

**AUSTRALIAN RENTAL
PROPERTY**

**FOREIGN INVESTOR
TAXATION PACKAGE**

WHAT YOU NEED TO KNOW

If you are an investor or looking to invest in an Australian investment property, then you must meet various Australian taxation obligations, even if you are a non-resident.

Am I a Non Resident of Australia?

A person will most likely be defined as a 'non-resident' for Australian taxation purposes where:

- (a) the person resides outside of Australia;
- (b) the person spends less than 183 days in a year of income, in Australia; or
- (c) the person has spent more than 183 days in a year of income in Australia but does not intend to reside here and their normal place of abode is outside Australia.

Australian Ruling 98/17 – “Residency Status of Individuals Entering Australia” may also impact on the classification of a person as a resident or non-resident of Australia.

What Must I Lodge if I Own an Australian Investment Property?

An Australian income tax return must be lodged each year, following the end of the financial year, 30 June.

This income tax return must disclose the following:

- (a) Income earned in relation to the rental property;
- (b) Deductible expenses incurred in relation to the property;
- (c) Any capital gain or loss from the sale of the rental property.

Our office has an extended time period in which to lodge these returns with the Australian Taxation Office.

It is also important to note that each person has to lodge an individual tax return. That is, if a property is jointly owned, each person needs to lodge a return for each year that the property derived income.

To lodge an Australian income tax return, each person needs to be officially identified as a 'taxpayer'. In doing so, each taxpayer is required to have a '**Tax File Number**', which has to be applied for, at either an Australian Taxation Office in Australia, or an Australian Embassy or High Commission in your country. Further details of what is required to be done, are at the back of this package. We can assist you in this process.

How Much Australian Tax Will I Pay?

From 1 July 2011, the Australian taxation rates for non-residents are as follows.

Taxable Income \$	Tax Payable on Taxable Income
0 – 37,000	29c for each \$1
37,001 – 80,000	\$10,730 + 30c for each \$1 in excess of \$37,000
80,001 – 180,000	\$23,630 + 37c for each \$1 in excess of \$80,000
Over 180,001	\$60,630 + 45c for each \$1 in excess of \$180,000

Are There Any Other Taxes in Australia I Should Know About?

(a) Capital Gains Tax (CGT)

Real property purchased after September 1985 by an individual or trust will generally be eligible for a 50% Capital Gains Tax discount, where the asset was held for more than 12 months.

Also, for assets acquired after 13 May 1997, the cost base will be reduced by the amount of the subsequent claims for deductions relating to the “Capital Works”.

It is therefore important to keep a record of all costs which can be added to the purchase price, to form the cost base of the asset.

Our office can prepare and maintain such records for you.

(b) Goods and Services Tax

Generally, as an owner of residential property being rented, you will not be obliged to remit GST of 10% to the Australian Taxation Office. Similarly, you will not be eligible to claim GST that is included in any rental property expenses.

Generally, you will also not be obliged to remit 10% GST on the sale of your rental property when it is sold.

(c) Land Tax

Land Tax is a State Government tax, applied to the owner of land owned at midnight, 30 June each year. The tax is calculated on the unimproved capital value of the land and a marginally varying scale of tax applies. As a guide, \$1,450 plus 1.7% of the excess above \$350,000 and up to \$2,249,999 applies, as at 30 June 2011.

In the state of Queensland, the land tax is not imposed upon holdings with a value of less than \$350,000, for non-resident individuals.

a) Stamp Duty

Stamp Duty is another State Government duty, which is applied when purchasing property.

The duty is calculated on the purchase price of the property and a marginally increasing scale of duty applies, up to a maximum rate of 5.25%.

Your Solicitor will be able to advise you further in this regard.

I Need an Australian Tax Return Prepared – Can You Help Me?

In order to make the process of preparing and lodging your Australian income tax return as efficient as possible, simply follow the below steps:

1. Complete the Income and Expenditure schedule (**Appendix 1**). This schedule provides a detailed listing of common expenses relating to rental properties. Details should be for the year ended 30 June. If you are unsure of any details, please leave blank and provide supporting documentation.
2. To ensure our office has details of the original purchase details, please complete the “Details of Property Purchase” form (**Appendix 2**).
3. Review the “Details of Rental Property Required” (**Appendix 3**) for additional information to provide.
4. If you do not have an Australian Tax File Number, review **Appendix 4**, which details the process in obtaining this number. You can then download the application form from www.lutzassoc.com.au/docs/fipappl.pdf
5. Review **Appendix 5**, which details our fees for the various services listed.

Once you have all relevant information collated, please send it to our office where we will prepare the necessary return, advise you of your taxable position and attend to lodgement.

APPENDIX 1

INCOME

Assessable Income

Gross rent received from tenants \$

ALLOWABLE DEDUCTIONS

Expenses (actually incurred)

Accounting Fees	
Advertising	
Body Corporate levies	
Cleaning	
Commission to Agents	
Electricity	
Hire of Equipment	
Inspection Fees	
Insurance Premiums	
Interest of money borrowed to purchase property	
Land Tax	
Lease Preparation Fees	
Legal costs other than at acquisition (please attach copies)	
Letting Fees	
Motor Vehicle costs to premises after acquisition	
Rates	
Repairs & Maintenance	
Service Charges	
Sundry Expenses	
Telephone & Fax	
Travel	
Other	
- Depreciation (Note 1)	
- Capital Works allowance (Note 2)	

TOTAL RENTAL EXPENSES \$

NET TAXABLE INCOME / (LOSS) (Note 3) \$

Note 1 Depreciation of Fixed Assets

Most items of plant and equipment and fixtures and fittings used to **produce assessable income, are depreciable for tax purposes. In addition, items of plant and equipment which cost less than \$300, are able to be immediately** written off against taxable income at the time of purchase.

Clearly, negotiation of the contract to purchase is a vital element in apportioning a value to these items and obtaining a detailed inventory of such assets.

Note 2 Capital Works Allowance

A special system operates to allow a deduction for capital expenditure incurred on the construction of new buildings (excluding plant and equipment – refer below) for the purpose of producing assessable income. In order for the building under the proposed project to qualify for an annual deduction either of 2.5% or 4% of construction costs, the building must meet the following criteria:

1. For non-residential, construction must commence after 20 July 1982;
2. For residential, construction must commence after 18 July 1985;
3. The building must be available for income-producing purposes during the period for which the deduction is claimed.

Special rules apply to calculation of this capital expenditure. Ordinarily, the vendor of an existing building should provide the details for which this claim can be made. The amount is not related to the purchase price paid, but to calculations of the cost of the structure.

For a new building, a qualified Quantity Surveyor can calculate the appropriate capital expenditure. Our office can obtain such services on your behalf if required.

Our experience is that the cost of engaging a Quantity Surveyor, is more than compensated for, by the first year's claim for the Capital Works Allowance.

Please note that for property acquired after 13 May 1997, a claim for a deduction under this concession will be applied to reduce the cost base of the property, for Capital Gains Tax purposes.

Note 3 Tax Losses

Subject to various safeguards, tax losses may be carried forward and offset against future income or capital gains on sale – this is valuable, as it can reduce future tax payments!

AUSTRALIAN INCOME TAX RETURN
DETAILS OF PROPERTY PURCHASE

The following are examples of details that can be prepared in advance:

RENTAL PROPERTY DETAILS

Address of the property:

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Date the property was available for renting to tenants:

Purchase price of the property:

Incidental costs of acquiring the property:
- Stamp Duty

- Legal Fees

- Other (eg Airfares)

If the rental property is jointly owned, detail names of all the parties and the proportion owned by each party:

Name of Joint Owner	% Held

EXTRA INFORMATION REQUIRED EACH YEAR

1. If the property was used at any time during the year for private purposes, please detail the period of time.

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2. Detail any assets bought or sold during the year:

Description	Purchase Date	Purchase Price	Sale Date	Sale Price

3. Detail any capital improvements made to the property during the year:

Description	Date	Cost

4. Detail any costs incurred in obtaining finance used to purchase the property:

Description	Period of Loan	Amount

AUSTRALIAN INCOME TAX RETURN

DETAILS OF RENTAL PROPERTY REQUIRED

The following documents and information are required to complete your Australian Income Tax Return successfully:

1. Bank statements relating to money borrowed to finance the purchase of the property.
2. Copies of contracts to purchase the property and settlement statements as prepared by solicitor.
3. Rental statements for the current financial year.
4. Rental statements and schedule, if prepared, for the previous financial year.
5. Details of furniture & fittings that are in or attached to the property (or Quantity Surveyor report).
6. Details of fixed assets in relation to the property (or Quantity Surveyor Report).
7. Details of the construction cost of the building for 'building write-off' purposes (or Quantity Surveyor Report).
8. Copy of any prior year Australian tax return.
9. Owner's Tax File Number.

APPLICATION FOR AUSTRALIAN TAX FILE NUMBER

The initial procedure upon acquisition of the Australian rental property is to obtain an Australian Tax File Number ('TFN') for all property owners – irrespective of the percentage of ownership. (e.g. a separate TFN is required for husband and wife)

The Tax File Number is required by the Australian Taxation Office to enable lodgement of an Australian income tax return for the years subsequent to the acquisition ending 30 June.

Please find below the necessary procedures to take in obtaining an Australian Tax File Number:

1. Complete the Tax File Number application which can be downloaded at www.lutzassoc.com.au/docs/fipappl.pdf. Please note, if you wish our office to be the postal address, please leave this question blank and we will complete.
2. Obtain the proof of identity documents as indicated in the Tax File Number application.

The simplest form of proof of identity documents would be two of the following documents: birth certificate, a passport with a photo, driver's licence with a photo or marriage certificate. Please note that at least one of the documents is listed as a Category A document per the list in the application.

3. Obtain the proof of Australian income-earning documents as indicated on the attached list.

The simplest form of Australian income-earning documents would be one of the following documents: title deed, copy of tenancy agreement, property settlement statement or monthly property manager's statement.

4. Original documents including the application form must be personally taken to the Australian Embassy/High Commission in your country for a certification stamp.
5. All documents which are certified and stamped by the Australian Embassy or High Commission must be attached to the signed application form. This must be forwarded to our office, by mail, for review and lodgement with the Australian Taxation Office.

Once the application form and proof of identity documents have been lodged, it would take approximately 28 days before the Australian Taxation Office issues an Australian Tax File Number. Upon receipt of the Tax File Number from the Australian Taxation Office, we would forward a copy to you to enable preparation of your Australian income tax return.

OUR FEES

Our standard package includes the following services:

- Preparation and lodgement of the annual income tax return
- Providing a copy for the client, and retention of the original signed version;
- Advising of the Australian Taxation Office's Notice of Assessment;
- Preparation of Capital Gains Tax records.

a) Our fee for above services, per return	AUD\$600.00
b) For two tax returns owning a joint property	AUD\$990.00
c) For each additional rental property	AUD\$330.00
d) Fee for assistance with Tax File Number Appl.	AUD\$110.00
e) Fee for arranging a Quantity Surveyor report	AUD\$165.00

Please note, any out of pocket expenses will be charged separately, if significant.

Please note, if further services are required from our office, then these would be billed separately. Such services may include:

- (i) Discussions regarding appropriate structuring of your property investment in Australia;
- (ii) Discussions regarding income tax consequences of sale;
- (iii) Australian taxation implications associated with other Australian investments such as businesses and stocks/shares.

Please note that the fees outlined above are for individuals only and may change if insufficient or incomplete information is provided.

There exist other, more complex structures, for taxpayers in Australia, such as companies and unit trusts for which special advice is required. Obviously, the time spent in advice and preparation of income tax returns for these entities would be considerably more. We would be able to advise of such costs when providing structuring advice.