Dubious

Tax Deductions

Rental property owners have a lot to think about right now.

We will continue to keep you up to date with information relevant to COVID-19, government assistance and new policies for landlords and tenants.

However as tax time approaches, it is important not to overlook other aspects of your investment. Specifically, deductions on rental property that are now under increased ATO scrutiny.

Last year, after an internal sample revealed errors on **nine out of ten tax returns** with rental deductions, the ATO set their sights on dubious rental deductions by increasing resources to double the number of audits scrutinising property investor tax returns.

How do they weed them out?

There are many resources available to confirm inappropriate claims.

These sophisticated analytics of third party information include:

- data from financial institutions
- property transactions
- rental bonds, as well as
- online accommodation booking platforms.

The audits focus on issues such as:

- over-claimed interest
- capital works claimed as repairs
- incorrect apportionment of expenses for holiday homes let out to others
- omitted income from accommodation sharing

amongst various others.

And once they get started, they can dig even deeper into your available data including looking into:

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- your utility bills
- tolls
- social media, and
- other online content

to determine whether you are entitled to the claims you've made.

PENALTIES?

While no penalties will apply for taxpayers who amend their returns due to genuine mistakes, deliberate attempts to over-claim can attract penalties of up to 75% of the claim.

And they will!

In 2017-18, over $1.3 million in penalties were imposed on rental property owners.

One taxpayer was penalised over $12,000 for over-claiming deductions for their holiday home.

So, it is very important to claim correctly.

Here are some of the areas the ATO will be investigating:

Paper trails

The number one cause of the ATO disallowing a claim is taxpayers being unable to produce receipts or other documents to support a claim. And there is no faking it to make it. Furnishing fraudulent or doctored records will attract higher penalties and may also result in prosecution.

Capital works and repairs

- Improvements or renovations are categorised as capital works and are deductible over a number of years.

- Repairs or maintenance to restore something that's broken, damaged or deteriorating are deductible immediately.

x Initial repairs for damage that existed when the property was purchased, such as replacing broken light fittings or repairing damaged floorboards, can't be claimed as immediate deductions,

- but may be claimed over a number of years as capital works deductions.

Dealing with disasters – damaged or destroyed property

If your personal assets – such as your home or household goods – are damaged or destroyed in a disaster, there will generally be no tax consequences if you receive an insurance payout.

The impacts of a natural disaster may affect the types of expenses you can claim for rebuilding, repairing or replacing your rental property and the income you need to declare.

Holiday homes

If you only use your holiday home for family holidays, you cannot claim expense deductions.

If you let your property out to family and friends (at mate's rates, below-market), you can claim expenses up to the amount of income you receive during the period it is rented out at a discounted rate.

And if your property is genuinely available for holiday rental it becomes more like a rental investment property and you can claim deductions for the days it is either rented or is genuinely available.

Interest

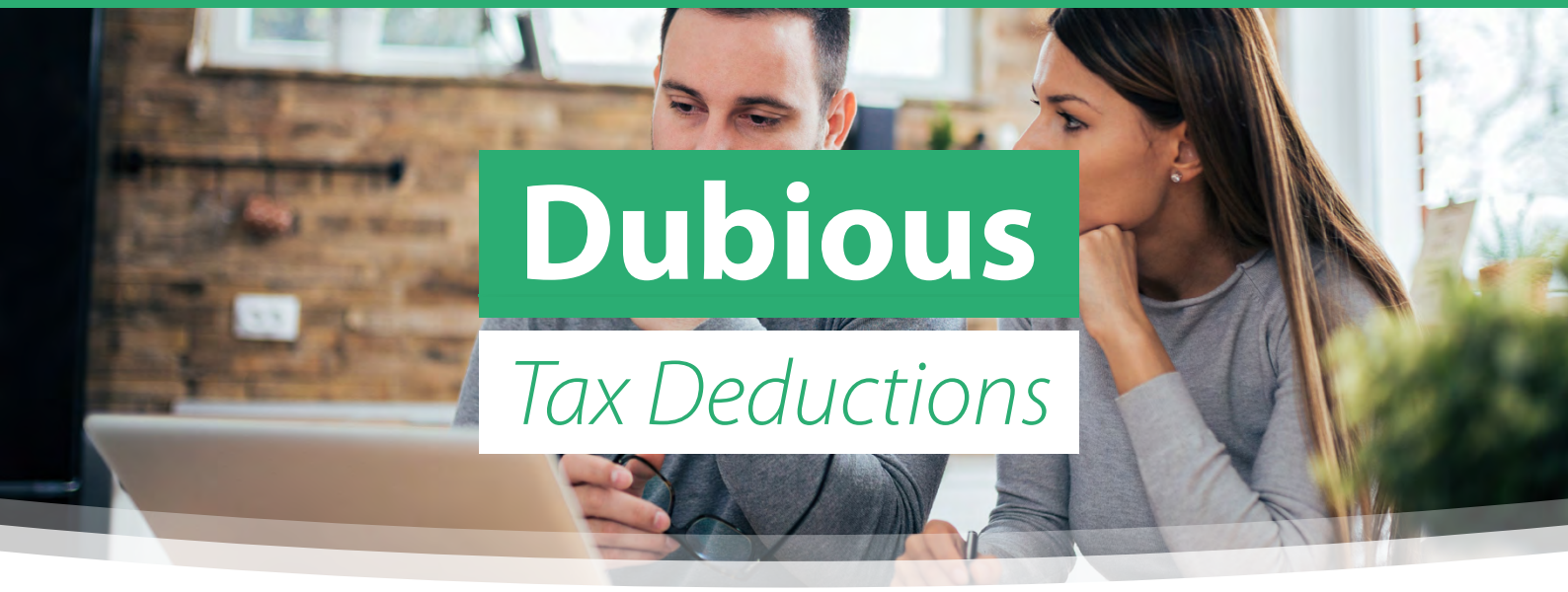
At a glance, it's fairly simple.

If you took out a loan to purchase a rental property, you can claim interest (or a portion of the interest) as a deduction.

However, if you used some of the loan to pay for anything other than the property, you can't claim the interest on that part of the loan – only the interest that relates to the rental property.

The ATO has advised that it will have a strong focus on deductions claimed for interest.

It's a particularly complicated area.



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We have written a specific fact sheet on the topic of Interest Deduction Claims.

Click here to download.

For detailed clarification on what you can and can't claim, you should contact your accountant first.

THINKING ABOUT INVESTING?

If you are considering investing in the property market in the next six months, we recommend you contact us sooner rather than later.

With so many changes from lenders (sometimes daily) it is hard for most people right now to do their own mortgage research, especially for investors.

Every lender looks at applications differently, especially since COVID-19.

Every lender also has different:

- property valuation criteria
- serviceability criteria
- attitudes towards interest only loans (IO) for investors
- lending restrictions in certain industries now, and
- risk tolerance.

So to avoid the headache and stress of trying to work out the best investment loan yourself, allow us to help you.

This is our area of expertise, and exactly what the lenders pay us to do for you.

There is activity in the property market right now with some bargains on offer in the right locations.

If you are fortunate to be in a good financial position it may be an opportune time to take advantage of any property downturn and become a home owner or property investor.

Let's have a chat soon.

After all…

Your Finance Matters

alphaloan mortgage group