TAXMATTERS

TAX STRATEGIES FOR YOU AND YOUR BUSINESS

EDITION 16 · 2015

INSIDE

LeenaneTempleton
chartered accountants + business advisors

ATO focuses on rental property deductions

This tax season will see the ATO specifically targeting extreme or inappropriate deductions made by rental property owners.

While it is not uncommon to make some mistakes when claiming rental deductions, it is necessary for taxpayers with rental property interests to get their deductions and expense claims right to avoid facing harsh and costly penalties. Last year, the ATO contacted more than 350,000 taxpayers about omissions and errors in their returns.

This 2015-16 financial year will see the ATO increasing its focus on four main problem areas where rental property owners are incorrectly, whether by error or design, claiming deductions that don't necessarily suit their circumstances. These include:

Claiming excessive deductions

The ATO recently amended deductions claimed for a holiday home. Deductions may only be claimed for the periods when the holiday house property was rented out, or when it was genuinely available for rent. Deductions should also be limited to the amount of income earned by the property owner when the property is rented out below the market rate to family or friends.

Partners splitting income and deductions

Husbands and wives who own property together, but divide the income and deductions unequally to receive a tax advantage for the higher income earner, will be heavily penalised by the tax office. These kinds of arrangements will attract higher penalties if the ATO believes that they are carried out deliberately.

Repairs or maintenance claims

The ATO will carefully examine any repair and maintenance costs incurred by a property owner after a property is bought. These 'initial repairs and improvements' costs to a property are generally not deductible, but can be added to the capital cost of the property.

Claiming for interest deductions

Interest expenses incurred for a rental property are only deductible when the property is used to produce rental income. For example, those who own a two-storey house and live privately in the bottom storey but lease out the top storey can only claim 50% of the interest expenses. Property owners must be aware that any interest expense incurred from the private use of a property is non-deductible.

Leenane Templeton

Liability limited by a scheme approved under Professional Standards Legislation.

HEAD OFFICE
LEVEL 2, 134 KING ST
PO BOX 1805
NEWCASTLE NSW 2315

TEL (02) 4926 2300
FAX (02) 4926 2533

EMAIL
success@leenanetempleton.com.au

WEBSITE
www.leenanetempleton.com.au
www.newcastle-accountants.com.au
www.financialplanner-newcastle.com.au
www.self-managedsuperfund.com.au

DIRECTORS
Andrew Frith

ASSOCIATE DIRECTOR
Joel Griffiths

Taxation and Compliance
Management Accounts
Cash Flow and Profit
Benchmarking and KPI's
Financial Planning
Self Managed Super Funds

Training course deductions

Sometimes business owners need their employees to develop or grow their expertise and skills in a particular area.

While training courses like seminars and one-day intensives can be a worthwhile investment, there are still a few things employers should consider from a tax point of view.

Although employers can claim deductions for the full costs incurred when providing education to employees, including aspects like travel costs, many owners tend to forget to consider FBT implications.

Paying for employee work-related course fees generally constitutes a fringe benefit and is therefore subject to FBT. However, FBT law allows a full or partial reduction of FBT payable provided that the 'otherwise deductible' rule is met. The 'otherwise deductible rule' implies that if the employee had incurred the expense themselves, they could claim a deduction for the expense.

An education expense is considered to be hypothetically deductible to the employee depending on the type of course or education studied by the employee. The course must have a satisfactory connection to an employee's current employment, maintain or improve the skills or knowledge required for the employee's current role, or result in an increase in the employee's income.

Employees cannot claim a deduction for education expenses if there is no connection to their current employment, even if it assists them gain new employment.

Specific membership fees and subscriptions paid by an employer are also exempt from FBT (such as subscriptions to a professional journal).

Reducing holiday house CGT

Keeping valid and accurate records from the time you purchase your holiday retreat can pay off when it comes to selling the property and calculating CGT.

Owners should not forget to take into account the capital gains that may arise when they eventually sell their holiday house.

Since only an individual's family home or 'main residence' is exempt from capital gains tax (CGT), owning other property, such as a holiday house, will put CGT squarely on the table. But there is a way an individual can reduce their capital gain.

Where the property was bought after August 20 1991, and used only for private purposes, its cost base can be increased by including expenses, such as interest, rates and taxes.

Capital gains are calculated by subtracting (from the property's sale price) the cost base plus certain eligible expenses that were incurred as a consequence of owning the property.

If the property is owned for at least 12 months, then 50% of the capital gain is added to the landlord's taxable income for the year in which they sell the second property. This is taxed at the landlord's marginal tax rate.

When making the CGT liability calculation, some common expenses that may qualify as part of the cost base of the holiday retreat include:

- legal fees or stamp duty on the purchase
- sales commissions and legal expenses
- specific capital improvement costs
- "holding costs", such as water or council rates
- mortgage interest
- repairs, maintenance, gardening and cleaning

Any property additions or improvements can be included in a property's cost base, but it is always a good idea to seek professional advice regarding this. Owners need to keep in mind that they must keep accurate records throughout their time of ownership, as it is almost impossible to substantiate claims without proper records.

Those who have owned the holiday house since before September 20 1985 do not need to worry about CGT.

Work-related expenses on ATO hitlist

Don't get caught out by the ATO when lodging your work-related expense claim this financial year.

Unusually high work-related expense claims from any industry or occupation in the country are on the ATO's hit list this year. The tax office has stated that it will be paying particular attention to claims that have already been reimbursed by employers or made for private purposes, such as travel from home to work.

Taking such a broad approach and using technology that can spot unusual or excessive claims will increase the ATO's chances of picking up on those who make incorrect claims.

While there are some exceptions that allow taxpayers to claim travel from home to work, they are often taken advantage of by people who stretch the rules or simply do not understand them. These are the kind of taxpayers who run the risk of being picked up by the tax office when lodging a return with an incorrect claim.

It is vital for taxpayers who are unsure to seek professional advice regarding what they can claim and how much they can claim. It is also important that they keep a record of what they spend on work-related items throughout the year in order to substantiate what is claimed through their tax return.