

ULTIMATE

REAL ESTATE SUCCESS
COACHING PROGRAM

SESSION SEVEN

Taxation & Bookkeeping





SESSION SEVEN

TAXATION & BOOKKEEPING

Kamal Power B.Bus, CTA, FCA
Client Advisor, Chartered Accountant

Our team are specialists in Business/property tax. We can help with:

- Accounting Software Setup & Support
- Tax Returns & Financials
- Tax Advice – Income, CGT and GST
- Business Advice
- BAS Preparation
- Analyse Property Feasibilities

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Taxation of Structures

- Sole Trader**
 - Taxed at Marginal Rates on "Taxable Income"
- Company**
 - 30% Tax Rate (27.5% if small business or base rate entity)
- Super Fund** (discussed more in "Super" segment)
 - 15% Tax Rate in "accumulation phase"
 - 0% Tax Rate in "pension phase"

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Taxation of Structures

Trusts & Partnerships

- These are not "separate legal entities" & do not pay tax in their own right.
- Net Income or Loss in Partnership passed down
- Net Loss in Trust cannot be distributed
- Distribution to associated entities

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Tax Rates for Individuals

Taxable Income	Tax Rate
0 – 18,200	Nil
18,201 – 37,000	19%
37,001- 87,000	32.5%
87,001 – 180,000	37%
180,001 +	45% + 2% Debt Repair Levy to 30/06/17

* Does not include Medicare Levy (2%) or Medicare Levy Surcharge (1 – 1.5%)

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ATO HIT LIST

- Incorrect work-related expenses claim
- Property Developers & Trusts - misuse of 12 month CGT exemption when deemed in the business of real estate
- Flipping your PPR
- Cash economy – Ebay, gumtree, facebook
- Data matching
 - Property transactions from 20/9/85
 - Credit and debit cards

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Bullet Proofing yourself against an ATO audit

- Have a good system for Record Keeping
- Audit Insurance
- Continued Education
- Don't Ignore it!
- Lodge on time!



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Record Keeping

- Start now! Work out a system i.e excel, paper filing, electronic filing, MYOB, Xero
- Use an asset register
- Are you an INVESTOR or are you IN THE BUSINESS OF REAL ESTATE



Investor Accounting	Project Accounting
• Asset Register	• Feasibilities
• Year end Accounting	• Budget v Actual
• Job Costing	• Job Costing

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Are you an investor or are you in the business of real estate?

- Frequency or Regularity
- Profit making Intention




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Record Keeping

What Documents to Keep

- Purchase/Sale Contracts and Settlement Statements – with all invoices relating to purchase/sale
- Margin Scheme – Details of any margin scheme application
- Receipts/Invoices – Annual Income and Expenses
- Property Agent Rental Statements
- If the property changed between PPR and rental, record of dates – you may need the market valuation at this date when you sell the property
- Logbooks for motor vehicle expenses (where in the business of real estate)
- Diaries to substantiate home office expenses & phone use



Record Keeping

How long to keep your records?


- 5 years from the date your notice of assessment was issued- 7 years if you are a company.
- Property purchase information and any records used to calculate a capital gain/loss should be kept for 5/7 years from the date your notice of assessment was issued for the year the property was sold



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Property Investor



- ✓ Trust has bank account
- ✓ Trust Lodges tax return
- ✓ Trust applies for loan
- ✓ Trust on title (NSW and VIC excepted)

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Filing

Property Investing

- Asset Register
- Receipts (In English, legible, digital or manual)



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Property Accounting

Income	\$
Expenses	\$
Depreciation	\$
Rates	\$
Insurance	\$
Management	\$
Interest	\$
Telephone	\$
Stationery	\$
Repairs	\$
Other	\$
Profit/(Loss)	\$ _____



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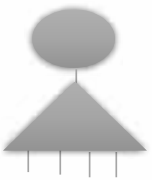
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When in the Business of Real Estate

Flipper Trust

- Trust Bank Account
- Trust can have registered business name
- Trust may need GST and payroll registration.
- Can claim more expenses this way but trust and intention must exist!



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Flipper Trust Accounting

Accounting Systems

- Cloud verses desktop?
- Quick Books
- MYOB
- Xero

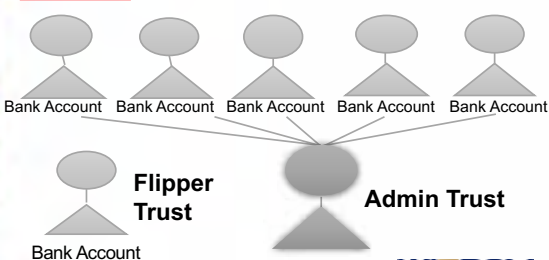


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Investment Trusts



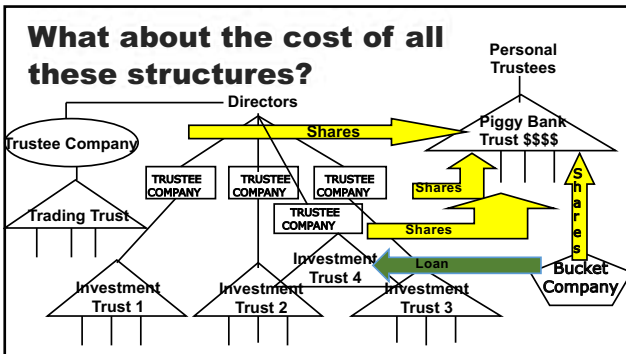
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Flipper Trust **Admin Trust**

Bank Account

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Deductions

- Business
- Individual / Employee
- Rental Property

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Expense Categories

- Advertising for tenants
- Bank charges
- Body corporate fees and charges
- Cleaning
- Council rates
- Gardening and lawn mowing
- Home Office
- Insurance
- Land tax
- Legal expenses
- Repairs and maintenance
- Interest expenses
- Phone
- Pest control
- Property agent fees and commissions
- Stationery and postage
- Water charges

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Borrowing Expenses.
What can I claim?

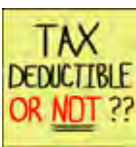


- Stamp duty charged on the mortgage
- Loan establishment fees
- Title search fees charged by your lender
- Costs for preparing and filing mortgage documents
- Mortgage broker fees
- Fees for a valuation required for loan approval, and
- Lender's mortgage insurance, which is insurance taken out by the lender and billed to you.
Over 5 years or life of the loan!

What can't I claim?


Stamp duty charged by your state/territory government on the transfer (purchase) of the property title (This stamp duty may be included in calculating the 'cost base' of the property for capital gains tax (CGT) purposes.)

Borrowing expenses on the portion of the loan you use for private purposes (for example, money you invest in a super fund).







Repairs & Maintenance

Repairs are to make good or remedy defects in, damage to or deterioration of the property.
 Maintenance is to prevent deterioration or fix existing deterioration.



Can claim an immediate deduction

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Improvements

When we say 'improvement' we mean work that:

- provides something new
- generally furthers the income-producing ability or expected life of the property
- generally changes the character of the item you have improved
- goes beyond just restoring the efficient functioning of the property.

Needs to be depreciated over a number of years

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When is a repair not a repair?

If you replace something clearly identifiable & separable even if broken – e.g. stove, set of kitchen cupboards it is likely to be an improvement & will need to be depreciated over a number of years.

If you used a different material to what was previously used - e.g. replace wooden cladding with plastic cladding it is likely to be an improvement & will need to be depreciated over a number of years.

Make sure you get detailed invoices especially if work has several components

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Repairs & Timing

REPAIRS completed BEFORE a property is being rented are incurred before income is earned & will be classified as improvements and therefore depreciable not deductible.

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Repairs & Timing

REPAIRS completed DURING a property is being rented are deductible provided they can be attributed to fair wear and tear otherwise they can be classified as improvements and therefore depreciable not deductible.

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Repairs & Timing

REPAIRS completed AFTER a property is being rented are deductible provided they can be attributed to fair wear and tear during the tenancy otherwise they can be classified as improvements and not deductible until property sold.

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Depreciation

Allowable tax deduction to take account of the fair wear and tear and reducing value of assets.

Two Part:

- Fixtures and Fittings
- Building or Capital Works

Prime Cost or Diminishing Value?



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Depreciation - Plant

From 1 July 2017 limited to new plant and equipment for residential rental premises

Purchasers of existing plant and equipment no longer able to depreciate (will be part of the cost base for CGT purposes)

Existing investments are grandfathered – plant that is part of rental as of 9 May 2017 continues to be depreciated

Acquire newly developed property – may be able to still claim.

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Depreciation – Building

Building & Capital Improvements

16/9/87 - present

2.5% of building cost when built

Get a Quantity Surveyor



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BMT Educational resources for Investors



Depreciation Calculator



Maverick Newsletter



BMT Website – Investor Page



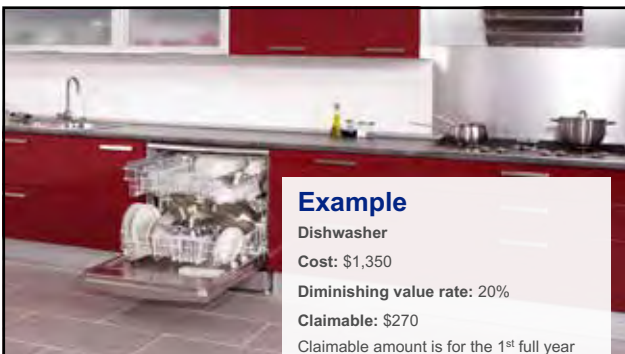
You Tube & Social Media

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Example
 House Built: 2010
 Cost: \$260,000
 Building allowance applicable: 2.5%
 Claimable: \$6,500
 Claimable amount is for the 1st full year onwards



Example
 Dishwasher
 Cost: \$1,350
 Diminishing value rate: 20%
 Claimable: \$270
 Claimable amount is for the 1st full year

Scrapping

- Removal and disposal of depreciable assets
- Remaining value = instant tax deduction
- Must be an investment property until the asset is removed
- Is this still relevant given new legislation?



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Home Office & Phone

Home Office
 Can claim 45c per hour which covers electricity & decline in furniture – need to keep a diary for 4 weeks showing use of the office for rental property reasons

Phone Costs
 At least four week period recording all phone calls & costs to be able to identify relevant % that are property related

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Travel – to 30 June 2017


- Travel to visit property **before a contract** has been signed will not be claimable anywhere
- Travel to visit property **before it has been rented** will be capital and added to cost of property when sold
- Travel to visit property **after it has been rented** may be deductible depending on extent of travel! i.e. reasonable length of stay, purpose of travel
- Travel costs can include flights, taxi, meals & accommodation
- If you are in the business of real estate all travel is claimable or you could pay a travel allowance

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Travel & Car Costs



How to claim car costs:

- Easiest method is the **cents per kilometre** – 66c per km
- Keep a diary for every trip you make to the property throughout the year (good to have other evidence as well e.g email to real estate management)
- Other way to claim is **Log Book**

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Travel – from 1 July 2017

Deductions for residential rental properties will be disallowed

- Includes travel relating to inspecting, maintaining or collecting rent
- Will not prevent investors claiming expenses for engaging real estate agents for property management services
- Travel does not form part of the cost base for CGT purposes

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New Properties & Things to Remember

To Get Best Tax Deduction:

- Ensure borrowing costs aren't missed
- Get quantity surveyors report
- Provide settlement statement from solicitors
 - there will be rate/water adjustments

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New Properties & Things to Remember

Things that aren't a tax deduction:

- Legal Fees
- Searches & Fees
- Travel
- Stamp duty

These items will be added to cost of property when sold (except travel)

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How does GST work?


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GST & Property

Depends on type of property:

- In the Business of Real Estate
- Residential property
- Commercial property/ Going Concern
- New constructions
- Major renovations

May all be treated differently!



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In the Business of Real Estate - GST

GST Basics

- ABN Per Entity
- Sales threshold \$75,000 before GST is applicable

Are you running an enterprise?

- Regularity & Repetition
- Intention to make a profit
- A business plan exists
- Activities are systematic, organised & conducted in a business like manner & records are kept
- The entity has relevant knowledge or skills

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In the Business of Real Estate - GST

Announced May 2017
(not yet legislated):

- Property developers will no longer manage GST on sales of newly constructed residential property or new subdivisions
- Purchaser will be required to remit GST directly to the ATO as part of the settlement process



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GST & One-off Transactions

When do one-off transactions require GST registration?

- Do activities show **profit intention** clearly?
- If not goes to motive

Considerations of Motive

- Does it provide income or personal enjoyment? (Not a profit motive)
- Frequency of similar transactions
- Is it preparing asset for sale? Scale of activities

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10% Method or Margin Scheme

When does it apply:

- When you are selling a property
- Must be a business transaction (profit intention) on applicable properties e.g. on new residential or commercial
- You didn't claim GST on purchase
- Sold to you under the margin scheme or
- Seller wasn't GST registered or GST wasn't applicable
- Buyer and Seller need to agree in writing that the margin scheme will be used – **So put it in the contract of sale!**

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Residential Transactions & GST

Types of Residential Properties

- New residential
- Residential “off the plan”
- Existing Residential

What makes a property “new”?

- Never been sold as residential before
- Been created through “substantial” renovation
- New building replaces demolished building



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Residential Transactions & GST

On “new” property:

- Claim GST on purchases to sell new property (e.g. real estate fees)
- GST is applicable on the Sale
- OR apply the Margin Scheme

Off-the Plan:

- GST on purchase of property at settlement
- If “right” sold before settlement no GST applicable unless this was your intention

Existing Residential Property – no GST applicable

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GST on Property Renovations

ATO View: three kinds of property renovations

1. Business of Property Renovation (No CGT, claim GST, pay tax on net profit)
2. Profit making activity of property renovations (Pay tax on net profit, claim GST only if renovations are substantial & CGT may apply)
3. Personal Investor (CGT calculations, no GST)

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What is a “substantial renovation”

Substantial renovations occur where all or substantially all of a building is removed or replaced. They must directly affect most rooms in the house.

Renovations can be structural & include:

- Foundations, Supporting Walls, Roof and Staircases etc

What isn't a substantial renovation on its own:

- Replace wiring, Non-supporting walls, Plastering or rendering walls, Replacing kitchen & bathroom cupboards, Cosmetic e.g. painting, sanding floors, light fittings, curtains & carpets, Additions, Landscaping

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Commercial Property & GST

Commercial Properties are shops, factories & offices

If leasing these premises & your turn-over is more than \$75,000 you are required to register for GST & charge your tenants.



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Commercial Property & GST

Purchase of Commercial Property:

- If seller is registered for GST & you (the purchaser) intend to use building in your GST registered business you can claim GST credit on purchase
- If the seller applied the margin scheme you can't claim GST
- Most seller uses “going concern” & is sold GST free
 - Sale** - May be eligible for margin scheme
 - Going Concern

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Capital Gains Tax (CGT)


What is Capital Gains Tax?

- Capital Gains Tax is not a special tax rate
- Taxed at the taxpayer's marginal rate
- Capital losses can only be offset against capital gains
- CGT and GST are mutually exclusive

Discounts and Exemptions may apply

- Principal Place of Residence
- General Discount
- Small Business Concessions

Capital Gains and Trusts



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CGT & Principal Place of Residence

- Can only have one PPR at a time
- PPR includes House & 2Ha or 5 Acres of land
- What constitutes PPR or main residence?
- When is ownership? (contract date to contract date)
- Moving PPR from one to another - 6 month crossover period can be applied
- Continuing PPR Status (six year rule)
- PPR used partly as place of business - Any income producing activity may affect entitlement e.g Home Business, Rental etc.



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CGT & General Discount

To be eligible for the General Discount

- Must hold the asset for at least 12 months
- Companies are not eligible
- Non-residents can only claim for the period before May 2012



Main Residence Exemption

- Being proposed that foreign residents will no longer get main residence exemption

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CGT & Small Business Concessions

Only available if being sold as part of a small business

15 year exemption

- Asset continuously owned for 15 years, over 55, retiring – no assessable gain

Active Asset

- 50% reduction in taxable gain – can be applied with general discount to reduce gain to 25%

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CGT & Small Business Concessions

Replacement Asset Rollover

- Use the proceeds to buy another active asset and only pay tax when the second asset is sold (2 years to buy the new asset)

Retirement Exemption

- \$500,000 lifetime cap, under 55's must pay into superannuation

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CGT & Inherited Property

Main Issue is when did deceased purchase property:

Pre 20 September 1985 (pre CGT)

- Pre CGT property left to beneficiary under Will is deemed to have been acquired on date of death of the deceased at market value.
- If sold within 2 yrs of death exempt from CGT

Post 20 September 1985 (post CGT)

- Post CGT property left to beneficiary under Will is deemed to have been acquired on same date that the deceased acquired it.

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CGT & Inherited Property

Death of a Joint Tenant

- Deceased persons interest in a property passes to the survivor by operation of law.
- Survivor deemed to have acquired the property on the same date the deceased acquired it.

Property awarded on Divorce

- Acquirer of the property is deemed to have acquired it on the same date as the spouse.

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CGT & Pre-CGT Assets

Building on Pre CGT Land:

- Building is treated as a separate asset
- Proceeds of sale of land and building are apportioned between the building and the land



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CGT & Subdivision

- Capital Gain occurs when you sell, not when you subdivide.
- For the purposes of working out your capital gain or capital loss, the date you acquired the subdivided blocks is the date you acquired the original parcel of land and the cost base of the original land is divided between the subdivided blocks on a reasonable basis.
- If you subdivide the land on which your PPR sits, you will lose the PPR exemption for any block sold separate to the PPR

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CGT & Trusts

1. Trust offsets any capital losses it has made against the capital gain.
2. It then applies any discounts it may be eligible for.
3. The discounted gain is distributed to the beneficiaries of the trust who:
 - a. Gross up the gain,
 - b. Apply any personal capital losses they have against the capital gain
 - c. Reapply any of the discounts they are eligible for

Beneficiaries usually claim the same discounts as the trust.
 *Corporate beneficiaries and the general discount are a key exception to this rule

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Foreign Resident Rules



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Foreign Resident Rules

- From 01/07/16 where a Foreign Resident disposes of Australian Property, purchaser is required to withhold 10% if > \$2m
- To avoid, entity with legal title to asset obtains clearance certificate
- Affects real property, indirect Australian Real Property, options or rights relating to Australian Real Property

2017 Budget Changes

- From 1 July 2017 withholding rate will increase to 12.5%
- Will now apply to purchases above \$750,000

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WIZDOM KNOWLEDGE · EXPERIENCE · INTEGRITY
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