

Skyline Newsletter for Property Investors - June 2006

Tax Deductions

One of the many benefits associated with negatively geared investment property is the ability to claim tax deductions on any shortfalls acquired throughout the year. Knowing which benefits are on offer to suit your investment will help to maximise reimbursements.

The tax department enables investors to claim a wide range of their expenses that have incurred while holding an investment property.

Claims can be made on but are not limited to, repairs, maintenance, property management fees, interest on the loan, bank charges, body corporate fees, municipal rates, electricity, gas, travel expenses to the property and insurance.

Generally, these expenses can be included in your tax return to help offset the money you have earned. However, many investors make the mistake of claiming expenses of a capital or private nature, which are not tax deductible. Errors of this nature are more common when investors seek to prepare their own tax returns without the assistance of a tax accountant.

As the type and number of expenses that can incur in purchasing and holding a rental property are diverse, and taxation concessions vary just as much, professional advice is extremely valuable. Tax accountants help to prevent errors that are regularly picked up by the Australian Taxation Office which can include:

- Failing to declare all rental income such as letting or booking fees
- Claiming interest costs on the borrowings for the whole year, even if the landlord has used the property for some time
- Claiming capital improvements such as renovations as maintenance costs
- Claiming deductions for property that is not genuinely available for rent.

If spot audits reveal incorrect or improper claims made in relation to an investment property, the

Australian Taxation Office can impose substantial sanctions or fines.

There are however, many ways that as a landlord, you can minimise faults in your tax returns.



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One is to ensure that a separate loan account for each of your investment properties is established. This guarantees that all interest payments are clearly identifiable as investment related rather than private expenses.

Keeping written records of all financial transactions relating to your investment property is another approach to reduce faults. When the end of the financial year approaches, the items that need to be claimed can then be supported with evidence.

Being aware of the tax incentives on offer and ensuring that your current investment strategy takes advantage of all the benefits offered, is the best planning for a good return.

For more information regarding tax claims refer to www.ato.gov.au.

A Case for the Tribunal....

The following is a summary of a legal judgement arising from a tenancy dispute. We do not recommend you rely on this summary for any decision making about your investment.

Barre v Sun & Xia (2001) Residential Tribunal of NSW

In April 1999 much of the eastern suburbs of Sydney was hit by a major hailstorm. The roof of the tenanted property was badly damaged by the hail, and rain water leaked into the property causing damage to the kitchen light, the stove and fridge, making the kitchen wet and dangerous.

Approximately two weeks later after the storm, plastic sheeting was placed over the roof. However, this did not fix the problem and water penetration continued until 8 January 2001 when the roof was covered with a new tarpaulin.

The tenant sought a reduction in rent due to the withdrawal of facilities over a 52 week period, repair costs to the fridge and a keyboard plus damages for non-economic loss of distress, anxiety, inconvenience and disappointment.

The landlord argued that they were waiting on an insurance claim to be determined before they could carry out the repairs; however, they provided no evidence as to when the claim was made. They also argued that the rent should not be reduced as the tenant was paying below the general market value. They offered local newspaper ads to show higher rents for similar properties- however they provided no evidence for the quality of these advertised properties.

The tribunal accepted that the tenant, who was elderly and disabled, had lived in poor living conditions including wet floors and limited use of the property's facilities for a considerable time.

The tribunal found that there was an ongoing failure by the landlord to repair the roof and prevent further water penetration. They awarded a rent reduction of \$20.00 per week from 20 May, 1999 to 6 September 1999. This was due to the kitchen light and stove not working, plus a further reduction of \$50.00 per week from May 20, 1999 to May 20, 2000 for the unpredictable loss of use of the kitchen. Repair costs

to the fridge and keyboard in the sum of \$312.50 was also awarded.

Further the tribunal found that the landlord had breached the tenant's right to peace, comfort and privacy, and compensated the tenant in the sum of \$2,500.00.

Although this case was heard in the Residential Tribunal of NSW, there is a lesson in it for all Landlords- to ensure timely repair and maintenance of tenanted property.

Inspect what?

Regular inspections of your investment are an essential part of an effective property management schedule. Although often perceived as the 'down side' to renting by tenants, these inspections benefit both parties in the long run.

A Property Manager is allowed to enter the premises for inspections as long as the tenants are given at least one week's notice. However, the number of inspections must not exceed four in a twelve month period. Entering the premises without adhering to these guidelines could be seen as a violation of the tenant's right to privacy.

At the inspection a Property Manager will assess the state of the property and ascertain whether any repairs need to be made. It is also a time when tenants can request certain repairs or maintenance to be carried out. As the owner you will receive a report after each inspection, and if repairs are required this report will include a notice to authorise these repairs.

By utilising the services of a professional Property Manager, you will ensure that all laws relating to your tenant's privacy are adhered to, making the process as quick and efficient as possible.