

TAX MATTERS

TAX STRATEGIES FOR YOU AND YOUR BUSINESS

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SHEILA PONTING & CO
ACCOUNTANTS + TAX AGENTS

CGT strategies for your holiday rental

Holiday rentals provide you with a home away from home to spend time with your loved ones and a steady source of income while renting it out.

To ensure owning a holiday rental brings you the greatest dividends, keeping valid and accurate records from the time you purchase the property is essential, particularly when the time comes to sell the property and calculate capital gains tax (CGT).

It would be fruitful to take into consideration the capital gains that may arise when deciding to sell the holiday home.

Because the holiday rental is not an individual's main residence, it is not exempt from capital gains tax. However, there are smart strategies individuals can adopt to reduce their capital gain.

To understand these strategies, one must understand cost base. The cost base is essentially made up of five elements; five factors that contribute to the profit or loss one encounters through owning a property that isn't their main resident. These factors include:

- Money paid or property given for the CGT asset.
- Incidental costs of acquiring the CGT asset or that relate to the CGT event.
- Costs of owning the CGT asset.
- Capital costs to increase or preserve the value of your asset or to install or move it.
- Capital costs of preserving or defending your title or rights to your CGT asset.

When a property is used solely for private purposes and was purchased after August 20 1991, the

cost base of the property can be increased by including expenditures such as interest, taxes and rates. To calculate capital gains, subtract (from the property's sale price) the cost base plus certain eligible expenses that were incurred as a result of owning the property.

Half of the capital gain is added to the taxable income of a landlord where they have been in possession of the property for at least 12 months, for the year in which they sell the holiday house. This is taxed at the landlord's marginal tax rate.

Owners need to keep in mind that they must keep accurate records throughout their time of ownership, as it is almost impossible to substantiate claims without proper records.

Those who have owned the holiday house since before September 20 1985 do not need to worry about CGT.

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Managing your GST liability

Occasionally, business owners will need to make changes to their net GST liability for any given reporting period.

There are one of two circumstances where changes are required:

- needing to make an adjustment, or
- an error on your business activity statement (BAS).

Making adjustments

Making changes to net GST liability will mean revising your business activity statement accordingly. The ATO refers to these changes as



'adjustments' and recognises two different types:

- **Increasing adjustments** are those made when GST payments increase in a reporting period
- **Decreasing adjustments** are those made when GST payments decrease in a reporting period.

There are a number of instances where an adjustment will need to be made, such as:

- A taxable sale or a purchase made is cancelled, such as the return or refund of a product.
- A sale changes from taxable to no longer taxable and vice versa, such as in exporting.
- A taxable sale or purchase made changes in price, such as a rebate.
- A purchase changes from creditable to non-creditable and vice versa.

Correcting errors

GST errors include mistakes made when establishing the GST net amount on your BAS. Mistakes, could for example, result in a credit or debit error. The ATO recognises possible credit or debit errors as:

- Recording GST sales more than once
- Misrepresenting GST on sales or the GST credit on a purchase
- Failing to report accurately a decreasing or increasing GST adjustment.

If a GST error has been made on a BAS, correcting these errors on a later activity statement rather than revising an activity statement with errors is easier. Generally, this will involve no extra penalties and no general interest charge as long as you are not subject to a compliance activity and the same error has not been corrected elsewhere.

In addition, credit and debit errors must be corrected within the credit/debit error time limit. Debit errors must not be a result of intentional disregard of GST laws, and the net sum of error/s must be within debit error value limit.

ATO targeting work-related expenses

The ATO is cracking down on individuals who are over-claiming work-related expenses.

The Tax Office is reminding individuals that they can only claim a work-related deduction if:

- they have spent the money themselves and were not reimbursed
- it is directly related to earning their income
- there is a record to prove it.

Expenses that cover both work and private purposes must be apportioned - you can only claim a deduction for the work-related portion.

Common mistakes include claiming ineligible clothing, claiming for something without having spent the money and not being able to explain the basis for how the claim was calculated.

The ATO has clarified it is a myth that you can claim a standard deduction of \$150 without spending money on appropriate clothing or laundry. To claim a deduction for clothing, it needs to be occupation-specific clothing, protective clothing or a uniform that is unique to the organisation you work for.

Before claiming a deduction for any work-related expenses, individuals must consider if their employer would confirm the expenses were required to earn their income and that they were not reimbursed. Remember, receiving an allowance from an employer does not necessarily entitle you to a deduction.

Using the \$20,000 instant asset write-off

Small businesses with a turnover of less than \$10 million from 1 July 2016 can write-off assets costing less than \$20,000 each up until 30 June 2018.

Under the simplified depreciation rules you must immediately write-off most depreciating assets



costing less than \$20,000 that were bought and used, or installed ready for use from 7:30pm (AEST) on 12 May 2015 until 30 June 2018.

By pooling most other depreciating assets that cost \$20,000 or more, you can claim a 15 per cent deduction in the year you buy them and a 30 per cent deduction each year after the first year.

Deduct the balance of your small business pool at the end of the income year if the balance at the time (before applying the depreciation deductions) is less than the instant asset write-off threshold (\$20,000).

Remember, you can only claim a deduction for the portion of the asset used for business or other taxable uses - not the portion for private use.

When using the simplified depreciation rules, be mindful that you must use them to work out deductions for all your depreciating assets except those specifically excluded. Also, you must apply the entire set of rules, not just individual elements (such as the instant asset write-off).