



Australian Taxation



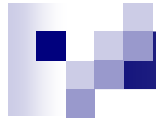
Presented by:

Albert Chua

Principal

GC & Associates Pty Limited

Accountants, Tax Agents & Business Advisors



Property Investments

... Tax Smart



Australian properties

Very popular with local and overseas
investors

First home

Second investment ahead of shares



Australian properties

Offers many attractions

- less volatile than shares
 - easy to gear

Good potential

- Capital Growth
- Rental Income

Tax Benefits



Facts ...

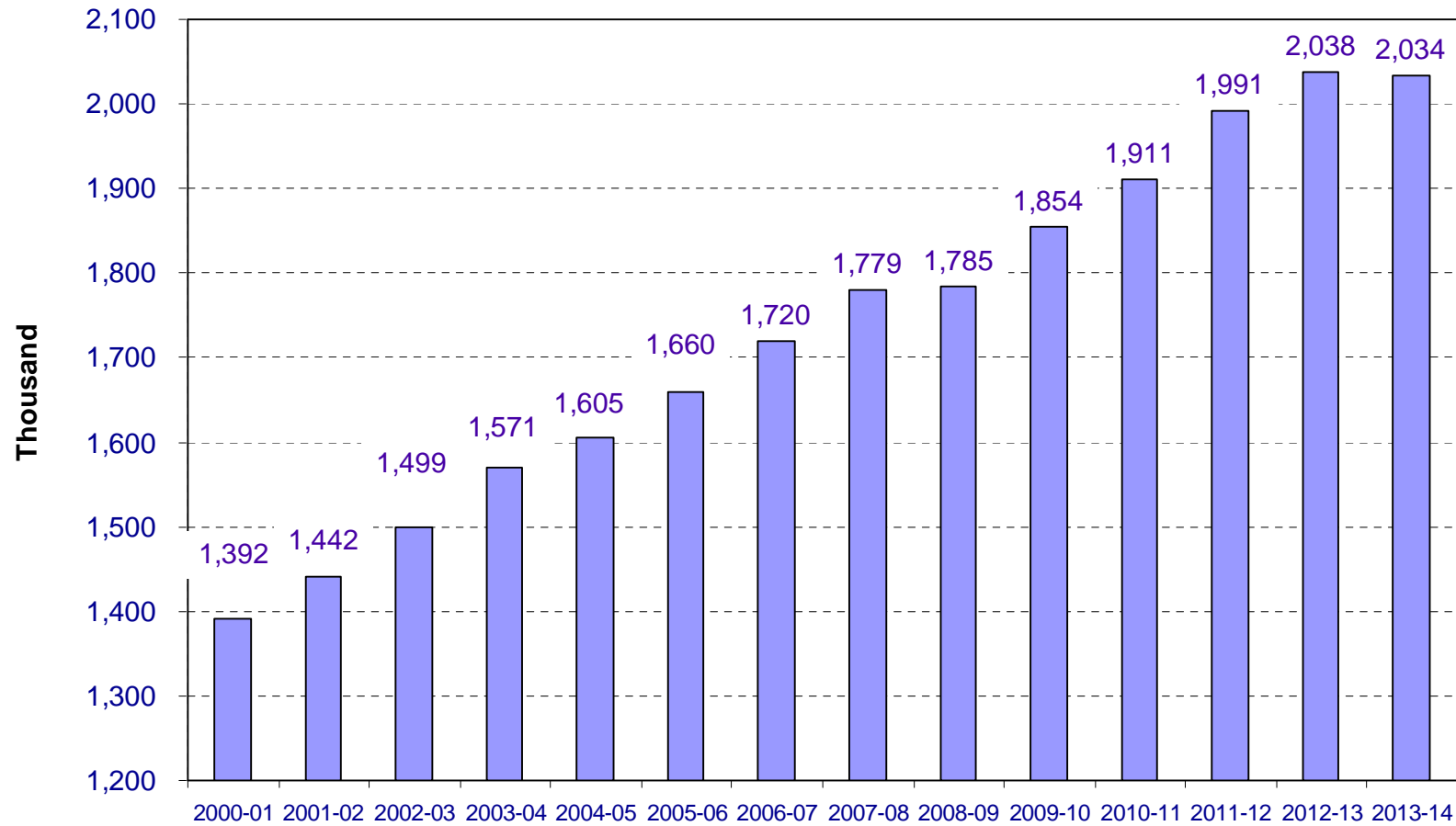
According to Australian Taxation Office ...
in 2013-14:

- Over 2 million property investors
- Over \$38 billion rental income reported
- Approx. \$42 billion rental deductions claimed
- Net rental income is approx. **\$4 billion (LOSS)**

Statistics

Source: ATO Taxation Statistics

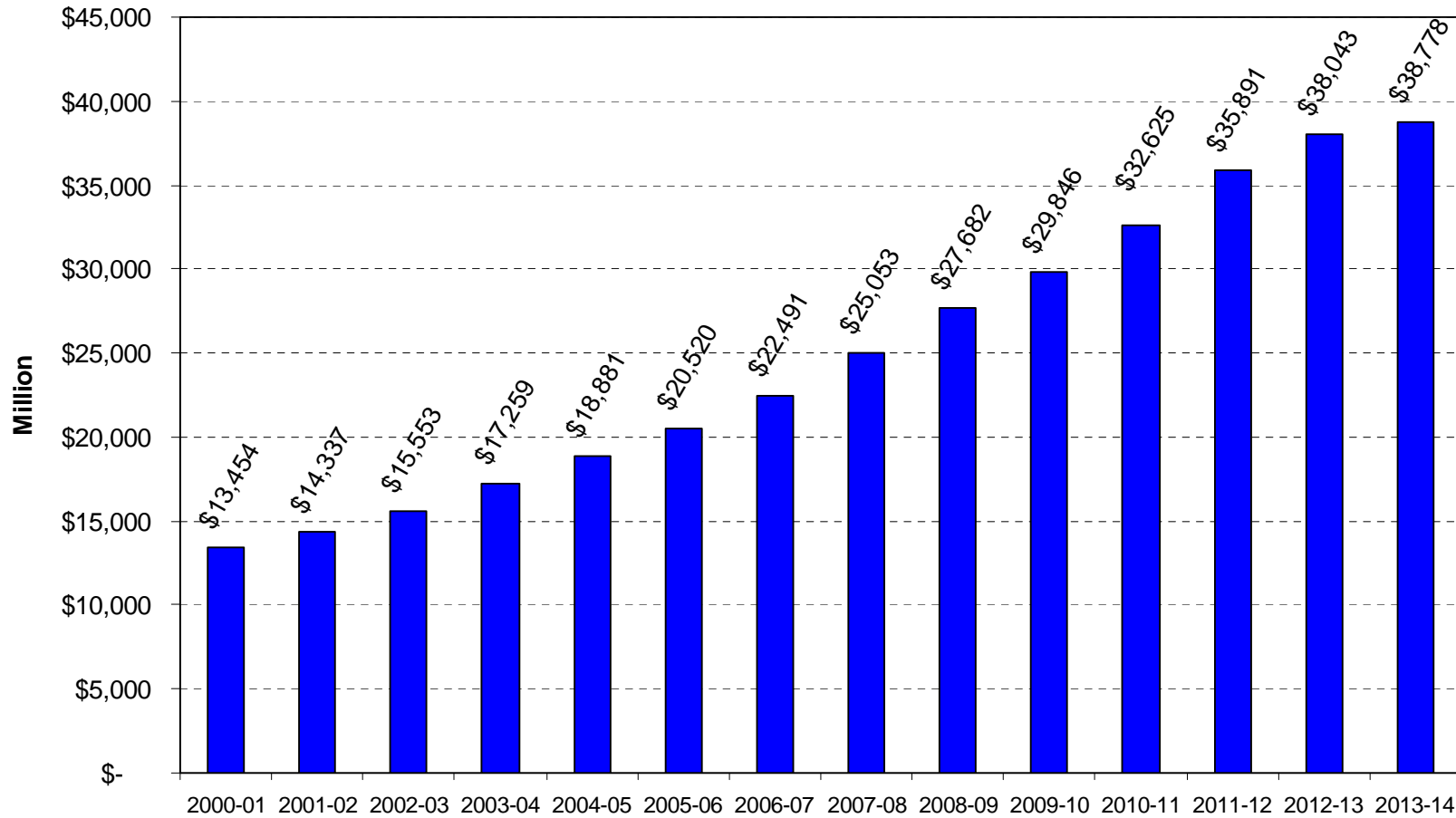
Number of Rental Property Investors



Statistics

Source: ATO Taxation Statistics

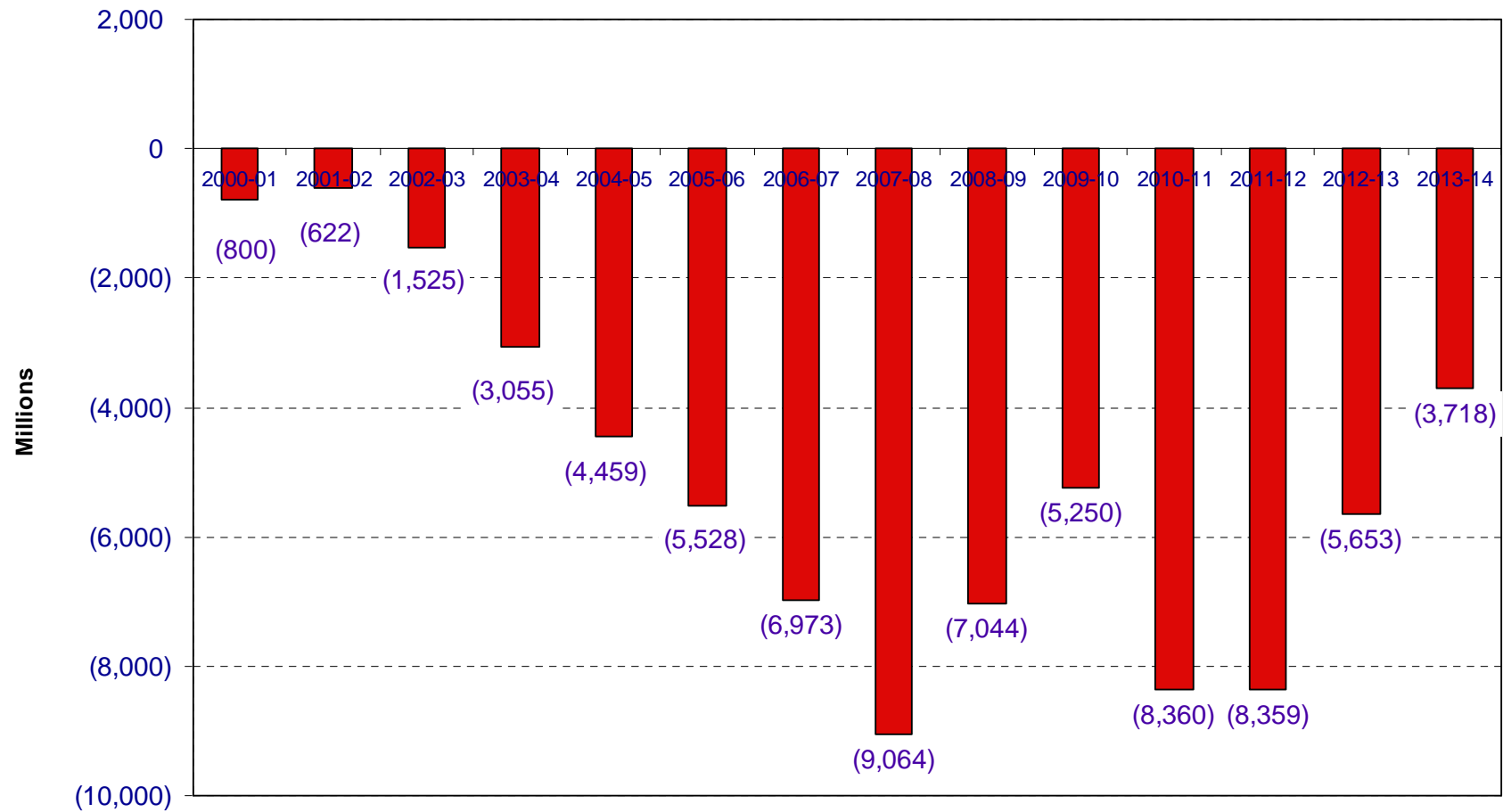
Total Gross Rental Income from Investment Properties



Statistics

Source: ATO Taxation Statistics

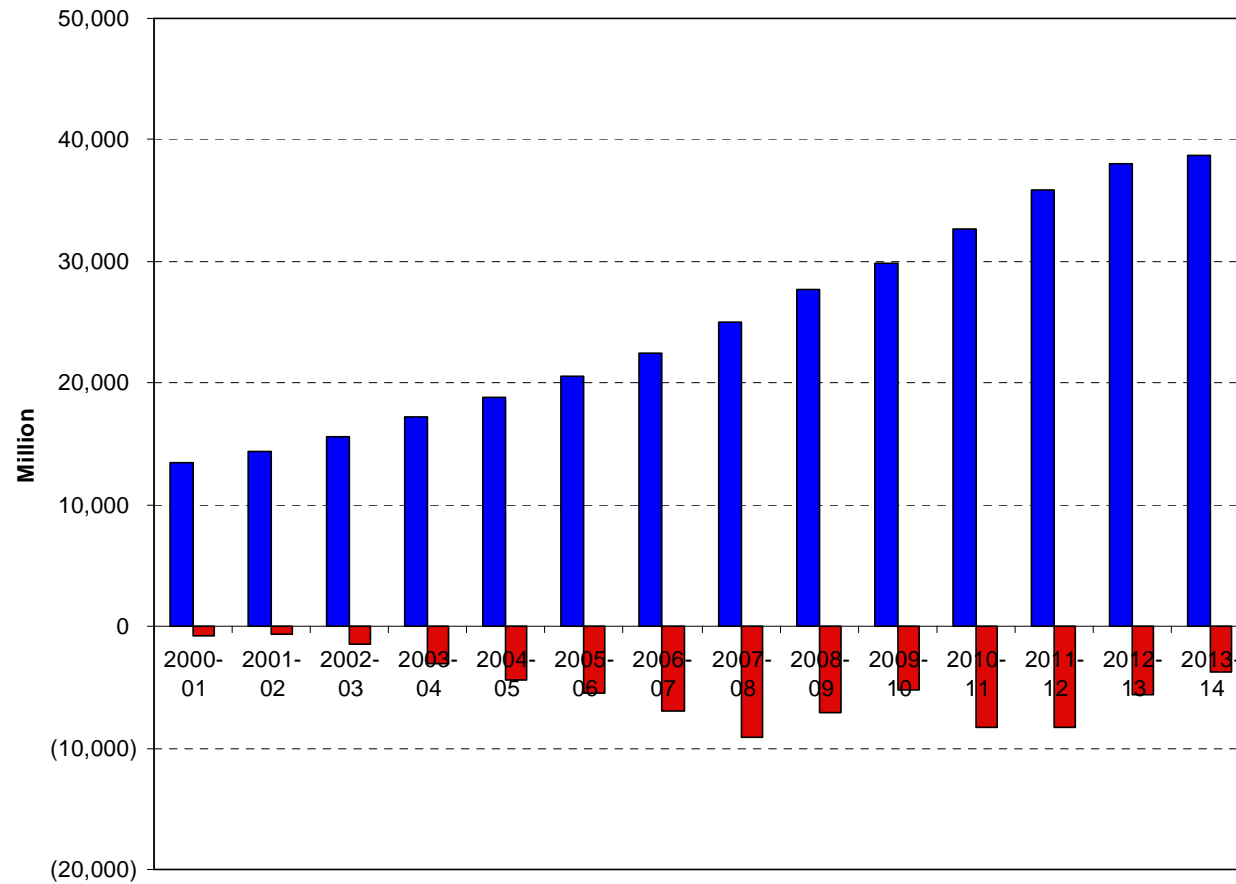
Total Net Rental Income from Investment Properties



Statistics

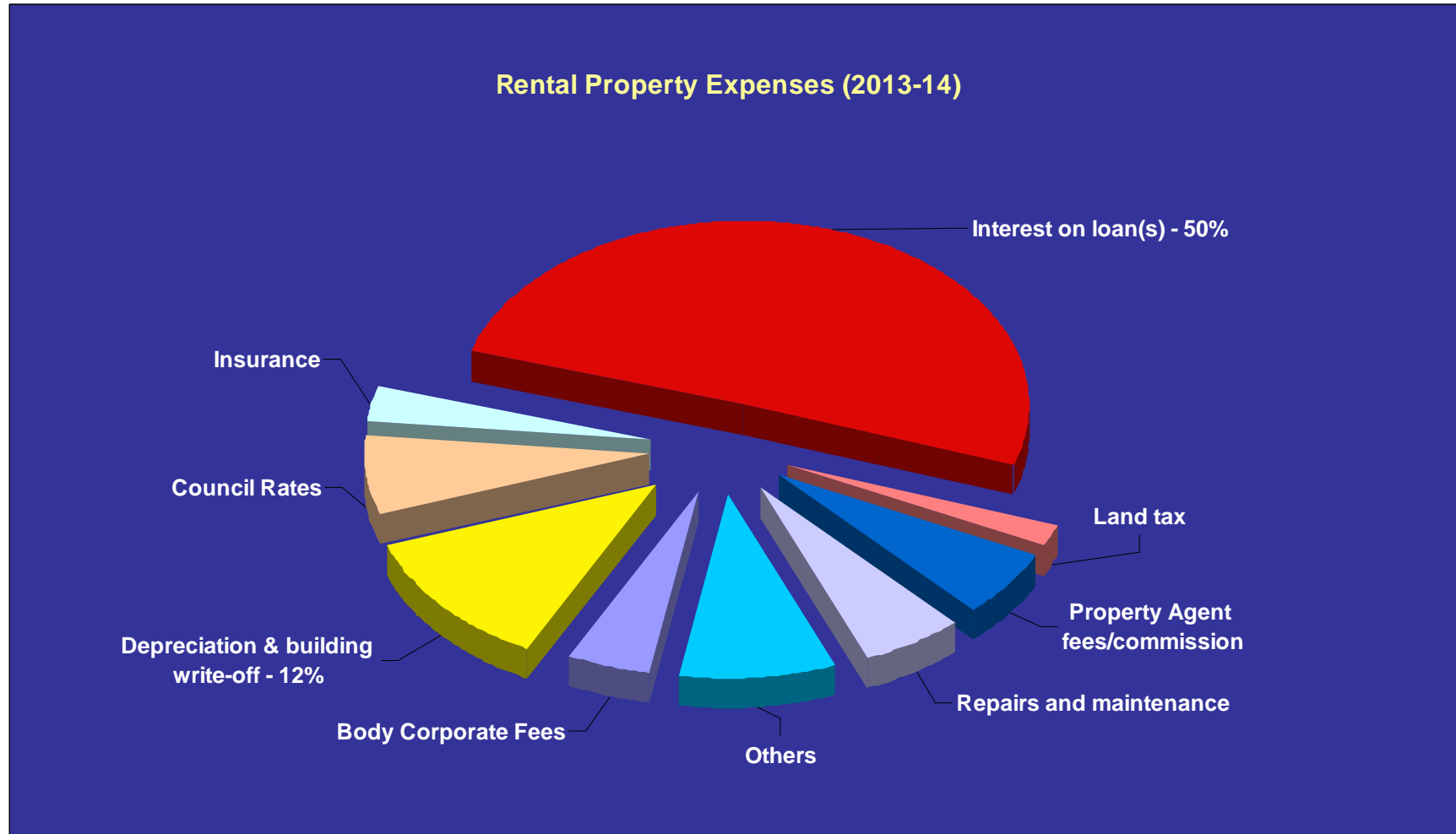
Source: ATO Taxation Statistics

Gross Rental Income vs Net Rental Income



Statistics

Source: ATO Taxation Statistics

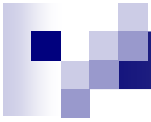




Statistics

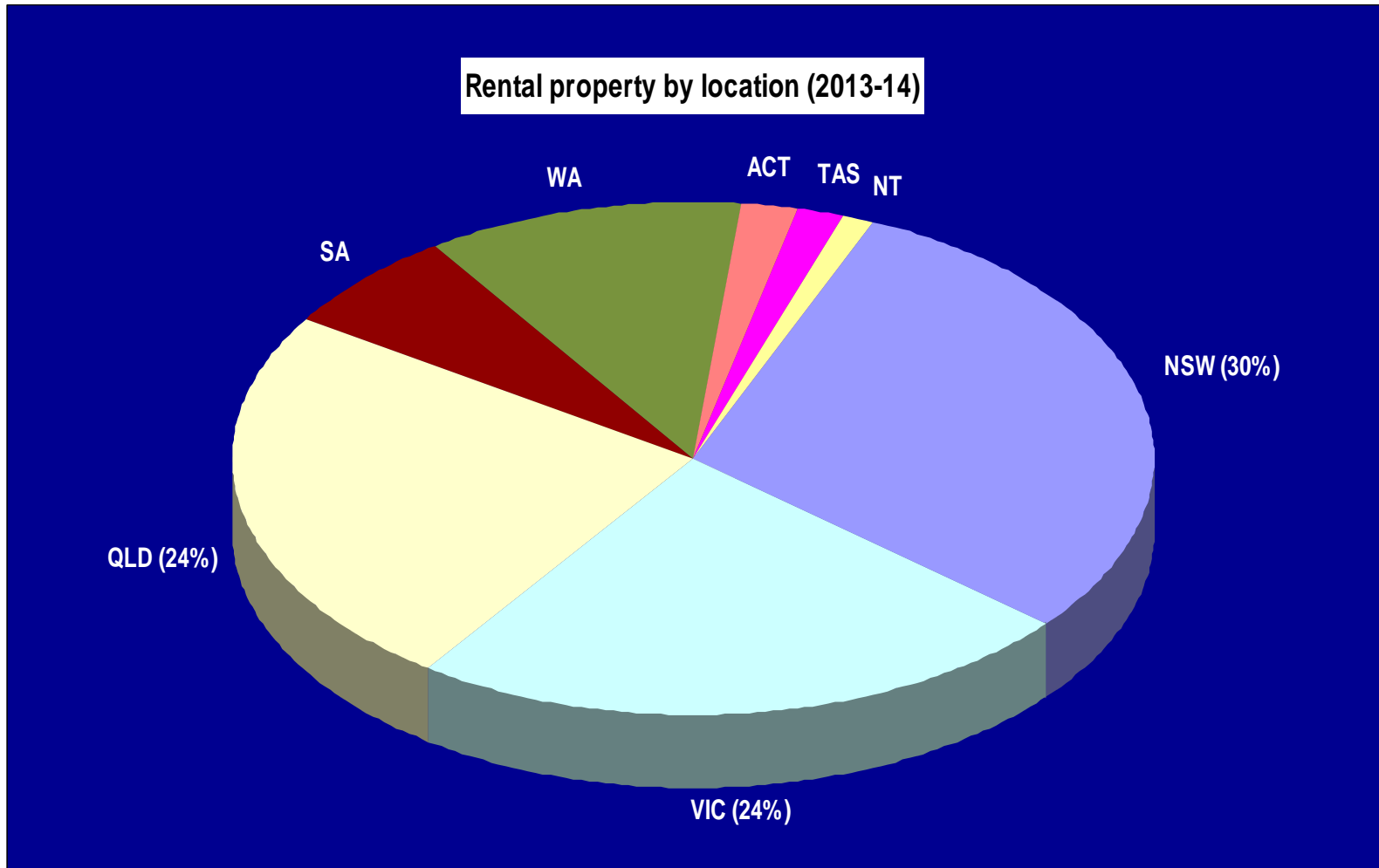
Source: ATO Taxation Statistics

Body Corporate Fees	\$	2,007,106,333	5%
Depreciation & building write-off	\$	5,056,904,991	12%
Council Rates	\$	2,887,561,042	7%
Insurance	\$	1,357,835,164	3%
Interest on loan(s)	\$	21,089,637,141	50%
Land tax	\$	809,216,734	2%
Property Agent fees/commission	\$	2,419,112,144	6%
Repairs and maintenance	\$	2,423,589,231	6%
Others	\$	3,758,154,149	9%
	\$	41,809,116,929	100%



Statistics

Source: ATO Taxation Statistics





As for us ...

GC & Associates handles more than 3,000 income tax returns with rental properties investment.

Each of our clients have average of three (3) rental properties.



Foreign Residents

Tax on Australian source income only

- Rental properties income
- Salaries & Wages

Withholding tax

- Interest – 10%
- Dividend - Franked (tax paid 30%)
- Dividend - Unfranked 15%



Tax Deductions





Tax Deductions

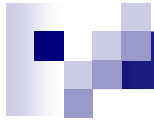
What I can claim straight away

- Interest on loan
- Costs of repairs and maintenance
- Tenancy cost (agent's fees, legal cost on lease agreement)



Typically:

- Advertising for tenant
- Bank fees & charges
- Body corporate fees & charges
- Cleaning
- Council rates
- Electricity & gas
- Gardening and lawn mowing
- Insurance (building, contents & public liability)
- Interest on loans



- Lease documents expenses (preparation, registration & stamp duty)
- Legal expenses
- Property agent's fees & commission
- Quantity surveyor's fees
- Repairs & maintenance
- Secretarial & bookkeeping fees
- Security expenses
- Stationery & postage
- Telephone
- Water charges



Tax Deductions

What I can claim over a number of years

- Cost of depreciating assets (plant & equipment, fixture & fitting, etc)
- Cost of building construction
- Borrowing costs (stamp duty on mortgage, bank loan approval fees, etc.

BMT deduction assessment

Property type	Purchase price	First year deductions	Five years cumulative
One bed apartment	\$450,000	\$14,200	\$56,900
Two bed apartment	\$550,000	\$15,400	\$61,950
Three bed apartment	\$700,000	\$16,300	\$67,600
Townhouse	\$500,000	\$10,250	\$47,200
Townhouse	\$600,000	\$11,200	\$48,850
Residential house	\$500,000	\$10,100	\$46,800
Residential house	\$600,000	\$10,950	\$48,200

**Deduction assessment is based on new properties*



Capital Work Allowance

- 25 or 40 years
- Total deductions cannot exceed the construction expenditure
- Typical construction expenditures:
 - ⇒ Building or extension
 - ⇒ Alterations
 - ⇒ Structural improvements



Depreciation & Write Off

Property owner can claim

- write off in plant and equipment
- capital work allowance

Involves writing off the cost of the item over a number of years or the effective life of the asset



Typical plant & equipment:

- hot water service
- ceiling fans
- dishwasher
- carpet
- blinds
- exhaust fans
- washing machines
- cooktops
- ovens
- rangehood
- smoke alarms
- air conditioner
- light shades
- microwaves
- floating timber floors
- microwaves
- vinyl
- furniture package
- clothes dryer
- freestanding spa
- curtains
- security systems

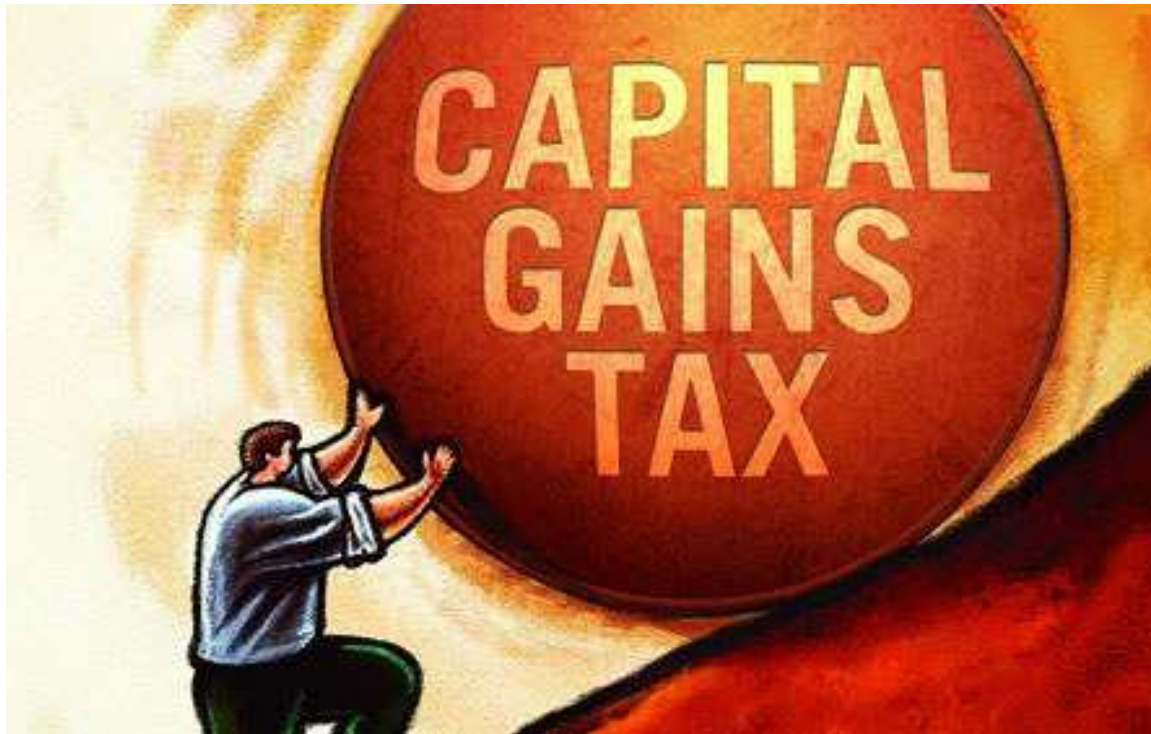


Tax Deductions

What I cannot claim

- Expenses deem private
- Land costs

Capital Gain Tax





Capital Gain Tax

Basics

... tax on capital gain arises from the disposal (sale) of an asset

... including investment property acquired after 19 September 1985



Capital Gain Tax

Exemption

- Pre-20 September 1985 property
- Property for private use (family home)
 - Principal Place of Residence (PPR)
- Others



Capital Gain Tax

Non-Residents

- No longer eligible for 50% CGT discount on capital gains earned after 7 May 2012
- Still entitled to a discount on capital gains accrued before 8 May 2012, provided they obtain a market valuation
- Law passed on Friday, 28 June 2013



Capital Gain Tax

Example

- John is a non-resident for tax purpose of Australia.
- On 1 August 2006, John purchased an apartment in Melbourne for \$400,000.
- John obtains a market valuation of the apartment on 9 May 2012. The market valuation is \$500,000.
- John sells his apartment on 1 June 2017 for \$650,000.
- John makes a total capital gain of \$250,000. Capital gain attributable to the period prior to 8 May 2012 is \$100,000.



Capital Gain Tax

Under the old law

John can apply 50% CGT Discounts in respect to all capital gains.

John's assessable capital gain is \$125,000 (50% of \$250,000).



Capital Gain Tax

Under the new law

John can only apply 50% CGT Discount in respect to \$100,000 as it is attributable to the period prior to 8 May 2012.

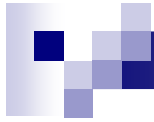
John's assessable capital gain is \$200,000 (50% of \$100,000 + 100% of \$150,000).



Capital Gain Tax

Selling of property

- Use of carried forward loss (rental) to offset future capital gains
- DON'T SELL! Property is long term investments.
- Re-invest using equity of pay-off properties
- Time your selling



Update



FIRB Changes

Foreign Investment Review Board
changes

Tightening of foreign investment rules
with emphasis on residential and
agricultural sectors



Reporting

Australian Taxation Office (ATO) will process foreign investment data in relation to residential real estate

1 December 2015, ATO taken over all residential land acquisition functions of FIRB



Reporting

ATO better resourced to access information through data matching with various state and federal agencies, immigration and tax records

Wider implication than just FIRB approval



Application Fees

Residential properties

1. \$5,000 for a property valued < \$1 mil.
2. \$10,000 for a property > \$1 mil., then a \$10,000 incremental fee increase per additional \$1 mil.

Business \$10,000 - \$100,000

Agriculture \$5,000 - \$100,000



Capital Gain Withholding Payment

Applicable to **foreign resident** dispose of certain taxable Australian property.

Purchaser will be required to withhold and pay to ATO 10% of the purchase price*.



Capital Gain Withholding Payment

Apply to contracts entered into on or
after 1 July 2016.

Legislation is now passed as law as of
25 February 2016.



Assets

Limited to taxable Australian property:

- Real property (residential and commercial);
 - Grant of lease over real property;
 - Mining rights;
- Interests in Australian entities (property or interests) – indirect interest;
- Options or rights to acquire (property or interests).



Exclusions

- Real property transaction with a market value under \$2 million;
 - Transactions listed on an approved stock exchange;
 - Foreign resident vendor is under external administration or in bankruptcy.



2016-2017 Victorian State Budget

Released on 27 April 2016 confirms

- Increase of land transfer surcharge (also know as Stamp Duty) from 3% to 7%, effective on 1 July 2016
- Absentee owner land tax surcharge on foreign purchasers and landowners from 0.5% to 1.5% from the 2017 tax year.



Latest - Victoria


Changes to the off-the-plan stamp duty concession for property purchasers

- Effective from 1 July 2017
- Practical effect is that off-the-plan concession will be not available to local investments in residential property, foreign investments in residential property, or commercial, industrial, retail and other non-residential property acquisitions.
- Off-the-plan concession will be limited to individuals who qualify for principal place of residence (PPR) stamp duty concession or the first home buyer stamp duty concession.



Latest - Victoria

- \$750,000.00 for a first home buyer stamp duty concession or exemption
- \$550,000.00 for a principal place of residence stamp duty concession or exemption
- From 1 July 2017, foreign investors and purchasers are required to pay:
 - 7% foreign purchaser additional stamp duty,
 - 1.5% absentee owner surcharge on land tax (if applicable), and
- If a property is vacant for more than 6 months then a **NEW** 1% vacant property tax is payable, calculated on the capital improved value of the property.



2016-2017 Queensland State Budget

Released on 17 June 2016 confirms

- An additional 3% stamp duty will apply to acquisition of direct or indirect interest in residential property from 1 October 2016.



2016-2017 NSW State Budget

Released on 21 June 2016 confirms

- Introduction of Foreign Investor Surcharge (“Surcharge Purchaser Duty”) of 4% to all acquisition of NSW residential real estate by foreign person made on and after 21 June 2016.
- Abolition of duty deferral for off-the-plan purchases. No longer available foreigner.



2016-2017 NSW State Budget

Released on 21 June 2016 confirms

- Land Tax Surcharge of 0.75% will apply to holding of NSW residential land by foreign persons. This is in addition to ordinary land tax. No tax-free threshold and no Principal Place of Residence exemption is available for foreign person in respect to the land tax surcharge.

Tax Filing





Income Tax lodgement

- ❖ Financial year: 1 July – 30 June
- ❖ Due date for individual income tax
 - 31 October
 - Tax Agent's EOT



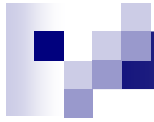
Income Tax rates

- ❖ Resident
- ❖ Foreign resident



Get started ...

- ❖ Tax File Number
- ❖ Tax information ... checklist
- ❖ Tax Depreciation Schedule
- ❖ Frequently Asked Question



Questions?





Thank you!!



GC & Associates Pty Limited

Accountants, Tax Agents & Business Advisors

www.gcassociates.net.au

Email: info@gcassociates.net.au