

An individual's residency status is very important as it establishes how much of a person's worldwide income is taxable in Australia. Residents are assessed on all of their income regardless of where it is earned. Non-residents are only assessed on income derived in Australia.

Personal Tax Rates

The general rates of tax applicable to resident individual taxpayers for 2008/2009 and 2009/2010 are as follows:

2008/2009 taxable income (column 1)	Tax on Column 1	% on excess (marginal rate)
\$1 - \$6,000	Nil	0%
\$6,001 - \$34,000	Nil	15%
\$34,001 - \$80,000	\$4,200	30%
\$80,001 - \$180,000	\$18,000	40%
\$180,001 and over	\$58,000	45%

2009/2010 taxable income (column 1)	Tax on Column 1	% on excess (marginal rate)
\$1 - \$6,000	Nil	0%
\$6,001 - \$35,000	Nil	15%
\$35,001 - \$80,000	\$4,350	30%
\$80,001 - \$180,000	\$17,850	38%
\$180,001 and over	\$55,850	45%

The above rates do not include the Medicare levy of 1.5%.

Non-residents

The rates of tax applicable to prescribed non resident individual taxpayers for 2008/2009 and 2009/2010 are as follows:

2008/2009 taxable income (column 1)	Tax on Column 1	% on excess (marginal rate)
\$0 - \$34,000	Nil	29%
\$34,001 - \$80,000	\$9,860	30%
\$80,001 - \$180,000	\$23,660	40%
\$180,001 and over	\$63,660	45%

2009/2010 taxable income (column 1)	Tax on Column 1	% on excess (marginal rate)
\$0 - \$35,000	Nil	29%
\$35,001 - \$80,000	\$10,150	30%
\$80,001 - \$180,000	\$23,650	38%
\$180,001 and over	\$61,650	45%

Non residents are not required to pay the Medicare levy.

The financial year in Australia is from 1 July to 30 June and for a non-resident who invests in property in Australia there is a requirement to obtain an Australian Tax File number and to lodge an income tax return each year.

At Holmans we act for many non-resident taxpayers who invest in property in Noosa and surrounding areas.

Investing in a rental property has many tax incentives. Whilst the rental income is assessable, there are many deductions which can be claimed as follows:

- a) Interest – can be claimed on the funds borrowed to purchase the rental property. The interest on any further funds borrowed for improvements to the property or to finance running costs is also deductible.
In some cases the interest may exceed the rental income (negative gearing) and is still deductible for taxation purposes.
Note that interest and other expenses associated with the property cannot be claimed where the property ceases to be used to produce assessable income.
- b) Rates and Land tax – if the property is let or available for letting, these costs are deductible.
- c) Insurance – building, contents and public liability are all deductible expenses.
- d) Repairs and Maintenance – initial repairs to the property shortly after acquisition may be deemed to be capital and not deductible. Ongoing repairs and maintenance through normal wear and tear or tenant damage are deductible.
- e) Telephone, stationery and postal expenses – calls and letters to your agent, tradesman and tenants are all deductible.
- f) Management fees – costs of fees and commissions paid to real estate agents to let properties and collect rent are deductible.
- g) Body Corporate fees – ongoing body corporate fees are deductible.
- h) Stamp duty and legal costs re purchase – the costs associated with the purchase of the property are capital expenses and not deductible. They are however added to the cost base of the property for Capital Gains Tax (CGT) purposes and reduce the eventual taxable capital.

- i) Costs of obtaining finance – borrowing costs are deductible and if less than \$100 claimed in full when incurred. If \$100 or more, they are claimed over the shorter of the term of the loan or 5 years.
- j) Travelling expenses – once the property has been acquired and is producing income, travel expenses are deductible if incurred in inspecting or repairing the property or collecting rents. If you combine holiday travel with inspection of the rental property, only the incidental costs to inspect the property are deductible.
- k) Depreciation and capital works write-offs – depending on the age of the property, large deductions may be available for depreciation and capital works write-offs.
Deductions of between 2.5% and 4% of the original construction cost of the property may be available.
If the depreciating asset costs less than \$300, an immediate deduction may be available. If the asset costs less than \$1,000 it may be depreciated at 18.75% in the first year and 37.5% in subsequent years. For assets costing greater than \$1000, deductions are based on the asset's effective life.
We have access to some of Australia's leading Quantity Surveyors and can organise for a detailed Tax Depreciation and Capital Works Schedule to be prepared.
- l) Sundry expenses – advertising for tenants, pest control, cleaning, bank charges, and gardening are all further deductible expenses.

For the purposes of completing the income tax return for the non-resident individual, a Profit and Loss Statement is prepared for the rental property. The expenses are deducted from the income. Where the owners use the property partly for private purposes (eg. annual holidays by the owners) the deductible expenses will be required to be reduced to the extent of the private use. If there is a profit, this is included in the non-resident's income tax return and taxed at the appropriate tax rate for non-residents.

If the expenses are greater than the income there is a loss made for taxation purposes. This loss may be offset against other Australian-sourced income, the loss is simply carried forward indefinitely and offset against future profits from the property or future capital gains from the sale of the property.

Goods & Services Tax (GST)

Since 1 July 2000, there has been a GST in Australia at the rate of 10% on the supply of most goods and services. Input-taxed supplies are not taxable supplies and no GST is required to be charged. A supply of residential premises is input-taxed if the residential premises are used predominantly for residential purposes and therefore exempt from GST.

In most instances there is no requirement to charge GST on the supply of residential premises.



Capital Gains Tax (CGT)

Capital gains tax is a tax on the realisation of an asset acquired after 19 September 1985, where the realisation of the asset was not undertaken in the ordinary course of business.

Generally speaking the acquisition of an investment property for rental purposes which is later sold at a profit will be caught by CGT.

The capital gain is simply determined on the basis of the sale price less the cost base of the asset. The cost base comprises the original purchase price of the asset (less any capital works write-offs in certain circumstances), stamp duty on purchase, legal fees on purchase and sale improvements to the property, agent's commission.

Where the asset is owned longer than 12 months, 50% of the capital gain is ignored for taxations purposes.

Any losses carried forward from prior years will also be offset against the capital gain. The balance of the capital gain is then taxed at the applicable marginal tax rate of the non resident.

Please note the information provided is of a general nature only. The taxation legislation in Australia is complex and ever changing.

No one should act upon any of the information contained in this paper without first getting their own specific advice on income tax, CGT and GST.

Holmans are one of the largest accounting firms on the Sunshine Coast, and we have a wealth of experience in providing detailed specific advice to non-residents looking to invest in property in Australia.

Holmans are confident we can save you tax and build your wealth. Contact Holmans to make an obligation free appointment to discuss your particular circumstances.

DISCLAIMER

It is possible that the above taxation advice may also constitute "financial product advice" within the meaning of the term in the Corporations Act 2001. We are therefore required to advise that we are not licensed to provide financial product advice and tax is only one of the matters that must be considered when making a decision on a financial product. You should consider taking advice from the holder of an Australian Financial Services Licence before making a decision on a financial product.