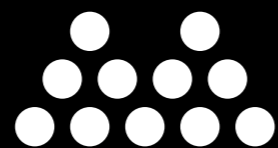




# VOTED NO.1 LAGER IN AUSTRALIA

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## Tax time!

This month **Mark Taylor** talks with Scott Ward, a leading Melbourne accountant and CEO of the AXIS Consulting Group, on tax considerations for property investors.

### HOW DOES NEGATIVE GEARING WORK AND WHAT ARE SOME ASPECTS THAT INVESTORS SHOULD ACCOUNT FOR?

Under our tax system, investors can claim the net costs of gearing as well as additional costs of holding an investment against their assessable income. The net cost of holding an investment, income less expenses, can be claimed against an investor's other taxable income, saving the investor tax at their relevant marginal tax rate. This is a legitimate deduction under current tax law that is used by investors to reduce their tax bill making the investment cheaper to hold and hopefully allowing them to benefit from potential capital growth over time.

### HOW DOES DEPRECIATION ON FIXTURES AND FITTINGS AND BUILDING ALLOWANCE WORK, AND HOW DOES IT ASSIST PROPERTY INVESTORS?

Property investors can claim the cost of purchasing an asset associated with an investment property over the expected life of the asset against their taxable income. This cost (depreciation) can in many cases amount to many thousands of dollars of tax deductions and many dollars in tax savings. Additionally the capital cost of buildings can also be claimed provided that the construction commenced after certain specified dates. Building allowance is claimed over 40 years and generally applies to residential buildings that are less than 25 years old. In the case of newer buildings the deduction can be quite significant reducing the after-tax cost of holding the investment.

### MANY INVESTORS ARE CONFUSED ABOUT HOW CAPITAL GAINS TAX (CGT) APPLIES TO INVESTMENT – CAN YOU DEMISTIFY CGT, OUTLINING OPTIONS TO REDUCE IT?

CGT has applied to the sale of most assets since 1985. Basically, investors who hold investment assets for more than 12 months are entitled to an exemption of 50 per cent of the capital gain when they sell the asset for a profit with the taxable 50 per cent of the gain taxed at their marginal tax rate. Investors need to remember to add back any building allowance claimed on holding property to their capital gain when working out their tax liability.



Fortunately, there are some planning strategies to reduce capital gain such as offsetting capital gains on the sale of a property against other investments that may have decreased in value. Investors can often use the main residence exemption (CGT is not payable on the sale of your home) where they have lived in a property and thereafter have kept it as an investment property. In this instance investors are potentially still exempt from CGT on the sale of this property provided that they haven't held the property for investment purposes for more than six years and haven't claimed the main residence exemption on another property at the same time. ●



**Mark Taylor**, our regular property columnist, is the founder and managing director of the Keys To Success Club, a must-have resource for anyone serious about property.



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