Make the most of deductions on your property

Audit alert Keep documentation to back up your claims in case the taxman comes calling, writes **Duncan Hughes.**

A property investment boom has triggered a surge in audits by tax officials increasingly curious about when and how investors are disposing of their assets.

More than $1.3 trillion invested in property, billions in resurgent real estate investment trusts and more than $40 billion being pumped into property investments in self-managed super funds makes property a rich and obvious source of public revenue.

The good news is quality property in great locations has historically been a fantastic investment that offers a large range of legitimate tax deductions and capital growth.

"But the shorter the period the property is held, the greater the risk the [Tax Office] will consider the disposal to be revenue," warns **Scott Treatt**, a partner with financial consultancy Pitcher Partners.

"The key concern for taxpayers is documentation," says Treatt. "A lack of evidence supporting a taxpayer's intention at the time of purchase leaves the door open for the ATO to adopt a different interpretation."

That's tax talk for an audit, which could mean a minibus of full of tax officials dropping in to snoop around any buildings, records and documents they consider relevant. They've done it enough times to detect any suspicious signs.

According to **Bradley Beer**, a director of BMT Tax Depreciation, a group of chartered surveyors specialising in helping companies and individuals maximise depreciation claims, eight in 10 property owners do not take advantage of potential claims for wear and tear on a rental building's structure and depreciation on equipment and plant inside and outside the property.

That's in addition to the better-known claims for insurances, rates and other deductions listed on the ATO website.

Other tips from the experts include:

■ Consider pre-paying 12 months' interest in June 2014 as it will be tax-deductible in full on your 2014 tax return.

■ If the property was constructed after 1982, or has been substantially renovated after 1991, you should be claiming any available building depreciation deductions.

■ For property renovations this financial year, costs incurred should be analysed to determine how much can be claimed as a tax-deductible repair and how much can be treated as depreciable plant and equipment, such as a new hot water system. You also need to consider how much needs to be considered as property depreciation.

80 per cent of all property owners fail to take advantage of wear and tear claims

■ Construction costs can generally be depreciated for tax purposes at 2.5 per cent and the entitlement passes from one owner to the next whenever a property is sold. If the information is not available, a chartered surveyor can provide an estimate.

■ Was the property available for the entire year? If not, especially if it was partly used as a holiday home or weekender or if family members lived in it for part of the year, it may be necessary to apportion the expenses such as interest on the loan, council rates and other running costs and claim only the portion that can be reasonably related to the period that the property was available for rental.

Use by family members can count as rental, provided they paid a market rate. All records of financial transactions establishing that it was a contract – and not a "freebie" – should be kept

■ If the property was sold during the year, was there a period since it was first acquired when it was used as a family home? If so, a portion of the capital gain might be exempt from capital gains tax.

"Prior to year-end you should also speak to your financial adviser and together consider whether or not you have any underperforming property or shares in your portfolio," says Treatt.

"Their disposal may result in bringing forward capital losses into the current year, which can assist in reducing your assessable income by cutting any capital gains that may have arisen during the year," he says.

"When you have a capital gain arising on an asset you have held for more than 12 months, when calculating any capital gains at year-end, you must reduce the gross capital gain before you can apply the 50 per cent capital gains tax discount."

Capital losses can only offset capital gains and not other income, he points out.

ATO assistant commissioner **Matthew Bambrick** says from July 1 the tax office intends to be "more aggressive and assertive in investigating questionable [property investment] schemes".

It is believed authorities are concerned about arrangements where there are no or low interest limited-recourse borrowing arrangements within self-managed super funds for property.