TAX with Shukri Barbara

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PLANNING FOR TAX YEAR'S END

There are several ways in which property investors can benefit at tax time, writes **Shukri Barbara**, but don't leave it until the last minute

Planning to minimise your tax liability is an ongoing activity, not something that should be rushed at the end of the financial year. As we're now in the final quarter of 2011/2012, however, you should consider the following items in your efforts to lower your tax bill and possibly secure a higher refund from your next return.

One way to minimise the tax impact of any capital gains (CGs) achieved during the year is to consider crystallising a capital loss (CL) from selling another property in your portfolio which may have no likelihood of growth, low rental yield and which no longer fits into your strategy.

Capital losses can only be offset against capital gains. But capital gains can be offset against rental losses from negative gearing. Where there is no CG against which to offset, the CL is carried forward – indefinitely.

Holding an investment property for longer than 12 months gives you access to the very generous 50 per cent discount on net CG. Note that any CL is matched against the CG before this discount is applied.

The reverse applies where you have incurred a CL from selling assets during the year and you are already considering selling a property with a CG. For example, if you own a property for which growth has stalled, selling before the end of June will bring the gain forward into this year and be offset against the CL, minimising tax.

Note, the date for calculating CG or CL is the contract date, and not the date of settlement.

HAVE YOUR DUCKS IN A ROW FOR TAX TIME

Pre-paying expenses up to 12 months in advance is a permissible deduction. Expenses that can be prepaid include interest, council and water rates and strata levies. You maximise your cash position by making the prepayments in June and lodging your tax return in early July, resulting in a faster refund.

This strategy is not suitable, however, when your rental losses are so large they reduce your taxable income to a level at which there is no tax liability.

A quantity surveyor's report is useful for claiming depreciation expenses for properties acquired during the year. The cost of preparing the report is also deductible.

Repairs and maintenance can be brought forward, reducing net rental income. It is important to distinguish between a deductible repair/maintenance expense and a renovation or improvement of a capital nature (depreciable at only 2.5 per cent per year).

Minimise the time your accountant takes to complete your tax return and reduce your fees by using their templates to summarise data. Also, give them annual agent statements rather than all the monthly ones.

If you have large rental losses and a high salary, your cash flow can be improved by lodging an application to reduce your PAYG tax withheld by your employer. The cash can be used to pay additional interest expenses or even help fund another property.

The ATO makes these applications available in early to mid-June. As the tax office takes about two or three weeks to process, it is best to lodge these in mid to late-June. ■

"PLANNING TO MINIMISE YOUR TAX LIABILITY SHOULD NOT BE RUSHED AT THE END OF THE FINANCIAL YEAR"

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