age and condition of the building
- ⇒ Property market value increases

The term “negatively geared” refers to where your tax deductions exceed your rental income. This is a good tax position for a high income earner, but generally means that there is more money going out each week to pay for the property than you receive in rent. This negative cash flow is not ideal if your budget is tight. It may not be a great choice for families with young children.

As your tax deduction can be increased for building write-offs, you are often better tax-wise to buy a dwelling under say 20 years. Capital improvements are generally claimed at 2.5% pa which means that you get an extra tax deduction for the notional wear and tear on the building even though you haven't spent anything to repair it.

Joint Tenant or Tenant's in Common?

If buying the rental property as a couple, you have the option of buying as Tenants in Common rather than Joint Tenants.

This means that, if Mr A is a high income earner & Mrs A only a medium income earner, for immediate tax benefits they could purchase the property say 75:25. Mr A would then receive 75% of the tax deduction for the negatively geared property and Mrs A only 25%. While this can provide an immediate tax saving, any capital gain on the sale of the property will be split on the same basis. The tax benefits are definitely something you need to talk to us about before buying the property.

Don't Forget Land Tax



You should also remember that Land Tax can apply to your rental property.

For NSW, the Land Tax threshold is currently \$549,000. While your principal home and primary production land is generally exempt, you will pay Land Tax on other land you own where

the land value exceeds the annual threshold.

We recommend that our rental property clients register for Land Tax with the Office of State Revenue even if their land value is less than the threshold. We will be contacting all clients with rental properties before year end to discuss how Land Tax may impact you.

Common Misconceptions

A common misconception we come across is the difference between loan repayments, interest charges and the tax deduction which applies. Only the interest and bank charges are generally tax deductible. Principal repayments are never tax deductible.

The tax treatment of initial repairs is also commonly misunderstood. For tax purposes, a repair is something which restores the asset to the condition it was originally in when you acquired it. It does not make it better than the original. For example, if you purchased your rental property and immediately repainted it, then this is a capital improvement and you receive no immediate write-off. However, if you repainted in say 2 years due to tenant damage, the cost would be a repair and you could claim an immediate write-off. Definitely something to consider.

If replacing assets in the home, there is a difference between building and depreciable assets. Generally if something is attached to the building, it is written off at 2.5% pa. If freestanding or mechanical, it is subject to depreciation.

Items costing under \$300 per owner that would normally be subject to depreciation are immediately tax deductible. For example, a new kitchen would be a building improvement – 2.5% write-off only. A hot water service is a depreciable item – you would generally claim the cost as a tax deduction over 15 years for a solar system. If replacing curtains or blinds, and the cost of each set is less than \$300 per owner, you can claim an immediate tax deduction.

Rental Properties can be complicated. Why not contact us on 4990 3775 or email enquiries@palfreyman.com.au to discuss your individual circumstances?

Latest in Tax & Business News

Everyone likes to receive something for nothing. Here are a few government incentives which may help:

- ⇒ If you are running a small business and considering putting on new staff, you should consider registering for the Small Business Grant with the Office of State Revenue. They are offering a grant of up to \$2,000 for every new employee. The employee, or a replacement, must work for 12 months before you qualify but it is definitely worth considering. As always, conditions apply so we recommend employers contact us for more information.
- ⇒ If you are looking at increasing your superannuation then consider the government Superannuation Co-Contribution scheme. If your taxable income is less than \$51,021 for 2016/2017 and you make a voluntary (non-tax deductible) contribution to super, the government will also make a contribution on your behalf if you meet the work and age tests. If

DID YOU KNOW?

- your income is under \$36,021 they may contribute an extra 50% of your contribution up to a maximum of \$500. A great way to help build your personal wealth.
- ⇒ From 1 July 2017, the ATO are allowing a tax deduction for personal superannuation contributions even if you don't run your own business. While your Super Fund will generally pay tax at 15% of your contribution, you would get a reduction in your personal tax at your marginal tax. While this is a great option for wealth creation, there are limits on the amounts which are concessionally taxed each year. Remember that employer and member "concessional" contributions cannot exceed \$25,000 without excess tax applying. Other rules also apply.
- ⇒ Looking at increasing your spouse's superannuation? If you make a superannuation contribution for your spouse, you can get a tax refund of up to \$540. From 1 July 2017, your spouse can earn up to \$40,000 and still be eligible. For 2017 tax though, the income test is very low – your spouse can only earn up to \$10,800.

Need help understanding more about any of these topics? Why not ring us on 02 4990 3775 to discuss?



Help is Only a Phone Call Away

Palfreyman Chartered Accountant has recently introduced a comprehensive IT support service that is now available to the general public. With remote access software, we can often help you with your problem almost instantaneously without any travel. This saves our clients time and money.

- ⇒ Remote access allows us to view what is on your computer screen and then identify and correct any problems you may be having.
- ⇒ Remote access is only granted via your personal activation code, so it is a safe and convenient option

for IT support.

Our feedback from clients regarding this service has been fantastic.

We are pleased that we can assist our clients in business planning, taxation, SMSF and now IT support matters.

Why not call us today on 02 4990 3775 or email enquiries@palfreyman.com.au to see how we assist with your IT needs?