GOLDEN GATE FINANCE

Many happy returns

Make sure you claim every tax deduction you're entitled to, writes Perrie Croshaw.

Last year, the tax office cracked down on tax deductions related to investment property and there is no indication they are going to let up this year. So what are the legitimate tax deductions for your investment property?

Without getting into a deep philosophical analysis of when a repair is a repair and when it is an improvement, Paul Drum, senior tax counsel at professional accounting body CPA Australia, warns investors to carefully consider what tax structure they want to apply to the property they are investing in.

"Most people think buying property is straightforward and easy," he says.

There are several options: for example, should you buy in a company name or as a trust? Trusts used to be popular as they paid no tax and protected assets in the event you were sued (or divorced).

This is no longer necessarily the case. However, as far as land tax is concerned, the investor who wants to develop a property portfolio might own one property personally while others are owned by separate family trusts.

Should you buy the investment property in your own name, so any losses and outgoings can be offset against your income, or negatively gear? Before you decide, you will need advice from an accountant.

Drum says too often property buyers fail to have a structure in place before they buy at auction.

They put one name on the contract of purchase and later, when they fill out the contract, they may substitute another name.

"Most state revenue officers would see that as a double disposal of the property and you will get slugged with double stamp duty," he warns.

The most obvious tax deduction on your investment property is the interest on your investment loan. This can be deducted in the year it is paid, so you may wish to take advantage of pre-paying up to a year's interest on your loan. If you claim the deduction this financial year, you can have the rebate in your hand by the second week of July.

Property investors can also pre-pay expenses such as council rates, repairs and maintenance, in fact any expense a landlord forks out to generate income from an investment property, Drum says. "Just bring [these payments] forward because you are going to incur them anyway," he says. "You may as well have the deductions now rather than wait another 11 or 12 months."

All types of income-producing properties have substantial tax benefits, says Bradley Beer, director of BMT Quantity Surveyors, but many property investors don't claim them.

"Owners should have a tax-depreciation report completed on their property to ensure they claim all these deductions," he says.

As a general rule, any residential property built after July 17, 1985, and non-residential properties constructed after July 20, 1982, are eligible for the construction write-off allowance. All buildings, regardless of age, will attract depreciation and the building write-off allowance if refurbishment works have been undertaken since July 17, 1985, for residential and July 20, 1982, for non-residential. All external works including fencing, paving, pergolas and sheds constructed after February 1992 will attract the building write-off allowance.

"A depreciation report can be prepared to allow a client to easily recover missed depreciation benefits [up to a period of four years] by amending previous tax returns," Beer says.

Tax pitfalls

These are some of the most common mistakes made by people with investment properties when completing tax returns:

- Overstating interest deductions by including amounts related to borrowing expenses.
- Claiming deductions for a property that is not genuinely available for rent.
- Not claiming partial deductions when a property is rented for only part of the year.
- Claiming initial repair or renovation costs as repair and maintenance costs, rather than attributing these to the capital cost of the property.
- Wrongly apportioning deductions for private borrowings or travel.
- Incorrectly claiming deductions against rental income for legal and other costs that should be treated as capital expenses.
- Not declaring all rental income.

Source: CPA Australia

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How the market will perform over the next 3 years

Housing affordability in Australia has hit its lowest point since the residential property boom of the 1980s, a report has found.
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In its survey on residential property prospects, industry analyst BIS Shrapnel said housing affordability would remain a major constraint on residential property markets over the next two years.

Homeowners can expect a further slowing in residential property price growth over the next three years, however rebounds in first home buyer interest, low unemployment and solid wages growth will mitigate the fall.

BIS Shrapnel director of building and construction Robert Mellor said while Sydney remained the most expensive capital city, it would soon lag a national recovery in house prices.

"Regional centres have been attracting increasing numbers of home buyers due to a lower median house price compared to capital city markets," Mr Mellor said.
"This solid demand will now support modest price growth."

BIS Shrapnel said Sydney house prices fell in 2004/05, following a 57 per cent rise between June 2001 and March 2004 which made buying a house off-limits for many buyers.

The median NSW house price is expected to fall by three per cent over the three years to June 2009.
Victoria's median house price is expected to rise eight per cent over that period while Queensland leads the pack with forecast growth of 12 per cent over the period.

But the Reserve Bank of Australia's May quarter of a percentage point interest rate hike to 5.75 per cent - its first move in 14 months - was also expected to weigh on affordability somewhat.

Regional areas such as Newcastle and Wollongong in NSW had declined over the past two years, however these centres were expected to stage a gradual recovery over the next three years. Underlying demand in regional areas is forecast to remain strong relative to supply with affordability expected to improve in Sydney.

Further north, BIS Shrapnel expects Brisbane to record four per cent per annum growth in house values between 2006/07 and 2008/09, due to a shortage in housing supply.

Perth and Darwin were the only capital cities to experience strong price rises in calendar 2005 with Perth continuing to benefit from the resources boom.
However, Perth's house price growth is expected to slow to three per cent in 2006/07.

However, Mr Mellor said the Perth price growth rates were not sustainable and would eventually fall in line with the rest of the nation.

After a period of extraordinary growth, the Brisbane market has hit an affordability barrier and is expected to suffer from the worst affordability crisis since 1990.

But while the recent interest rate rise is only expected to significantly affect purchasers on the fringe of the market, BIS Shrapnel said inflation was likely to force rates higher in 2006/07.
Source: AAP

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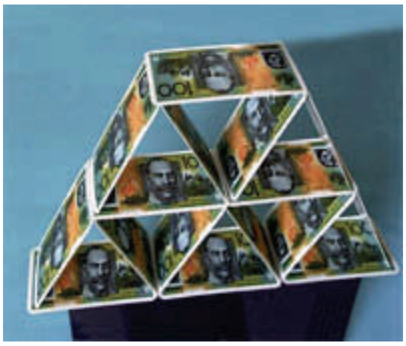
Desperate tenants in bidding wars

Sydney and Melbourne's rental markets have become so competitive that desperate house hunters are being forced to bid against each other to secure a lease. Critics say those with more money benefit and the auctions are not transparent.
At least one agent is setting price ranges for rental properties and leaving prospective tenants to compete in silent auctions.



"We're letting the market dictate to us what the property is worth," said Toula Kavich, the marketing manager of Callagher Estate Agents at Annandale. "We started rent ranging because many of our tenants were missing out on properties as they lease so quickly." Ms Kavich said the system, begun in March, was fairer to tenants who could not take time off work for midweek inspections.

The agency recommended tenants "make an offer in the high end of the price range" to secure a property, but said strict reference checks would still be carried out to ensure suitable tenants won the lease.

The president of the Real Estate Institute of NSW, Cristine Castle, said competition for rental properties was tough across Sydney, with rental vacancy rates falling below 2 per cent.

"It does ring alarm bells for us in this industry and it concerns us when it gets to this level because people need places to live."
The problem was due to fewer investors and first home buyers entering the property market, and the squeeze could force renters to pay more than they could afford, she said.

The highest demand for rental properties was in Sydney's inner suburbs, including Woollahra, Lane Cove and North Sydney, where vacancy rates fell to 1.7 per cent and median rents rose by $20 or 7 per cent last year, according to the latest NSW Housing Department figures.

In the east, one in seven applicants offered above the asking price, said Laing and Simmons Double Bay. On the North Shore tenants paid up to $50 a week extra to secure the more sought-after properties and even more for beachside rentals in the lead-up to summer.

"We had one property advertised at $400 a week and ended up getting $460 for it because people kept placing bids," said Bree Higgins, the property manager at Cunninghams Real Estate in Balgowlah.

But Chris Martin, the policy officer at the NSW Tenants Union, said that while it was not illegal for bids to be made on rental properties, the practice may be against the industry's rules of conduct. "If you're a prospective tenant you're not in the position to know how many other people have applied or bid for the property, so you don't know whether the auction is legitimate or the agent is just trying to push the price up," he said.

Jarrod Chapman and his partner, Helen Musgrave, recently moved into a rental unit after a six-week search in which they were gazumped twice. "If agents allow bidding on rental properties people with more money get the nicest place every time," Mr Chapman said.

UP AND DOWN
- Last year median rents across Sydney increased by $20 a week.
- In January, vacancy rates fell to a five-year low of 1.7 per cent.
- Sydney's median rent in the March quarter was $300, up 3.4 per cent from the December quarter.

Source SMH

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How to survive a rate rise

Home owners could benefit by ploughing the cash windfall from tax cuts into their home loans, ahead of a possible further interest rate rise before the end of the year.
The federal government's $36.7 billion in personal tax cuts over four years provide an ideal opportunity for home owners to get further ahead on their mortgages.

"Home buyers have the potential to save tens of thousands on their mortgages and put in place a buffer zone against possible future interest rate rises by making good use of tax cuts and any tax refunds they receive," Resi's national manager for consumer advocacy Lisa Montgomery said.

"Even someone receiving a small tax cut of only $10 a week could save more than $20,000 over the life of their home loan by putting this money into their mortgage.

"In the process they are building increased equity in their home, as well as extra funds to draw on if interest rates rise again and their finances get tight."
In a recent survey by AAP seven of 13 economists predicted another rate hike before the end of the year.
Ms Montgomery also said home buyers who receive a healthy tax refund could benefit by putting it into their mortgage.
Sydney-based certified financial planner Michael Langtry said using a tax windfall to pay off the home loan is a good move.
"A good place for any surplus cash, even if you think you may need it in six months, is in the redraw account of the mortgage because (you) will save a bit more than seven per cent in interest," he said.
Mr Langtry said debt reduction is the best place for extra cash but if loans are not an issue, then parking the money in an online account with no fees is a useful short-term investment option.
He said investing into a good agricultural scheme is another investment avenue.
"The simplest one is hard wood plantations, where all the money you put in upfront is a tax deduction for you," he said.
"The yield is forecast to be roughly the same as a good term deposit."

Mr Langtry said this can help with not only income tax but also with gaining more Centrelink benefits.
"It can help with getting more family tax benefit and help with getting youth allowance for children that are studying," he said.

Ms Montgomery said it could be tempting to go on a spending spree or to relax the rein on the weekly budget when cash flow increases.
"However, in the long term people will be far better off if they resist this temptation and put the extra money into their mortgages," she said.

The end of the financial year is also a good time for home owners to do a stocktake on loans, Ms Montgomery said.

"While planning for the new financial year it can be a good idea for home buyers to check whether they are on a competitive interest rate and have the loan features they need," she said.

It pays to be aware of loan fees such as ongoing account-keeping fees, redraw fees, and fees for professional packages, as they can add up over time.

"Mind the cents and the dollars look after themselves," Mr Langtry said.

Source: AAP