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Certified Practising Accountants
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CPA

Attention: Property Investors

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Thinking of selling an investment property? Have you considered Capital Gains Tax (CGT) and the following?

- Settlement date versus contract date
- Primary (Main) residence exemption
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- Records you should be keeping

Settlement date versus contract date

If you are in the process or thinking about selling a property shortly have you considered the taxation implication of the sale?

The ATO has found that many people incorrectly declare the disposal of a property based on settlement date.

A CGT event occurs when the disposal contract is signed. Therefore when a settlement date is in a different financial year to the date the contract was signed you will need to declare the disposal in the financial year when the contract was signed.

For example if the contract is signed in June 2011 the disposal will need to be declared in the 2011 taxation return even if the settlement takes place in September 2011.

Primary (Main) residence exemption and the six year exemption rule

You can treat your residence under the primary residence exemption for CGT even if you no longer live in the property and not be subject to capital gains tax on the disposal.

If you first lived in the property before it was rented you can elect to treat this property under the main residence exemption. You have the ability to rent out a property for up to 6 years and claim this exemption and not pay tax.

You are also able to reset the clock by moving back into the property prior to the completion of the initial 6 years and re-rent the dwelling again for a further 6 year period.

However note you can only claim the exemption on one property for a given period.

Claiming the correct interest on a mortgage

There are few things you need to be aware of when claiming deduction for interest expense on a mortgage for an investment property.

- Only the interest on the initial loan to purchase the property will be deductible. The interest on any draw down on capital repaid for private use will not be deductible.

- If you have a loan account that has a fluctuating balance due to a variety of deposits and withdrawal and it is used for both private and investment purposes you need to keep accurate records and apportion the interest between private and investment property

Repairs versus capital improvements

Expenditure for repairs you make to the property may be deductible. However, the repairs must relate directly to wear and tear or other damage that occurred as a result of your renting out the property.

Repairs generally involve a replacement or renewal of a worn out or broken part – for example, replacing some guttering damaged in a storm or part of a fence that was damaged by a falling tree branch.

The following however are not repairs but capital improvements and will need to be depreciated each year.

- Improvements, renovations, extensions and alterations
- Replacement of an entire structure – Kitchen cupboards or refrigerator

If you are unsure of the treatment we recommend that you speak to your accountant before you incur the expense

Records you should be keeping

For CGT purposes you must start keeping records if you purchase or inherit property, receive property as part of divorce settlement or as a gift, or make improvements to property.

You must keep records relating to your ownership and all costs of acquiring and disposing of property for 5 years from the date you dispose of it.

What records do you need to keep?

- Contracts for purchase or sale of property together with a copy of the settlement summary
- Any legal correspondence in relation to the purchase and sale of the property
- Details of any stamp duty paid on purchase
- Copy of loan contracts and borrowing costs incurred
- Details and copies of invoices for any capital improvements to the property

The axis accounting team is able to assist you in maximising your rental property deductions for tax purposes and provide you with right property related taxation advice.

We also offer the following range of accounting and referral services through our strategic partners

- Individual and Small Business Tax Compliance
- Preparation of BAS and IAS statements
- Business consulting and advise
- New business structure setups
- Tax Planning / Financial Planning
- Mortgages Loans and Business Finance
- Business insurance
- Management Accounting
- Bookkeeping
- Self Managed Super funds –accounts and audit
- Assistance with all liquidations and associated matters

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