Reducing your Australian income tax as an individual foreign resident

1) **What is taxable?**

   This is all rental income received (including any insurance payouts).
   You are normally taxed when you receive the rent for the financial year.
   It does to matter what period it relates to.
   The tax period is 1 July to 30 June.

2) **What expenses can I claim?**

   The most effective way to reduce your tax payable is by claiming your tax deductions correctly. For some expenses you can claim them immediately against your taxable income when incurred while some you can only claim them in the future.

There are **three** main categories of rental expenses:

a) **Expenses that you can claim immediately:**

   - **Bank Interest on loans**
   - Secretarial and bookkeeping fees
   - Tax-related expenses (ie tax advice and lodgement of income tax returns)
   - Travel expenses (ie air tickets, accommodation etc to Australia for inspection of the property etc)
   - Property agent's fees and commission
   - Advertising for tenants
   - Leasing fee
   - Bank charges
   - Owners corporation fees and charges
   - Insurance
   - Land tax
   - Cleaning
   - Council rates
   - Water rates
   - Gardening and mowing
   - Pest control
   - Legal fees to recover outstanding rent
   - Repairs
   - GST charged on rental expenses

b) Expenses that you can claim over a time period

- Borrowing expenses (over 5 years or the life of the loan whichever is shorter)

- Assets used in the rental property (ie dishwasher oven etc) to be claimed as deductions through depreciation

- Structural improvements (ie building new carport, sealed driveway etc) to be claimed as deductions through capital works deductions

For new properties acquired it is important that you claim the maximum deductions for depreciation and capital works deductions.

Therefore we can arrange for a depreciation report to be prepared for you in respect of your rental properties.

c) Expenses that you cannot claim

- Acquisition and disposal costs of the property (falls under the Capital Gains Tax (CGT) legislation.
    - Examples of these are:
        - The legal fees to purchase the property
        - The stamp duty cost on the purchase of the property

- Expenses incurred when the property is for private use.

3) How much income tax do I have to pay?

Sau Fuk owns one property in Melbourne. The property cost $500,000 and he receives rent of $30,000 per annum. His assessable income for the year ended 30 June 2013 is $30,000.He has the following expenses:

Advertising for tenants	65.00
Owners Corporation fees	2,738.00
Council rates	812.00
Insurance	275.00
Interest on loan	5,220.00
Property agent commission	1,275.00
Repairs and maintenance	132.00
Travel expenses	428.00
Water rates	502.00
Postage	30.00
Leasing fee	240.00
Accounting fee	880.00
GST charged on expenses	131.00
Total tax deductable	***12,728.00***
Additional deductable: Depreciation on chattels Depreciation thru capital works	 5,220.00 7,070.00
Total Tax Deductions	25,018.00
Net Profit	4,982.00
Tax payable	***1,619.15***

Conclusion:

It is important that to maximize your deductions to ensure that you do not have a tax liability in Australia. Legitimate tax deductions can significantly reduce your taxable income. Hence, you want to make sure that you are correctly claiming these deductions and not missing out on your entitlements.

Therefore you may need to consider how much you borrow to acquire the property and also which currency you borrow in.

For financial year ended 30 June 2013 (ie 1 July 2012 to 30 June 2013)

Taxable income	Tax on this income
0 to $80,000	32.5 cents for each $1
$80,001 to $180,000	$26,000 plus 37 cents for each $1 over $80,000
$180,001 and over	$63,000 plus 45 cents for each $1 over $180,000

Capital Gains Tax:

Under Australian Tax Law assets acquired on or after 20 September 1985 are subject to capital gains tax on disposal. For non residents this includes real estate owned in Australia. An exemption is available if the property has been used as the family home. If It has been rented out then there will be a capital gains tax liability.

If you have held the property for ore than 12 months before your sell it, then the amount of capital gain subject to tax is discounted by 50%.

In the recent Budget (8 May 2012) the Federal Government of Australia introduced a change to the capital gains tax rules that affect non residents. It applies to holders of real estate in Australia.

For capital gains on the property that accrued from Budget night (**8 May 2012) the capital gain will not be subject to the 50% discount**. Any capital gains that accrued before budget night will be subject to the 50% discount.

For more information, please contact our tax consultants :

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