Property Tax Deductible Accountants Sydney NSW Are Investor and Property Acquisition Investment Specialists

Property Investor Advice: Interest, Land Tax and Other Deductibles

Property Investor Advice: Interest, Land Tax and Other Deductibles In examining immediate deductions associated with rental properties, TLK Partner and property acquisition tax expert Matthew Mousa takes a closer look at certain areas like interest, council rates, land tax, legal expenses, tax-related expenses and mortgage discharge expenses.

Interest on loans The interest charged on a loan raised to acquire an investment rental property is deductible. If, however, the owner changes his mind and decide to use the property for personal use, they can only deduct the interest charged on the loan until their intention for the property changed.

“As long as the property is rented, or available for rent, you can also claim the interest on loans used to purchase depreciating assets, repairs and renovations,” Matthew clarifies. “The deduction applies from the time you take out the loan, even if you use the loan to finance major renovations on a property you intend to rent out to tenants when the renovations are complete.”

As of 1 July 2019, Australian investors will lose the right to claim all expenses, including interest, associated with the holding of land intended for income producing assessable future income. "It's referred to as an 'integrity measure’ to be introduced to wipe out fraud, whereby investors had been claiming the deduction of interest on land that had not ultimately been used by that investor as an income-producing asset," Matthew explains.

However, most banks in Australia offer loans that can be used to buy a rentable property and, at the same time, get a new car. In this scenario, he says, property owners may only deduct the proportion of the interest on the loan used to buy the property - the interest charged for the section of the loan used for buying the car may not be deducted.

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Land tax The critical thing about land tax deductions involves the time-period for which the owner is liable for it. “This is not dependent on when you submitted a return, or when the tax office issued an assessment. Instead, it involves a strict relationship between what tax year the liability occurred in, and what year’s rental income it can be deducted against. These two must match completely,” Matthew says.

The timing of land tax liability differs from state to state. In many states, the liability is for the period during which the owner used the property to generate rental income. “A land tax assessment can be made, and an arrears land tax assessment issued, but this might not be done in the same year during which you were renting the property out to tenants,” Matthew explains.

If an owner receives an arrears land tax assessment and pays the arrears, the land tax deduction must be against the rental income for the same year the arrears tax assessment in which it refers. So if the arrears assessment refers to rental income earned in 2017, an owner can only deduct it against that year’s income, even if the assessment was only issued, and paid, during 2019.

If the investor sells the property, and there is a land tax adjustment, the owner will need to declare the amount they get back as an income for the year in which this pay-out is received.

Legal expenses Matthew says, legal expenses are deductible for the costs incurred for evicting a non-paying tenant; the legal fees for court action for loss of rental income; and defending damages claims for injuries to a third party incurred on a rental property.

Other legal expenses relating to the purchase or sale of the property and defence of a title deed, are deemed of a capital nature and so are not deductible.

Mortgage discharge expenses Mortgage discharge expenses generally involve penalty interest payments for discharging, or paying off, the mortgage early. This penalty interest is deductible if a mortgage secured the money loaned to purchase the rental income property, and the owner’s ability to pay the mortgage off would be affected by the inclusion of penalty payment for doing so.

Matthew says, "The mortgage discharge expense is also deductible if the penalty interest payment was made to free the taxpayer of having to continue to pay interest on the loan."

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"Investors must maximise their investment portfolio, and the best way to do that is by leveraging legal taxation deductibles, that is our daily occupation," Matthew concludes.

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