

RENTAL PROPERTY NEGATIVE GEARING EXAMPLE

Property – Town House
Purchase Price \$300,000

Rent \$300 per week x 52 \$15,600

Less Expenses	\$	
Real Estate Agents Commission (7.7%)(incl GST)	1,201	
Mortgage Interest \$270,000 x 7.5%	20,250	
Council Rates	1,200	
Water Board Rates	900	
Body Corporate Levy	1,200	
Repairs/Maintenance (1)	600	
Travel to inspect & arrange repairs 8 trips @ 20km = 160km x .74/km	118	
Postage	25	
Phone Calls	25	
Stationery	25	
Building Write Off (if building constructed after 18/7/85), building cost \$100,000 x 2.5%	2,500	
Amortise Legals/Stamp Duty/Borrowing Costs		
Legal Fees/Disbursements	1,500	
Stamp Duty on Mortgage Document	550	
Loan Establishment Fees/Valuation etc	<u>1,000</u>	
	3,050	-5
Bank Fees –Account keeping fees etc		610
		20

Ø Depreciation of fixtures and fittings (Low Value Pool)

Item	Value	
Stove	600	
Hot Water Service	600	
Carpet	999	
Exhaust Fan	101	
Light Fittings	200	
Curtains/Blinds	600	
Built In Wardrobes	900	
Fly Screens	400	
Security Door	300	
Dishwasher	800	
OWDV	5,500	
*Less 37.5% DV Depreciation	2,063	<u>2,063</u>
CWDV	3,437	
Total Expenses		30,727
Net Income/Loss		15,137/L

Note: Where your rental property has a land value of more than \$387,000 (see your annual rates notice), Land Tax is payable (This is a tax deduction). Contact our office if this is the case so we can assist you in completing an Initial Land Tax Return form.

Ø Note: The Tax Office will not allow depreciation of kitchen cupboards as these are regarded as building fixtures. (Building fixtures, however, are still able to be written off at 2.5% a year).

* Items under \$1,000 are added to a low value pool and depreciated at 37.5%.

* Items over \$1,000 are depreciated at the commissioner's determination of the life of the asset.

* Items under \$300 can be claimed outright.

(1) Repairs: The Tax Office will disallow repairs undertaken in the first year of ownership, as it regards these as a capital expense. So only very minor repairs (such as plumbing/electrical etc.) should be undertaken in this period.

Note: Please keep the following records:-

- 1) Real Estate Agent's monthly summaries, showing rent and expenses (also ask for an annual statement showing annual income/expenses).
- 2) Council and Water Board rates notices.
- 3) Body Corporate Levy notices
- 4) Insurance (house/contents) renewal notices. (It is a good idea also to take out landlords insurance, to cover damage to fixtures and fittings by tenants, and to insure against loss of income).
- 5) Keep all receipts for repairs, maintenance (including gardens and lawns)_ plus cleaning/carpet shampoo and hardware.
- 6) Keep a notebook of the dates of any trips to inspect the property etc, plus the distance travelled. (And keep receipts for travel expenses such as air fares, car hire, accommodation and meals where the rental property is interstate).
- 7) Keep the Settlement Documents you received from the Solicitor – this will detail legal fees and disbursements which can be written off over five years.
- 8) Similar to the above, also keep a record of stamp duties paid, plus loan establishment and other bank charges.
- 9) Keep or ask for an annual statement of interest paid on the mortgage.
- 10) List of all fixtures and fittings and give an approximate value of each item so that the depreciation of these items can be claimed
- 11) Keep a log of telephone calls to the real estate agent, tenant, or to arrange repairs etc.
- 12) Quantity Surveyor's Report on Building Value for cost write off (for building costs incurred after 18/7/85 and for claiming of depreciation of common fixtures or fittings (for units and town houses). Building write off depreciation rates = 4% if constructed between 18/7/85 and 15/9/87, 2.5% from 16/9/87.

Negative Gearing

The way negative gearing works, is that the losses incurred in owning your property (ie rent minus expenses, reduces your taxable income therefore providing a tax refund to you). Using the above example: if your income was, say \$195,000 then a loss of \$14,591 would provide the following refund: $\$14,591 \times 46.5\% = \$6,785$.

The only pitfall to negative gearing is that you have to make up the cash shortfall until you receive your refund. (However, you can apply for a PAYG tax withholding variation (ITWV) formally known as -221D tax reduction to reduce your tax on account of the projected loss that allows your paymaster to reduce your tax accordingly).

After you have selected the property you wish to negatively gear, ring me for a consultation: we can enter the details of your investment property into our powerful new software programme and prepare a rental projections/tax effect scenarios for you.

Useful contacts

1. Finance

To arrange finance for your rental property, contact Alycia Inglis, of Inglis and Rock on 0412 210 099 (Alycia works full time at our office at Rozelle).

2. Conveyancing

For Conveyancing, Trust Deeds, Wills, we recommend Kirk McKenzie of Haylen McKenzie Solicitors, on 02 9923 3155 (Suite 5, 8th Floor 229 Macquarie Street Sydney 2000).

3. Quantity Surveyor

We recommend Deppro (Sydney) Ph: 02 9328 3390, 2A Bay Street, Double Bay 2028. (The cost of Quantity Surveyor reports are a tax deduction).

4. Financial Planner

To arrange landlord or building insurance contact Matthew Byrne, Financial Planner on 9818 2920 (Matthew works full time at our Rozelle office).

CASH SHORTFALL/SURPLUS

Rent **\$15,600**

Less Outgoings

Agent Commission	\$1,201	
Council Rates	1,200	
Water Board Rates	900	
Body Corporate Levy	1,200	
Repairs	600	
Loan Interest (Interest only loan- A principal and interest loan would be higher)	<u>20,250</u>	<u>25,351</u>
		\$9,751
This shortfall equals	\$171 per week	
By taking the tax refund into account of		<u>7,039</u>
The net shortfall becomes a surplus of		2,712
Or	\$52.15 per week	

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