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Investment Property Newsletter

Negatively Gearing

Negatively gearing property is one of the most common forms of investment in Australia.

The negatively gearing strategy is simple. Fully or partly borrowed funds are used to purchase an asset, in this case, property. The property expenses exceed the property income and hence a loss is made. This loss can then be used to reduce the taxpayer's other income e.g. salary, which in turn reduces the tax payable. The long term goal is for the property to appreciate in value so as to make a capital gain sometime into the future. It is all about wealth creation.

Claimable property expenses include:

- Interest payments on loan
- Building allowance and depreciation on fixtures & fittings
- Rates
- Insurance
- Repairs and maintenance
- Property Management Fees
- Advertising
- Finance costs
- Travel to inspect the property

and many, many more.

Many clients have been taking advantage of the depressed economy to purchase further investment properties. If you are considering this let us run the

negative gearing model to examine the best outcome for you.

It is imperative an Accountant well versed in investment accounting is consulted to ensure your investment is structured correctly. Only an Accountant is qualified to give you advice on the taxation implications of your investment.

Audit Cover

In the past few years we have seen an increase in the number of rental property audits as a direct result of the increase in property investment.

An audit can be a daunting experience at the best of times, but can also prove expensive. To counter this, we offer our clients **Audit Cover**. By paying a yearly fee our clients have peace of mind that should they be subjected to an ATO audit, our fees for such a service will be at our cost. From experience, audits can be very time consuming and it would not be unreasonable for clients in these circumstances to face fees of \$2,000 to \$3,000 for an audit..

It is the taxpayer's responsibility to ensure they have supporting documentation for all expenses claimed and income received. We cannot stress enough the importance of keeping accurate records.

The ATO can audit tax returns going back 5 financial years so all

records must be kept in a safe place for this length of time.

For more information on our Audit Cover please contact our Head Office.

Would you like more in your pay each pay period?

Taxpayers with negatively geared investment properties have the opportunity to lodge an application with the ATO to reduce the tax deducted from their pay each pay period.

The PAYG Withholding Variation Application takes into account your salary, rental income and expenses.

Most rental property owners wish to receive the tax relief each pay period instead of waiting until their tax return is lodged at the end of the year to receive a lump sum refund. By receiving a higher net wage each period, due to lower tax paid, most clients are able to comfortably meet their loan commitments and any unexpected rental property expenses.

The PAYG Withholding Variation is an annual application. It is an estimate for the purposes of tax calculation based of salary, rental income and expenses. Please note, taxpayers are still required to lodge an income tax return at the end of the financial year.

With over 600 investment property clients, we have the knowledge and experience to attend to all your accounting requirements. Please contact our Southport Office for more information on the PAYG Withholding Variation and our other services.

Investing through Family Trusts

A family trust is a way in which investors can pool family assets for the benefit of family members.

A trustee, who is usually one or several of the family members, administers assets and income for the benefit of a nominated class of family members (beneficiaries).

It is not normal to negatively gear under these circumstances, as the losses cannot be distributed to the beneficiaries.

When a trust acquires assets such as freehold property, the family members would contribute sufficient equity to the trust to satisfy the bank's requirements. Generally this would be approximately 25% of the purchase price.

Assuming that the property values are appreciating, the trust can invest further once the equity grows or the family members contribute further funds.

The trust assists in providing asset protection and allows family members with smaller amounts the opportunity to establish an investment plan.

If this type of structure is of interest to you, please contact our office for further discussion with one of the Partners.

Property Insurance

When the decision to invest in property has been made, the next step is to immediately attend to its insurance requirements. It is essential your investment be insured against fire, burglary and the like.

We always recommend that you take rental protection cover, which will provide you with rent should a lease be broken and protection against a tenant that causes damage. It is important to remember insurance expenses are tax deductible for negatively geared property investments.

Coming Events

BENCHMARKING BUSINESS PERFORMANCE WORKSHOP

“Enhance your business performance”

**28th July 2010
at 6pm**

**Thiel Partners
Boardroom
Level 2**

**10 Short Street
Southport QLD 4215**

**RSVP on 5537 6711 by no
later than
21 July 2010**

Disclaimer: Thiel Partners has prepared this Investment Property Newsletter with every effort to ensure accuracy. However, as the content is for general use, no article is intended to replace detailed advice in respect of individual circumstances and readers are encouraged to contact Thiel Partners for further information before making decisions.