

Which Education/Mentoring/Consulting – are deductible?

With the property market on fire as reflected by the auction results or more to the point the pre-auction offers, one starts to question firstly what is driving all the interest? There is no question consistently low interest rates over a period is a major contributor to rising values allowing investors to borrow more and still get a reasonable rental return. Another reason is more confidence as the new government assures us of no major changes soon .. all reflected by a rise on the stock market.

On the grapevine I understand that there is a huge pipeline of development of multilevel residential units and other construction. Much of it driven by Chinese interests. Chinese interest in the local market is strong enough to worry local Chinese as they are priced out of the market, along with other locals and first home buyers. It explains the higher dollar.

Best wishes to those of you who are selling into this hot market to exit on a high.

As I am always asked about **whether or not fees for attending property seminars, education events and consulting are tax deductible**, I decided o summarise the basics ... see below

For help with decisions on property investments or just tax returns or to discuss further, call Shukri on .. 02 9411 8133

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Which Education/Mentoring/Consulting – are deductible?

One of the most enduring queries I am continually asked to resolve is whether or not the fees paid

for the following types of programs are tax deductible:

- wealth creation using property as a class of asset
- learning about the new trends in property values
- mentoring on property – both short and long term programs
- consulting fees relating to management ‘assistance’ with property investments

In the process of writing these notes I have seen ATO correspondence regarding an audit of a claim for deducting such expenses and have incorporated some of the responses in the notes below.

Basic principles of claiming deductions

An expense is generally allowed as a tax deduction if it is incurred in generating income revenue - in this case – rental income.

So first there has to be

- Ownership
 - o a property has be owned firstly before there is an entitlement to rent income, then there has to be
- Income
 - o Revenue from rent before a claim for deduction is considered to have been incurred in generating that income. finally
- Nexus
 - o The expense has to have a nexus to earning the income i.e. incurred directly in generating the income e.g. agent fees, rates etc.

Tax tip – Timing is important if the expense is to be deductible. The expense has to be incurred after you have control of the property – usually after settlement.

Claiming deductions for Education/Mentoring/Consulting fees

With coaching some of the questions include

- Is the program related to increasing wealth – **no deduction**
- Is the program related to acquiring/sourcing property – **no deduction**
- Is the program related to improving the value of property – **no deduction**
- Is the program related to improving rental revenue – **yes deductible**
- Is the program related to reducing rental expenses – **yes deductible**
- Is the program related to getting better tenants – **yes deductible**
- Is the program related to better managing the agents – **yes deductible**

What if the coaching is for all of the above – a **proportion** of the fees may be deductible

- What’s **ATO attitude** – likely to see expenses as capital related to increasing wealth

As suppliers continue to change the description on their invoices and position to enable the fees to be deductible for the client, some things have not yet been tested in the court so they remain a bit unclear..

The above approach is equally applicable to seminars and mentoring. A proportion of the fees will be allowed as a deduction when they relate to the revenue and expenditure side of rental properties.

Otherwise it is not deductible,

This is assuming the property is owned and there is an entitlement to rental income.

Sourcing Fees

Sourcing Fees are considered to be part of the cost base of a property along with property inspection and pest inspection. When calculating Capital Gains on sale, the CGT will be less as a result.

If the deal falls through and the property is not purchased while an expense incurred it is not accounted for anywhere for tax purposes.

In which year is the claim deductible?

Where deductible, the expense should be claimed in the financial year in which it is incurred - usually the date of the invoice of the agreement with the provider. The contract/invoice date is the relevant one where payment is made by instalments.

What is ATO's view?

In an audit situation ATO will review each person's circumstances on the facts. They will

- look at the description of the services on the invoices from the providers
- test each claim and see if in reality that's what is being charged
- look at whether the amounts are reasonable
- look up the providers website and see what they are promising and compare it to the invoices

So if the website only talks about wealth creation while the descriptions on the invoices are very brief, the fees are likely to be not deductible. Otherwise they may form part of the cost base being for sourcing the property.

Quote of the Month

“We are what we repeatedly do.
Excellence, then, is not an act, but a habit.”

Aristotle

Financial Planning with your Tax Planning

Tax planning should ideally form part of your overall financial planning, as it may well have an impact on your overall financial situation.

As we are not licenced to give investment advice, we have created alliances with licenced Financial

Planners and Advisers as an additional service to clients. To get an overall perspective of a client financial situation, we have persuaded them on arrangements to attend a tax advice meeting with us and you .. when requested at no cost to you. Call the office on 02 9411 8133 for more details.

Checklists and Templates

To make the compilation & reporting task for 2012 tax returns easier, clients of **Property Tax Specialists** receive checklists and templates to facilitate the process ... **saving them time and money ... the 'write' way is having clear documentation.** ATO way means time/money wastage with audit investigation.

Audit Insurance

Did you know that you can take out insurance against the cost of your Property Tax Specialists responding to an ATO audit or investigation on your behalf? To discuss call Shukri 02 9411 8133

*Two heads are better than 1? **Discuss your plans?** Call to chat ...*

Contact us if you would like to

- review & discuss your current property & tax situation ... maybe the next deal or
- whether or not to sell a property, which one in the portfolio should be sold
- your asset protection strategy. What is your risk profile? High ..medium ..low
- structuring your next investment property. In whose name should it be?
- Should you rent out your home and live closer to work in a rented space
- Should you invest your capital in 1 Main Residence or 2 smaller rental properties
- planning to legally minimise your tax position or just to explore the possibilities
- Subdividing a block or your Main Residence ... Capital Gain or Business Profit?
- Is your Self Managed Super Fund ready to acquire a property
 1. with limited recourse loans
 2. from lending institutions or yourself
- prepare your next tax return or application to reduce your PAYG Withholding

We look forward to being of service. We also look forward to your **referrals**.

To improve our service we welcome all constructive comments on this newsletter and other materials.

Call/email **Shukri Barbara** at Property Tax Specialists at Shukri@propertytaxspecialists.com.au

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Shukri Barbara

Winner - Readers Choice Awards *Your Investment Property Magazine*

2012 - Property Tax Adviser of the Year

2011- Property Tax Specialist of the Year

Tax Columnist – Smart Property Investment magazine



Property Tax Specialists – [Prosperity & Peace of Mind](#)

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