

Tax time can strike fear into many investors' hearts. If you've left it late, or just want to know how to make the most of your deductions, *Smart Property Investment* has you covered

**LET'S FACE** it, we may be able to recall our rent and purchase price at the drop of a hat, but far fewer of us know how much each property's rates, interest repayments, repairs and maintenance cost. Or where the receipts are.

With the end of financial year around the corner, it's time to have a close look at your paperwork and bookkeeping.

"Ahead of the new financial year is an ideal time to assess your financial position, re-examine your investment strategy and explore ways to make improvements that may benefit your tax situation and property goals," explains Mortgage Choice's Belinda Williamson.

For a majority of investors, making the most of the tax laws in Australia helps significantly with the return on investment achievable.

Despite this, "Tax time is something a lot of people aren't completely au fait with," Propell National Valuers' national manager, James Freudigmann, explains. Even those who are aware of all the expenses and deductions they can make often lose out by not being prepared with records through the year.

### ORGANISING YOUR RECORDS

When it comes to sorting out your records, firstly you need a system. Whether it's the trusty old 'shoebox' that many investors seem to rely on, or something a little more technical, find out what suits you best.

Finding out what records to

keep will be crucial in making this system work. "If you haven't done so already, it is a good idea to thoroughly research your tax obligations and claimable expenses to find out how to use these to your advantage for this tax return and for the future," says Ms Williamson.

"In preparation for lodging a tax return, property investors should be organising any receipts and statements that relate to their rental property."

Having a spreadsheet system may also save you money when you go to the accountant, as it takes them less time to trawl through your receipts and paperwork.

While you will be required to keep receipts (or digital copies), plugging your expenses into an excel file can help clarify where money is being spent and how much can be expected in the next claim.

You can either do this in one hit or throughout the year as documents come your way, explains 37 Property Group's Dean Berman.

Aim to create some good habits for the next financial year. "Organisation throughout the year is key," says Mr Berman.

Part of this is talking to relevant professionals to find out just where you can be maximising your claims. "Do this now and get the ball rolling into the new financial year to hit it hard," he advises.

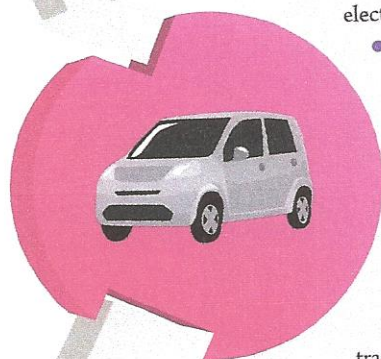




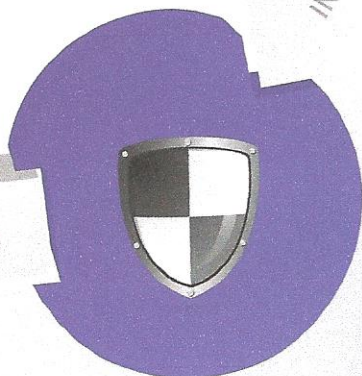
PITAL EXPENSES



TRAVEL COSTS



INSURANCE



RENO RECEIPTS

# TAX TIME ING ORGANISED

This is particularly the case when investors start purchasing multiple properties and things become more complex.

As with so much in life it's easy to let details slip past, even when it comes to your financial health.

## RECORDS TO KEEP:

- Purchase price
- Legal fees
- Pest and building inspections
- Agent, body corporate and advertising fees
- Capital expenses
- Building maintenance and repairs
- Cleaning and pest control
- Insurances
- Loan fees and interest payments
- Council rates, water, electricity and gas charges
- Records of travel to and from a property
- Land tax
- Quantity surveyor's report
- Renovation receipts (including from materials and products purchased, professionals/tradespeople hired, reports)

## THE MAIN INGREDIENT: DEPRECIATION

A 'paper' cost that you don't actually pay out of your pocket (until it comes to replacing the items), depreciation is a key ingredient in many investors' strategy to increase their deductions and their overall performance.

Recently the laws have changed, only allowing investors to 'back date' for missed claims over the last two years, rather than four years in the past. This means that it is even more crucial to chase any depreciation claims now.

Don't expect your accountant to be on top of this, warns Mr Freudigmann. "Most accountants should ask if you have one, but other

accountants will assume you've done everything.

"Of all the major items we see that people forget about, the biggest one is a depreciation report, or a tax depreciation schedule."

Don't assume that due to the age of your property, or because you haven't undertaken substantial renovations, you won't be able to make a claim. Head to the experts to find out.

"If they're thinking it's nothing ... well, it may be \$6,000 or \$7,000 they could be throwing away," Mr Berman warns. In fact, it's almost unanimously agreed that depreciation is one of the most neglected claims an investor can make.

Mike Mortlock, from MCG Quantity Surveyors, explains that while "DIY" depreciation may make you think there are minimal deductions you can make, a professional is able to look more carefully at how to maximise this.

"The owner might not know a reno was done 10 years ago - we'll do searches to find that out," Mr Mortlock explains. Kitchens and bathrooms that don't match the same time period, for instance, may be an indicator of potential depreciation benefits.

"A vast majority of those older properties will still qualify for a significant deduction," he says.

## MAKING THE MOST OF TAX TIME

Due to the nature of our taxation system, timing around this period is absolutely crucial - and it's worth understanding how purchasing, selling or making other decisions before and after this time of the year can make a difference.

For instance, says Mr Freudigmann, "If a husband and wife own an investment property in the wife's name and she's going on maternity leave next year, it might be beneficial to pre-pay some interest. When





## MANAGING PAPERWORK

### 1. SIMPLIFY

Streamline how you receive your records to make them more stress-free.

- Ask for annual statements where possible (such as from your property manager)
- Ask for electronic receipts and statements

### 2. BACK-UP

Minimise any potential nightmares around tax time by having copies of all your records.

- Make digital copies
- Keep the key information in spreadsheets

### 3. CHASE UP

Don't rely on other people providing you with the paperwork you need – call them and ask.

- Ensure that as every receipt comes in it has the required information (ABN etc)
- Keep lists of which receipts have not yet been provided to save later chasing

### 4. RECOVER

We often lose documents, and when that happens it's time to start recovering them straight away – the longer you leave it, the harder it can become.

- Ask your property manager, mortgage broker, bank, or other professionals (often they will keep copies of records)
- Call the council and/or body corporate for re-issuing of receipts of rates, bills and levies you've paid
- Contact the building company/supplier/tradesperson to see if you can get a second copy of the receipts

she's not working there won't be the same tax deductions."

"The other thing to consider is repairs to the property. Repairs are generally written off in the financial year they occur," he continues. This doesn't include renovations, such as updating a kitchen, but a rusty roof that requires replacement would fall under this bracket. This would provide a lump sum payment.

Similarly, for investors who have bought just prior to the end of the financial year, "don't say, 'There's nothing in it for me this year, I'll wait until the next'", says Mr Mortlock.

"That's when we talk 100 per cent deductions," he says. It's this 'year of acquisition' phrasing that is so important – it refers to the financial year, not the calendar year.

Just before the next financial year, it's also worth applying for a PAYG withholding variation with an estimate of the shortfall for the financial year, so that you receive an ongoing monthly payment, says Mr Freudigmann.

If you organise this before the end of the financial year, it can help you lighten the servicing load over the next year and stop you from spending the lump sum you usually receive.

### FINAL STEPS

Now that you're up to date, it's worth considering the rest of your portfolio. While

these steps should be taken sooner rather than later, you're in a prime position now to see how the numbers stack up.

### 1. SPEAK TO YOUR PROPERTY MANAGER

Find out when your next rent review is coming up. "Check out some comparables in the area. Put a seed in the property manager's head about other properties. Look at the data in magazines to check how suburbs have performed over the last year. Get in contact with a bank and get a valuation done," says Mr Berman.

### 2. SPEAK TO YOUR MORTGAGE BROKER

Take a look at your current mortgages and see if you can achieve a better deal – it might be worth considering a change if you can get a better rate.

"Astute investors will also contact their local mortgage broker for a quality referral to a professional surveyor who can prepare a fully tax compliant depreciation schedule," says Ms Williamson.

### 3. SPEAK TO YOUR FINANCIAL PLANNER AND YOUR ACCOUNTANT

Discuss any changes in your life, and your plans. Analyse your overall investment strategy.

It's also worth undertaking an overall portfolio review to ensure you're maximising the potential of your properties. ■



## THROWING SOMETHING OUT?

You can possibly claim some scrapping entitlements. "When undertaking a renovation they can throw out the carpet and claim the value of what's left to help them finance the renovation. Then claim the depreciation deductions," says Mr Mortlock. If you've got a skip bin on site, snap some photos and make a list of what you're throwing away. Provide this to your quantity surveyor for some extra deductions.

### IN A STRATA BUILDING?

You may be able to make a depreciation claim for a portion of the value of items and equipment in common areas, "such as carpets and furniture in foyer areas", says Mr Berman.