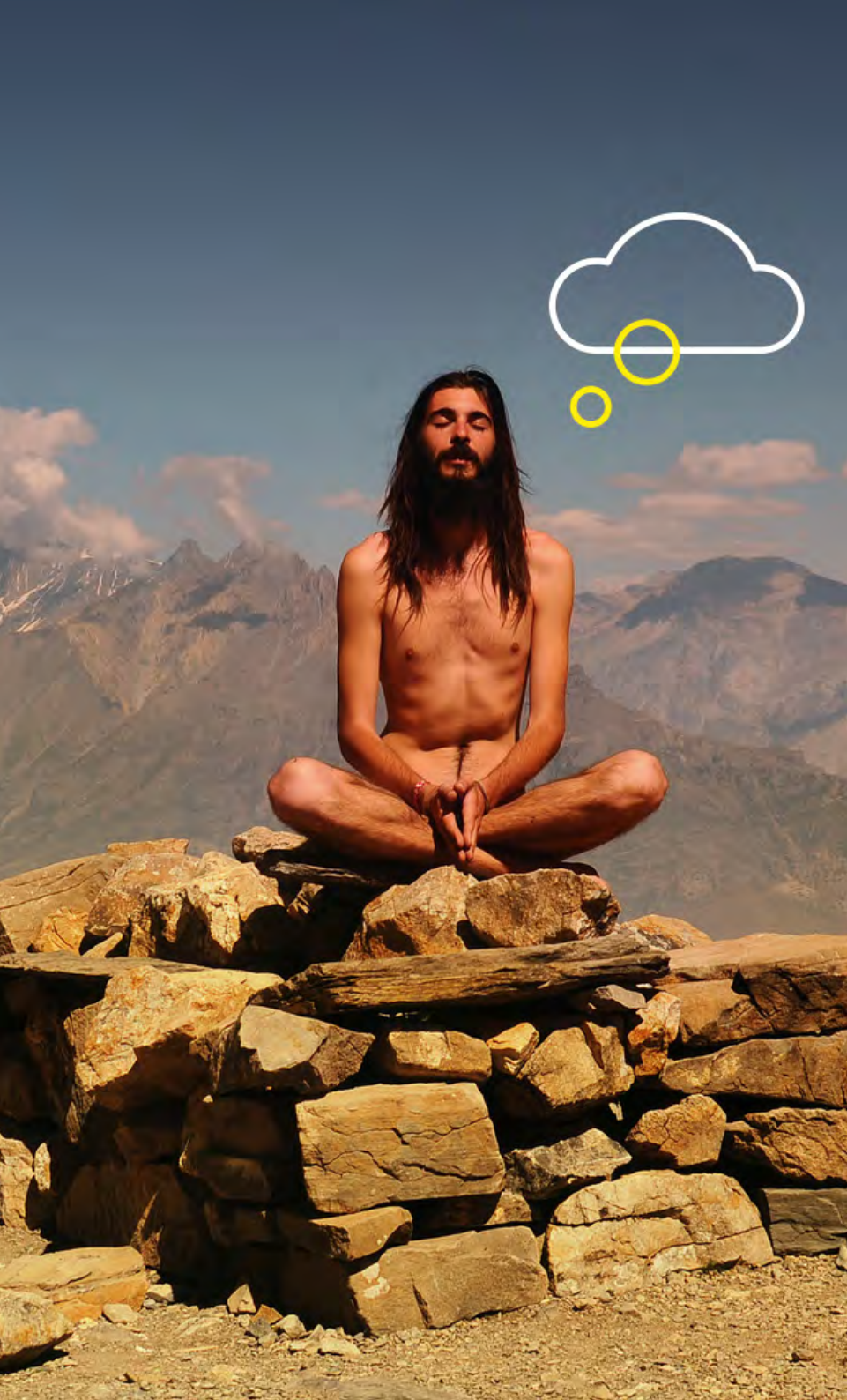




[business
DEPOT]

top tax tactics for real estate 2022

get all zen with your tax

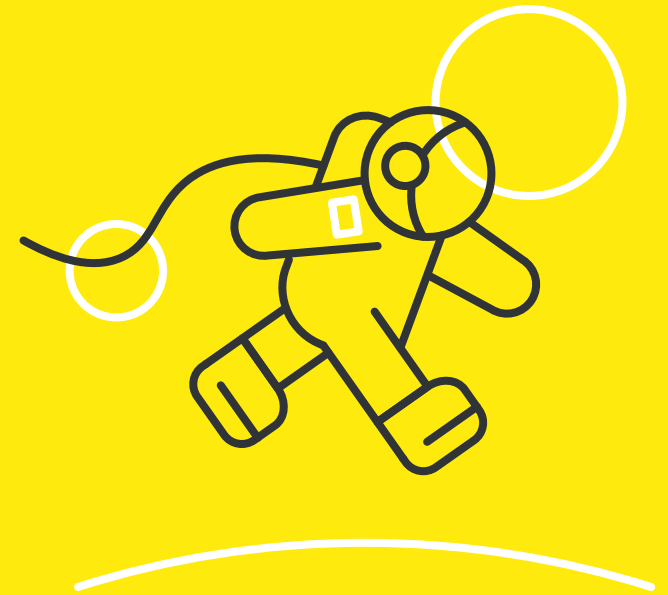


a bit about this e-book

Over the years, we have been asked about claiming some pretty dubious costs as tax deductions for real estate agents and real estate businesses. Many things are deductible when discussed over the BBQ, but in reality some are just myths.

We love working with the real estate industry and seeing businesses and individuals get great results. As they say, the best thing about paying tax, is that it means you are making money. Nevertheless, no one likes to pay a dollar more tax than they have to.

To help, we have summarised the top [and legit] tactics for real estate businesses and the people behind them.



**having your accounts
in order is an
awesome launchpad
for your business**



instant asset write-off and cars

Yes, you can use the instant asset write-off for the purchase of a car but please note the following:

- + The write-off is limited to the luxury car cost limit which is currently \$60,733
- + If you purchase the car in a company or trust that qualifies for and has chosen to use the simplified deduction rules, FBT may be payable on the car
- + Otherwise the write-off will be limited to the business or work-related portion of the cost or luxury car cost limit.



new asset purchases **temporary full expensing**

The ATO has introduced Temporary Full Expensing measures that enable businesses with a turnover of less than \$5 billion to immediately deduct the business portion of new eligible depreciating assets.

The eligible new assets must be first held, and first used or installed ready for use for a taxable purpose between 6 October 2020 and 30 June 2023.

For businesses with turnover less than \$50 million, temporary full expensing also applies to second-hand assets.



write-off previously purchased assets

One of the flow-on effects of the increase in the instant asset write-off threshold is that if you have chosen to apply small business simplified depreciation rules, you can now also write-off any accumulated balance of other depreciable assets by using the ATO's new temporary full expensing measures.

The simplified depreciation rules apply if you have an aggregated turnover for your group of less than \$10 million.



“

You must understand your tax timeline to avoid any nasty surprises down the track

✓ **don't pay a wage to the
directors/shareholders**

If you are a shareholder or director of the business, you can reduce your payroll tax obligations and push out the timing of tax payments to the ATO by simply taking dividends/drawings instead of wages. This is sometimes not commercially possible when you have unrelated parties in business together.





✓ deductions for bonuses and commissions owed at 30 june

If you pay commissions, bonuses and wages either monthly or fortnightly, review any amount you are legally committed to paying and accrue these as an expense this financial year.

This matches the cost to the income that it relates to and makes sure you are getting every dollar of tax deductions you are entitled to.

A photograph showing a crumpled yellow paper ball on a grey surface next to a wire mesh trash can. The trash can is partially visible, showing its silver metal mesh and a white base. The background is a plain, light grey wall.

✓ **scrap underperforming business assets**

Review your depreciation schedule and scrap any old assets. Any loss on the scrapping of these assets can be used to reduce other trading income. However, if you have already fully depreciated or written off these assets then there will be no benefit in doing this.

When you move office, you can write-off any remaining fit out costs and get a big tax deduction in that year.

[business
DEPOT]

✶ push income out + pull expenses forward

The oldest tax planning tricks in the book involve pushing income into the next financial year and bringing forward expenses into June.

Small business entities [turnover of your business and related parties of less than \$10 million] may be eligible to claim an immediate deduction on certain prepaid expenses.

Prepaying interest on a loan or for services like insurance and IT maintenance for 12 months in advance is a tax tactic for small real estate businesses. Beware, if you do not do it again next year, the timing benefit will catch up on you.

NOTE: It must be a deductible expense. No point bringing forward the purchase of an asset like a computer system, car or furniture unless you are a small business.

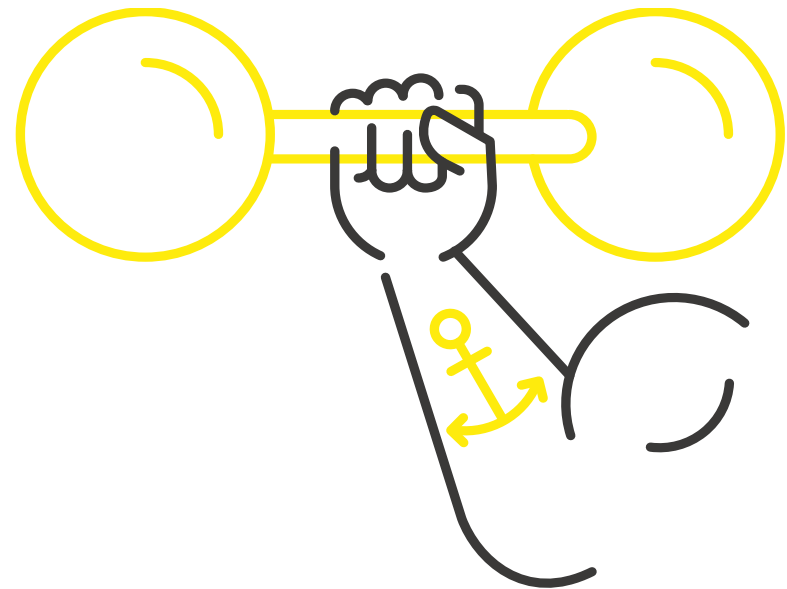
If you own an investment property, [we know you love property] you may also be able to prepay interest on an investment property loan for 12 months in advance and get a tax deduction in the year paid.

✍ **write-off non-recoverable items like advertising, bad debts + employee advances**

Write-off any bad debts [such as non-recoverable advertising or employee advances] before 30 June. A debt is considered bad when a commercial decision has been made that the debt is no longer recoverable.

It is not sufficient for the debt to be merely 'doubtful'.

If you classify the advertising as an asset in the books of the business, the expense may still be deductible – even if not yet recovered from the vendor.



✂ top up your super contribution to \$27,500

As a real estate business owner or agent there is nothing wrong with looking at topping up your super before the end of the financial year. You could save as much as 47% of every dollar contributed in total for the year in your own name and only pay 15% in your super fund.

year	age < 65	age < 75*
2021 / 22	\$27,500	\$27,500

Between the age of 65 and 75 in 2021/22 you must also meet the work test to be eligible for a concessional super contribution.

“

The fund must receive the money by 30 june each year in order for the contribution to be deductible

[business
DEPOT]

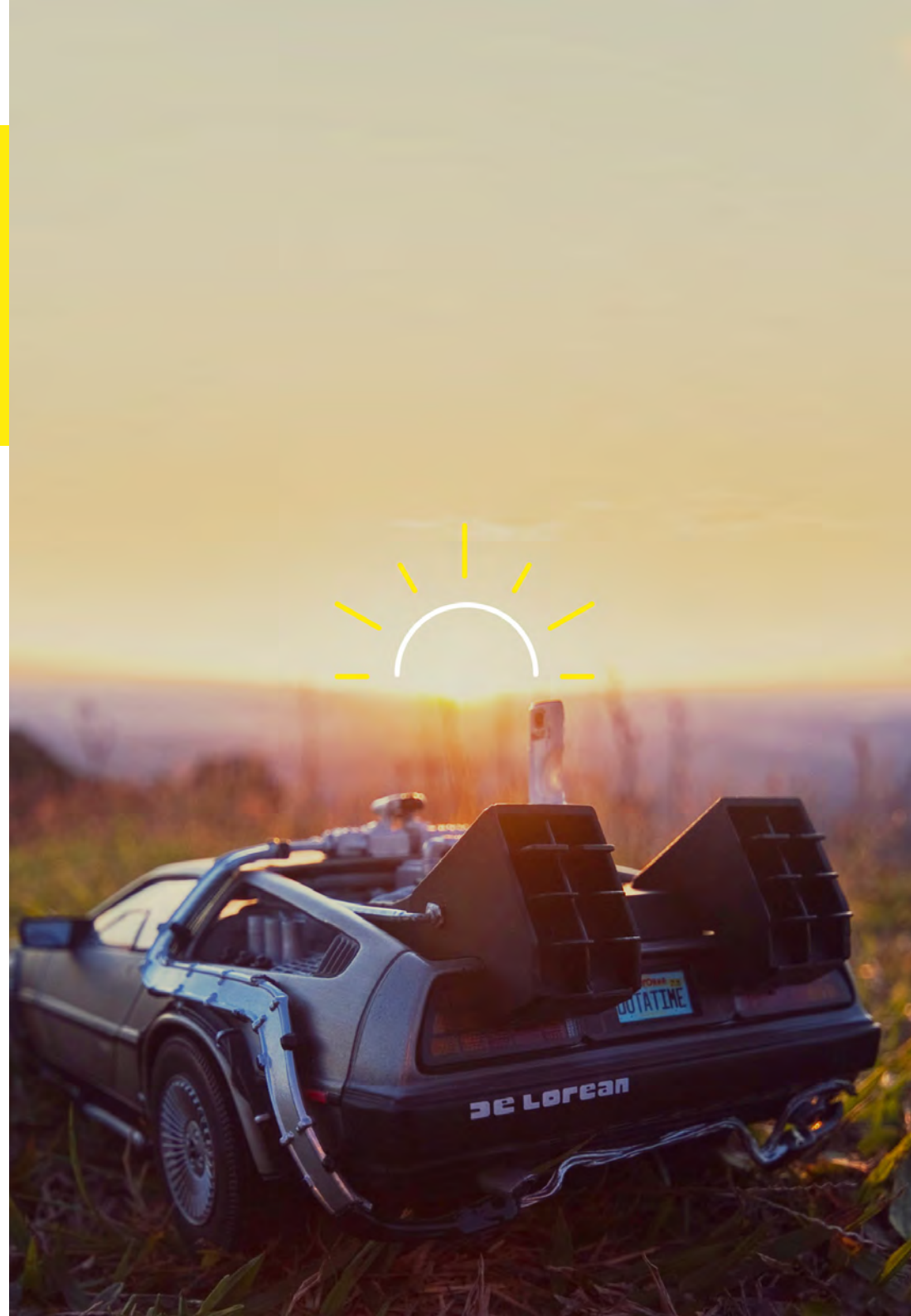


even more into superannuation

You may be able to contribute even more than the \$27,500 concessional contributions cap if you have unused contribution thresholds from previous years.

This is only available if your super balance is less than \$500,000 and is somewhat complicated depending on your personal situation.

Please seek advice before making any contributions.



example

rolling concessional cap



	2018/2019	2019/2020	2020/2021	2021/2022
Concessional Contribution Cap	\$25,000	\$25,000	\$25,000	\$27,500
Cap used by Employer contributions	\$9,500	\$9,500	\$9,500	\$9,500
Rolling cap carried forward	\$15,500	\$31,000	\$46,500	\$64,500
Maximum contribution available in that financial year	\$25,000	\$40,500	\$56,000	\$74,000



superannuation salespeople, property managers + other employees

From 1 July 2017 employed individuals can claim a personal tax deduction for superannuation contributions [up to a limit of \$27,500 including superannuation paid by your employer]. No need for complex salary sacrifice arrangements.

excess contributions tax

If you earn over \$250,000 [after adding back rental property losses, salary sacrificed or deductible super] the ATO will hit you with an extra 15% excess contribution tax in the super fund, taking the total tax on the contribution to 30% [still better than 47%].

This is quite possible for some of the high performing salespeople out there so be aware that the tax benefit of putting more into super may not be as great as you first expected.



super only **deductible if paid**

You are only able to claim a tax deduction for superannuation contributions when the payment is made. For employers, this means you need to pay your compulsory 10% employee super by 30 June 2022 to get a tax deduction in the 2022 financial year.

Please note from 1 July 2022 the compulsory super contribution will increase from 10% to 10.5%.



“

**company tax rates have
dropped for businesses with
aggregated annual turnover less
than \$50m + subject to meeting
base rate entity income tests.**

✓ From 1 July 2021 the company rate of tax is 25%

✓ get your legal structure right

The best long-term way to minimise tax is to get your structure right from the beginning. The right structure for you will depend on your strategic plans, funding and ownership mix.

The most common structure we use for real estate businesses is a company structure with a discretionary trust as shareholder/s – but it will always depend on your personal situation.

The company tax rate has been reduced to 25% for those with turnover less than \$50 million. Those over with turnover greater than \$50 million are subject to a tax rate of 30%.

“

the lower company tax rate is making it more and more appealing to be trading through a company structure, especially if you have significant debt.

The second most common structure would be trading as a discretionary trust with a company as trustee but this is limited as it cannot be used when you have unrelated parties in business together.

Unit trusts are another option when you need different parties to have a fixed entitlement to income/capital but can have some negative stamp duty implications in some states and additional CGT applicable. A hybrid model is a partnerships of discretionary trusts which can work well but has its limitations.

“

don't forget trust distributions
minutes must be made before 30
june each year [some exceptions
depending on your trust deed] to
be effective



✚ trigger a sale of your business

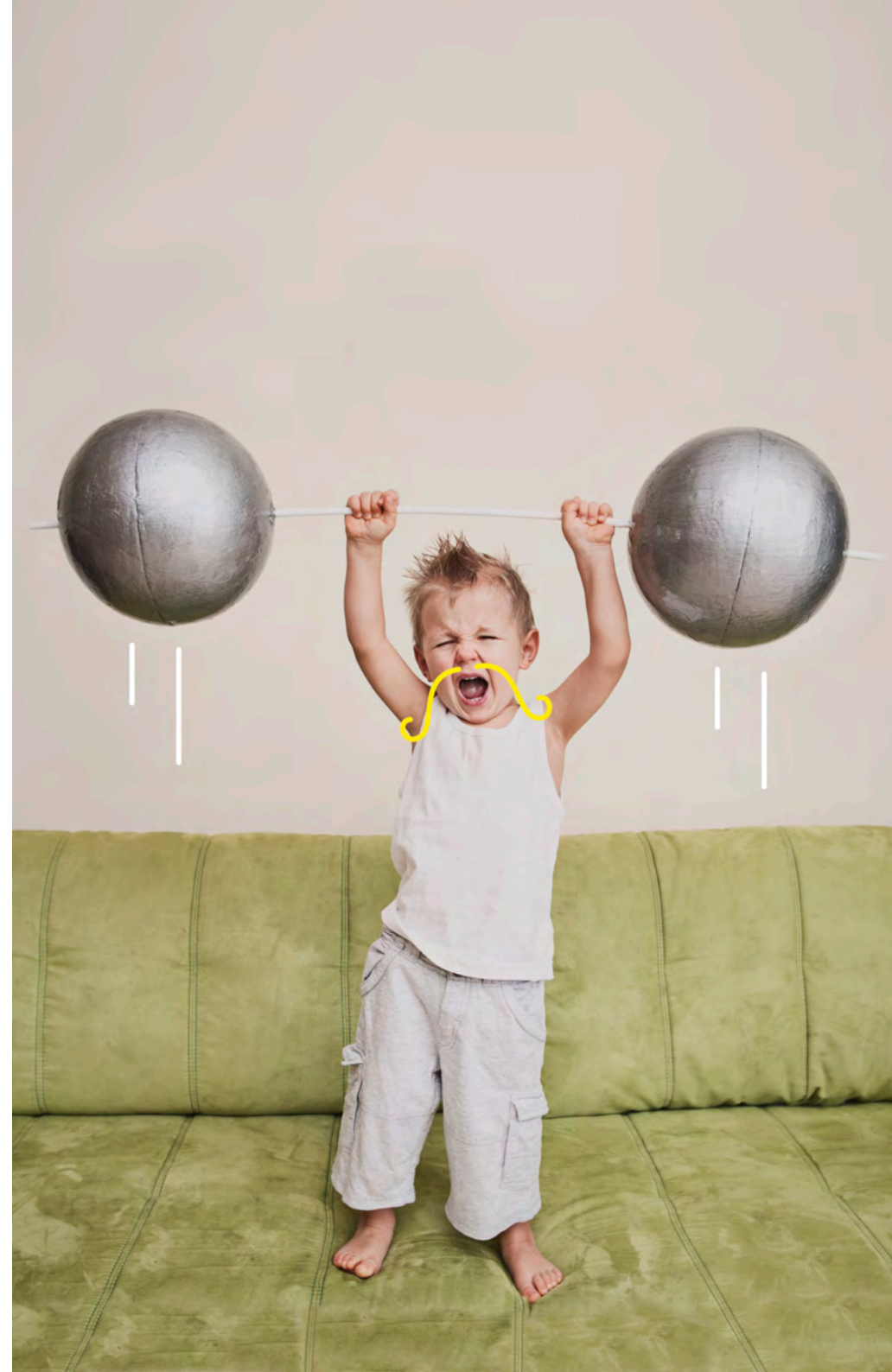
The small business CGT concessions are available to businesses with turnover less than \$2 million or net market value of their assets [excluding super and family home] less than \$6 million.

There are 4 small business CGT concessions you may be eligible for:

- ✚ 50% Active Asset Exemption
- ✚ Retirement exemption [lifetime limit of \$500,000 per person]
- ✚ 15-year exemption
- ✚ Replacement asset rollover

“

Real estate businesses have a great opportunity with these concessions! There's a lot to them though and they are complex - you must get the detail right.

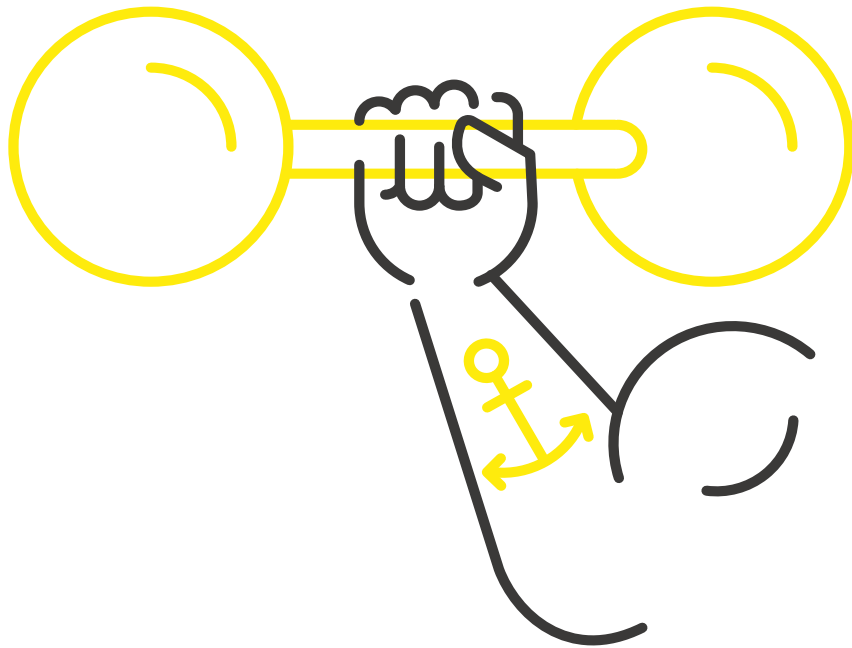




✓ **tax depreciation reports help with investment**

If you have an investment property, maximise your depreciation deductions by getting a quantity surveyors report.

Typically, you can get a deduction equal to 2.5% per annum of the original cost to construct the building and on major improvements.



negative gearing what the?!

Being in the real estate industry, we're sure you are across the tax benefits of negative gearing – essentially the tax deduction takes the sting out of having a loss-making asset.

From an investment perspective though you should still only consider a negative gearing strategy if the expected capital growth is greater than the net after tax holding costs.

“

you can no longer claim a
deduction for travel expenses
**to and from your rental
property.**

tax on properties owned

Being in real estate, you probably like property as an investment too and may undertake your own developments.

A few key considerations:

- + Main residence not subject to CGT [but must be purchased in individual name/s]
- + If you are considered a developer [business approach] the gains are 100% taxable as income and GST payable on the sale [consider a company structure]
- + If you buy a property with a profit-making intention, gains are 100% taxable for income tax purposes
- + If you have a mix of the above, it's complicated [get help].
- + Rental properties are subject to CGT and eligible for 50% CGT discount when owned for more than 12 months
- + The beach house costs are only deductible to the extent the property is available for rent [i.e. private portion not deductible].



vary your PAYG instalments

If your PAYG Instalment for the June quarter has jumped up considerably, or profits in the year have dropped compared to the previous year, look at varying your PAYG instalment. By doing this you will get the cash benefit in July/August rather than waiting until you lodge your tax return – which can be as late as May the next year.

Please talk to your accountant!



“

tax avoidance is illegal, **tax
planning or minimisation is
not**



✚ car logbooks pretty much a must

The ATO expect those in the real estate industry to have a high business/work usage but you must keep a log book for a 3-month period to evidence your usage.

This way you can claim a percentage of all costs [up to the MV cost car limit] including interest on loans, lease payments, repairs, registration, insurance and fuel.

Without a logbook your deduction is limited to \$3,600 using the cents per kilometre method [assuming you can justify that you travelled 5,000 kilometres for business/work in the year].

You need to do a new logbook every 5 years or when your usage changes materially [e.g. you move homes]. We have definitely seen far more ATO logbook checks recently with more expected.

Luxury cars are considered those worth more than \$60,733 [for the 2021/22 financial year]. It may not be a tax tactic, but spending below the luxury car limit will save you loads!

“

**fancy car or not – make
sure you are claiming
what you can**

entertainment

Anything regarded as entertainment is generally not tax deductible. There are a couple of exceptions to this rule but these essentially require you to pay at least some FBT.

A few notes on entertainment deductions:

- + If there is alcohol the ATO consider you to be having too much fun and therefore it is considered 'entertainment'
- + Food while travelling is fine
- + Food for events, training, workshops is fine as long as no alcohol
- + Long lunch with the team is potentially subject to Fringe Benefits Tax
- + Long lunch with clients and prospects is generally not deductible.
- + Corporate box at the footy – depends on who went but still considered entertainment [not deductible].



✓ independent contractors – one of the great tax discussions in real estate

Independent contractor arrangements only work when they are on truly commercial terms – think of them more as a conjunctional agent.

As a minimum [in our view] they need to have a company structure, be licensed with the appropriate body in each state, have their own professional indemnity insurance, have their own ABN and be registered for GST [just like any other real estate business].

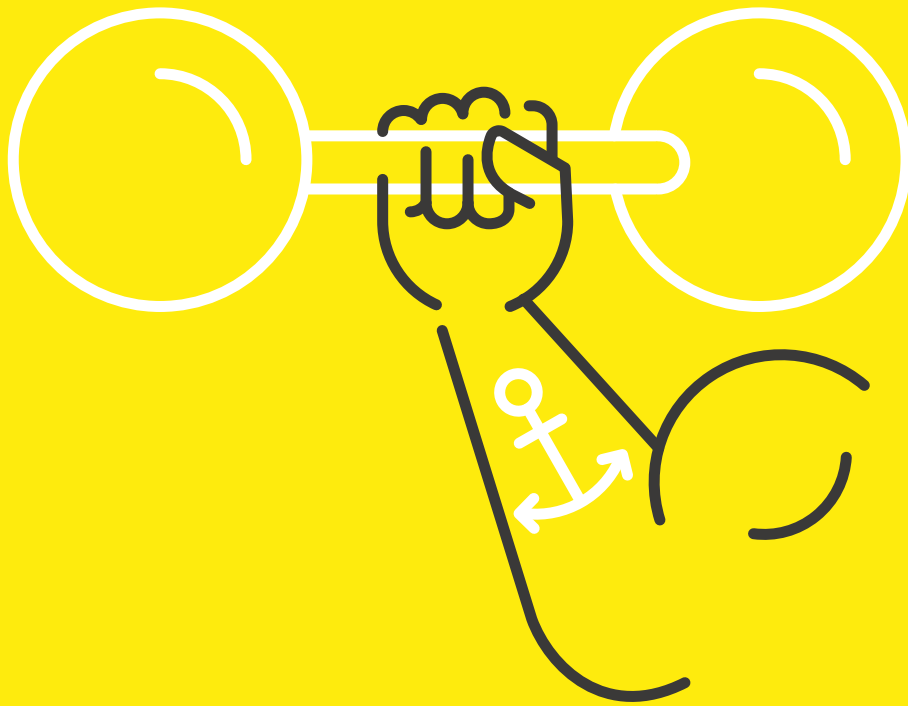
There are potential savings and benefits for all parties but rules are very broad and can deem payments as wages [exposing the deemed employer to the Fair Work Act and potential catch-up of income tax, superannuation and payroll tax].

✚ keep those darn receipts

Boring I know but the Australian tax system is a 'self-assessment' system so you need to keep evidence to substantiate any claims [minor exception for individuals claiming less than \$300]. If in doubt, keep the receipt and ask your accountant.

Other evidence requirements include:

- ✚ For capital assets you need to keep purchase documents until you sell the item and then a further five years after lodging the sale year tax return
- ✚ If travelling overseas for business or work purposes you need to keep a diary of your activities while overseas
- ✚ If you are paid a travel allowance you do not need to keep receipts if your claim is limited to the allowance amount and it is paid in accordance with the ATO guidelines.



one place to muscle up + raise the bar in your real estate business

We love getting nerdy with the numbers and saving you tax so if you have questions, we're here to help and happy to kick things off with a coffee and a chat about your goals.

business depot real estate 

meet the real estate team



Craig Harrison
Head of Accounting



John Knight
Head of Strategy



Cameron Hancock
Head of Legal



Alan Dawson
Head of Agency Broking
+ Rent Rolls



Roland Nicholson
Senior Manager -
Accounting



Rebecca Mihalic
Sydney



Dean Yeo
Rent Roll Broker



Jacquii Reeves
Head of Tax



Anna Chipperfield
Head of People
+ Culture



Patrick Mead
Manager -
Accounting



1300BDEPOT



oneplace@businessdepot.com.au