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Mt Waverley VIC 3149
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NEGATIVE GEARING

Negative gearing occurs when the costs involved on the investment are higher than the income it derives. This causes a loss from investment activities which can then be used against your other assessable income such as employment or business income to reduce your taxable income, therefore saving you tax.

Negative gearing can be done with investing in property or in the share market.

INCOME

Rental income derived from an investment property is assessed when received. Rental Income earned by co-owners of a property must generally be shared according to their legal interests. Rental income consists of rent, insurance recoveries and variables paid by tenants. If rental income is from an associate or family member, rent is required to be at a rate that is considered 'arms length.'

DEDUCTIONS

Loan Costs

A deduction is allowed for the interest and costs incurred in setting up a loan, providing the loan funds are used for the purpose of deriving assessable income. Such set-up costs include application fees, establishment fees, valuation fees, costs for preparing and filing mortgage documents and stamp duty. Where the loan monies were used for both private and investment

set-up costs must be apportioned. It is however preferred by the ATO to keep the investment borrowings separate from personal borrowings.

Construction Costs

A deduction may be allowable for the cost of construction of the income producing building. Costs include architects fees, engineering fees and cost of excavation, it does not include cost of land, demolition, clearing or landscaping. The deduction varies according to the date that construction of the building commenced.

Structural Improvements

A deduction may be allowed for the cost of a structural improvement of the income producing building. This may include cost of an extension, alteration or improvement to the building, driveway, fence or retaining wall. The deduction varies according to the date that the improvement commenced.

Depreciation

Depreciation is allowed as a deduction in respect of plant and equipment which is used during the year of income for the purpose of producing assessable income, or has been installed ready for use. For items already included when the property was

purchased a reasonable basis of valuation must be obtained. The ATO requires a valuation of items from a quantity surveyor. Call our office if you require a contact.

Repairs and Maintenance

Non capital expenditure incurred on repairs to plant and equipment or the premises is an allowable deduction. However, if the expenditure is for an improvement or is an 'initial repair' it will be classified as capital in nature and therefore will need to be claimed under the depreciation provisions.

General Deductions

- Advertising for tenants
- Insurance premiums
- Management fees
- Rates & land tax

EXAMPLE

Bruce buys an investment for \$100,000 and pays \$5,000 in interest and \$1,000 in other general deductions. He receives \$3,000 income from the investment. He has a loss before tax of \$3,000. Bruce has a well-paid job and pays tax on his salary at the top rate of 47%. He can now deduct this loss from his taxable income, and reduce his tax bill by \$1,410 (47% of \$3,000).

Note: there are capital gains issues when the investment is sold. Please contact one of our offices if you require further advice.



MONTHLY TAX TIP

To ensure you receive a maximised refund, you should follow the simple ground rules set out by the ATO.

The expense must be incurred in the current tax year.

The amount must not have been reimbursed.

You must have incurred the expense while earning your assessable income.

You must be able to prove your claims for deductions with written evidence if the total is greater than \$300.

The \$300 limit does not include claims for car, meal allowance, award transport allowances or travel allowance expenses.

Some items such as cars, computers, phones and homes that are used for partly work and partly private are not fully

deductible. Items of a capital nature, that is those which cost more than \$300 may need to be depreciated over time. It is also possible to claim home office costs. This is a percentage of your power, heating and cooling costs for using the home office. A lounge or dining room, which is considered multi-purpose, can not be claimed as home office.

To claim clothing it must be either protective or identified with a logo. Items such as jeans, shirts, suits and ties (without a logo) are not tax deductible.

Self-education can be claimed if the cost relates specifically to the income you currently earn.

Listed below are some of the basic tax deductions, to consider:

Union Fees Clothing (with logo)

Books Tools of trade
Sun Protection Income Protection
Home Office Work related travel
Mobile Phone Computer use for work
Subscriptions Memberships
Laundry and Cleaning of work related clothing

In addition to claiming expenses incurred while earning assessable income, there are a number of additional expenses which can be considered. These include:

Accountant fee Donations
Travel to the accountant
Child care costs (out of pocket expense for approved child care)
Family medical costs (out of pocket medical expense in excess of \$1,500)



STAFF DETAILS AND OFFICES

Our 7th office is now open in Berwick.

The former manager of the Mt Waverley office, Kirstie Gillespie, has taken advantage of the opportunity to work closer to home and is now managing the Berwick office.

The firm is happy to announce the appointment of Alan Ralph as Manager at the Mt Waverley office. Alan is a senior accountant with over 40 years experience in commerce and industry.

FINANCIAL PLANNING

We have joined forces with Primestock Securities in relation to suppling our clients with a Financial Planning Service.

Primestock is a licensed dealer in Securities & Registered Life Insurance Broker that provide Financial Planning, Life Insurance, Risk Management and Corporate Superannuation advice

FINANCE UPDATE

The Reserve Bank increased the cash rate by 0.25% this month.

You should consider fixing your existing loans or discuss a refinance to benefit from great deals available at the moment from a variety of lenders. Contact Alex on 9408 4577 to discuss. As finance brokers this service is totally free — **no charge!**

There once was a business owner who was interviewing people for a division manager position. He decided to select the individual that could answer the question ,

" h o w m u c h i s 2 + 2 ? "

The mathematician said, "In two hours I can demonstrate it equals 4 with the following short proof."

The social worker said, "I don't know the answer, but I am glad that we discussed this important question."

The attorney stated, "In the case of Svenson vs. the State, 2+2 was declared to be 4."

The accountant looked at the business owner, then got out of his chair, went to see if anyone was listening at the door and pulled the drapes. Then he returned to the business owner, leaned across the desk and said in a low voice, "What would you like it to be?"



COMPANY SETUP PRICE REDUCED

ASIC company registration fees are to be reduced.

From the 1st of July 2006 the ASIC fee to register a new proprietary company will be \$400, a \$400 reduction from the current price of \$800. Accordingly, our fees will in turn be reduced by the same amount from that date. Initial company setup fees charged by R J Sanderson & Associates will be reduced to \$1,000 as of 1st July 2006.

COMMONWEALTH GAMES VOLUNTEERS

www.volunteerrewards.com.au

The companies listed on the above website are offering discounts to give a **BIG THANKYOU** to those that volunteered at the Melbourne 2006 Commonwealth Games. To qualify for the discount as stated on the site, you will need to have with you your volunteer accreditation pass when you make the purchase or use the service.

A Chinese Proverb:

"Money Grows on the tree of persistence"

Important: The contents of this newsletter is not advice. They are only general comments. At the time of publication all information was correct however changes in legislation can occur quickly. Clients should not act solely on the contents of this newsletter, we recommend you seek formal advice from our knowledgeable accountants at R J Sanderson & Associates on (03) 9794 0010.